

Sword Group

Price EUR24.86

Final H1 2016 results in line, introducing the 'Horizon 2020' strategic plan

Fair Value EUR26 vs. EUR25 (+5%)

BUY

Bloomberg	SWP.FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.3 / 21.7
Market Cap (EUR)	234
Ev (BG Estimates) (EUR)	197
Avg. 6m daily volume (000)	8.10
3y EPS CAGR	11.3%

We reiterate our Buy recommendation and raise our DCF-derived Fair Value to EUR26 from EUR25 to take account of the increase in our adj. EPS estimates by 2% for 2016, 4% for 2017 and 6% for 2018 on revised minority interests assumptions. Yesterday evening Sword published final H1 2016 results in line with initial figures and management unveiled a strategic plan ('Horizon 2020') aiming at doubling revenues by 2020 through organic growth and acquisitions. We consider this plan achievable, although acquisition targets have to be found, and expect the share price to react positively short-term.

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.8%	8.1%	8.7%	2.3%
Softw. & Comp.	4.1%	9.4%	13.5%	7.8%
DJ Stoxx 600	2.7%	2.7%	2.6%	-4.2%

ANALYSIS

- Final H1 2016 results in line with preliminary figures.** On top of the preliminary results reported on 26th July (sales +18.2% - or +17.1% lfl - to EUR80.1m, EBITDA +18.3% to EUR12.4m or 15.5% of sales), the group posted adj. EBIT up 12.6% to EUR11m or 13.7% of sales (-0.7ppt) after a 43.3% surge in other external costs, EBIT up 36.4% to EUR7.5m after EUR1m in restructuring costs and EUR1.3m other exceptional costs, and net profit down 24.4% to EUR5.1m primarily due to lower forex gains and a surge in the tax rate to 30.3% from 19.7%.
- Strong free cash flow.** Free cash flow surged by 246% to EUR7.3m (or 9.1% of sales) essentially on the back of a sharp improvement in working capital requirements (WCR) compared to H1 2016 (EUR0.2m vs. EUR6.1m). Finally, net cash position at the end of June 2016 was EUR27.9m (vs. a preliminary est. of EUR28.1m), down from EUR42.7m at end 2015 due to dividend payments (EUR11.3m) and impact from acquisitions/disposals (EUR7.7m).
- Unveiling the 'Horizon 2020' strategic plan.** The 2020 plan involves a revenue trend of EUR300m with an EBITDA margin above or equal to 14.5%. For that, management indicated that several growth drivers will be used: 1) organic growth should remain above 10%, although the signing of large projects generating significant backlog, the development of the on-demand business in order to generate more revenue recurrence, and initiatives for R&D projects in order to generate new offers; 2) growth through acquisitions of software and IT services companies - with Germany as a priority target - should increase revenues by EUR40m.
- Realistic ambitions in our view at first glance.** We consider that, in order to reach EUR300m in revenues, if Sword acquires EUR40m in revenues it will have to generate average lfl revenue growth of 13% over 2016-2020. In our view, this CAGR is a sustainable goal only if market conditions remain favourable and Sword maintains solid execution, given that the company has generated lfl revenue growth between 13.7% and 16.3% every year since 2012. We estimate that a more conservative scenario with a 10% CAGR would lead to EUR235m in revenues in 2020, implying the acquisition of EUR65m in revenues to reach EUR300m.

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	16.0	22.0	27.0
% change		45.5%	37.5%	22.7%
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	13.2	14.0	14.5
Net margin	7.2	7.6	9.6	9.9
ROE	6.2	7.4	10.1	11.2
ROCE	13.8	12.9	13.8	15.6
Gearing	-26.0	-23.0	-21.0	-22.0

(€)	2015	2016e	2017e	2018e
EPS	1.72	1.71	2.00	2.37
% change	-	-0.6%	17.0%	18.5%
P/E	14.5x	14.5x	12.4x	10.5x
FCF yield (%)	3.4%	3.9%	4.2%	7.6%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	4.8%	4.8%	4.8%	4.8%
EV/Sales	1.4x	1.2x	1.1x	1.0x
EV/EBITDA	8.7x	8.2x	7.1x	5.9x
EV/EBIT	10.1x	9.4x	8.0x	6.7x



VALUATION

- Sword' shares are trading at est. 9.4x 2016 and 8.0x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR27.9m (net gearing: -19%).

NEXT CATALYSTS

Analysts' meeting today at 10am CET / 9am BST / 4am EDT in Paris (Centre de conference Paris-Trocadéro, 112 avenue Kléber).

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Analyst :
Gregory Ramirez
33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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