

Cast

Price EUR3.27

Disappointing Q3 2016 sales, FY16 guidance reiterated but at risk

Fair Value EUR3,3 vs. EUR3,6 (+1%)

NEUTRAL

Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.6 / 3.0
Market Cap (EUR)	53
Ev (BG Estimates) (EUR)	38
Avg. 6m daily volume (000)	7.20
3y EPS CAGR	ns

We are reiterating our Neutral recommendation and reducing our DCF-derived Fair Value to EUR3.3 from EUR3.6 as we have cut our adj. EPS for 2018 by 11%. Yesterday evening, Cast reported Q3 2016 sales way below our forecast, due to longer sales cycles and the slicing of a large deal with a US bank into two tranches. Management is aware that its goal for at least 10% sales growth in 2016 is at risk, but has reiterated it anyway based on the sales pipeline, while costs are below budget. We expect a negative share price reaction in the short-term.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.8%	-5.2%	-3.3%	8.3%
Softw. & Comp.	-7.0%	-1.8%	5.6%	0.8%
DJ Stoxx 600	-3.3%	-1.2%	-2.8%	-9.4%

ANALYSIS

- Q3 2016 way below expectations.** For Q3 2016, Cast reported sales down 2.4% to EUR8m, or 27% below our EUR10.9m estimate. Excluding fx headwinds of EUR0.1m, we estimate the fall at -1.2%. The gap between actual sales and our forecast stems from longer-than-expected sales cycles and phased transactions. For instance, the large deal which was delayed in Q2 with a major US bank due to Brexit was actually signed in Q3, but for a bit less than one-third (est. USD1m) of its initially estimated value, which was supposed to be booked as a "one-off". The bank has an option to sign the remaining USD2m+ in Q4 2016 (with no firm commitment), otherwise this could be done in H1 2017. In July, Cast also signed a sizeable deal with the US Department of State. Finally, the first enterprise SaaS contracts signed in 2012-13 are starting to be renewed.
- 2016 guidance reiterated, despite uncertainties.** Management has reiterated 2016 guidance, i.e. sales above 10% and a positive operating profit - in line with the trends of the last 3 years. However, as for 2009 and 2011, this means for Cast a more pronounced revenue seasonality than usual with c. 45% of full-year revenues to be made in Q4. Management is aware of the risk of further deal slippages as procurement departments usually try to bargain at the end of quarters. However, the situation in 2016 is different from 2009 and 2011 as: 1) Cast has a more significant share of revenues which are recurring than before; 2) the sales pipeline remains strong and a number of significant deals are in the final stages of negotiation at procurement departments. On the cost side, the good news is that, due to the difficulty to recruit, operating costs for 2016 are EUR1.5-2m below the initial budget - notwithstanding Cast has flexibility on sales commissions.
- Revising our forecasts.** Due to the risk of further slippages, we prefer to adopt a more cautious approach. We now expect Cast to post 6.5% growth in 2016 (EUR1.3m below EUR40m) instead of +10%, vs. +10% in 2017-18 instead of +12%. However, this does not have a material impact to our adj. EPS ests. (except for 2018: -11%) as opex are below the initial budget. As an illustration, while for EUR40m revenues we previously forecasted an operating margin of 1.9%, reaching that level of sales would now imply an operating margin of 5-5.5% in our view. Taking into account our new EUR38.7m revenue forecast, we consider Cast could be able to deliver a margin of 2.5%.
- Update on partnerships.** 1) In India, the sales dynamic looks promising with IT Services firms like Infosys and Cognizant and may lead to a stronger contribution to revenues in this country within the next 3 years; 2) talks have been engaged with a major software vendor for the utilisation of Cast's technology for "cloud readiness"; 3) discussions are ongoing for a partnership with a leader in artificial intelligence for "intelligent Application Development & Maintenance".

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36.3	38.7	43.1	47.4
% change		6.5%	11.2%	10.0%
EBITDA	1.3	1.6	2.8	4.2
EBIT	0.8	0.9	2.0	3.3
% change		17.1%	130.6%	60.1%
Net income	0.1	0.8	1.6	2.4
% change			105.2%	57.2%

	2015	2016e	2017e	2018e
Operating margin	2.4	2.5	5.0	7.1
Net margin	0.1	1.9	3.6	5.1
ROE	0.4	5.4	10.0	13.7
ROCE	139.6	-48.6	-59.9	-64.1
Gearing	-99.3	-110.5	-116.0	-120.2

(EUR)	2015	2016e	2017e	2018e
EPS	0.00	0.05	0.10	0.16
% change	-		105.1%	57.2%
P/E	NS	66.3x	32.3x	20.6x
FCF yield (%)	0.8%	4.5%	5.1%	7.1%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	1.1x	1.0x	0.8x	0.7x
EV/EBITDA	30.3x	23.7x	12.4x	7.6x
EV/EBIT	46.4x	38.2x	16.4x	9.4x



VALUATION

- Cast's shares are trading at est. 38.2x 2016 and 16.4x 2017 EV/EBIT multiples.
- Net cash position on 30th June 2016 was EUR12.9m (net gearing: -149%)

NEXT CATALYSTS

Q4 2016 sales on 1st February 2017.

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