



Keyware

Smart Cards-Security / Belgium

A pivotal year for the Authorisations division

Earnings/sales releases - 16/09/2020

The COVID-19 crisis and the change in Authorisations' partner have weakened the group and should continue to do so in the short term. We remain, however, confident in the mid/long term as there are a number of opportunities from the increasing demand for payment apps and contactless payment. The well-managed debt is also a good point to mention.

Fact

H1 FY20 key financials :

- Revenue down by 15.7% to €7,695k
- EBIT down by 53.6% to €128k
- EBITDA +0.5% to €1.532k with the EBITDA margin of 19.9% (vs. 16.7% in H1 FY19)
- Net profit reached €278k (-36.5% yoy)

Analysis

Keyware obviously didn't get through the COVID-19 crisis without a hitch, but it could be one of those companies that will benefit in the mid/long term from the sanitary situation as it should contribute to furthering electronic and contactless payments.

COVID-19 impact

The impact of COVID-19 in H1 FY20 represented an €828k loss in revenue, mainly attributable to authorisations as commissions fell sharply, while cost reductions (personal expenses) and government support slightly offset this. The impact on net profit was €-179k. At 30 June 2020, goodwill was, however, not subject to any impairment.

All in all, H1 revenue was down by 15.7% to €7,695k, while the company succeeded in maintaining EBITDA at its last year's level (+0.5% to €1,532k). The savings (€507k) related to sponsorship, fees of third parties and subcontractors, as well as marketing expenses, offset the lower gross profit (€-370k).

Authorisations in trouble in the short term

By division, Authorisations was the main black spot (-27.1% revenue to €3,015k), with the lockdown having reduced the number of payment transactions, but also as Keyware decided to switch to a different Authorisations' partner.

While this strategic choice resulted in a drop in results in the short term, the new cooperation should lead to higher margins in terms of Authorisations' income. Keyware expects the total migration from its previous partner to the new one to take up to the middle of 2021 (depending on the technical aspects).

The Payment Terminal division's revenue was down by 8.2% to €3,230k, pushed up promotional campaigns undertaken in June, while the Software division reported no change in revenue yoy (€1,575k). In addition, the latter division now accounts for 18.2% of the company's revenue (vs. 16.2% on June 2019), showing it has done well to move to become a fintech provider.



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy Upside: 182%

Target Price (6 months)	€ 2.06
Share Price	€ 0.73
Market Cap. €M	16.5
Price Momentum	NEGATIVE
Extremes 12Months	0.60 ▶ 0.99
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR


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PERF	1w	1m	3m	12m
Keyware	2.10%	1.39%	-2.67%	-14.1%
IT Hardware	-0.30%	-8.35%	7.47%	6.22%
STOXX 600	1.98%	0.79%	5.06%	-5.32%

Last updated: 22/01/2020	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	11.6	9.40	6.67	6.41
Dividend yield (%)	2.73	3.05	4.11	4.11
EV/EBITDA(R) (x)	6.90	5.56	3.84	3.39
Adjusted EPS (€)	0.09	0.10	0.11	0.11
Growth in EPS (%)	-26.6	10.5	4.64	4.18
Dividend (€)	0.03	0.03	0.03	0.03
Sales (€th)	19,635	20,597	21,421	22,827
EBIT margin (%)	1.34	1.53	2.01	2.55
Attributable net profit (€th)	626	951	965	1,072
ROE (after tax) (%)	2.28	3.38	3.23	3.32
Gearing (%)	18.6	12.0	7.29	3.00

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

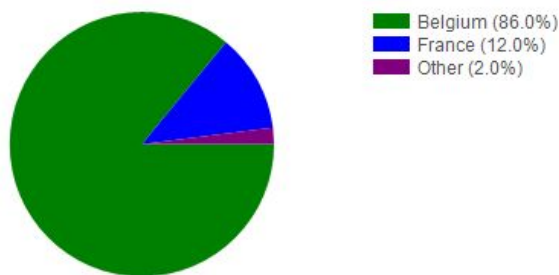
Well-managed financial debt

Keyware's solvency has been maintained during the crisis. Financial debt and loans decreased by €1,367k vs. 31 December 2019 and now amount to €2,842k. The group expects this amount to be mainly cleared by June 2021.

■ Impact

We will integrate the H1 FY20 figures and revise our estimates to account for the short-term troubles mentioned above (COVID-19 and the Authorisations' new partner), which should still have an impact in H2.

Sales by Geography



Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€th	19,635	20,597	21,421
Change in sales	%	4.83	4.90	4.00
Change in staff costs	%	18.2	-6.15	-0.94
EBITDA	€th	4,171	4,496	4,723
EBITDA(R) margin	%	21.2	21.8	22.0
Depreciation	€th	-1,465	-1,380	-1,392
Underlying operating profit	€th	2,706	3,116	3,331
Operating profit (EBIT)	€th	1,109	1,616	1,731
Net financial expense	€th	-178	-257	-352
of which related to pensions	€th		-3.58	-5.26
Exceptional items & other	€th			
Corporate tax	€th	-305	-408	-414
Equity associates	€th	0.00		
Minority interests	€th			
Adjusted attributable net profit	€th	2,223	2,451	2,565
NOPAT	€th	1,894	2,184	2,335

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	€th	4,171	4,496	4,723
Change in WCR	€th	1,100	-803	-903
Actual div. received from equity holdi...	€th	0.00	0.00	0.00
Paid taxes	€th	0.00	-408	-414
Exceptional items	€th			
Other operating cash flows	€th	-261	-200	-150
Total operating cash flows	€th	5,010	3,085	3,256
Capital expenditure	€th	-1,198	-618	-643
Total investment flows	€th	-1,204	-618	-643
Net interest expense	€th	-178	-257	-352
Dividends (parent company)	€th	-659	-659	-659
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	192	-400	-400
Total financial flows	€th	-3,789	-3,832	-2,143
Change in cash position	€th	17.0	-1,365	471
Free cash flow (pre div.)	€th	3,634	2,211	2,261

Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Th	22,544	22,543	22,543
Number of diluted shares (average)	Th	23,499	23,453	23,453
Benchmark EPS	€	0.09	0.10	0.11
Restated NAV per share	€			
Net dividend per share	€	0.03	0.03	0.03

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.88	35%	● Ingenico
NAV/SOTP per share	€ 1.98	20%	● Amadeus IT Group
EV/Ebitda	€ 1.46	20%	● EdenRed
P/E	€ 1.46	10%	
Dividend Yield	€ 1.46	10%	
P/Book	€ 1.46	5%	
TARGET PRICE	€ 2.06	100%	

NAV/SOTP Calculation

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	€th	7,993	8,393	8,435
Total intangible	€th	14,325	15,041	15,116
Tangible fixed assets	€th	2,050	2,153	2,260
Financial fixed assets	€th	156	150	150
WCR	€th	16,390	17,193	18,096
Other assets	€th	2,889	1,000	1,000
Total assets (net of short term liab.)	€th	35,810	35,536	36,623
Ordinary shareholders' equity	€th	27,592	28,625	31,069
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		147	157
Other provisions for risks and liabilities	€th	138		
Total provisions for risks and liabilities	€th	138	147	157
Tax liabilities	€th	4,057	3,897	3,737
Other liabilities	€th			
Net debt (cash)	€th	4,023	2,868	1,660
Total liab. and shareholders' equity	€th	35,810	35,536	36,623

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	€th	32,921	34,536	35,623

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	%	2.28	3.38	3.23
ROCE	%	5.75	6.32	6.56
Gearing (at book value)	%	18.6	12.0	7.29
Adj. Net debt/EBITDA(R)	x	0.96	0.64	0.35
Interest cover (x)	x	15.2	12.3	9.61

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	x	11.6	9.40	6.67
Free cash flow yield	%	14.7	9.98	13.7
P/Book	x	0.90	0.77	0.53
Dividend yield	%	2.73	3.05	4.11

EV Calculation

		12/18A	12/19E	12/20E
Market cap	€th	24,778	22,141	16,456
+ Provisions	€th	138	147	157
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	4,023	2,868	1,660
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	156	150	150
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	28,783	25,006	18,123
EV/EBITDA(R)	x	6.90	5.56	3.84
EV/Sales	x	1.47	1.21	0.85

Analyst : Laura Parisot, Changes to Forecasts : 22/01/2020.