



Keyware

Smart Cards-Security / Belgium

The challenge remains intact

Earnings/sales releases - 13/11/2019

The same old story: cash payments are dropping, pushing down the terminals and authorisations divisions, while the software activity is trying to offset these, mostly helped by EasyOrder and Magellan. Top and bottom lines have suffered from this for many quarters, but we finally see improvements during Q3.

Fact

9m FY19 Key financial highlights

- Revenue down by 3.7% to €13,608k
- EBITDA decreased by 8.9% to €1,525k
- Profit before tax amounted to €665k (-9.7% yoy)
- Net profit reached €363k (vs. €91k in 9m FY18)
- Financial debt amounted to €4,710k (vs. €6,450k in 9m FY18)

Analysis

No major update since the company decided to become a fintech specialist rather than keep its position as a terminals provider. Decisions have been taken to offset the decreasing trend in this activity, and are well appreciated. The transition phase has continued, having once again negatively impacted the top and bottom lines. However, we have to note the improvements in Q3, which is highly reassuring.

9m results still impacted by the transition phase

Cash payments are dropping to the benefit of electronic transactions, but Keyware is slowed down by the market which is now saturated. This has led to fewer numbers of new contracts signed and this directly impacted the division's revenue growth (-4.0% to €5,304k) by a substantial drop which follows the already poor results in FY18. The authorisations division finally bore the cost of the underperformance in terminals, reporting -6.4% sales growth to €6,224k due to fewer commissions.

While the traditional activities continue to be the company's bread and butter, the software activity now represents 15.3% of total revenues. It is important to note that it is now the group's only growth driver, showing +6.7% sales growth to €2,080k. This increase was mainly realised by EasyOrder, which now meets more and more clients.

As for the bottom-line, EBITDA decreased by 10.6% to €2,205k, in line with the previous quarter's results. The reduction is, once again, attributed to an increase in personnel charges (expansion of the software division) and the launch of the activity in Luxembourg, which resulted in a net loss of €78k. Net profit came at €363k (vs. €91k). Apart from the higher profit before tax (€59k more), the increase was also attributed to the lower tax charges (€213k).

Q3 showed improvements

We continue to believe that it is only a matter of time before investments bear fruit at the bottom-line, and Q3 was particularly reassuring on this point.

Revenues were up by +2.1% during the quarter to €4,477k, surprisingly explained by +20.2% growth in the terminals division. This was due to the fact that, in Q3



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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: 134%

Target Price (6 months)	€ 1.94
Share Price	€ 0.83
Market Cap. €M	18.7
Price Momentum	NEGATIVE
Extremes 12Months	0.76 ▶ 1.06
Bloomberg	KEYW BB Equity
Reuters	KEYW.BR

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PERF	1w	1m	3m	12m
Keyware	-5.68%	-1.19%	-8.99%	-22.1%
IT Hardware	1.25%	-10.9%	-11.3%	-11.1%
STOXX 600	0.20%	4.15%	8.98%	11.4%

Last updated: 04/07/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	11.6	7.94	7.59	7.28
Dividend yield (%)	2.73	3.61	3.61	3.61
EV/EBITDA(R) (x)	6.90	4.80	4.31	3.84
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

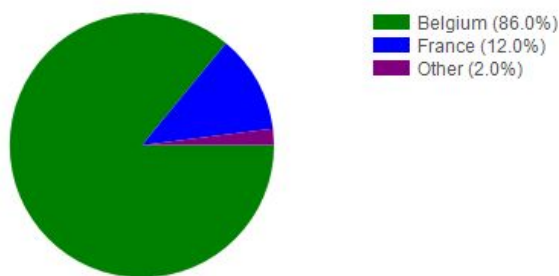
[Company Valuation](#) - [Company Financials](#)

FY18, the company faced delays in the preparative administrative process which delayed the installation cycle further so that many contracts could not be recognised in the third quarter. However, what is especially interesting is profitability, with Q3 EBITDA having grown by +32.3%. This was obviously mainly explained not only by the higher gross profit triggered by the terminals division, but also by lower general expenses, which have strongly offset the increase in personnel charges.

■ Impact

We will integrate the Q3 results, but we don't see major changes in our estimates. Being still in the transition phase, we continue, however, to believe that the group is able to return to growth in profitability 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	5.14	0.00
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	€ 2.28	35%	■ Ingenico
NAV/SOTP per share	€ 1.98	20%	■ Amadeus IT Group
EV/Ebitda	€ 1.66	20%	■ EdenRed
P/E	€ 1.66	10%	
Dividend Yield	€ 1.63	10%	
P/Book	€ 1.66	5%	
TARGET PRICE	€ 1.94	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	7.94	7.59
Free cash flow yield	% 14.7	11.8	12.1
P/Book	x 0.90	0.65	0.60
Dividend yield	% 2.73	3.61	3.61

EV Calculation

	12/18A	12/19E	12/20E
Market cap	€th 24,778	18,711	18,711
+ 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	21,576	20,377
EV/EBITDA(R)	x 6.90	4.80	4.31
EV/Sales	x 1.47	1.05	0.95

Analyst : Laura Parisot, Changes to Forecasts : 04/07/2019.