

17th October 2019

TEMENOS

| Technology
| Software & IT services

BUY

Fair Value CHF195 vs. CHF198 (+10%)
Share price CHF176.90
EPS 3Y Cagr 18.6%

Q3 2019 profit in line despite regional sales execution issues

Q3 2019 operating profit was in line despite disappointing sales

Yesterday evening, Temenos reported non-IFRS Q3 2019 revenues up 10% (+7% lfl) to USD229.1m - o/w total software licensing up 8% lfl (licences +7% lfl, SaaS +93% cc / est. +25% lfl), maintenance up 11% lfl, and services down 6% lfl -, and operating profit up 16% to USD79.1m or 34.5% of sales (+1.7ppt). Revenues were 5% below our EUR242.3m estimate (consensus: 240.3), while operating profit was in line (BG est.: 78.7 / 32.5%; consensus: 78.4 / 32.6%). Non-IFRS opex was up 1% lfl due to lower sales commissions, while gross margin in services was up 1.2ppt to 12.2%. Operating cash conversion remained strong, at 107% of EBITDA (target >100%), with DSOs up 9 days - flat ex-acquisitions - (vs. target 5-10 days) - to 123 days. Net debt on 30th September 2019 was USD1,141m (net gearing: 321%; Net debt/EBITDA: 3.1x).

Sales management issues in Middle East & Africa

Revenues were below estimates due to: 1) an est. USD6-7m shortfall in licence sales due to sales management issues in the Middle East & Africa (more in Africa), where after more than doubling revenues in 2018 and despite investment in the sales force, some deals are struggling to close, apparently with no lost deal; 2) an est. USD4-5m negative impact from more services handed over to systems integrators. Total licensing revenue growth in Q3 2019 was driven by America (est. +22%, tier-1 US bank deal for fund administration), Asia Pacific (est. +26%, tier-1 Australian bank deal for Infinity) and Europe (est. +8%, multiple sales to existing tier-1 clients), vs. an est. -29% for Middle East & Africa. A plan has been put in place (including strengthening the management team) to restore momentum in the region by early 2020. By product, T24 Transact (core banking) is on a double-digit growth trend, Infinity (front office) is growing strongly, but Fund Administration is flat due to tough comps.

Updated FY19 guidance is basically the same as the previous one

With the completed Kony acquisition, management has updated FY19 non-IFRS guidance and now expects revenues up 18-20% cc (vs. 16-19% cc), total software licensing up 18-20% cc (vs. 17.5-22.5% cc), and operating profit of USD310-315m cc (unchanged), implying a margin up c. 0.4ppt - o/w +1.5ppt organic - to c. 31.9% (unchanged). Adjusted for fx, this translates into revenues of USD970-986m (vs. 966-991 ex-Kony), o/w USD431-442m (vs. 431-450 ex-Kony) for total software licensing. The sales pipeline remains solid in all geographies and management has seen no impact from economic concerns on decision cycles, but we find it sensible to bank on the mid-point of the guidance range. As such, we shave our non-IFRS EPS forecasts by 1%. Finally, Temenos confirms a Net debt/EBITDA ratio below 2.5x at the end of 2019.

We shave our Fair Value to CHF195 from CHF198

Our DCF-derived Fair Value, which is based on a multidimensional beta of 0.90, is reduced to CHF195 from CHF198 due to our adj. EPS changes. However, we reiterate our Buy rating given Temenos' solid growth drivers in a "winner-takes-all" market.

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Market Data

Bloomberg / Reuters	TEMN SW/TEMN.SW
Market Cap.	CHF12,860m
E.V.	CHF13,386m
Free Float	77.2%
Avg. Daily volume (6m)	255.1
12m high / low	CHF183.4 / CHF108.8
Ytd Perf.	50.0%

US\$M	12/18	12/19e	12/20e	12/21e
Sales	840.9	969.4	1,162	1,335
% Change		15.3%	19.9%	14.9%
EBITDA	358.7	416.1	472.8	563.9
% Change		16.0%	13.6%	19.3%
EBIT	303.2	342.7	392.8	478.9
% Change		13.0%	14.6%	21.9%
Net Income	234.7	271.2	320.4	391.4
% Change		15.6%	18.1%	22.2%
ROE	0.56	0.42	0.35	0.33

	12/18	12/19e	12/20e	12/21e
EV/Sales	16.0x	14.2x	11.6x	9.8x
EV/EBITDA	37.4x	33.2x	28.6x	23.3x
EV/EBIT	44.3x	40.3x	34.5x	27.4x
EPS	3.31	3.83	4.52	5.52
% change		15.6%	18.1%	22.2%
P/E	53.6x	46.4x	39.2x	32.1x
Div Yield	0.4%	0.5%	0.5%	0.5%

Next Catalyst: FY19 results on 12th February 2020 after markets close.

Last rating Change:

[2019-5-21, New ambitious sustainable long-term targets](#)

Last FV Change:

[2019-9-26, Raising our forecasts after the closing of the Kony acquisition](#)

Last Reports:

[2019-9-26, Raising our forecasts after the closing of the Kony acquisition](#)

TEMENOS

BUY	
Fair Value	CHF196 (vs. CHF198)
Share price	CHF176.90
Market Cap.	CHF12,860m
EPS 3Y CAGR	18.6%

Income Statement (USDm)	2017	2018	2019e	2020e	2021e
Revenues	735	841	969	1,162	1,335
Change (%)	16.0%	14.3%	15.3%	19.9%	14.9%
lfl change (%)	12.0%	12.0%	11.0%	12.7%	12.6%
Adjusted EBITDA	305	359	416	473	564
Depreciation & amortisation	-50	-56	-73	-80	-85
Adjusted EBIT	255	303	343	393	479
EBIT	178	219	230	255	350
Change (%)	19.5%	22.7%	4.9%	11.1%	37.3%
Financial results	-17	-23	-21	-23	-20
Pre-Tax profits	161	195	209	232	331
Exceptionals	0	0	0	0	0
Tax	-23	-27	-30	-40	-59
Profits from associates	0	0	0	0	0
Minority interests	0	0	0	0	0
Net profit	138	168	179	193	271
Restated net profit	199	235	271	320	391
Change (%)	20.2%	17.8%	15.6%	18.1%	22.2%
Cash Flow Statement (USDm)					
Operating cash flows	288	323	345	400	476
Change in working capital	0	21	19	73	52
Capex, net	-61	-65	-76	-87	-87
Financial investments, net	-1	-17	-5	0	0
Acquisitions, net	-50	-242	-594	-21	0
Dividends	-40	-46	-52	-60	0
Other	26	354	-24	-30	-32
Net debt	272	527	914	639	229
Free Cash flow	227	280	287	387	442
Balance Sheet (US\$m)					
Tangible fixed assets	16	18	12	6	-1
Intangibles assets & goodwill	796	1,009	1,552	1,497	1,417
Investments	0	0	5	5	5
Deferred tax assets	22	18	18	18	18
Current assets	273	316	373	411	453
Cash & equivalents	168	287	287	563	973
Total assets	1,275	1,648	2,247	2,499	2,865
Shareholders' equity	380	299	424	557	828
Provisions	8	10	21	30	30
Deferred tax liabilities	15	38	38	38	38
L & ST Debt	440	814	1,202	1,202	1,202
Current liabilities	432	488	563	673	768
Total Liabilities	1,275	1,648	2,247	2,499	2,865
Capital employed	652	825	1,339	1,195	1,056
Financial Ratios					
Operating margin	34.7%	36.1%	35.4%	33.8%	35.9%
Tax rate	14.0%	13.9%	14.5%	17.0%	18.0%
Net margin	18.8%	20.0%	18.4%	16.6%	20.3%
ROE (after tax)	36.5%	56.3%	42.1%	34.6%	32.7%
ROCE (after tax)	35.4%	33.2%	23.2%	29.4%	39.5%
Gearing	72%	176%	216%	115%	28%
Pay out ratio	33.3%	31.6%	33.7%	34.9%	24.8%
Number of shares, diluted	70.9	70.9	70.9	70.9	70.9
Data per Share (USD)					
EPS	1.95	2.37	2.52	2.72	3.83
Restated EPS	2.81	3.31	3.83	4.52	5.52
% change	13.0%	17.8%	15.6%	18.1%	22.2%
EPS bef. GDW	2.81	3.31	3.83	4.52	5.52
BVPS	5.36	4.22	5.99	7.86	11.68
Operating cash flows	4.06	4.55	4.86	5.65	6.72
FCF	3.20	3.95	4.06	5.46	6.23
Net dividend	0.65	0.75	0.85	0.95	0.95

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

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