

Sword Group

Price EUR24.50

Preliminary FY15 results in line, FY16 guidance confirmed

Fair Value EUR28 (+14%)

BUY

Bloomberg	SWP FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.3 / 19.1
Market Cap (EUR)	229
Ev (BG Estimates) (EUR)	180
Avg. 6m daily volume (000)	9.10
3y EPS CAGR	8.8%

Yesterday evening Sword reported preliminary FY15 results in line with our estimates. FY16 guidance is consistent with our expectations, with the company banking on 15% lfl revenue growth – both for Software and IT Services - and a 15% EBITDA margin. Finally, the management confirmed that there was no hurry for acquisitions. We expect a slightly positive short-term share price reaction on the back of this release, and deem the growth story will remain a positive catalyst going forward.

ANALYSIS

- FY15 results globally in line with our forecasts.** FY15 saw sales up 17.5% (+15.1% lfl) to EUR137.6m (BG est.: EUR136.7m; consensus: EUR136.3m) and an EBITDA up 14.3% to EUR21.6m or 15.7% of sales (-0.4ppt) (BG est.: EUR21.7% or 15.9% of sales; consensus: EUR15.2m or 15.6% of sales). For Q4 15, sales were up 18% (+16.8% lfl) to EUR36m and an EBITDA up 18.4% to EUR5.8m or 16.1% of sales (flat). Revenues were in line with the management's goal to deliver sales growth above 12% lfl and 1% above our estimate. By division, Software posted sales of EUR44m (+18.4% lfl) and an EBITDA margin of 28.4% (31.1% in Asset Finance Solutions, 24.5% in GRC and 27.8% in IP-based solutions), while IT Services posted sales of EUR93.6m (+13.6% lfl) and an EBITDA margin of 9.7% (11.4% in Switzerland, 11.1% in France, 5.7% in Benelux, 10.2% in the UK, and 7.5% for others), in line with the company's "normative" levels. Finally, the management estimates that net profit will be close to the consensus' average (c. EUR13m, BG est. of EUR13.4m).
- Upbeat FY16 guidance confirmed.** From a 2015 pro forma base of EUR144.9m for sales, Sword confirms its expectation for 2016 sales up 15% lfl with an EBITDA margin of 15%. As such, with current fx assumptions, FY16 revenues and EBITDA would reach EUR166.6m (BG est.: EUR168.7m) and EUR25m (BG est.: EUR24.7m), respectively. Both Software and IT Services divisions are expected to grow at the same rate, with, in more details: 1). In Software: +17% for Asset Finance Solutions and +12% for GRC; 2). In IT Services, +18% for Switzerland, +9% for France, +15% for Benelux, +29% for the UK, and +32% for Others. On an EBITDA margin standpoint, Sword forecasts c. 27% for Software and c. 10% for Services. Such a lfl growth rate is underpinned by a "strong backlog" – not mentioned this time – and feedback from the field. Despite tougher comps in H2 16, the management is confident that Benelux can generate 15% lfl growth in 2016 with the appointment of a manager based in Greece responsible for bids on contracts with the European Commission, with the ambition to raise the dedicated headcount to 80 from 35.
- M&A and R&D updates.** If it proves that lfl sales growth at or above 15% is sustainable, Sword is likely to favour organic growth rather than acquisitions. However, the management will not stay away from M&A deals if the opportunity to a buy a 'jewel' occurs. The new Software R&D programme ("Bluebird"), which was expected to amount to EUR11m over 2015-2017 (vs. EUR15m for the initial plan), has been expensed for less than EUR2m so far as most of the staff hired for this programme have been reallocated to the busy deployment of the BMW asset finance deal, confirming our view (cf. our comment on 4/12/2015) that it is likely to be reduced to EUR8-9m.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.1%	2.3%	13.8%	0.8%
Softw.& Comp.	-2.3%	1.9%	1.9%	-3.1%
DJ Stoxx 600	-8.2%	-10.9%	-14.8%	-8.1%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	117.0	138.0	167.0	189.0
% change		17.9%	21.0%	13.2%
EBITDA	19.0	22.0	25.0	30.0
EBIT	13.0	14.0	20.0	25.0
% change		7.7%	42.9%	25.0%
Net income	15.0	17.0	17.0	19.0
% change		13.3%	0.0%	11.8%

	2014	2015e	2016e	2017e
Operating margin	14.2	13.8	13.0	13.9
Net margin	10.3	9.4	9.0	9.5
ROE	7.4	7.8	8.8	10.1
ROCE	12.8	14.0	13.4	15.7
Gearing	-30.0	-30.0	-29.0	-30.0

(€)	2014	2015e	2016e	2017e
EPS	1.60	1.83	1.77	2.06
% change	-	14.4%	-3.3%	16.4%
P/E	15.3x	13.4x	13.8x	11.9x
FCF yield (%)	8.2%	2.6%	6.1%	7.7%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	4.9%	4.9%	4.9%	4.9%
EV/Sales	1.5x	1.3x	1.1x	0.9x
EV/EBITDA	9.5x	8.2x	7.2x	5.8x
EV/EBIT	10.7x	9.5x	8.2x	6.7x



VALUATION

- Sword's shares are trading at est. 8.2x 2016 and 6.7x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR42.7m.

NEXT CATALYSTS

Final FY15 results on 7th March after markets close (analysts' meeting on 8th March at 10am CET / 9am BST / 4am EDT in Paris).

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BUY ratings 60,2%

NEUTRAL ratings 30,8%

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