



Keyware

Smart Cards-Security / Belgium

Positioned to take advantage of increasing power of digitalisation in order payment

Earnings/sales releases - 18/03/2020

Challenges remain in the payment activity, but the positioning in the software business should make Keyware an important player for the near future.

Fact

FY19 key financials

- Group sales down by 7.7% to €18,116k
- EBITDA decreased by 5.7% to €2,998k, FY19 EBITDA margin of 16.5% (vs. 16.2% in FY18)
- Profit before tax amounted €860k (-7.6% yoy)
- Group net profit was down by 49% to €320k due to higher tax charges and due to comparables, Keyware having benefited from a change in the rate of French corporate taxes in 2018
- Cash and cash equivalents amounted to €1,187k (-66% yoy)
- Net financial debt decreased by 2.1% from €3,998k to €4,082k

Analysis

In line with the 9m results, Keyware closed FY19 with negative top- and bottom-line growth. The group continued to face troubles during its transition phase as becoming a fully-fledged software developer (from a purely terminal provider before) can only be done by increasing structural costs. There is no doubt, however, that this is still the best thing to do to offset the declining payment terminals' activity.

Difficulties in the payment business remain

The decreasing number of traditional retailers, threatened by the growing number of online competitors, obviously led to a decrease in the number of payment terminals and transactions in this segment. In 2019, revenue in the Payment Terminals division declined by 2% to €7,010k. However, this was at a lower declining rate than previously (-15.2% in FY18) thanks to an increasing number of start-ups in new sectors, an increase in the number of customers in the higher market segment and Keyware's competitive positioning.

While, in this challenging environment, the Authorisation division has continued to contribute to the group's growth for many years, for the first time in 2019 this was no longer the case. Sharper pricing of the offer and the fact that the number of transactions within the start-up segments are even lower compared to those in traditional retail outlets drove down revenue by 13.7% to €8,317k.

Software to drive future growth

Nothing to worry about when it comes to Software's FY19 revenue. Sales decreased by 1.4% to €2,789k but this amount is net, after intersegment revenue of €342k. The business continues to contribute more and more to the group's activity (15.4% of total group's sales, vs. 14.4% in FY18), in line with Keyware's strategy.

Signs of EBITDA recovery



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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: 191%

Target Price (6 months) € 1.81

Share Price € 0.62

Market Cap. €M 14.0

Price Momentum **NEGATIVE**

Extremes 12Months 0.62 ▶ 1.02

Bloomberg KEYW BB Equity

Reuters KEYW.BR

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| PERF | 1w | 1m | 3m | 12m |
|-------------|--------|--------|--------|--------|
| Keyware | -28.3% | -32.6% | -27.9% | -35.2% |
| IT Hardware | -8.44% | -29.7% | -24.5% | -38.4% |
| STOXX 600 | -13.3% | -32.4% | -29.8% | -23.6% |

| Last updated: 22/01/2020 | 12/18A | 12/19E | 12/20E | 12/21E |
|-------------------------------|--------|--------|--------|--------|
| Adjusted P/E (x) | 11.6 | 9.40 | 5.67 | 5.44 |
| Dividend yield (%) | 2.73 | 3.05 | 4.84 | 4.84 |
| EV/EBITDA(R) (x) | 6.90 | 5.56 | 3.31 | 2.89 |
| 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](#)

On the profitability side, the group reported €180k EBITDA, down by 5.7% vs. last year. Paradoxically, we see this as a positive sign, as it is clearly an improvement compared to the beginning of the software integration (-14.7% EBITDA growth in FY18). Software's development continued to weigh (especially due to the expansion of the sales department), but to a lesser extent. Authorisations's lower growth of profit was another factor in the decrease.

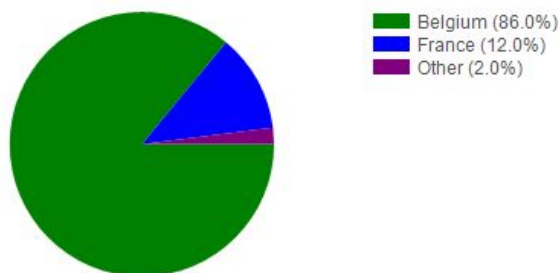
Trade receivables weigh on cash

The recurring relative weakness of Keyware was its strong negative WCR variations (mostly due to the massive needs in trade & lease receivables). With a delay in the collection of some trade receivables, cash and cash equivalents amounted to €1,187k vs. €3,520k in FY18. A large proportion of the overdue receivables have been, however, collected after the balance sheet date.

■ Impact

We will integrate the FY19 results and revise our forecasts for the next three years. The Software division will continue to inflate our top-line expectations. During FY19, we expect EBITDA improvements. A return to profitability is expected in the medium term.

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 | € 2.48 | 35% | Ingenico |
| NAV/SOTP per share | € 1.98 | 20% | Amadeus IT Group |
| EV/Ebitda | € 1.24 | 20% | EdenRed |
| P/E | € 1.24 | 10% | |
| Dividend Yield | € 1.10 | 10% | |
| P/Book | € 1.24 | 5% | |
| TARGET PRICE | € 1.81 | 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 | 5.67 |
| Free cash flow yield | % 14.7 | 9.98 | 16.2 |
| P/Book | x 0.90 | 0.77 | 0.45 |
| Dividend yield | % 2.73 | 3.05 | 4.84 |

EV Calculation

| | 12/18A | 12/19E | 12/20E |
|---|---------------|-------------|-------------|
| Market cap | €th 24,778 | 22,141 | 13,977 |
| + 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 | 15,643 |
| EV/EBITDA(R) | x 6.90 | 5.56 | 3.31 |
| EV/Sales | x 1.47 | 1.21 | 0.73 |

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