5th April 2016

TMT

Cast

Price EUR3.57

FY15 results in line, but 2016 will be another year of investment

Fair Value EUR3,6 vs. EUR3,9 (+1%) **NEUTRAL vs. BUY**

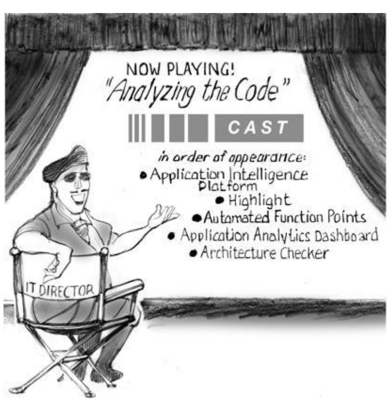
Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.7 / 2.9
Market Cap (EUR)	58
Ev (BG Estimates) (EUR)	42
Avg. 6m daily volume (000)	10.00
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	11.6%	15.2%	9.2%	18.2%
Softw.& Comp.	1.5%	-0.7%	14.7%	-3.6%
DJ Stoxx 600	-2.1%	-6.2%	-3.8%	-8.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36.3	40.2	45.4	50.8
% change		*10.5%*	*13.0%*	*12.0%*
EBITDA	3.6	3.5	4.6	6.4
EBIT	0.8	0.7	2.0	3.8
% change		*-10.2%*		*92.2%*
Net income	0.0	0.6	1.5	2.8
% change			*139.5%*	*85.5%*

	2015	2016e	2017e	2018e
Operating margin	2.3	1.9	4.5	7.6
Net margin	0.1	1.5	3.3	5.5
ROE	0.3	4.5	9.8	15.4
ROCE	41.4	-36.7	-43.2	-59.8
Gearing	-98.6	-110.4	-120.8	-124.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.00	0.04	0.10	0.18
% change	-		*139.9%*	*85.4%*
P/E	NS	86.2x	36.0x	19.4x
FCF yield (%)	0.6%	4.1%	6.0%	7.3%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.2x	1.1x	0.9x	0.7x
EV/EBITDA	12.3x	12.3x	8.5x	5.6x
EV/EBIT	53.6x	56.3x	19.3x	9.2x



We have downgraded our recommendation to Neutral from Buy with a new DCF-derived Fair Value of EUR3.6 (vs. EUR3.9) on reduced EPS forecasts (-50% for 2016e, -38% for 2017e, -28% for 2018e). Yesterday evening Cast reported FY15 results in line with our expectations, but, in order to maximise revenue growth potential, management sees 2016 as another year of double-digit increase in operating expenses, leading to a flat operating profit. The operating margin is now expected to take off in 2017. We expect a negative share price reaction on the back of these numbers.

ANALYSIS

- **FY15 results in line with our expectations**. For 2015, Cast reported sales up 9.6% to EUR36.3m (-1.6% lfl), an operating profit down 61.6% to EUR0.8m fully in line with our forecast, and net profit at breakeven (BG est.: EUR0.6m). Operating expenses were up 13.8% to EUR35.5m, in continuity with the acceleration in investments initiated in H2 14. Out of the EUR4.3m year-on-year opex increase, EUR2.2m were related to EUR/USD fluctuations (more than 30% of opex is stated in USD, vs. c. 50% of revenues). We estimate that, ex-fx, Cast would have posted an operating loss of EUR0.7m. As of 31st December 2015, headcount exceeded 300, up from 241 at the end of 2014. Finally, the net profit at breakeven was due to less utilisation of tax loss carry forwards, especially in the US, but some of them could be reversed in 2016.
- **Net cash increase**. During the period, net cash increased by EUR3.5m, leading to a net cash position of EUR13m on 31st December 2015. This increase stemmed from a rise in working capital (EUR0.9m) - primarily on receivables - and the conversion of redeemable share warrants (BSAR) into shares (EUR3.9m). Cast also bought back EUR1.2m shares, which could be used for potential acquisitions - yet the opportunity of making small technological acquisitions has not materialised yet as they would have generated too much distraction - or as an incentive for key managers. The EUR3.6m decline in the net cash position compared to 30th June 2015 stemmed from a different seasonality of account receivables.
- **5-year targets confirmed, but 2016 will be another yeat of investment**. Cast has confirmed its 5-year targets announced early 2015: double-digit growth with a trend of acceleration, and gradually increasing profitability. For 2016, management is confident in 10-15% revenue growth (i.e. at least EUR40m) but considers another year of investment in order to maximise revenue growth as catalysts are there for the medium-term: increased support from strategy consulting firms (BCG, McKinsey), propagation of the standards defined by the CISQ consortium, strong appetite from management of large companies and IT Services firms for software risk management. As such, operating profit is likely to stay flat in absolute value, based on opex up double-digit. Investments planned for this year will be in services, R&D and sales & marketing. Finally, the management considers the operating margin will increase in value and as a percentage of sales from 2017.

VALUATION

- Our new DCF-derived fair value of EUR3.6 is based on a mid-term lfl sales growth of 10% (vs. 8%), a mid-term op. margin of 12% (vs. 14%), and a WACC of 17.4% (vs. 16.4%) due to the change of our risk-free rate (to 1.6% from 2%) and equity risk premium assumptions (7% vs. 6.4%).
- Cast's shares are trading at est. 56.3x 2016 and 19.3x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR13m.

NEXT CATALYSTS

Q1 16 sales on 2nd May after markets close.

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