



Keyware

Smart Cards-Security / Belgium



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Estimate downgrades following the disappointing Q2 17 earnings release

Roaring Authorisation offsetting a down-cycle in Terminals - 08/09/2017

Change in EPS

2017 : € 0.19 vs 0.24	-19.8%
2018 : € 0.20 vs 0.25	-22.7%

Following the Q2 earnings release, which saw a disappointing performance in the Terminals business, we have downgraded our expectations for the coming years.

Revenues for 2017 are now expected to be €19.4m (vs. €20.2m previously), while 2018 is now expected to reach €21.3m (vs. €22.1m).

Despite a higher gross margin, the bottom-line also suffered from a higher opex run rate, which resulted in a substantial cut in our EPS.

Change in DCF

€ 1.85 vs 2.47	-25.1%
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Our DCF inputs have been left unchanged, but the cash generation mechanically suffered from our estimate downgrades, resulting in a decrease in our DCF-based valuation. The impact of the cut has been amplified by the fact that it originates from a weak performance in the Terminals business, which is a major contributor to cash flows compared to the Authorisations business.

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 : 48.9%
Target Price (6 months)	€ 2.08
Share Price	€ 1.40
Market Cap. €M	30.3
Price Momentum	UNFAVORABLE
Extremes 12Months	1.10 ▶ 1.99
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

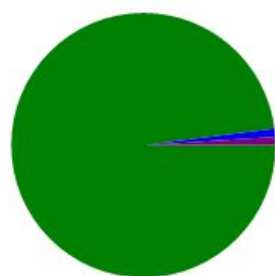
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PERF	1w	1m	3m	12m
Keyware	0.94%	-8.14%	-9.68%	-27.4%
IT Hardware	-1.63%	-7.24%	-15.5%	-5.46%
SXXR Index	0.31%	-1.79%	-3.21%	9.92%

Last updated: 08/09/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	2.80	8.48	7.24	7.12
Dividend yield (%)	0.00	1.11	0.00	0.00
EV/EBITDA(R) (x)	3.95	6.54	6.39	5.47
Adjusted EPS (€)	0.30	0.21	0.19	0.20
Growth in EPS (%)	131	-28.2	-8.95	1.71
Dividend (€)	0.00	0.02	0.00	0.00
Sales (€th)	12,491	18,721	19,440	21,324
EBIT margin (%)	25.0	17.0	14.4	14.3
Attributable net profit (€th)	5,182	3,101	2,906	2,898
ROE (after tax) (%)	24.9	12.4	11.1	10.3
Gearing (%)	15.3	16.3	27.1	25.9

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

Sales by Geography



Belgium	(98.0%)
Netherlands	(1.0%)
Other	(1.0%)

Consolidated P&L Accounts

		12/16A	12/17E	12/18E
Sales	€th	18,721	19,440	21,324
Change in sales	%	49.9	3.84	9.69
Change in staff costs	%	-4.64	32.9	1.99
EBITDA	€th	5,339	4,759	5,171
EBITDA(R) margin	%	28.5	24.5	24.3
Depreciation	€th	-268	-282	-309
Underlying operating profit	€th	5,071	4,477	4,862
Operating profit (EBIT)	€th	3,174	2,793	3,049
Net financial expense	€th	1,018	884	1,057
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	230	600
Minority interests	€th			
Adjusted attributable net profit	€th	4,998	4,590	4,711
NOPAT	€th	3,655	3,364	4,003

Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€th	5,339	4,759	5,171
Change in WCR	€th	-3,468	-2,040	-1,943
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	1,718	1,420
Capital expenditure	€th	-311	-330	-363
Total investment flows	€th	-4,541	-10,181	-463
Net interest expense	€th	1,018	884	1,057
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	4,119	
Total financial flows	€th	2,787	8,518	-1,351
Change in cash position	€th	64.0	55.0	-393
Free cash flow (pre div.)	€th	2,525	2,271	2,115

Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...	Th	21,212	21,637	21,637
Number of diluted shares (average)	Th	23,538	23,744	23,957
Benchmark EPS	€	0.21	0.19	0.20
Restated NAV per share	€			
Net dividend per share	€	0.02	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 1.85	35%	■ Gemalto
NAV/SOTP per share	€ 2.28	20%	■ Ingenico
EV/Ebitda	€ 2.80	20%	■ Dassault Systemes
P/E	€ 2.80	10%	■ Logitech International
Dividend Yield	€ 0.00	10%	
P/Book	€ 2.80	5%	
TARGET PRICE	€ 2.08	100%	

NAV/SOTP Calculation

Balance Sheet

		12/16A	12/17E	12/18E
Goodwill	€th	5,248	5,480	5,480
Total intangible	€th	5,398	6,289	6,208
Tangible fixed assets	€th	491	636	668
Financial fixed assets	€th	4,585	4,677	4,770
WCR	€th	19,236	21,276	23,219
Other assets	€th	2,056	1,994	1,934
Total assets (net of short term liab.)	€th	31,766	34,872	36,800
Ordinary shareholders' equity	€th	26,436	26,082	30,024
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	8,790	6,775
Total liab. and shareholders' equity	€th	31,766	34,872	36,800

Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€th	29,710	32,878	34,865

Profits & Risks Ratios

		12/16A	12/17E	12/18E
ROE (after tax)	%	12.4	11.1	10.3
ROCE	%	12.3	10.2	11.5
Gearing (at book value)	%	16.3	27.1	25.9
Adj. Net debt/EBITDA(R)	x	1.00	1.85	1.31
Interest cover (x)	x	-4.98	-5.07	-4.60

Valuation Ratios

		12/16A	12/17E	12/18E
Reference P/E (benchmark)	x	8.48	7.24	7.12
Free cash flow yield	%	6.61	7.50	6.98
P/Book	x	1.44	1.16	1.01
Dividend yield	%	1.11	0.00	0.00

EV Calculation

		12/16A	12/17E	12/18E
Market cap	€th	38,172	30,292	30,292
+ 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	8,790	6,775
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	8,585	8,677	8,770
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	34,917	30,405	28,297
EV/EBITDA(R)	x	6.54	6.39	5.47
EV/Sales	x	1.87	1.56	1.33

Analyst : Charles Bordes, Changes to Forecasts : 08/09/2017.