EDISON

Fusionex International

Contract win

Big (data) Brother deal

Software & comp services

Winning Brother, the global printing and communications equipment company, as the latest GIANT customer adds further credibility to Fusionex and brings the total GIANT wins to 25 – not far short of management's year-end target of 30. It follows the recent confident trading update and the distribution agreement with Mesiniaga, Malaysia's leading systems provider and integrator. The interim results should now see investor attention shift from questions about whether GIANT is going to be a success, to questions about just how far it can and will be driven.

Year end	Revenue (MYRm)	PBT* (MYRm)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/13	44.4	20.5	8.2	2.0	43.6	0.6
09/14	57.1	21.4	7.6	2.0	47.0	0.6
09/15e	68.0	23.9	8.9	2.1	40.2	0.6
09/16e	86.5	30.9	11.5	2.2	31.1	0.6

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Brother win

On 18 May Fusionex announced it had won Brother Industries as a client for its GIANT big data analytics product. A globally recognised player in the printing and communications industry, Brother has sales and manufacturing operations in more than 40 countries and regions. Winning another global name as a customer for GIANT adds more credibility to Fusionex and its offering, and gives greater confidence that it can achieve the market's, and management's, expectations. The statement also disclosed that this is the twenty-fifth client win for GIANT. Just over two months ago the company revealed, via a sanctioned article in the New Straits Times, that it had won 21 clients for GIANT. The stated target for the financial year end (September) is 30 clients, which now appears conservative.

Another client, another use case

Brother is to use GIANT to monitor and analyse its international operations, and to gain greater insight into its products' 'journey' to market, from Brother to customer via agents and partners. Taken alongside the other disclosed applications for GIANT, including supermarkets, FMCG, travel & leisure, semiconductor manufacturing, power utilities and even border control, it is increasingly evident that GIANT is a genuinely flexible product readily applicable to many end markets.

Valuation: Great expectations, great progress

As shown in our reverse DCF work in our recent notes, within the recent share price range the market is expecting a lot from Fusionex. However, it is not demanding the impossible and, with big name clients such as Brother and channel partners like Mesiniaga coming on board, matching or exceeding these long-term expectations appears increasingly achievable.

19 May 2015

Price	**357.5p**
Market cap	**£154m**
	£0.18/MYR
Net cash (MYRm) at 30 September 2015	40.5
Shares in issue	43.0m
Free float	46%
Code	FXI
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	6.7	(10.6)	(25.1)
Rel (local)	6.6	(12.3)	(28.0)
52-week high/low	492.5p		250.0p

Business description

Fusionex International is a software business providing data management, business intelligence and analytics products, including GIANT, big data analytics software.

Next event

Interim results	27 May 2015

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Edison profile page

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Big (data) Brother deal

Channel strategy developing with Mesiniaga agreement

The Brother announcement follows the confident trading update and the announcement (30 April 2015) that Fusionex has reached a distribution agreement with Mesiniaga, Malaysia's leading ICT systems provider and systems integrator. Not only does this show that Fusionex is bringing new and credible channel partners on board, it also underlines how far it has come in its relatively short history, as it evolves into a serious international software company.

Interim results – GIANT is now well-proven, so how hard will Fusionex sell?

The interim results are due to be released on 27 May. We had been looking forward to finding out more about the number and type of customer wins and about development of the indirect route to market. However, recent announcements may have provided us with much of this already. Our interest in the interims is now more on understanding the pricing and term structure of these contract wins and, now that the power of GIANT has been proven, on how hard management intends to push the direct and indirect sales and marketing effort.

Exhibit 1: Financial summary

Year-end 30 September MYR000s	2012	2013	2014	2015e	2016e	2017e
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	31,315	44,423	57,106	68,023	86,522	114,361
Cost of Sales	(8,085)	(10,090)	(12,793)	(14,610)	(17,192)	(21,228)
Gross Profit	23,230	34,333	44,312	53,413	69,330	93,133
EBITDA	16,364	22,478	25,816	31,154	40,366	56,464
Operating Profit (before amort. and except.)	15,380	20,840	21,797	24,483	31,395	45,464
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	0	0	1,365	0	0	0
Other	0	0	0	0	0	0
Operating Profit	15,380	20,840	23,162	24,483	31,395	45,464
Net Interest	(281)	(340)	(381)	(536)	(536)	(536)
Profit Before Tax (norm)	15,100	20,500	21,415	23,947	30,859	44,928
Profit Before Tax (FRS 3)	15,100	20,500	22,780	23,947	30,859	44,928
Tax	(1,995)	(1,488)	(3,320)	(2,634)	(3,395)	(4,942)
Profit After Tax (norm)	13,105	19,012	18,095	21,313	27,465	39,986
Profit After Tax (FRS 3)	13,105	19,012	19,460	21,313	27,465	39,986
Average Number of Shares Outstanding (m)	35.0	41.9	43.0	43.0	43.0	43.0
EPS - normalised (p)	6.9	8.2	7.6	8.9	11.5	16.7
EPS - normalised and fully diluted (p)	6.9	8.2	7.6	8.9	11.5	16.7
EPS - (IFRS) (p)	6.9	8.2	8.1	8.9	11.5	16.7
Dividend per share (p)	0.0	2.0	2.0	2.1	2.2	2.2
Gross Margin (%)	74.2	77.3	77.6	78.5	80.1	81.4
EBITDA Margin (%)	52.3	50.6	45.2	45.8	46.7	49.4
Operating Margin (before GW and except.) (%)	49.1	46.9	38.2	36.0	36.3	39.8
BALANCE SHEET						
Fixed Assets	15,477	49,077	57,761	64,589	70,618	76,118
Intangible Assets	8,115	13,642	22,125	29,125	35,625	41,125
Tangible Assets	7,361	35,435	35,194	35,022	34,551	34,551
Investments	0	0	442	442	442	442
Current Assets	17,586	72,678	79,467	90,407	109,028	141,022
Stocks	0	0	0	0	0	0
Debtors	7,273	10,287	12,312	13,151	15,431	18,863
Cash	10,313	62,392	64,021	74,122	90,463	119,025
Other	0	0	3,134	3,134	3,134	3,134
Current Liabilities	(7,312)	(7,345)	(12,190)	(13,385)	(15,548)	(18,282)
Creditors	(7,072)	(6,377)	(8,856)	(10,051)	(12,214)	(14,948)
Short term borrowings	(239)	(969)	(3,334)	(3,334)	(3,334)	(3,334)
Long Term Liabilities	(7,083)	(27,894)	(23,645)	(23,645)	(23,645)	(23,645)
Long term borrowings	(5,921)	(26,776)	(20,224)	(20,224)	(20,224)	(20,224)
Other long term liabilities	(1,162)	(1,117)	(3,421)	(3,421)	(3,421)	(3,421)
Net Assets	18,668	86,516	101,393	117,966	140,453	175,212
CASH FLOW						
Operating Cash Flow	17,373	21,459	25,869	31,512	40,248	55,766
Net Interest	(268)	3	(239)	(536)	(536)	(536)
Tax	(1,278)	(1,643)	(1,115)	(2,634)	(3,395)	(4,942)
Capex	(3,919)	(35,185)	(14,132)	(13,500)	(15,000)	(16,500)
Acquisitions/disposals	0	0	0	0	0	0
Financing	0	52,789	0	0	0	0
Dividends	(10,565)	(5,959)	(4,795)	(4,741)	(4,978)	(5,227)
Net Cash Flow	1,342	31,464	5,588	10,101	16,341	28,562
Opening net debt/(cash)	(2,784)	(4,153)	(34,646)	(40,463)	(50,564)	(66,905)
HP finance leases initiated	0	0	0	0	0	0
Other	27	(971)	229	0	0	(0)
Closing net debt/(cash)	(4,153)	(34,646)	(40,463)	(50,564)	(66,905)	(95,466)

Source: Fusionex, Edison Investment Research

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