



Keyware

Smart Cards-Security / Belgium

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Still in transition, the group showed revenue growth but lower profitability

Earnings/sales releases - 09/11/2018

Fact

Keyware's revenue was up by +2.6% yoy in the first nine months of FY18 to €14,126k. By division, the Terminal division's revenue decreased by 16% yoy to €5,525k, the Authorisations division increased by +6.15% yoy to €6,651k and the growing Software division was up by +182.6% yoy to €1,950k. This significant growth principally results from the Magellan contribution for the first three quarters of FY18, compared to only one quarter in FY17.

The gross margin, for the first nine months of FY18, represented +4.3%, well short of the first nine months of FY17 (+15.1%). This drop is explained by a lower margin in the Terminals division, the integration of Magellan and EasyOrder's start-up phase, which together have led to a 70.8% decrease in profit before tax (€606k vs. €2,079k in 9m FY17). Operating profit was €1,316k, lower than in 9m FY17 and the financial result was €157k, again lower.

Analysis

The soft bet is paying off

The group, which recently decided to become a software provider, has started to show significant revenue in this division. Sales have quickly grown in the first nine months of the year (+182.6% yoy), mainly thanks to a full Magellan contribution. The financial services, provided by Magellan, continue their expansion. The company has signed, for the first time, in Q3 18 contracts for purchase instalments in Belgium. EasyOrder, which offers traders the opportunity to offer their customers a webshop and a personalised app, continues to develop strongly. The company sees a significant opportunity in Belgium and expects a 20% of penetration in five years' time.

Card payment replaces cash payment, to the benefit of the Authorisations division

While the Terminals division's results are diminishing, those of the Authorisations division continue to grow. The explanation is that terminals' sales are approaching saturation phase and demand is now decreasing (-26% yoy in Q3 revenue). Even so, the number of card payments is steadily increasing, which has benefited and will continue to benefit the Authorisations division.

Impact

The group continues its transition phase, which leads to increasing revenue, but operating profitability is currently weak due to significant cost increases. Following the 9m FY18 results, we will slightly downgrade our forecasts as we have been too optimistic on the company's capacity to face the transition costs. However, we remain confident in the strategy to become a pure software provider, which should push the results in the coming years.



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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: 65.1%

Target Price (6 months)	€ 1.94
Share Price	€ 1.18
Market Cap. €M	24.8
Price Momentum	GOOD
Extremes 12Months	1.02 ▶ 1.60
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

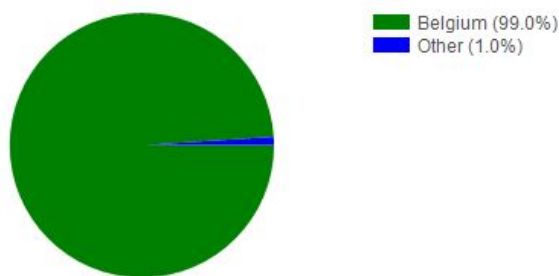

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PERF	1w	1m	3m	12m
Keyware	3.52%	1.29%	11.6%	-12.6%
IT Hardware	2.11%	5.05%	7.46%	30.0%
STOXX 600	1.10%	-1.57%	-5.80%	-6.94%

Last updated: 15/10/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	8.15	10.9	6.51	5.94
Dividend yield (%)	1.16	0.00	0.00	0.00
EV/EBITDA(R) (x)	5.11	7.01	3.75	3.76
Adjusted EPS (€)	0.21	0.13	0.18	0.20
Growth in EPS (%)	-28.2	-38.8	38.9	9.61
Dividend (€)	0.02	0.00	0.00	0.00
Sales (€th)	18,721	18,730	20,227	21,474
EBIT margin (%)	17.0	6.10	7.85	11.3
Attributable net profit (€th)	3,101	1,174	1,729	2,431
ROE (after tax) (%)	12.4	4.36	5.66	6.84
Gearing (%)	16.3	21.1	14.7	6.80

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

Sales by Geography



Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€th	18,730	20,227	21,474
Change in sales	%	0.05	7.99	6.17
Change in staff costs	%	32.9	45.7	6.82
EBITDA	€th	5,097	7,178	6,553
EBITDA(R) margin	%	27.2	35.5	30.5
Depreciation	€th	-919	-2,023	-966
Underlying operating profit	€th	4,178	5,156	5,587
Operating profit (EBIT)	€th	2,319	2,800	3,640
Net financial expense	€th	-269	-329	-167
of which related to pensions	€th		0.00	0.00
Exceptional items & other	€th			
Corporate tax	€th	-854	-741	-1,042
Equity associates	€th	-22.0		
Minority interests	€th			
Adjusted attributable net profit	€th	3,033	4,085	4,378
NOPAT	€th	2,903	3,609	3,911

Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€th	5,097	7,178	6,553
Change in WCR	€th	-1,850	-2,000	-1,811
Actual div. received from equity holdi...	€th	400	0.00	0.00
Paid taxes	€th	0.00	-741	-1,042
Exceptional items	€th			
Other operating cash flows	€th	-230	-142	-186
Total operating cash flows	€th	3,417	4,296	3,514
Capital expenditure	€th	-696	-324	-644
Total investment flows	€th	-3,826	-324	-644
Net interest expense	€th	-269	-329	-167
Dividends (parent company)	€th	0.00	-659	-438
Dividends to minorities interests	€th	0.00	0.00	0.00
New shareholders' equity	€th	-174	-400	
Total financial flows	€th	3,144	-3,796	-4,665
Change in cash position	€th	2,735	176	-1,795
Free cash flow (pre div.)	€th	2,452	3,643	2,703

Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...	Th	20,804	19,793	19,793
Number of diluted shares (average)	Th	23,328	22,619	22,113
Benchmark EPS	€	0.13	0.18	0.20
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.02	35%	■ Gemalto
NAV/SOTP per share	€ 2.18	20%	■ Ingenico
EV/Ebitda	€ 2.35	20%	
P/E	€ 2.09	10%	
Dividend Yield	€ 0.00	10%	
P/Book	€ 2.35	5%	
TARGET PRICE	€ 1.94	100%	

NAV/SOTP Calculation

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€th	7,993	7,753	7,521
Total intangible	€th	14,672	14,232	13,805
Tangible fixed assets	€th	992	1,042	1,094
Financial fixed assets	€th	150		
WCR	€th	19,197	21,197	23,007
Other assets	€th	932	904	877
Total assets (net of short term liab.)	€th	35,943	37,374	38,783
Ordinary shareholders' equity	€th	27,433	33,701	37,376
Quasi Equity & Preferred	€th			
Minority interests	€th			
Provisions for pensions	€th		0.00	0.00
Other provisions for risks and liabilities	€th	230		
Total provisions for risks and liabilities	€th	230	0.00	0.00
Tax liabilities	€th	2,023		
Other liabilities	€th			
Net debt (cash)	€th	6,257	3,673	1,407
Total liab. and shareholders' equity	€th	35,943	37,374	38,783

Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€th	35,011	36,470	37,906

Profits & Risks Ratios

		12/17A	12/18E	12/19E
ROE (after tax)	%	4.36	5.66	6.84
ROCE	%	8.29	9.90	10.3
Gearing (at book value)	%	21.1	14.7	6.80
Adj. Net debt/EBITDA(R)	x	1.23	0.51	0.21
Interest cover (x)	x	17.0	15.7	33.5

Valuation Ratios

		12/17A	12/18E	12/19E
Reference P/E (benchmark)	x	10.9	6.51	5.94
Free cash flow yield	%	8.35	15.7	11.6
P/Book	x	1.07	0.69	0.62
Dividend yield	%	0.00	0.00	0.00

EV Calculation

		12/17A	12/18E	12/19E
Market cap	€th	29,369	23,257	23,257
+ Provisions	€th	230	0.00	0.00
+ Unrecognised actuarial losses/(gains)	€th	0.00	0.00	0.00
+ Net debt at year end	€th	6,257	3,673	1,407
+ Leases debt equivalent	€th	0.00	0.00	0.00
- Financial fixed assets (fair value)	€th	150	0.00	0.00
+ Minority interests (fair value)	€th	0.00	0.00	0.00
= EV	€th	35,706	26,930	24,664
EV/EBITDA(R)	x	7.01	3.75	3.76
EV/Sales	x	1.91	1.33	1.15

Analyst : Laura Parisot, Changes to Forecasts : 15/10/2018.