3rd November 2016

TMT

Cast

Price EUR3.27

Disappointing Q3 2016 sales, FY16 guidance reiterated but at risk

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

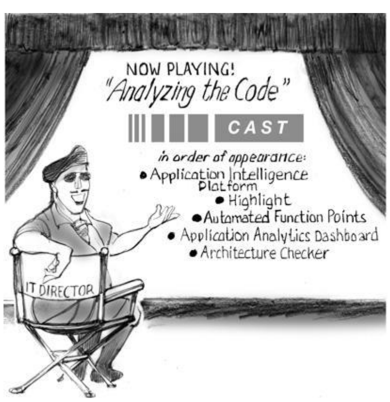
Bloomberg	CAS.PA
Reuters	CAS FP
12-month High / Low (EUR)	3.6 / 3.0
Market Cap (EUR)	53
Ev (BG Estimates) (EUR)	38
Avg. 6m daily volume (000)	7.20
3y EPS CAGR	ns

	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%

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



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.

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".

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.

Click here to download document

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

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56,7% NEUTRAL ratings 31,2% SELL ratings 12,1%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	**YES**
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	**YES**
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	**YES**
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA