



# Keyware

Smart Cards-Security / Belgium

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## EPS downgrade offset by stronger cash flows

Regular market share gains in a growing market - 24/11/2016

### Change in EPS

2016 : € 0.21 vs 0.23	-9.30%
2017 : € 0.28 vs 0.27	+3.63%

Following the Q3 results, we have downgraded our top-line forecasts for 2016 to account for the transitory weakness in the Terminals business, resulting in a c. 10% cut. However, the profitability should be maintained following a better than expected gross margin in Authorisations.

### Change in DCF

€ 2.89 vs 2.58	+11.7%
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The DCF valuation is driven up by a strong improvement in WCR needs, due to a better management of the trades & lease receivables which allowed for a greater cash flow generation.

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 : 70.7%**

Target Price (6 months)	€ 2.82
Share Price	€ 1.66
Market Capitalisation €M	34.9
Price Momentum	<b>UNFAVORABLE</b>
Extremes 12Months	1.19 ▶ 2.09
Newsflow	Neutral
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

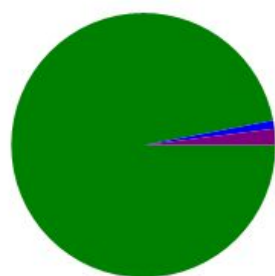
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PERF	1w	1m	3m	12m
Keyware	-9.02%	-12.3%	-11.4%	36.6%
IT Hardware	1.29%	-5.80%	-20.4%	-34.9%
SXXR Index	0.70%	-0.86%	-0.50%	-7.78%

Last updated: 24/11/2016	12/14A	12/15A	12/16E	12/17E
Adjusted P/E (x)	5.12	2.80	7.92	5.88
Dividend yield (%)	0.00	0.00	1.21	1.21
EV/EBITDA(R) (x)	6.62	3.95	7.07	5.20
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

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## Sales by Geography



Belgium	(97.0%)
Netherlands	(1.0%)
Other	(2.0%)

## 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
<b>EBITDA(R) margin</b>	<b>%</b>	<b>41.3</b>	<b>27.7</b>	<b>29.5</b>
Depreciation	€th	-251	-255	-297
Underlying operating profit	€th	4,912	4,780	5,949
<b>Operating profit (EBIT)</b>	<b>€th</b>	<b>3,127</b>	<b>3,325</b>	<b>4,254</b>
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			
<b>Adjusted attributable net profit</b>	<b>€th</b>	<b>6,967</b>	<b>4,919</b>	<b>6,624</b>
NOPAT	€th	3,438	3,546	4,764

## Cashflow Statement

		12/15A	12/16E	12/17E
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
<b>Free cash flow (pre div.)</b>	<b>€th</b>	<b>532</b>	<b>2,735</b>	<b>3,609</b>

## 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
<b>Benchmark EPS</b>	<b>€</b>	<b>0.30</b>	<b>0.21</b>	<b>0.28</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.89	35%	● Gemalto
NAV/SOTP per share	€ 2.46	20%	● Ingenico
EV/Ebitda	€ 3.31	20%	● Dassault Systemes
P/E	€ 3.31	10%	● Logitech International
Dividend Yield	€ 1.65	10%	
P/Book	€ 3.31	5%	
TARGET PRICE	€ 2.82	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
<b>Ordinary shareholders' equity</b>	<b>€th</b>	<b>23,683</b>	<b>25,383</b>	<b>31,739</b>
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			
<b>Net debt (cash)</b>	<b>€th</b>	<b>3,277</b>	<b>5,066</b>	<b>1,978</b>
Total liab. and shareholders' equity	€th	26,960	30,449	33,717

## Capital Employed

		12/15A	12/16E	12/17E
Capital employed after depreciation	€th	23,894	27,475	30,832

## Profits & Risks Ratios

		12/15A	12/16E	12/17E
<b>ROE (after tax)</b>	<b>%</b>	<b>24.9</b>	<b>14.1</b>	<b>17.3</b>
ROCE	%	14.4	12.9	15.5
<b>Gearing (at book value)</b>	<b>%</b>	<b>15.3</b>	<b>16.4</b>	<b>11.1</b>
Adj. Net debt/EBITDA(R)	x	0.63	1.01	0.32
Interest cover (x)	x	-6.20	-5.09	-5.53

## Valuation Ratios

		12/15A	12/16E	12/17E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>2.80</b>	<b>7.92</b>	<b>5.88</b>
Free cash flow yield	%	3.05	7.85	10.4
P/Book	x	0.74	1.37	1.10
<b>Dividend yield</b>	<b>%</b>	<b>0.00</b>	<b>1.21</b>	<b>1.21</b>

## EV Calculation

		12/15A	12/16E	12/17E
Market cap	€th	17,430	34,861	34,861
+ 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	35,585	32,480
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>3.95</b>	<b>7.07</b>	<b>5.20</b>
EV/Sales	x	1.63	1.96	1.53

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