

Sword Group

Price EUR25.87

H1 2016 analysts' meeting feedback: the horizon remains clear...

Fair Value EUR31 vs. EUR26 (+20%)

BUY

Bloomberg	SWP.FP
Reuters	SWP.PA
12-month High / Low (EUR)	25.9 / 21.7
Market Cap (EUR)	244
Ev (BG Estimates) (EUR)	206
Avg. 6m daily volume (000)	8.30
3y EPS CAGR	11.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	10.1%	12.7%	13.1%	6.5%
Softw. & Comp.	3.7%	9.2%	13.0%	7.4%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	138.0	160.0	181.0	205.0
% change		15.9%	13.1%	13.3%
EBITDA	22.0	25.0	29.0	33.0
EBIT	11.0	16.0	23.0	27.0
% change		45.5%	43.8%	17.4%
Net income	16.0	16.0	19.0	23.0
% change		0.0%	18.8%	21.1%

	2015	2016e	2017e	2018e
Operating margin	13.8	13.3	14.0	14.5
Net margin	7.2	7.5	9.4	9.8
ROE	6.2	7.4	10.1	11.2
ROCE	13.8	13.0	13.9	16.4
Gearing	-26.0	-23.0	-21.0	-23.0

(€)	2015	2016e	2017e	2018e
EPS	1.72	1.74	2.05	2.41
% change	-	1.2%	17.8%	17.6%
P/E	15.0x	14.9x	12.6x	10.7x
FCF yield (%)	3.3%	3.7%	4.1%	7.7%
Dividends (€)	1.20	1.20	1.20	1.20
Div yield (%)	4.6%	4.6%	4.6%	4.6%
EV/Sales	1.5x	1.3x	1.1x	1.0x
EV/EBITDA	9.2x	8.2x	7.2x	6.1x
EV/EBIT	10.6x	9.8x	8.3x	6.7x

We reiterate our Buy recommendation and raise our DCF-derived Fair Value to EUR31 from EUR26 as we reduce our company beta to 2 from 2.2 given the solid results over the past quarters (+EUR4/share) and increase our adj. EPS ests. by 2-3% on updated fx assumptions (+EUR1). The analysts' meeting held yesterday confirmed rosy prospects both for Software (driven by Apak) and IT Services (thanks to EU contracts). We consider the 'Horizon 2020' plan is not aggressive on lfl sales growth, while the acquisition plan offers flexibility for a larger purchase if the opportunity arises.

ANALYSIS

- Rosy prospects for Services thanks to EU contracts.** Sword has 9 multi-year framework agreements with EU agencies with an average contract value of c. EUR15m and an average duration of 4.4 years, and a backlog of EUR100m+ for the next 5 years. Management expects 25% sales growth with EU agencies for 2016 (to EUR21m) after +42% in 2015, and is committed to EUR40m+ sales by 2020, i.e. 17% sales CAGR. Many new contracts (for up to EUR50m each) are in preparation for the next 2 years. Due to the investments necessary to keep growing, Sword does not expect the EBITDA margin in Benelux to exceed 8% (vs. 6% in H1 2016). In the UK, it is satisfied with the 4.7% EBITDA margin posted for H1 as it was at break even in 2015 and sales rose 25% lfl.
- Software: Apak remains the driver.** Sword is pursuing strong growth in AFS (Asset Finance) with Apak, with the continuous ramp-up of BMW (initial contract value of EUR17m with three countries already deployed - o/w the UK and Ireland -, Italy and Germany in preparation, with a final target of 25+ European countries) after that of Daimler. Intellectual Property (IP) benefits from the gain of PTOs in Colombia and New Zealand in 2015, while another PTO is in prospect. Sword intends to boost its Apak R&D plan, with an additional spend of EUR7.5m over 2017-18 on top of EUR3.5m to be spent by end 2016 (EUR2.2m as of June 2016), and an additional budget of EUR10m over 2018-20 in order to develop the North American branch and out of the commercial finance area.
- 'Horizon 2020' plan: not so aggressive.** For 2020, Sword aims to deliver EUR300m in revenues (o/w 70% in Services and 30% in Software like today, and o/w 15% in France and 85% overseas vs. 19%-81% today) - vs. c. EUR160m for 2016 - with an EBITDA margin of 14-15% (vs. 15.5% today). Management considers the GBP is a headwind of only EUR5m for sales or a 3-month delay. lfl sales growth is anticipated above 10%, and Sword has not been aggressive in forecasting in order to keep the 'right balance' between revenue growth and profitability. Organic growth will be driven by the increase in backlog (large projects with customers such as the EU), increase in recurrence (long-term contracts using the on-demand model such as Apak), and an increase in offerings (projects underpinned by products or software components developed internally).
- How to solve the acquisition puzzle?** For EUR40m sales to be bought by end 2020, Sword intends to buy Software and Services firms, and remain strict on criteria. In Software, the priority remains the UK with adjacent products with the aim of participating in market consolidation - a myriad of vendors exists in GRC (Governance, Risk & Compliance). In Services, acquiring in Germany is driven by the presence of customers (Daimler, BMW, Airbus). Management is conscious about the scarcity of quality targets in Germany, and is targeting companies with a mid-single digit EBITDA margin which could be raised to 11%. Assuming a price-tag of EUR40-50m for EUR40m in sales and at least EUR11m dividend, Sword considers end 2020 net debt could be EUR17m.

VALUATION

- Sword's shares are trading at est. 9.8x 2016 and 8.3x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR27.9m (net gearing: -19%).

NEXT CATALYSTS

Q3 2016 sales on 24th October after markets close.[Click here to download document](#)

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