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Top-line above expectations, litigation as the major cloud

Earnings/sales releases - 17/03/2017

■ Fact

Keyware released its FY16 results, with revenues coming in at €18,721k, corresponding to an 11.4% increase yoy. Terminals came in at €11,115k, down 3.9% yoy, while Authorisations came in at €7,606k, up 45.2%.

The gross margin reached 58.2%, down 240bp yoy on a comparable basis, leading to an EBIT margin of 17%, down 230bp yoy (divisional figures are yet to be disclosed). Net profit came in at €3,101k.

The company announced the start of its operations in Germany. In addition, the announced acquisition of the 40% stake in Magellan SAS resulted in a €105k boost to the net income.

■ Analysis

A positive overall top-line trend

Two trends can be observed at the top-line level. Firstly, the Terminals business finished the year displaying a decrease in absolute figures, despite an increase in the installed base (+1k at over 19k terminals installed), which can be interpreted as a cheaper terminals mix. However, it should be noted that in the first nine months of the year, the Terminals business was showing an 11.8% decrease yoy, and therefore the final 2016 figure points to a reversed momentum at the end of the year, or at least to a stabilisation. Concerning the authorisations, the business remains more than healthy and doesn't show signs of weakness, while the transition towards the brokering model continues to benefit margins with a clear increase in the gross margin (22.6% vs. 17.7%); however, profitability remains inferior to that of the Terminals business, leading to a decrease in the operating margin, but this should be offset in the longer term by the superior addressable market that exists in our view, and which will benefit actual earnings in the end.

Mixed developments abroad, offset by acquisitions

We note that the lack of dynamism in the Terminals business is partly due to the somewhat disappointing start in the German business, which nevertheless appears a very promising market as the equipment rate there is lagging the European one. The launch of the business resulted in a €102k loss, mostly due to the initial costs, but it appears that the road to nominal profitability will be long, as entry barriers appear to be greater than expected (5-year long contracts) and local suppliers are willing to enter into a price competition; in addition, the market remains weighted towards authorisations, leading to lower ASPs. In the end, breakeven appears to be possible this year, especially as launching a new business always leads to necessary adjustments, but the learning curve might be longer than expected.

On the other hand, the acquisition of Magellan SAS is already delivering interesting results, with a €105k boost to earnings despite the short period of integration (one quarter). As a consequence, we are tempted to say that it is a

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 : 103%
Target Price (6 months)	€ 2.57
Share Price	€ 1.27
Market Capitalisation €M	26.7
Price Momentum	NEGATIVE
Extremes 12Months	1.27 ▶ 1.99
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR


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PERF	1w	1m	3m	12m
Keyware	-8.12%	-18.7%	-23.3%	-31.5%
IT Hardware	1.30%	10.9%	10.1%	-5.57%
STOXX 600	1.30%	2.03%	4.92%	10.8%

Last updated: 24/11/2016	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	5.12	2.80	8.61	4.51
Dividend yield (%)	0.00	0.00	1.11	1.58
EV/EBITDA(R) (x)	6.62	3.95	7.67	3.90
Adjusted EPS (€)	0.13	0.30	0.21	0.28
Growth in EPS (%)	18.9	131	-29.4	34.7
Dividend (€)	0.00	0.00	0.02	0.02
Sales (€th)	9,718	12,491	18,192	21,190
EBIT margin (%)	14.1	25.0	18.3	20.1
Attributable net profit (€th)	1,910	5,182	3,464	4,929
ROE (after tax) (%)	11.3	24.9	14.1	17.3
Gearing (%)	22.1	15.3	16.4	11.1

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

matter of time before Keyware increases its stake in the company, which would add up to €6m to the cash outflow (although some of the payment would probably be in shares) and potentially leading to a pause in the dividend distribution. Similarly, the acquisition of EasyOrder is a step further into diversification from terminals, a strategy already successfully followed by a juggernaut like Ingenico; the impact on the bottom-line remains uncertain in the short term, but being present in this type of market is today a requirement and will allow it to create a cross-channel ecosystem.

Pending litigation

Finally, Keyware was fined €750k by the Brussels Court, a decision against which the company appealed. We note that this appeal has led to payment of the fine being postponed, which probably pushes back the decision to 2018 and leads to no provision being recorded as management sees it as a contingent liability. This potential fine is clearly a burden on the company, although financially “tolerable”, but the biggest impact in our view is in terms of corporate image, which is hard to quantify. However, we expect once again no financial impact for 2017.

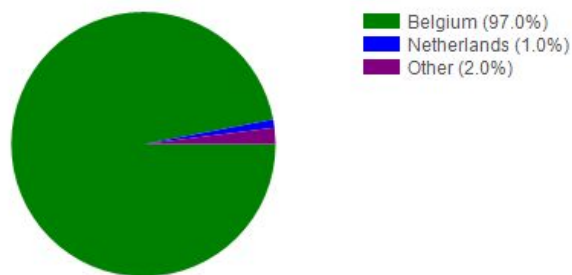
■ Impact

Moderate impact on our forecast: the higher than expected revenues are offset by the lower profitability.

We will also record a €750k charge in 2018 for the pending litigation in case the appeal isn't successful, although we consider that the company has a good chance of being successful.

The impact of this charge on the valuation will be limited, as the company's cash generation remains very satisfying, leading to no change in our recommendation.

Sales by Geography



Consolidated P&L Accounts

		12/15A	12/16E	12/17E
Sales	€th	12,491	18,192	21,190
Change in sales	%	28.5	45.6	16.5
Change in staff costs	%	2.03	3.45	5.13
EBITDA	€th	5,163	5,035	6,246
EBITDA(R) margin	%	41.3	27.7	29.5
Depreciation	€th	-251	-255	-297
Underlying operating profit	€th	4,912	4,780	5,949
Operating profit (EBIT)	€th	3,127	3,325	4,254
Net financial expense	€th	792	939	1,075
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	1,263	-1,000	-1,000
Equity associates	€th		200	600
Minority interests	€th			
Adjusted attributable net profit	€th	6,967	4,919	6,624
NOPAT	€th	3,438	3,546	4,764

Cashflow Statement

EBITDA	€th	5,163	5,035	6,246
Change in WCR	€th	-5,042	-2,874	-3,331
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-1,000	-1,000
Exceptional items	€th			
Other operating cash flows	€th	-1.00	1,000	1,000
Total operating cash flows	€th	120	2,160	2,915
Capital expenditure	€th	-380	-364	-381
Total investment flows	€th	-631	-4,464	-481
Net interest expense	€th	792	939	1,075
Dividends (parent company)	€th		-424	-421
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	411	0.00	
Total financial flows	€th	577	2,521	-941
Change in cash position	€th	66.1	217	1,493
Free cash flow (pre div.)	€th	532	2,735	3,609

Per Share Data

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	0.28
Restated NAV per share	€			
Net dividend per share	€	0.00	0.02	0.02

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.89	35%	● Gemalto
NAV/SOTP per share	€ 2.46	20%	● Ingenico
EV/Ebitda	€ 2.54	20%	● Dassault Systemes
P/E	€ 2.54	10%	● Logitech International
Dividend Yield	€ 1.77	10%	
P/Book	€ 2.54	5%	
TARGET PRICE	€ 2.57	100%	

NAV/SOTP Calculation

Balance Sheet

		12/15A	12/16E	12/17E
Goodwill	€th	5,248	5,834	5,834
Total intangible	€th	5,448	6,014	5,996
Tangible fixed assets	€th	428	552	580
Financial fixed assets	€th	325	341	358
WCR	€th	17,693	20,567	23,898
Other assets	€th	3,066	2,974	2,885
Total assets (net of short term liab.)	€th	26,960	30,449	33,717
Ordinary shareholders' equity	€th	23,683	25,383	31,739
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	5,066	1,978
Total liab. and shareholders' equity	€th	26,960	30,449	33,717

Capital Employed

Capital employed after depreciation	€th	23,894	27,475	30,832
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Profits & Risks Ratios

ROE (after tax)	%	24.9	14.1	17.3
ROCE	%	14.4	12.9	15.5
Gearing (at book value)	%	15.3	16.4	11.1
Adj. Net debt/EBITDA(R)	x	0.63	1.01	0.32
Interest cover (x)	x	-6.20	-5.09	-5.53

Valuation Ratios

Reference P/E (benchmark)	x	2.80	8.61	4.51
Free cash flow yield	%	3.05	7.22	13.5
P/Book	x	0.74	1.49	0.84
Dividend yield	%	0.00	1.11	1.58

EV Calculation

Market cap	€th	17,430	37,906	26,709
+ 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	5,066	1,978
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	325	4,341	4,358
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	20,382	38,630	24,329
EV/EBITDA(R)	x	3.95	7.67	3.90
EV/Sales	x	1.63	2.12	1.15

Analyst : Charles Bordes, Changes to Forecasts : 24/11/2016.