

## Sword Group

Price EUR22.94

FY15 analysts' meeting feedback: confidence ahead

Fair Value EUR28 (+22%)

BUY

Bloomberg	SWP.FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.3 / 19.3
Market Cap (EURm)	215
Ev (BG Estimates) (EURm)	175
Avg. 6m daily volume (000)	8.70
3y EPS CAGR	8.4%

We reiterate our Buy rating following the analysts' meeting held yesterday. Due to fx rates (EUR/GBP), we shave by 2% our adj. EPS ests. for 2016-17, but keep them almost unchanged for 2018. Carried by strong backlog-driven momentum in IT Services (deals with European institutions and sports organisations) and Software (large multi-year deployments in Asset Finance), Sword is in our view likely to maintain lfl revenue growth around 15% over 2016-17 while maintaining its EBITDA margin above 15%. The still-strong dividend yield makes the Sword share attractive as well.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	-5.3%	3.8%	-5.6%
Softw. & Comp.	6.3%	-5.8%	10.9%	-6.2%
DJ Stoxx 600	7.4%	-7.7%	-6.0%	-7.7%

## ANALYSIS

- Confidence on 15% lfl revenue growth and a 15% EBITDA margin for 2016.** The total backlog as of end 2015 represented 24.8 months of sales (vs. 23.2 months end 2014). In IT Services, Benelux posted EUR17.4m revenues in 2015 vs. EUR12m in 2014, and management is confident to reach EUR21m in 2016 and exceed EUR30m by 2018, based on a solid backlog with European institutions. In that geography, 20-25% growth per year is achievable according to Sword. In Software, 2016 looks to have enjoyed a good start like in 2015 on Governance, Risk & Compliance, while in Asset Finance, Daimler Financial Services, which is deploying the solution in Russia for a 'go-live' in 2016, plans to roll it out in the UK, Germany and Italy over 2016-17 and has extended its partnership with Sword to 2022. Management is not concerned by a possible "Brexit", but the weakness of the British pound vs. the euro has generated a 2% headwind to est. FY16 sales since the beginning of the year (UK = c. 25% of sales) - while cash is not significantly exposed to GBP.
- More details on FY15 accounts.** 1). The non-IFRS operating margin reached EUR18.9m or 13.7% of sales, which is in line with our forecast (EUR19m or 13.8% of sales), and the net profit was at EUR13.3m (BG est.: EUR13m) after EUR5.1m non-recurring costs (BG est.: EUR5.3m) including restructuring costs and acquisition/disposal fees; 2). Despite payment delays at the European Commission, DSOs remained relatively low, at 56 days; 3). Only EUR1.3m R&D costs have been capitalised in 2015 while the initial budget was EUR5m, as most of the R&D teams recently hired have been mobilised on the deployment of large contracts in Asset Finance, but management considers this is a 6-month delay and the capitalised R&D plan may reach at least EUR3m per year over 2016-17 (probably not the EUR5m per year initially planned over 2015-2017); 4). The net cash position will be negatively impacted in 2016 by the payment of a EUR9m earn-out.
- No deviation from strategic principles.** Sword intends to embrace the digital transformation of its customers by managing and supporting its customers' requirements, not by trying to be ahead of the curve in terms of technology. Its angles on digitisation are on omni-channel experience, disintermediation and the digital workplace. In order to avoid becoming subcontractors of large cloud companies (Microsoft, Google, Amazon...), Sword will continue to differentiate through strategic partnerships with them and private cloud applications, both on niches. In IT Services, 3 new offers have been launched in 2015 (managing high-performance IT ecosystems, Intelligence Platform & Dark Web, telemedicine & medical coordination tools). In Software, Sword will remain focused on GRC - no vendor dominates the market, which is growing - and Asset Finance - the number of competitors in Automotive is limited and the market opportunity is global.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	138.0	162.0	185.0	210.0
% change		17.4%	14.2%	13.5%
EBITDA	22.0	24.0	29.0	34.0
EBIT	14.0	19.0	24.0	29.0
% change		35.7%	26.3%	20.8%
Net income	17.0	16.0	19.0	22.0
% change		-5.9%	18.8%	15.8%

	2015	2016e	2017e	2018e
Operating margin	13.8	13.0	13.9	14.4
Net margin	9.4	9.3	9.2	10.0
ROE	8.1	9.1	9.8	11.4
ROCE	13.9	12.2	14.7	15.9
Gearing	-27.0	-24.0	-23.0	-26.0

(€)	2015	2016e	2017e	2018e
EPS	1.86	1.73	2.01	2.37
% change	-	-7.0%	16.2%	17.9%
P/E	12.3x	13.3x	11.4x	9.7x
FCF yield (%)	3.7%	4.6%	6.0%	9.6%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	5.2%	5.2%	5.2%	5.2%
EV/Sales	1.2x	1.1x	0.9x	0.8x
EV/EBITDA	7.8x	7.3x	6.0x	4.9x
EV/EBIT	9.0x	8.3x	6.7x	5.6x



## VALUATION

- Sword's shares are trading at est. 8.3x 2016 and 6.7x 2017 EV/EBIT multiples.
- Net cash position on 31<sup>st</sup> December 2015 was EUR42.7m (net gearing: -27%).

## NEXT CATALYSTS

Q1 16 sales on 25<sup>th</sup> April after markets close.

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