

# GFT

## Consulting and IT services for banks

GFT is building a global IT services and consulting business, focused on the growing opportunity in the financial services sector. It is diversifying geographically and broadening its customer base, and we estimate that two-thirds of revenues are recurring in nature. GFT benefits from high levels of IT spending, complex business requirements in the financial services industry and favourable outsourcing trends in banking. Revenue growth picked up in Q2, despite the challenging banking sector backdrop, as strong demand for digitisation projects in the commercial banking sector in Europe outweighed project deferrals in the Anglo Saxon investment banking markets (though we note this sector needs to invest in IT to remain competitive). Trading on c 12x our FY18e EPS, the stock looks attractive on strong earnings momentum and attractive business drivers.

### Q216 results: Underlying organic growth was 19%

Q2 organic revenue grew by 19.2% y-o-y at constant currencies, or 17.1% after the currency headwind due to the decline in sterling. Revenue from Adesis Netlife, acquired in June 2015, along with an initial contribution from Habber Tec, took total Q2 group revenue to €110.6m. Q2 adjusted EBITDA rose by 11% to €11.4m, reflecting a 106bp decline in the margin. For the full H1 period, organic revenue grew by 13.5%, before a 1.7% currency headwind, to €199.8m. The acquisitions took the total H1 revenue to €208.0m, up 16.4%. While net debt rose from €36.4m to €70.3m over H1, we note that the group generates its strongest cash flows in H2. Outstanding acquisition liabilities of €15.9m take the adjusted net debt to €86.2m.

### Acquisition of Habber Tec Brazil

In April, GFT acquired Habber Tec Brazil for an undisclosed sum. Habber Tec Brazil specialises in the implementation and ongoing support of business process management (BPM), big data, analytics and mobile solutions and is Brazil's largest IBM partner for BPM. It adds expertise in BPM integration and mobile solutions, especially in the fields of credit and digital banking applications.

### Valuation: Attractive if it can sustain the growth

The stock trades on 1.1x FY17e EV/sales and c 10x EV/EBITDA, which is at the lower end of its larger global IT services peers, which typically trade in the ranges of c 1.7-2.1x revenues and c 8.6-11.4x EBITDA. Our DCF model (which assumes a WACC of 9%, 10% pa revenue growth to 2020 and 12% long-term EBITDA margins) values the shares at €26.46.

#### Edison estimates

Year end	Revenue (€m)	EBT* (€m)	EPS* (c)	Adj EPS** (c)	P/E (x)	Yield (%)
12/14	279.2	25.4	75.8	96.5	18.0	1.4
12/15	373.5	32.5	96.2	119.5	14.5	1.7
12/16e	420.0	33.0	92.9	115.2	15.1	1.9
12/17e	460.0	39.4	103.4	125.4	13.9	2.1

Source: Company data, Edison Investment Research

## Software & comp services

**Price** €17.38

**Market cap** €458m

#### Share price graph



#### Share details

Code	GFT
Shares in issue	26.3m
Net debt (€m) at 30 June 2016	70.3

#### Business description

GFT (legal name: GFT Technologies) is a global technology services business primarily focused on banks and insurance companies.

#### Bull

- The business is growing very quickly, supported by strong structural drivers in the banking industry (digitisation and regulation/compliance).
- FinTech sector continues to be hot.
- Acquisitions in Italy, UK, Spain and Brazil have significantly scaled up the business internationally.

#### Bear

- Turmoil across the European banking sector has increased the uncertainty
- Deutsche Bank generates c 40% of revenues.
- The group has moved into a net debt position to finance its acquisitions.

#### Analysts

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