

GFT

Q1 results

Q1 constant currency organic growth was 13%

GFT remains on target and thematic trends are broadly the same. Underlying Q1 revenue growth was solid at 13.3%, helped by 3% more days in the period, and management guidance was maintained. GFT's retail banking activities remain buoyant, benefiting from digital banking projects in continental Europe and the group's first retail banking project in the US, while the investment banking backdrop remains challenging, not helped by Brexit and the political changes in the US. With the sustained healthy outlook in digitalisation across the retail banking sector and the prospect of a recovery for the investment banking market (since these businesses need to invest in IT to sustain growth), we believe the shares are looking increasingly appealing on c 13x our FY19e earnings.

Year end	Revenue (€m)	EBT* (€m)	EPS* (c)	Adjusted EPS** (c)	P/E (x)	Yield (%)
12/15	373.5	32.5	96.2	119.4	16.6	1.5
12/16	422.6	33.0	92.0	115.4	17.2	1.5
12/17e	455.0	35.1	92.2	116.9	16.9	1.7
12/18e	500.5	40.7	109.0	129.9	15.2	1.9

Note: *Earnings before tax and EPS are statutory, after the amortisation of acquired intangibles and exceptional items. **Adjusted EPS is before amortisation and exceptionals.

Q1 results: Total revenue growth was 14%

Q1 revenue grew by 14% to €111.1m, which includes 13.3% organic growth, a 2.2% currency headwind and €2.9m from Habber Tec Brazil, which was acquired in April 2016. Employee numbers grew 16% over the year to 4,833, but were down 1% over the quarter. EBITDA (GFT definition) slipped by 2% to €9.9m, but rose 10% after adding back €1m restructuring costs and a €250k earnout payment for Habber Tec. Net debt rose by €19.2m over the quarter to €61.2m, while outstanding acquisition liabilities and the pension deficit take the adjusted net debt to €102.1m. We note that most cash flow is generated in H2, as some of GFT's largest customers utilise their budgets at the end of the financial year.

Guidance and forecasts – all maintained

Management has maintained its guidance, which includes FY17 revenue of €450m, EBITDA of €48.5m and EBT of €35m. The longer-term goal remains the same: to reach €800m of revenues along with a 12% EBITDA margin by 2020. This target includes c €180m revenues from acquisitions, which management is confident it can finance through internal cash generation. We have maintained all of our P&L forecasts.

Valuation: Attractive if it can improve margins

The stock trades on 1.13x our FY18e EV/sales and 10.3x EV/EBITDA, while its larger global IT services peers typically trade in the ranges of c 1.7-2.1x revenues and c 8.7-12.0x EBITDA. Our DCF model (which assumes a WACC of 9%, a 10-year revenue CAGR of 7.3% and 12% long-term EBITDA margins) values the shares at €23.18 (previously €22.84), c 17% above the current share price.

Software & comp services

12 May 2017

Price €19.80

Market cap €21m

Net debt (€m) as at 31 March	61.2
Shares in issue	26.3m
Free float	64%
Code	GFT
Primary exchange	Frankfurt (Xetra)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	7.8	0.3	(9.8)
Rel (local)	2.9	(7.9)	(29.2)
52-week high/low	€21.96	€16.39	

Business description

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

Next events

ESN European Champion (equinet), Frankfurt	19 May
AGM	31 May
German Champions 2017 (quirin), Frankfurt	1 June
Berenberg Pan-Euro Discovery Conference, Venice	22-23 June
Capital Markets Day, Stuttgart	29 June
Q2 results	10 August

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Q1 results: Constant currency organic growth was 13%

Q1 revenue grew by 14% to €111.1m, which includes 13.3% organic growth, a 2.2% currency headwind (mainly the British pound against the Polish zloty and the euro against the Brazilian real) and €2.9m from Habber Tec Brazil, which was acquired in April 2016. The growth was helped by 3% additional working days in Q1, while there will be 5% fewer days in Q2. Consequently, Q2 could be weaker than Q1. The Americas and UK segment produced organic growth of 6.1% (largely cancelled by a 4.6% currency headwind) while continental Europe grew by 21.6%, with the difference reflecting strong digital banking growth in continental European markets balanced by challenging investment banking in Anglo Saxon markets. However, the Americas and UK segment also includes a growing retail banking operating, which represents c 14% of the segment's revenues, up from c 5%, reflecting the Habber Tec acquisition in Brazil and the group's first major retail banking project in North America, which added €0.3m revenues in Q1. Revenue from investment banking customers fell by 2.5%, and the two largest customers, Deutsche Bank and Barclays, fell by a combined 9%. Continental Europe experienced strong growth at Deutsche Bank, Banco Sabadell and San Paolo, and most new projects are in digital banking.

Employee numbers grew 16% over the year to 4,833 (though were down 1% sequentially over the quarter), reflecting a 21% growth in the group's near shore centres. Meanwhile, the number of freelancers fell by 6%. EBITDA (GFT definition) slipped by 2% to €9.9m, but rose 10% after adding back €1m restructuring costs (which related to restructuring of sales in the US and the UK due to changed market conditions) and a €250k earnout payment for Habber Tec. We have adjusted only for the €0.25m earnout payment (expected to total €1m for the year), and on that basis Edison adjusted EBITDA was flat at €10.2m. Net debt rose by €19.2m over the quarter to €61.2m, while outstanding acquisition liabilities of €32m and the €8.9m pension deficit take the adjusted net debt to €102.1m.

Exhibit 1: Quarterly analysis

€000s	2015	2016	2016	2016	2016	2016	2017	2017e	2017e
	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2-Q4	FY
GFT (continuing)	373,460	97,386	109,419	103,938	93,946	404,689	108,200	340,676	448,876
WG Systems (Habber Tec)			1,220	2,320	740	4,280	2,900	3,224	6,124
Total revenue	373,510	97,386	110,639	106,258	94,686	422,559	111,100	343,900	455,000
Cost of materials	(62,489)	(14,614)	(15,963)	(15,080)	(14,190)	(59,848)	(13,788)	(54,462)	(68,250)
Gross profit	311,021	82,772	94,676	91,178	80,495	362,711	97,312	289,438	386,750
Op costs before depreciation	(265,504)	(72,554)	(83,285)	(78,717)	(80,900)	(315,456)	(87,137)	(250,113)	(337,250)
Adjusted EBITDA	45,517	10,218	11,391	12,461	(404)	47,255	10,175	39,325	49,500
Depreciation	(5,154)	(1,356)	(1,405)	(1,538)	(1,953)	(6,252)	(1,569)	(4,346)	(5,915)
Adjusted operating profit	40,363	8,862	9,986	10,923	(2,358)	41,003	8,607	34,978	43,585
Operating Margin	10.8%	9.1%	9.0%	10.3%	(2.5%)	9.7%	7.7%	10.2%	9.6%
Net interest	(1,703)	(344)	(503)	(440)	(459)	(1,746)	(321)	(1,679)	(2,000)
Edison profit before tax (norm)	38,660	8,518	9,483	10,483	(2,817)	39,257	8,285	33,300	41,585
Associates	(30)	(15)	22	4	(66)	(54)	(5)	5	0
Amortisation of acquired intangibles*	(6,105)	(1,467)	(1,522)	(1,380)	(1,365)	(5,734)	(1,400)	(4,100)	(5,500)
Exceptionals	0	0	(421)	0	0	(421)	(250)	(750)	(1,000)
Profit before tax (FRS 3)	32,525	7,036	7,563	9,107	(4,248)	33,048	6,631	28,454	35,085

Source: GFT, Edison Investment Research

GFT receives a disproportionate level of cash in Q4, as some of its largest customers utilise their budgets at the end of the financial year. Q1 and Q2 typically have weaker cash flows. The remaining acquisition liabilities relate to Sempla (now GFT Italy), which are scheduled for payment in early 2018, and Habber Tec. The group limits its net debt to around 2x EBITDA, which calculates at €97m based on €48.5m EBITDA for FY17. With net debt at €61.2m, or €102.1m after outstanding acquisition liabilities and the pension deficit, this puts some limitation on acquisitions until debt levels are paid down.

Exhibit 2: Financial position

€m	31-Dec-15	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16	31-Mar-17
Cash	(47.0)	(42.9)	(42.2)	(44.1)	(62.3)	(44.1)
Financial debt	83.4	91.9	112.6	104.4	104.3	105.4
Net (cash)/debt	36.5	49.0	70.3	60.3	42.1	61.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding acquisition liabilities*	13.9	14.1	15.9	16.1	34.1	32.0
Pension deficit	8.3	8.7	8.8	8.9	8.7	8.9
Adjusted net (cash)/debt	58.7	71.8	95.0	85.3	84.9	102.1

Source: GFT accounts. Note: *Includes earnouts and deferred payments. Excludes €0.15m deferred payment for emagine.

Exhibit 3: Financial summary

	€'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		279,235	373,507	422,559	455,000	500,500	550,550
Cost of Materials		(52,194)	(62,486)	(59,848)	(68,250)	(75,075)	(82,583)
Gross Profit		227,042	311,021	362,711	386,750	425,425	467,968
EBITDA		32,834	44,586	46,765	48,500	54,456	63,613
Adjusted EBITDA		35,240	45,517	47,255	49,500	54,456	63,613
EBIT		26,433	34,258	34,848	37,085	42,449	50,681
Adjusted Operating Profit		31,875	40,363	41,003	43,585	47,949	56,181
Amortisation of acquired intangibles		(4,711)	(6,105)	(5,734)	(5,500)	(5,500)	(5,500)
Exceptionals		(731)	0	(421)	(1,000)	0	0
Associates		(12)	(30)	(54)	0	0	0
Operating Profit		26,421	34,228	34,794	37,085	42,449	50,681
Net Interest		(1,015)	(1,703)	(1,746)	(2,000)	(1,750)	(1,450)
Profit Before Tax (norm)		30,848	38,630	39,203	41,585	46,199	54,731
Earnings Before Tax		25,406	32,525	33,048	35,085	40,699	49,231
Tax		(6,819)	(5,979)	(8,819)	(10,812)	(12,012)	(14,230)
Net inc from discontinued ops		1,368	(1,209)	0	0	0	0
Profit After Tax (norm)		25,397	31,441	30,384	30,773	34,187	40,501
Profit After Tax (FRS 3)		19,955	25,336	24,229	24,273	28,687	35,001
Average Number of Shares Outstanding (m)		26.3	26.3	26.3	26.3	26.3	26.3
EPS - normalised (c)		96.5	119.4	115.4	116.9	129.9	153.8
EPS - normalised & fully diluted (c)		96.5	119.4	115.4	116.9	129.9	153.8
EPS - FRS 3 (c)		75.8	96.2	92.0	92.2	109.0	133.0
Dividend per share (c)		25.00	30.00	30.00	33.00	37.00	41.00
Gross Margin (%)		81.3	83.3	85.8	85.0	85.0	85.0
EBITDA Margin (%)		11.8	11.9	11.1	10.7	10.9	11.6
Adjusted Operating Margin (%)		11.4	10.8	9.7	9.6	9.6	10.2
BALANCE SHEET							
Fixed Assets		148,732	173,451	175,538	174,133	172,136	169,114
Intangible Assets		125,852	139,480	136,920	131,420	125,920	120,420
Tangible Assets		17,780	26,488	30,908	35,003	38,506	40,984
Other		5,100	7,484	7,710	7,710	7,710	7,710
Current Assets		152,921	153,357	190,504	216,661	217,760	258,282
Stocks		0	0	28	30	33	36
Debtors		108,216	94,828	117,308	126,314	138,946	152,840
Cash		38,129	46,978	62,290	79,438	67,903	94,528
Current Liabilities		(140,614)	(90,628)	(114,723)	(121,643)	(132,037)	(143,471)
Creditors		(94,582)	(90,008)	(96,414)	(103,334)	(113,729)	(125,163)
Short term borrowings		(46,032)	(620)	(18,308)	(18,308)	(18,308)	(18,308)
Long Term Liabilities		(60,628)	(111,733)	(135,418)	(135,418)	(101,292)	(101,292)
Long term borrowings		(34,131)	(82,817)	(86,035)	(86,035)	(86,035)	(86,035)
Other long term liabilities		(26,497)	(28,916)	(49,383)	(49,383)	(15,257)	(15,257)
Net Assets		100,412	124,447	115,901	133,733	156,567	182,633
CASH FLOW							
Operating Cash Flow		24,585	55,575	28,772	47,225	51,953	60,861
Net Interest		(997)	(1,447)	(1,613)	(2,000)	(1,750)	(1,450)
Tax		(8,152)	(11,424)	(7,164)	(9,980)	(11,088)	(13,135)
Capex		(9,680)	(14,456)	(10,160)	(10,010)	(10,010)	(9,910)
Acquisitions/disposals		(58,472)	(16,760)	(6,662)	(189)	(31,953)	0
Shares issued		(1,494)	(620)	1,578	0	0	0
Dividends		(6,584)	(6,584)	(7,898)	(7,898)	(8,688)	(9,741)
Net Cash Flow		(60,794)	4,284	(3,147)	17,148	(11,535)	26,625
Opening net debt/(cash)		(19,410)	42,034	36,449	42,053	24,905	36,440
Other		(650)	1,301	(2,457)	0	0	0
Closing net debt/(cash)		42,034	36,449	42,053	24,905	36,440	9,816

Source: GFT accounts, Edison Investment Research (forecasts)

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