



Keyware

Smart Cards-Security / Belgium



Charles BORDES
 IThardware@alphavalue.eu
 +33 (0) 1 70 61 10 50
 corporate.alphavalue.com

Strong authorisations offset weaker terminals

Earnings/sales releases - 15/06/2017

■ Fact

Keyware released its Q1 17 results, with revenues reaching €4,528k, corresponding to 12.6% growth yoy. Terminals came in at €2,502k (-13.4% yoy), and Authorisations at €1,785k (+57.7% yoy). The remainder consists of the EasyOrder business, now integrated into a new business unit (Software, €31k), and non-recurring revenues related to acquisitions.

The gross margin reached 60.2%, up 120bp sequentially and down 380bp), and the operating margin came in at 18.4% (down 90bp yoy). Profit before taxes came in at €1,088k, for a net result of €722k, impacted by €75k of negative results from associated companies.

The company announced in January 2017 the acquisition of EasyOrder, a payment application developer, for a total of €700k. €425k has been paid in cash, €75k will be paid in shares, while two (possibly three) tranches of cash (75%) and shares (25%) remain to be paid in 2017 and 2018 (and possibly 2019) for a total of €200k.

In addition, the company announced in May 2017 the launch of a share buy-back initiative, starting in June for one year and for a maximum of €1m.

■ Analysis

Difficulties in terminals...

After a Q4 which again showed some growth in the Terminals business, Q1 resulted in another relapse and is likely to lead to a difficult first part of the year.

Indeed, in Belgium, a crushing majority (more than 90%) of the revenues comes from a fragmented user base, composed of small-size merchants; as a consequence, much time and resources are needed to make the installed base grow. The company appears to be aware of this problem, as it has set-up an additional sales team to address the institutional market ('mid market'), which comes with a bigger number of terminals per contract; however, the first results are only expected by the end of the year, as the selling process is much more complex and lengthy than for a smaller merchant.

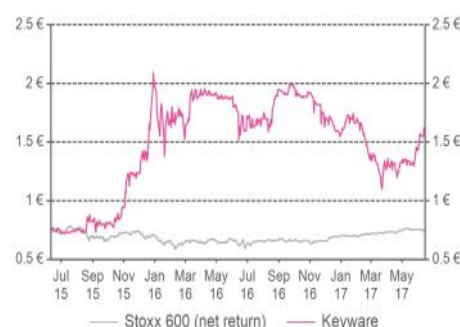
In addition, the German market, which has great growth potential due to the lower equipment rate of the country, is stuck in a slow start due to a high stickiness of the customers and a dynamic competitive landscape, which has resulted in very aggressive pricing. Keyware also entered the market through an intermediary company, in order to limit any backfire in the case of failure, which adds to the cost for now and resulted in a €85k loss for the first quarter only. At least, investors have a consolation prize when looking at the bottom-line, with margins for the business progressing from the lower points observed in H2 16.

... Partially offset by Authorisations

AlphaValue is contracted by Keyware to provide equity research on Keyware, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Buy	Upside : 72.5%
Target Price (6 months)	€ 2.76
Share Price	€ 1.60
Market Capitalisation €M	33.7
Price Momentum	GOOD
Extremes 12Months	1.10 ▶ 1.99
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

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PERF	1w	1m	3m	12m
Keyware	3.16%	19.3%	22.0%	5.20%
IT Hardware	-1.25%	3.04%	9.63%	17.9%
STOXX 600	-0.41%	-2.12%	3.78%	20.9%

Last updated: 17/03/2017	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	5.12	2.80	8.48	6.26
Dividend yield (%)	0.00	0.00	1.11	1.25
EV/EBITDA(R) (x)	6.62	3.95	6.49	4.59
Adjusted EPS (€)	0.13	0.30	0.21	0.26
Growth in EPS (%)	18.9	131	-28.2	20.2
Dividend (€)	0.00	0.00	0.02	0.02
Sales (€th)	9,718	12,491	18,721	20,683
EBIT margin (%)	14.1	25.0	17.0	18.6
Attributable net profit (€th)	1,910	5,182	3,101	4,148
ROE (after tax) (%)	11.3	24.9	12.4	14.3
Gearing (%)	22.1	15.3	16.3	12.5

[Company Valuation](#) - [Company Financials](#)

On the other hand, Authorisations are showing very positive progress, with an acceleration in growth compared to Q4 and FY16. This is the direct consequence of the increase in the number of transactions per terminal, as well as the transition towards the new brokering model, which delivers a higher commission per transaction compared to the previous scheme.

We note that 55% of the contracts generating commissions have transitioned towards this new model, vs. 40% a year ago: as a consequence, there is a clear upside potential, coupled with the growing installed base which will bring in a volume effect. In addition, this will also leverage the margins, for which we see some further room to grow, possibly north of the mid-twenties for the gross margin. However, despite this progress, there is still some way to go before reaching the level of the Terminals business in absolute EBIT value.

Acquisitions and a buy-back

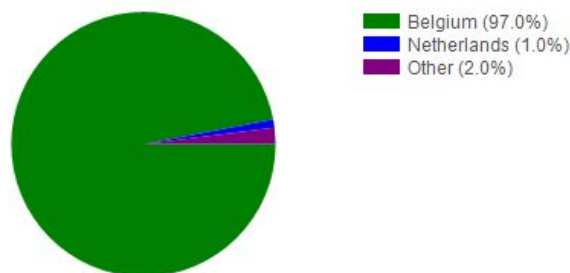
To conclude, a few words on the acquisition announced in the software segment: by proposing application payments, Keyware is now able to address another dimension of the payment ecosystem, which is increasingly dematerialising. Such revenues would come with high margins (the gross margin in software is usually above 95%), but developing the top-line may prove to be a long effort.

On the other hand, what should please investors is the announcement of the share buy-back programme: such a move is (with dividends) one of the most direct ways to return cash to shareholders. As Keyware provides both, the management clearly shows that shareholders' interests are a priority, which is all but a bad thing.

■ Impact

We will slightly downgrade our expectations for 2017, as Germany is for the moment a burden and does not fulfill our expectations.

Sales by Geography



Consolidated P&L Accounts

		12/15A	12/16E	12/17E
Sales	€th	12,491	18,721	20,683
Change in sales	%	28.5	49.9	10.5
Change in staff costs	%	2.03	3.45	5.13
EBITDA	€th	5,163	5,339	6,013
EBITDA(R) margin	%	41.3	28.5	29.1
Depreciation	€th	-251	-268	-300
Underlying operating profit	€th	4,912	5,071	5,713
Operating profit (EBIT)	€th	3,127	3,174	3,852
Net financial expense	€th	792	1,018	1,096
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	1,263	-1,196	-1,000
Equity associates	€th		105	200
Minority interests	€th			
Adjusted attributable net profit	€th	6,967	4,998	6,009
NOPAT	€th	3,438	3,655	4,199

Cashflow Statement

		12/15A	12/16E	12/17E
EBITDA	€th	5,163	5,339	6,013
Change in WCR	€th	-5,042	-1,543	-2,481
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-1,196	-1,000
Exceptional items	€th			
Other operating cash flows	€th	-1.00	236	500
Total operating cash flows	€th	120	2,836	3,032
Capital expenditure	€th	-380	-311	-352
Total investment flows	€th	-631	-4,541	-952
Net interest expense	€th	792	1,018	1,096
Dividends (parent company)	€th		-424	-424
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	411	76.0	
Total financial flows	€th	577	1,769	-1,118
Change in cash position	€th	66.1	64.0	963
Free cash flow (pre div.)	€th	532	3,543	3,777

Per Share Data

		12/15A	12/16E	12/17E
No. of shares net of treas. stock (year...	Th	21,064	21,064	21,064
Number of diluted shares (average)	Th	23,559	23,544	23,544
Benchmark EPS	€	0.30	0.21	0.26
Restated NAV per share	€			
Net dividend per share	€	0.00	0.02	0.02

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.78	35%	■ Gemalto
NAV/SOTP per share	€ 2.43	20%	■ Ingenico
EV/Ebitda	€ 3.20	20%	■ Dassault Systemes
P/E	€ 3.20	10%	■ Logitech International
Dividend Yield	€ 1.80	10%	
P/Book	€ 3.20	5%	
TARGET PRICE	€ 2.76	100%	

NAV/SOTP Calculation

Balance Sheet

		12/15A	12/16E	12/17E
Goodwill	€th	5,248	5,248	5,248
Total intangible	€th	5,448	5,398	5,383
Tangible fixed assets	€th	428	491	516
Financial fixed assets	€th	325	4,585	4,677
WCR	€th	17,693	19,236	21,717
Other assets	€th	3,066	2,056	1,994
Total assets (net of short term liab.)	€th	26,960	31,766	34,287
Ordinary shareholders' equity	€th	23,683	26,436	31,709
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th			
Total provisions for risks and liabilities	€th	0.00	0.00	0.00
Tax liabilities	€th			
Other liabilities	€th			
Net debt (cash)	€th	3,277	5,330	2,577
Total liab. and shareholders' equity	€th	26,960	31,766	34,287

Capital Employed

		12/15A	12/16E	12/17E
Capital employed after depreciation	€th	23,894	29,710	32,292

Profits & Risks Ratios

		12/15A	12/16E	12/17E
ROE (after tax)	%	24.9	12.4	14.3
ROCE	%	14.4	12.3	13.0
Gearing (at book value)	%	15.3	16.3	12.5
Adj. Net debt/EBITDA(R)	x	0.63	1.00	0.43
Interest cover (x)	x	-6.20	-4.98	-5.21

Valuation Ratios

		12/15A	12/16E	12/17E
Reference P/E (benchmark)	x	2.80	8.48	6.26
Free cash flow yield	%	3.05	9.35	11.2
P/Book	x	0.74	1.43	1.06
Dividend yield	%	0.00	1.11	1.25

EV Calculation

		12/15A	12/16E	12/17E
Market cap	€th	17,430	37,906	33,681
+ Provisions	€th	0.00	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	3,277	5,330	2,577
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	325	8,585	8,677
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	20,382	34,651	27,582
EV/EBITDA(R)	x	3.95	6.49	4.59
EV/Sales	x	1.63	1.85	1.33

Analyst : Charles Bordes, Changes to Forecasts : 17/03/2017.