

Cast

Price EUR3.33

Q4 2015 sales below forecasts, growth set to pick up from 2016

Fair Value EUR3.9 vs. EUR4.4 (+17%)

BUY

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.7 / 2.9
Market Cap (EUR)	54
Ev (BG Estimates) (EUR)	37
Avg. 6m daily volume (000)	10.10
3y EPS CAGR	11.0%

We are reiterating our Buy rating but have cut our DCF-derived fair value to EUR3.9 from EUR4.4 since we have reduced our adj. EPS ests by 42% for 2015, 35% for 2016, 24% for 2017 and 20% for 2018 (-EUR0.7/share) and adjusted our WCR assumptions (+EUR0.2). Yesterday Cast reported Q4 15 sales 11% below our forecasts due to slippage on a couple of deals as it remained strict on its discount policy. However, while we cannot rule out a negative share price reaction short-term, Cast is likely to stay profitable in 2015 and the management is confident that growth will pick up as of 2016.

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.3%	-0.3%	-9.0%	10.3%
Softw. & Comp.	-2.4%	1.5%	4.6%	-2.4%
DJ Stoxx 600	-6.6%	-9.0%	-13.8%	-6.6%

ANALYSIS

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	33.2	36.3	40.1	44.5
% change		9.6%	10.4%	11.0%
EBITDA	5.0	3.6	4.4	6.0
EBIT	2.0	0.7	1.7	3.4
% change		-63.7%	133.9%	102.1%
Net income	1.8	0.7	1.3	2.4
% change		-63.4%	96.5%	89.9%

	2014	2015e	2016e	2017e
Operating margin	6.1	2.1	4.3	7.7
Net margin	5.1	1.8	3.2	5.4
ROE	17.0	4.6	8.4	13.9
ROCE	340.5	-17.4	-32.5	-53.2
Gearing	-95.2	-123.9	-124.1	-124.8

(EUR)	2014	2015e	2016e	2017e
EPS	0.12	0.04	0.08	0.16
% change	-	-63.4%	96.7%	89.9%
P/E	28.4x	77.6x	39.5x	20.8x
FCF yield (%)	10.1%	8.7%	3.2%	6.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.3x	1.0x	0.9x	0.7x
EV/EBITDA	9.0x	10.3x	8.0x	5.3x
EV/EBIT	21.8x	48.3x	20.5x	9.4x

- Q4 2015 sales below our forecasts.** Cast has reported Q4 sales up 2.6% to EUR13.3m, 11% below our EUR15m estimate. Excluding fx tailwinds of EUR1.4m (USD), we estimate the Q4 lfl decline at 8.2%. For FY15, sales totalled EUR36.3m, up 9.6% (est. -1.6% excl. fx tailwinds of EUR3.7m), close to the company's guidance until November 2015 (sales up above 10%). The quarter was hit by tough year-on-year comps (Q4 2014 was up 13.4%) while a couple of deals (three/four as we understand) slipped up in Europe, the US and India as Cast remained strict on its discount policy. However, the performance in the US (est. 60% of sales) remained strong.
- Still profitable in 2015.** Despite the deals that slipped in Q3 and Q4, management mentioned during the conference call that Cast was still profitable in 2015. Investments planned for the year for future growth were well advanced (sales, services, R&D), but slightly lagging compared to initial targets. As such, this should translate into a lower opex than previously expected even after Q3 2015 sales. We now estimate breakeven point for 2015 at EUR35.6m (vs. EUR36.4m), up from EUR31.1m in 2014, which would translate into an op. margin of 2.1% (vs. 4.3%). Finally, management confirmed that the net cash position remained healthy (BG end-2015 est. EUR17.1m).
- Growth acceleration scenario for 2016 and beyond.** Management foresees a possible revenue growth acceleration in 2016 and beyond, and consider that +10% lfl is achievable. Q1 2016 could generate significant growth in management's view as it could benefit from some deals that slipped in 2015 and comps are easy. This optimism is underpinned by more recurring revenues (maintenance, SaaS, managed services), more efficient sales channels, increased support from strategy consulting firms (BCG, McKinsey), the propagation of the standards defined by the CISQ consortium, and strong appetite from management of large companies and IT Services companies for software risk management based on analytics. For 2017, Cast expects significant licence renewals from large IT Services companies. As such, we expect operating margin to widen gradually from 2016 following investments for growth made in 2015.

VALUATION

- Cast's shares are trading at est. 20.5x 2016 and 9.4x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2015 was EUR16.6m (net gearing: -155%).

NEXT CATALYSTS

FY15 results on 4th April after markets close.

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