

## Sword Group

Price EUR23.79

Q1 16 results in line with our estimates, FY16 guidance fine-tuned from fx

Fair Value EUR26 (+9%)

BUY

|                            |             |
|----------------------------|-------------|
| Bloomberg                  | SWP.FP      |
| Reuters                    | SWP.PA      |
| 12-month High / Low (EUR)  | 25.3 / 19.3 |
| Market Cap (EUR)           | 223         |
| Ev (BG Estimates) (EUR)    | 185         |
| Avg. 6m daily volume (000) | 8.40        |
| 3y EPS CAGR                | 10.6%       |

Yesterday evening Sword reported Q1 results with sales in line with our estimates but lfl revenue growth 5.4ppt ahead of the company's target, with Services sales boosted by Benelux and Switzerland. FY16 guidance has been fine-tuned for forex given the weak GBP against the EUR since early March. In addition, the 2015 dividend is unsurprisingly set to be flat at EUR1.20 per share. With lfl revenue growth 5.4ppt ahead of the full-year target, we expect the share price to react positively.

## ANALYSIS

- Q1 sales in line with our expectations but 5% ahead of the company's budget.** Q1 sales rose 22% (+20.4% lfl) to EUR39.8m or 1% above our EUR39.3m estimate, with EBITDA up 22.4% to EUR6m or 15.1% of sales (flat) while we expected EUR5.8m or 14.8% of sales. Sword's Q1 target lfl revenue growth was +15%, so actual lfl growth was 5.4% above it. By division, Software posted sales of EUR12.3m (+18% lfl) and an EBITDA margin of 30.1% (+0.7ppt), while Services posted sales of EUR27.5m (+21.4% lfl) and an EBITDA margin of 8.5% (+0.7ppt). Forex headwinds to revenue growth in Q1 were -3.7ppt, o/w -3.5ppt in Software and -3.7ppt in Services. The net cash position on 31st March 2016 was EUR39.8m, meaning Q1 net cash flow was a negative EUR2.9m.
- Services growth boosted by Benelux and Switzerland.** Management explained the strong Q1 performance by robust contributions from all business units, as none of them posted a lfl revenue increase below 10%. In Software, the Asset Finance Solutions (AFS) business unit (58% of Software revenues) continued to drive growth generating EBITDA margin of 34.1%. In Services, Benelux (20% of Services sales, and a margin of 6.3%) and Switzerland (24%, and a margin of 10.5%) outperformed the 20.4% lfl growth rate of the division, while France (31%, and a margin of 9.6%) and the UK (16%) performed in line with the target. With a margin of 4.6% in the UK for Q1, management estimates the turnaround of AAA acquired in December 2015 is slightly ahead of plan. Finally, EURO.4m in R&D was capitalised in the quarter for new software products (EUR1.8m cumulated), but Sword plans to accelerate this in the coming quarter ahead as the 30 staff hired in Q1 for this programme ("Bluebird") - still 15 to recruit - are actually starting to work on it.
- FY16 guidance fined-tuned for fx.** Sword has confirmed FY16 guidance, i.e. sales up 15% lfl, and an EBITDA margin of 15%. This lfl growth rate is underpinned by a backlog of 23.8 months of sales (vs. 24.8 months end 2015), up 21.8% compared to June 2015. Recently the company renewed deals with Orange and the United Nations. Benelux is now heading towards EUR21m in revenues for 2016 (+24%) instead of the EUR20m initially budgeted. With current fx assumptions, FY16 revenues would reach EUR161m (FY15 pro forma base of EUR140.2m), down from EUR162m (FY15 pro forma base of EUR141m) early March, due to the weakness of the GBP against the euro. Given the Q1 lfl growth trend 5.4ppt ahead of company guidance, we have increased our lfl revenue growth rate to +16.3% from +15% for 2016, but our revision is offset by fx headwinds.

|                | 1 M   | 3 M   | 6 M   | 31/12/15 |
|----------------|-------|-------|-------|----------|
| Absolute perf. | -1.2% | -2.9% | -0.6% | -2.1%    |
| Softw. & Comp. | 0.0%  | -0.3% | 1.7%  | -3.4%    |
| DJ Stoxx 600   | 3.5%  | 3.1%  | -8.1% | -5.2%    |

| YEnd Dec. (€m) | 2015  | 2016e | 2017e | 2018e |
|----------------|-------|-------|-------|-------|
| Sales          | 138.0 | 163.0 | 185.0 | 211.0 |
| % change       |       | 18.1% | 13.5% | 14.1% |
| EBITDA         | 22.0  | 25.0  | 29.0  | 34.0  |
| EBIT           | 11.0  | 20.0  | 24.0  | 29.0  |
| % change       |       | 81.8% | 20.0% | 20.8% |
| Net income     | 16.0  | 16.0  | 19.0  | 22.0  |
| % change       |       | 0.0%  | 18.8% | 15.8% |

|                  | 2015  | 2016e | 2017e | 2018e |
|------------------|-------|-------|-------|-------|
| Operating margin | 13.8  | 13.0  | 13.9  | 14.4  |
| Net margin       | 7.2   | 8.6   | 9.2   | 9.5   |
| ROE              | 6.2   | 8.5   | 9.8   | 10.9  |
| ROCE             | 13.8  | 12.0  | 14.3  | 15.3  |
| Gearing          | -26.0 | -23.0 | -21.0 | -23.0 |

| (€)           | 2015  | 2016e | 2017e | 2018e |
|---------------|-------|-------|-------|-------|
| EPS           | 1.72  | 1.71  | 2.02  | 2.33  |
| % change      | -     | -0.6% | 18.1% | 15.3% |
| P/E           | 13.8x | 13.9x | 11.8x | 10.2x |
| FCF yield (%) | 3.6%  | 4.0%  | 4.9%  | 8.4%  |
| Dividends (€) | 1.20  | 1.20  | 1.20  | 1.20  |
| Div yield (%) | 5.0%  | 5.0%  | 5.0%  | 5.0%  |
| EV/Sales      | 1.3x  | 1.1x  | 1.0x  | 0.9x  |
| EV/EBITDA     | 8.2x  | 7.4x  | 6.4x  | 5.3x  |
| EV/EBIT       | 9.5x  | 8.8x  | 7.1x  | 6.0x  |



## VALUATION

- Sword's shares are trading at est. 8.8x 2016 and 7.1x 2017 EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR42.7m (net gearing: -27%).

## NEXT CATALYSTS

- AGM on 28th April.
- Q2 2016 sales on 26th July after markets close.

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|         |   |
|---------|---|
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