

Cast

Price EUR3.54

Q2 2016 sales below expectations, but full-year growth target reiterated

Fair Value EUR3.6 (+2%)

NEUTRAL

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.7 / 3.0
Market Cap (EUR)	57
Ev (BG Estimates) (EUR)	42
Avg. 6m daily volume (000)	8.60
3y EPS CAGR	ns

Yesterday evening, Cast reported Q2 2016 sales 12% below our forecast, due to the slippage of two large transactions, of which one with a US bank based in London after the referendum for Brexit. However, management is confident that it deliver on its commitment for at least 10% revenue growth in 2016 as this deal is likely to be closed in Q3 and the deal flow is promising. We cannot rule out a negative share price reaction in the short-term, but Q3 sales may engender a catch-up.

ANALYSIS

- Q2 2016 below expectations due to two deal slippages.** For Q2 2016, Cast reported sales down 11.4% to EUR7.9m, or 12% below our EUR9m estimate. Excluding fx headwinds of EUR0.1m (USD), we estimate the Q2 decline at -10.2%. For H1 2016, sales totalled EUR14.6m, down 1.6% (-0.9% excl. fx headwinds of EUR0.1m). During the quarter, the company suffered from the slippage of two large transactions at the end of June: one with a US bank based in London just after the referendum on Brexit, the other with a large IT Services firm which was recently acquired by a Japanese competitor - we understand this is Dell Services, sold to NTT Data. Management estimates the gap between actual revenues and the budget was EUR2.5m, which means that, excluding these slippages, Q2 2016 revenues would have been up 16-17% to c. EUR10.5m.
- 2016 guidance reiterated.** Despite the transactions postponed, management reiterates 2016 guidance, i.e. sales up above 10% and a positive operating profit. Their confidence is underpinned by three elements: 1) a strong sales pipeline, whether it is direct and indirect, and well-balanced across geographies (Europe, US, India); 2) pre-closing discussions with the US bank resumed three weeks later and, excluding unpredictable events, the transaction should be signed in Q3; 3) the deal with the large IT Services company is unlikely to be closed before 2017, as the buyer plans to resume talks once the merger is complete, but Cast's management estimates the deal flow is big enough elsewhere to offset this delay. Finally, due to the deals that slipped, the management considers the operating loss in H1 2016 will deteriorate compared to H1 2015 (-EUR2.4m).
- Update on partnerships.** Management considers the ramp-up of the partnerships Cast has with systems integrators and management consulting firms continues to provide new revenue opportunities. In particular, the alliance with BCG, which has been slow to ramp up so far, entered the next stage with the appointment of four 'sponsor' consultants at BCG dedicated to Cast, and a dozen deals are in the pipeline, but still for modest amounts (EUR50-100k each for audits).

VALUATION

- Cast's shares are trading at 55.5x 2016e and 19.2x 2017e EV/EBIT multiples.
- Net cash position on 31st December 2015 was EUR13m (net gearing: -99%).

NEXT CATALYSTS

H1 16 results on 12th September after markets close.

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BUY ratings 55%

NEUTRAL ratings 34,2%

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