eServGlobal

H118 results

Break-even target reiterated

Software & comp services

eServGlobal's H118 results confirm it has reduced its cost base further and is still targeting EBITDA break-even for FY18. It also noted it is having conversations with interested parties relating to the disposal of its core business. This would leave the company holding its 35.7% stake in the HomeSend joint venture, which we estimate makes up most of the current valuation.

Year end	Revenue (A$m)	EBITDA* (A$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
10/16	21.6	(7.0)	(3.88)	0.0	N/A	N/A
10/17	10.8	(11.7)	(3.53)	0.0	N/A	N/A
12/17**	12.2	(15.2)	(4.17)	0.0	N/A	N/A
12/18e	19.0	(0.3)	(1.04)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **14-month period.

Reduced cost base evident in H118 results

eServGlobal saw a small year-on-year decrease in revenues in H118 but, after a period of cost cutting and restructuring, it has materially reduced the EBITDA loss. The company received orders worth €7.7m/A$12.0m in H118, but only recognised €1.2m/A$1.9m in H118, providing a strong backlog going into H218. Management continues to target break-even at the EBITDA level for FY18 and has reduced its expectations for the total cost base for FY18 from €12–12.5m/A$19.0–19.8m to €11–11.5m/A$17.4–18.2m, with further cost reductions likely in FY19. We have made minor changes to our revenue and EBITDA forecasts for FY18. We reflect a higher working capital outflow for FY18 than previously forecast and expect net cash of A$2.5m at the end of FY18.

Potential interest in the core business

The company is having discussions about the core business with potentially interested parties. With the cost base substantially reduced, bad debt issues resolved or being resolved and a growing order book, the core business is now a more attractive proposition for a potential bidder. Excluding central/plc costs, the business could generate a c 20% EBITDA margin, which could make it attractive to a larger player or consolidator in this market. If the company does end up disposing of this business, this would leave a shell company holding the stake in the HomeSend joint venture.

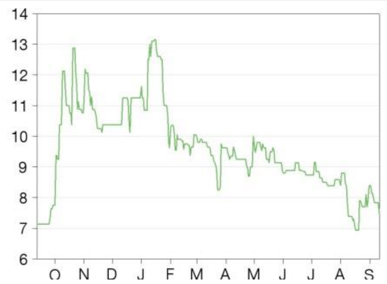
Valuation: HomeSend the main driver

We believe that most of the company's value is provided by its stake in the HomeSend joint venture. We estimate that in addition to the well-established use of HomeSend for remittance volumes, the share price is factoring in adoption of HomeSend by banking customers for cross-border payments. Evidence of recent bank signings transferring cross-border payments over to the HomeSend platform will be key to supporting and driving the current share price. Contract wins in the core business could also have a more limited impact on the share price.

12 September 2018

Price	**7.45p**
Market cap	**£68m**
	A$1.8:€1.11:£1
Net cash (A$m) at end H118	2.9
Shares in issue	906.9m
Free float	97%
Code	ESG
Primary exchange	AIM
Secondary exchange	ASX

Share price performance



%	1m	3m	12m
Abs	1.0	(16.1)	10.4
Rel (local)	5.8	(10.9)	11.5
52-week high/low		13.2p	6.9p

Business description

eServGlobal develops mobile software solutions to support mobile financial services, with a focus on emerging markets. It also has a 35.7% share in the HomeSend cross-border payments hub, alongside Mastercard and BICS.

Next events

FY18 trading update	January 2019

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Edison profile page

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Review of H118 results

Exhibit 1: Half-yearly results

A$m	H118	H117*	y-o-y
Revenues	5.58	5.86	(4.8%)
Gross profit	1.59	(1.35)	N/A
Gross margin	28.6%	-23.0%	51.6%
Normalised EBITDA	(1.38)	(5.92)	(76.6%)
Normalised EBITDA margin	(24.8%)	(101.0%)	76.2%
Net income	(7.69)	(14.39)	(46.6%)
Net debt/(cash)	(2.87)	10.60	N/A

Source: eServGlobal. Note: *Six-month period ended 30 April 2017.

eServGlobal reported performance for H118 in line with its recent trading update. H118 revenues were marginally lower than the comparative period a year ago (the year end recently changed to 31 December; H117 results relate to the six-month period ended 30 April 2017) but the loss at the normalised EBITDA level was much lower, reflecting the restructuring the company has undertaken. The company's share of the HomeSend joint venture's losses totalled A$2.6m in H118, compared to A$1.9m in H117. eServGlobal's reported net loss also reduced substantially compared to a year ago.

Net cash at the end of H118 stood at A$2.9m, down from A$10.8m at the end of FY17. As well as the EBITDA loss of $1.4m, the company capitalised development costs of A$1.4m during H118. The remainder of cash was used for working capital purposes, including payments relating to restructuring that were previously provided for and fees related to preparations the company is making to sell the core business.

The company noted that there remains interest in the core business from potential acquirers and conversations are ongoing.

Outlook and changes to forecasts

Orders received in H118 totalled €7.7m/A$12.0m, of which only €1.2/A$1.9m was recognised as revenue in the half. This provides a good level of backlog going into H218. The company also noted a strong pipeline. It expects to reduce the total cost base (COGs and opex excluding depreciation, amortisation and exceptional items) to €11–11.5m/A$17.4–18.2m for FY18 and to reduce it further in FY19. This is down from previous guidance for FY18 of €12.0–12.5m. We have made minor changes to our income statement forecasts and reflect the higher working capital outflow for the year.

Exhibit 2: Changes to forecasts

A$'000	FY18e Old	FY18e New	Change
Revenues	19,000	18,978	-0.1%
Gross profit	6,591	6,149	-6.7%
Gross margin	34.7%	32.4%	-2.3%
Normalised gross profit	6,591	6,149	-6.7%
Normalised gross margin	34.7%	32.4%	-2.3%
Normalised EBITDA	(409)	(277)	-32.3%
Normalised EBITDA margin	(2.2%)	(1.5%)	0.7%
Normalised EBIT	(3,779)	(3,647)	-3.5%
Normalised EBIT margin	(19.9%)	(19.2%)	0.7%
Reported EBIT	(3,929)	(4,119)	4.8%
Normalised PBT	(7,241)	(8,088)	11.7%
Reported PBT	(7,391)	(8,560)	15.8%
Normalised net income	(7,637)	(9,420)	23.3%
Reported net income	(7,791)	(9,958)	27.8%
Normalised EPS	(0.84)	(1.04)	23.3%
Net debt/(cash)	(7,318)	(2,467)	-66.3%

Source: Edison Investment Research

Exhibit 3: Financial summary

A$'000s	2014	2015	2016	2017	2017*	2018e
Year end 31 October/31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	31,261	25,866	21,577	10,791	12,240	18,978
Cost of Sales	(13,359)	(20,608)	(15,490)	(13,509)	(16,729)	(12,829)
Gross Profit	17,902	5,258	6,087	(2,718)	(4,489)	6,149
EBITDA	2,571	(10,449)	(6,982)	(11,709)	(15,204)	(277)
Operating Profit (before amort acq intang, SBP and except.)	1,987	(12,469)	(10,039)	(15,391)	(19,959)	(3,647)
Amortisation of acquired intangibles	0	0	0	0	0	0
Exceptionals	28,735	(12,539)	(3,533)	(7,905)	(8,649)	(107)
Share-based payments	(438)	(54)	(75)	(160)	(297)	(365)
Operating Profit	30,284	(25,062)	(13,647)	(23,456)	(28,905)	(4,119)
Income from associate	(2,275)	(3,831)	(4,638)	(4,478)	(5,491)	(4,435)
Net Interest	(254)	(1,356)	(2,861)	(2,302)	(2,090)	(6)
Profit Before Tax (norm)	(542)	(17,656)	(17,538)	(22,171)	(27,540)	(8,088)
Profit Before Tax (FRS 3)	27,755	(30,249)	(21,146)	(30,236)	(36,486)	(8,560)
Tax	(13,515)	(2,125)	(596)	(592)	(681)	(1,198)
Profit After Tax (norm)	(379)	(14,125)	(14,030)	(22,605)	(28,054)	(9,220)
Profit After Tax (FRS3)	14,240	(32,374)	(21,742)	(30,828)	(37,167)	(9,758)
Average Number of Shares Outstanding (m)	253.1	264.0	366.6	640.2	676.4	906.9
EPS - normalised (c)	(0.20)	(5.41)	(3.88)	(3.53)	(4.17)	(1.04)
EPS - FRS 3 (c)	5.57	(12.33)	(5.98)	(4.82)	(5.51)	(1.10)
DPS (c)	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	57.3%	20.3%	28.2%	(25.2%)	(36.7%)	32.4%
EBITDA Margin (%)	8.2%	(40.4%)	(32.4%)	(108.5%)	(124.2%)	(1.5%)
Operating Margin (before am and except.) (%)	6.4%	(48.2%)	(46.5%)	(142.6%)	(163.1%)	(19.2%)
BALANCE SHEET						
Fixed Assets	43,431	42,928	33,274	27,567	31,373	26,458
Intangible Assets	9,011	6,939	5,598	4,411	3,856	3,356
Tangible Assets	3	84	32	136	127	147
Other Fixed Assets	34,417	35,905	27,644	23,020	27,390	22,955
Current Assets	30,761	34,895	28,240	40,361	16,499	11,783
Stock	173	66	72	110	139	139
Debtors	26,811	24,403	17,976	6,870	4,181	7,799
Cash	3,679	4,976	9,375	33,255	10,801	2,467
Other	98	5,450	817	126	1,378	1,378
Current Liabilities	(18,033)	(25,520)	(14,469)	(11,812)	(10,810)	(10,053)
Creditors	(13,010)	(22,285)	(14,189)	(11,812)	(10,757)	(10,000)
Taxation & social security	(2,023)	(235)	(280)	0	(53)	(53)
Short term borrowings	(3,000)	(3,000)	0	0	0	0
Long Term Liabilities	(865)	(19,532)	(12,649)	(20,392)	(777)	(777)
Long term borrowings	0	(16,531)	(11,759)	(19,075)	0	0
Other long term liabilities	(865)	(3,001)	(890)	(1,317)	(777)	(777)
Net Assets	55,070	32,359	33,823	35,718	36,158	27,226
CASH FLOW						
Operating Cash Flow	(5,810)	(12,130)	(10,712)	(9,492)	(12,630)	(4,652)
Net Interest	(271)	(423)	(175)	0	(2,735)	0
Tax	2,018	(3,148)	(1,159)	(719)	(132)	(650)
Capex	(6,403)	(2,921)	(1,583)	(2,351)	(2,821)	(2,890)
Acquisitions/disposals	5,418	0	5,133	0	0	0
Financing	3,964	4,365	15,929	32,007	32,286	0
Dividends	(146)	0	0	(579)	(581)	(142)
Net Cash Flow	(1,230)	(14,257)	7,433	18,866	13,387	(8,334)
Opening net debt/(cash)	(1,909)	(679)	14,555	2,384	2,384	(10,801)
HP finance leases initiated	0	0	48	0	0	0
Other	0	977	(4,690)	2,302	202	0
Closing net debt/(cash)	(679)	14,555	2,384	(14,180)	(10,801)	(2,467)

Source: eServGlobal, Edison Investment Research. Note: *14 month period ended 31 December

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