

CENIT

Q1 results

Unpriced growth opportunity

The key takeaway from CENIT's Q1 results was the strong growth in proprietary software sales (up 25% year-on-year). We have previously highlighted this as one of the key catalysts for earnings growth, and while one quarter's strength does not make a trend, it is certainly a promising start. Proprietary software currently only accounts for 14% of total revenue, and its strong growth was partially offset by an 8% decline in consultancy services (42% of Q115 revenue); however, its higher margin helped contribute to an impressive 10.7% y-o-y EBIT growth. We have not changed our estimates, but a continuation of this trend could lead to a substantial increase in earnings for the year.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	EV/EBIT (x)	Yield (%)
12/13	120.1	8.4	0.70	0.35	12.7	2.1
12/14	123.9	9.4	0.76	0.90	11.3	5.4
12/15e	127.1	10.2	0.83	0.50	10.4	3.0
12/16e	130.9	10.6	0.86	0.50	9.7	3.0

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

Strong order book supports further revenue growth

Order intake in Q115 was €39.3m, 16% up on the same period last year. This is a good indicator that revenue growth for the rest of the year should exceed the 2% seen in Q1, and earnings growth could be even greater if those orders include even a relatively modest proportion of proprietary software sales. The 8% decline in consultancy services was due to the completion of some large contracts, but as reflected by the strong order book, it is likely to be a short-term effect rather than anything structural.

Return to growth in EIM

In addition to the growth in proprietary software, it was encouraging to see a turnaround in the EIM segment, moving from a 13% decline y-o-y in Q4 to 2.5% growth in Q1, albeit from a weak comparative. EIM profitability has also improved significantly from a 0.5% EBIT margin in Q114 to 4.8% in Q115. This is still below that of PLM (8.7% in Q115) but it is moving in the right direction and should improve considerably if EIM can sustain another few quarters of sequential growth.

Valuation: 10x FY16e EV/EBIT, 3.0% dividend yield

The Q1 results do not substantially change our outlook or valuation but they do give us added confidence that management's guidance for 5% EBIT growth in FY15 will be exceeded. In addition, yet another quarter of strong cash generation (5.8% FCF yield) means that cash on the balance sheet now accounts for 30% of the market cap and FY16e EV/EBIT is only 10x despite the growth opportunity provided by the proprietary software sales. Although the base dividend yield is 3.0%, the board has approved a dividend that would return 5.5% if there is no material change to the business. We see CENIT as a well-managed, stable business, with good dividend yield and promising growth opportunities that are not reflected in the share price.

Software & comp services

27 May 2015

Price €16.6

Market cap €139m

Net cash (€m) at 31 March 2015	41.7
Shares in issue	8.4m
Free float	93%
Code	CSH
Primary exchange	Xetra
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	9.1	32.6	36.0
Rel (local)	2.9	7.6	7.9
52-week high/low		€18.2	€9.7

Business description

CENIT is a leading provider of product lifecycle management (PLM) and enterprise information management (EIM) consultancy services and software. It resells software from Dassault Systèmes, IBM and SAP and is also developing proprietary software to add functionality.

Next events

H115 results	6 August 2015
Q3 results	4 November 2015

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Review of results

Exhibit 1 shows a summary of CENIT's Q1 results. Overall it was a strong performance in what is typically a weak quarter and while we are not changing our forecasts, we are confident that these numbers could be exceeded if the business continues along this trend.

Exhibit 1: Review of results					
€m	Q115	Q114	FY15e	% of full year	y-o-y growth (%)
PLM	24.1	23.6	103.3	23.3	2.0
EIM	6.3	6.2	23.8	26.7	2.5
Consultancy	12.7	13.8	52.3	24.2	(8.1)
Third-party software	13.4	12.5	60.8	22.1	7.5
Proprietary software	4.3	3.4	14.0	30.5	25.7
Total revenue	30.4	29.8	127.1	23.9	2.1
EBITDA	2.9	2.8	12.5	23.2	4.8
Operating returns	2.4	2.2	10.2	23.6	10.6
EBT	2.4	2.2	10.2	23.9	10.2
Net income	1.9	1.6	6.9	27.2	19.7
EPS (€)	0.22	0.19	0.8	26.6	15.8
EBIT margin	7.9%	7.3%	8.0%		

Source: Edison Investment Research, CENIT

Exhibit 2: Financial summary

	€m	2012	2013	2014	2015e	2016e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		119.6	120.1	123.9	127.1	130.9
Cost of Sales		(46.0)	(46.9)	(48.8)	(49.8)	(51.3)
Gross Profit		73.6	73.2	75.1	77.3	79.6
EBITDA		11.0	10.6	11.7	12.5	13.3
Operating Profit (before amort. and except.)		8.0	8.3	9.3	10.2	10.9
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		8.0	8.3	9.3	10.2	10.9
Net Interest		0.1	0.0	0.1	0.0	-0.2
Profit Before Tax (norm)		8.1	8.4	9.4	10.2	10.6
Profit Before Tax (FRS 3)		8.1	8.4	9.4	10.2	10.6
Tax		(2.7)	(2.5)	(3.0)	(3.3)	(3.4)
Profit After Tax (norm)		5.4	5.9	6.4	6.9	7.2
Profit After Tax (FRS 3)		5.4	5.9	6.4	6.9	7.2
Average Number of Shares Outstanding (m)		8.4	8.4	8.4	8.4	8.4
EPS - normalised (€)		0.65	0.70	0.76	0.83	0.86
EPS - normalised and fully diluted (€)		0.65	0.70	0.76	0.83	0.86
EPS - (IFRS) (€)		0.65	0.70	0.76	0.83	0.86
Dividend per share (€)		0.55	0.35	0.90	0.50	0.50
Gross Margin (%)		61.5	61.0	60.6	60.8	60.8
EBITDA Margin (%)		9.2	8.9	9.4	9.8	10.2
Operating Margin (before GW and except.) (%)		6.7	6.9	7.5	8.0	8.3
BALANCE SHEET						
Fixed Assets		9.7	8.7	7.0	6.8	6.9
Intangible Assets		4.1	3.6	3.9	3.8	3.9
Tangible Assets		5.5	5.1	3.0	3.0	3.0
Investments		0.1	0.1	0.1	0.0	0.0
Current Assets		49.3	51.6	59.9	57.4	61.6
Stocks		0.0	0.0	0.0	0.0	0.0
Debtors		20.1	18.4	20.8	19.2	19.8
Cash		23.8	26.6	33.3	32.3	36.0
Other		5.5	6.6	5.9	5.9	5.9
Current Liabilities		(16.0)	(16.1)	(17.3)	(17.6)	(17.7)
Creditors		(16.0)	(16.1)	(17.3)	(17.6)	(17.7)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Long Term Liabilities		(2.3)	(2.3)	(2.9)	(2.8)	(2.9)
Long term borrowings		0.0	0.0	0.0	0.0	0.0
Other long term liabilities		(2.3)	(2.3)	(2.9)	(2.8)	(2.9)
Net Assets		40.7	42.0	46.7	43.8	47.9
CASH FLOW						
Operating Cash Flow		12.7	12.6	13.0	12.1	13.3
Net Interest		0.1	0.0	0.1	0.0	(0.2)
Tax		(2.3)	(3.8)	(3.7)	(3.3)	(3.4)
Capex		(2.3)	(1.2)	(1.7)	(2.2)	(1.8)
Acquisitions/disposals		0.0	0.0	(0.6)	0.0	0.0
Financing		0.0	0.0	2.0	0.0	0.0
Dividends		(2.5)	(4.6)	(2.9)	(7.5)	(4.2)
Net Cash Flow		5.7	3.0	6.2	(0.9)	3.7
Opening net debt/(cash)		(18.1)	(23.8)	(26.6)	(33.3)	(32.3)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		0.0	(0.2)	0.4	0.0	0.0
Closing net debt/(cash)		(23.8)	(26.6)	(33.3)	(32.3)	(36.0)

Source: Company accounts, Edison Investment Research

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