



Keyware

Smart Cards-Security / Belgium

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FY17 - a transition year

Earnings/sales releases - 09/03/2018

Fact

Keyware reported its FY17 results, with revenues flat yoy to €18,730k. The drop in revenues from the Payment terminals division (-24% to €8,449k) was compensated by the increase in revenues from the Authorisations (+11.9% to €8,510k). Also, the recently-acquired companies, now part of the software activity, contributed revenues of €1,561k in FY17, whereas Magellan contributed only from H2 17.

The gross margin slightly decreased compared to the previous year (-4%) to €10,455k. The situation deteriorated even more strongly when looking at the operating profit which fell from €3,174k to €1,143k yoy. Net profit for the year reached €1,174k from €3,101k in FY16. Finally, EPS reached €0.05/share compared to €0.15/share the year before.

Analysis

Continuing trend for the Payment terminals

The trend observed in the first nine months of 2017 tends to confirm the FY17 results which showed decreasing revenues for the Payment terminals activity. This is because of the fewer number of new contracts and an unfavourable product mix which leans towards cheaper terminals. This unfavourable mix, coupled with the underperformance of the recently-acquired German subsidiary due to market developments, and strong competition have strongly weighed on this activity's operating profitability. The decision to reduce the Payment terminal activity in Germany sounds like a smart move considering the FY17 €362k revenue that it registered.

A smart transformation path

As we pointed out after the Q3 results, the Authorisations activity confirmed its solid performance for the rest of the year, with rising revenues and operating margin (23.3% from 22.6%). This activity has overtaken the Payment terminals activity in terms of revenues and confirms the transformation being carried out by Keyware.

Indeed, the transformation from a service company to a software developer is easily seen through the recent integration of Magellan and EasyOrder, which have started contributing to the FY17 results. Magellan's high gross margin has already positively influenced the group's gross margin. The activity was integrated from H2 17. Also, the revenues and operating margin of EasyOrder should be strongly boosted from FY18 as this new activity started to offer its services from Q4 17.

New Software as a Service (SaaS) contracts signed recently with large institutions also pave the way for recurring and strongly growing revenues, while the group expects the cruising speed to be reached by 2020 for these products and service contracts.

The transition year

FY17 definitely looks like a transition year for the group, for which profitability has also been affected by higher amortisation costs and lower financial income due to the recent acquisitions. We are pleased to see the transformation and believe that this should bear fruit quite quickly. The diversification will be a lever to boost



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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: 38.3%

Target Price (6 months) € 2.22

Share Price € 1.61

Market Cap. €M 34.7

Price Momentum **STRONG**

Extremes 12Months 1.10 ▶ 1.68

Bloomberg KEYW BB Equity

Reuters KEYW.BR

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PERF	1w	1m	3m	12m
Keyware	-2.13%	0.94%	7.07%	16.3%
IT Hardware	2.01%	5.94%	14.0%	-1.02%
STOXX 600	0.47%	1.03%	-3.24%	1.08%

Last updated: 05/12/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	2.80	8.41	8.65	8.12
Dividend yield (%)	0.00	1.12	0.00	0.00
EV/EBITDA(R) (x)	3.95	6.49	7.23	5.30
Adjusted EPS (€)	0.30	0.21	0.17	0.20
Growth in EPS (%)	131	-28.2	-21.2	18.0
Dividend (€)	0.00	0.02	0.00	0.00
Sales (€th)	12,491	18,721	19,944	23,213
EBIT margin (%)	25.0	17.0	12.8	15.2
Attributable net profit (€th)	5,182	3,101	2,409	2,753
ROE (after tax) (%)	24.9	12.4	8.54	8.51
Gearing (%)	15.3	16.3	25.4	25.2

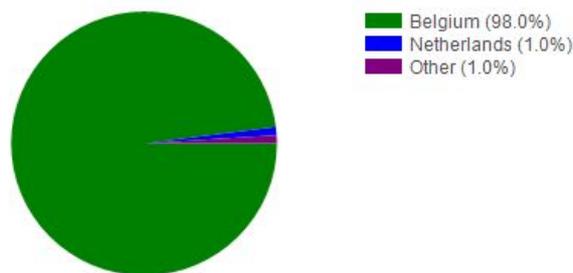
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profitability and will deliver its full potential when the Terminals' recovery is further ahead in its cycle.

■ **Impact**

The impact on our expectations will be minor for the moment, but we will keep a close eye on developments at the recently-acquired activities which we believe should give the company a revenue and profitability growth boost.

Sales by Geography



Consolidated P&L Accounts

		12/16A	12/17E	12/18E
Sales	€th	18,721	19,944	23,213
Change in sales	%	49.9	6.53	16.4
Change in staff costs	%	-4.64	32.9	1.99
EBITDA	€th	5,339	4,964	6,784
EBITDA(R) margin	%	28.5	24.9	29.2
Depreciation	€th	-268	-919	-1,509
Underlying operating profit	€th	5,071	4,045	5,275
Operating profit (EBIT)	€th	3,174	2,556	3,534
Net financial expense	€th	1,018	854	1,027
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			-750
Corporate tax	€th	-1,196	-1,000	-1,058
Equity associates	€th	105		
Minority interests	€th			
Adjusted attributable net profit	€th	4,998	3,899	4,494
NOPAT	€th	3,655	2,832	3,693

Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€th	5,339	4,964	6,784
Change in WCR	€th	-3,468	-3,091	-3,014
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-1,000	-1,058
Exceptional items	€th			-750
Other operating cash flows	€th	-53.0		
Total operating cash flows	€th	1,818	873	1,962
Capital expenditure	€th	-311	-339	-371
Total investment flows	€th	-4,541	-9,781	-371
Net interest expense	€th	1,018	854	1,027
Dividends (parent company)	€th	-424	0.00	0.00
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	76.0	3,519	-400
Total financial flows	€th	2,787	8,638	-1,781
Change in cash position	€th	64.0	-270	-191
Free cash flow (pre div.)	€th	2,525	1,388	2,617

Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...)	Th	21,212	20,725	20,117
Number of diluted shares (average)	Th	23,538	23,288	22,741
Benchmark EPS	€	0.21	0.17	0.20
Restated NAV per share	€			
Net dividend per share	€	0.02	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 1.81	35%	■ Gemalto
NAV/SOTP per share	€ 2.31	20%	■ Ingenico
EV/Ebitda	€ 3.21	20%	■ Dassault Systemes
P/E	€ 3.21	10%	■ Logitech International
Dividend Yield	€ 0.00	10%	
P/Book	€ 3.21	5%	
TARGET PRICE	€ 2.22	100%	

NAV/SOTP Calculation

Balance Sheet

		12/16A	12/17E	12/18E
Goodwill	€th	5,248	7,866	7,630
Total intangible	€th	5,398	14,686	14,245
Tangible fixed assets	€th	491	821	862
Financial fixed assets	€th	4,585		
WCR	€th	19,236	22,327	25,341
Other assets	€th	2,056	1,994	1,934
Total assets (net of short term liab.)	€th	31,766	39,828	42,383
Ordinary shareholders' equity	€th	26,436	29,963	34,735
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	5,330	9,865	7,647
Total liab. and shareholders' equity	€th	31,766	39,828	42,383

Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€th	29,710	37,834	40,448

Profits & Risks Ratios

		12/16A	12/17E	12/18E
ROE (after tax)	%	12.4	8.54	8.51
ROCE	%	12.3	7.48	9.13
Gearing (at book value)	%	16.3	25.4	25.2
Adj. Net debt/EBITDA(R)	x	1.00	1.99	1.13
Interest cover (x)	x	-4.98	-4.74	-5.14

Valuation Ratios

		12/16A	12/17E	12/18E
Reference P/E (benchmark)	x	8.41	8.65	8.12
Free cash flow yield	%	6.66	4.63	8.11
P/Book	x	1.43	1.00	0.93
Dividend yield	%	1.12	0.00	0.00

EV Calculation

		12/16A	12/17E	12/18E
Market cap	€th	37,890	30,005	32,288
+ 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	5,330	9,865	7,647
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	8,585	4,000	4,000
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	34,635	35,870	35,935
EV/EBITDA(R)	x	6.49	7.23	5.30
EV/Sales	x	1.85	1.80	1.55

Analyst : Marc Laubel, Changes to Forecasts : 05/12/2017.