

## Sword Group

Price EUR23.37

Preliminary H1 2016 results slightly above our estimates; 2016 guidance ex-fx confirmed

Fair Value EUR25 vs. EUR26 (+7%)

BUY

Bloomberg	SWP FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.3 / 21.1
Market Cap (EUR)	220
Ev (BG Estimates) (EUR)	182
Avg. 6m daily volume (000)	9.10
3y EPS CAGR	9.0%

We reiterate our Buy rating, but trim our DCF-derived fair value to EUR25 from EUR26 as we reduce our adj. EPS ests. by 1% for 2016 and 3% for 2017-18. Yesterday evening, Sword reported Q2 2016 results slightly above our estimates. 2016 guidance ex-fx is confirmed, but the weaker British pound against the euro generates an est. 3% headwind to revenues. We expect the share price reaction to be mixed in the short-term.

## ANALYSIS

- Q2 2016 results slightly above our expectations.** Q2 2016 sees sales up 14.7% (+14% lfl) to EUR40.3m (in line with our EUR40.8m estimate), and EBITDA up 15.4% to EUR6.4m or 16% of sales (+0.1ppt) while we expected EUR6.2m or 15.3% of sales. For H1 2016, sales were up 18.2% (+17.1% lfl) to EUR80.1m, while EBITDA was up 18.3% lfl to EUR12.4m or 15.5% of sales (flat). This performance was in line with the company's internal budget. The non-IFRS EBIT is at EUR10.9m or 13.6% of sales, and net profit was up 40% to EUR6.8m. By division, for H1 2016, Software posted sales of EUR23.9m (+15.7% lfl) and an EBITDA margin of 29.4%, while Services posted sales of EUR56.2m (+17.8% lfl) and an EBITDA margin of 9.6%. The fx headwinds to revenue growth in H1 amounted to 4.1ppt, o/w 4.1ppt in Software and 4.2ppt in Services.
- More details on H1 2016 figures.** 1) in Services, Sword posted an EBITDA margin of 11.9% for France, 6% for Benelux, 4.7% for the UK and 12% for other countries; 2) in Software, the WFS division (Wholesale Finance) posted an EBITDA margin of 33.8% - which could land at 28-29% at the end of the year given the usual seasonal discounts, while the GRC division (Governance Risk Compliance) had an EBITDA margin of 23%, and IP-based solutions posted an EBITDA margin of 23.9%. Finally, capitalised R&D amounted only EUR0.9m in H1 2016, and the cumulated amount of capitalised R&D since the launch of the programme has reached EUR2.2m.
- Net cash position down due to earn-out payments.** The net cash position on 30<sup>th</sup> June 2016 was EUR28.1m, down from EUR39.8m on 31<sup>st</sup> March after the payment of dividends (EUR11.3m or EUR1.20/share) and EUR7.3m utilised for share buy-backs and earn-out payments (Simalaya). Excluding these elements, the net cash position would have improved by EUR9.4m in H1 2016.
- 2016 guidance reiterated; Horizon 2020 in sight.** While Brexit has had no impact on the business except a strong fx headwind due to the British pound (33% of revenues), Sword reiterates 2016 guidance, i.e. sales up 15% lfl, and an EBITDA margin of 15%. Such a lfl growth rate is underpinned by a backlog of 23.7 months of sales (vs. 24.8 months end 2015 and 22.5 months in June 2015). With current fx assumptions, 2016 revenues would reach EUR157m (2015 pro forma base of EUR135m), down from EUR161m (2015 pro forma base of EUR140.2m) at the end of April, due to the weaker British pound against the euro. At the analysts' meeting on 6<sup>th</sup> September, management plans to introduce a business plan named Horizon 2020 with "ambitious" growth rates and driven by R&D. This plan may include acquisitions, and the weaker British pound provides, according to CEO Jacques Mottard, opportunities to buy companies in the UK.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.1%	-1.1%	-5.4%	-3.8%
Softw. & Comp.	10.9%	6.6%	6.1%	2.6%
DJ Stoxx 600	6.0%	-1.7%	0.6%	-6.7%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	138.0	158.0	177.0	202.0
% change		14.5%	12.0%	14.1%
EBITDA	22.0	24.0	28.0	33.0
EBIT	11.0	19.0	23.0	28.0
% change		72.7%	21.1%	21.7%
Net income	16.0	16.0	18.0	21.0
% change		0.0%	12.5%	16.7%

	2015	2016e	2017e	2018e
Operating margin	13.8	13.2	14.0	14.5
Net margin	7.2	8.9	9.6	9.9
ROE	6.2	8.5	9.9	11.0
ROCE	13.8	12.0	13.6	15.3
Gearing	-26.0	-23.0	-21.0	-23.0

(€)	2015	2016e	2017e	2018e
EPS	1.72	1.67	1.93	2.23
% change	-	-2.9%	15.6%	15.5%
P/E	13.6x	14.0x	12.1x	10.5x
FCF yield (%)	3.6%	4.1%	4.5%	8.1%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	5.1%	5.1%	5.1%	5.1%
EV/Sales	1.3x	1.2x	1.0x	0.9x
EV/EBITDA	8.1x	7.6x	6.6x	5.4x
EV/EBIT	9.4x	8.7x	7.4x	6.2x



## VALUATION

- Sword's shares are trading at est. 8.7x 2016 and 7.4x 2017 EV/EBIT multiples.
- Net cash position on 30<sup>th</sup> June 2016 was EUR28.1m.

## NEXT CATALYSTS

Analysts' meeting on 6<sup>th</sup> September at 10am CET / 9am BST / 4am EDT in Paris (Centre de conference Paris-Trocadéro, 112 avenue Kléber).

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