

EKINOPS

| Technology
| Telecom

BUY

Fair Value EUR5.4 vs. EUR5.9 (+44%)
Share price EUR3.76
EPS 3Y Cagr 0

Slowdown in Q2 growth does not challenge global outlook

Slowdown in Q2 growth marked by unfavourable comps

Ekinops has posted Q2 revenue of EUR24.3m, up 4% yoy (2% on a cc basis), vs +11% in Q1 (+9% cc). The slowdown can mostly be explained by a challenging Q2 2018 comparison basis (up 17% yoy pf and 25% qoq). Ekinops stated it is very satisfied with the commercial dynamics and the quarter was still the best ever, up 17% qoq. Over H1, growth was notably driven by the US (+16%), while France was down 20% (major contracts awarded in Q2 2018), with growing internationalisation of the business. As far as products are concerned, Ekinops notably pointed out the strong growth in its new 200G optical product line. H2 should prove far more beneficial in terms of comparison basis. Indeed, although we are slightly adjusting our full year growth forecasts to 9% in 2019 and 7% in 2020 (vs 9.7% and 7.2% respectively previously), we remain confident growth should accelerate significantly over H2 (+11.1% yoy cc).

Delay in recruitment plan enhances short term profitability

Ekinops said gross margin over H1 was still very good, while costs were under control, and guided for an improvement in EBITDA margin over the period (ie > 9.5%). The 20-30 people recruitment plan is taking longer than expected, which we believe should help drive EBITDA growth over the semester. As a result we have updated our 2019 and 2020 EBITDA margin to 11.8% and 12.8% respectively, vs 10.4% and 12.5% respectively previously. As far as H1 2019 is concerned, we forecast EBITDA margin of 11.3%, ie up 1.8 ppts vs H1 2018, in line with the group's guidance.

We are adjusting our Fair Value, Buy confirmed

Taking into account the latest results and above-mentioned forecasts, as well as updating the number of shares post the EUR7.5m capital increase early June, we revise our Fair Value down to EUR5.4 vs EUR5.9, but our Buy recommendation remains unchanged. Note that discussions concerning Huawei and the upcoming 5G (with strong coverage commitments in France in particular) are catalysts for Ekinops.

OTN should help secure growth, with slight dilution to our FV

We currently do not include OTN in our numbers, but will do so as soon as the closing takes place. Here we assume OTN-related growth is already implicitly partially priced into our current growth assumptions, however we still need to include an additional EUR2.5m in people costs in 2020 onwards in order to account for the 25 OTN R&D employees in Brazil. As such, our growth forecasts should increase to 9.2% in 2020 and 6.4% in 2021 (vs 7% and 6% respectively today), while our EBITDA margin forecasts should decrease to 11.1% in 2020 and 12.6% in 2021 (vs 12.8% and 12.9% respectively today). As far as 2019 is concerned, we should stick to our revenue growth assumptions, while FY and H2 EBITDA margin should decrease to 10.4% and 9.5% respectively (vs 11.8% and 12.2% respectively today), assuming an integration in H2. In all, this would then drive our Fair Value down to EUR5.2 vs EUR5.4.

Market Data

Bloomberg / Reuters	EKI FP/EKI.PA
Market Cap.	EUR89,082k
E.V.	EUR89,082k
Free Float	62.8%
Avg. Daily volume (6m)	61.30
12m high / low	EUR4.9 / EUR2.4
Ytd Perf.	41.4%

EURK	12/18	12/19e	12/20e	12/21e
Sales	84,226	92,396	99,048	105,090
% Change		9.7%	7.2%	6.1%
EBITDA	10,448	9,630	12,404	13,533
% Change		-7.8%	28.8%	9.1%
EBIT	1,285	1,943	4,528	5,482
% Change		51.2%		21.1%
Net Income	-2,079	1,396	4,446	5,383
% Change		NS		21.1%
ROE	-0.03	0.02	0.06	0.06

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.9x	0.8x	0.7x	0.5x
EV/EBITDA	7.1x	7.5x	5.3x	4.0x
EV/EBIT	57.6x	37.1x	14.7x	9.9x
EPS	-0.09	0.06	0.18	0.22
% change		NS		21.1%
P/E	NM	64.7x	20.3x	16.8x
Div Yield	NM	NM	NM	NM

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Last FV Change:

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Last Reports:

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EKINOPS

BUY	
Fair Value	EUR5.4 vs. EUR5.9 (+44%)
Share price	EUR3.76
Market Cap.	EUR89,082k
EPS 3Y CAGR	0

Fiscal year end 31/12	2016	2017	2018e	2019e	2020e
Financial Summary					
EPS	-0.47	-0.34	-0.09	0.11	0.18
Restated EPS	-0.47	-0.34	-0.09	0.11	0.18
% change	-33.5%	-27.2%	-73.4%	-	66.5%
BVPS	2.15	3.61	3.06	3.21	3.39
Operating cash flows	-0.65	-0.25	0.41	0.23	0.41
FCF	-0.71	-0.22	0.30	0.13	0.29
Net dividend	0.00	0.00	0.00	0.00	0.00
Average yearly Price	Ge58eral	Ge34eral	Ge1eral	-	-
Avg. Number of shares, diluted (k)	7.361	21.237	24.288	26.441	26.441
Valuation (x)					
EV/Sales	1.8x	3.3x	0.89x	0.78x	0.58x
EV/EBITDA	-	441.6x	7.17x	6.65x	4.50x
EV/EBIT	-	-	58.29x	22.85x	11.99x
P/E	-	-	NM	35.70x	21.44x
FCF yield (%)	-	-	7.87%	3.54%	7.70%
Net dividend yield (%)	0.0%	0.0%	NM	NM	NM
Profit & Loss Account (EURk)					
Revenues	18,184	34,291	84,226	91,806	98,233
Change (%)	20.0%	88.6%	145.6%	9.0%	7.0%
Adjusted EBITDA	-853	256	10,448	10,817	12,571
EBIT (current)	-2,771	-3,894	1,285	3,147	4,717
Change (%)	-33.7%	-40.5%	-	144.9%	49.9%
Financial results	-13	-546	-114	-126	-126
Pre-Tax profits	-2,792	-6,459	-2,263	2,520	4,591
Tax	-67	4	178	151	46
Minority interests	0	11	-6	0	0
Net profit	-2,859	-6,466	-2,079	2,672	4,637
Restated net profit	-2,859	-6,466	-2,079	2,672	4,637
Change (%)	-26.0%	-126.2%	-67.8%	-	73.6%
Cash Flow Statement (EURm)					
Operating cash flows	-4,754	-5,400	10,019	6,161	10,909
Change in working capital	-3,750	-2,524	69	-3,832	-1,314
Capex, net	-823	-1,836	-2,861	-3,018	-3,130
Free Cash flow	-5,190	-4,582	7,184	3,516	7,653
Dividends	0	0	0	0	0
Capital increase	9,045	37,039	-18	0	0
Net debt	-6,532	-7,786	-14,180	-17,196	-32,512
Balance Sheet (EURm)					
Tangible fixed assets	902	2,520	2,593	3,197	3,729
Intangible assets	1,290	56,951	57,886	52,886	47,886
Cash & equivalents	8,431	21,316	25,115	35,631	43,284
current assets	13,543	35,606	37,831	40,505	42,702
Other assets	86	9,500	10,649	10,649	10,649
Total assets	24,252	125,893	134,074	142,868	148,249
L & ST Debt	1,899	18,530	15,767	15,767	15,767
Provisions	663	4,091	4,883	4,883	4,883
Others liabilities	6,532	30,755	43,952	42,318	42,807
Shareholders' funds	15,821	76,608	74,355	84,783	89,675
Total Liabilities	24,252	125,893	134,074	142,868	148,249
Capital employed	17,660	89,810	90,492	100,444	104,943
Ratios					
Operating margin	-15.2%	-11.4%	1.5%	3.4%	4.8%
Tax rate	2.4%	-0.1%	-7.9%	6.0%	1.0%
Net margin	-15.7%	-18.9%	-2.5%	2.9%	4.7%
ROE (after tax)	-18.1%	-8.5%	-2.8%	3.2%	5.2%
ROCE (after tax)	-16.1%	-4.3%	1.3%	3.3%	4.5%
Gearing	-41%	-10%	-19%	-20%	-36%
Pay out ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company Data; Bryan, Garnier & Co ests.

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