

# SCISYS Group

Trading update

£23m of new business since mid-December

SCISYS has released a confident trading update and we are maintaining our forecasts. Cash flow was healthy, with net debt of £3.1m slightly better than the £3.7m we expected. The order book (c £100m at end-FY18) has been bolstered by c £23m of contract wins since mid-December, of which c £8m were after the period end. The move to redomicile to an EU country before the final Brexit deal is already paying off, as c £18m of this business was only winnable if the group parent company was based in an EU country, due to Brexit. With Space and ESD showing solid organic growth, and the full benefits from the M&B/Annova merger yet to flow, we believe the stock is attractive on c 14x our FY19e EPS.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	57.2	3.8	10.0	2.16	18.0	1.2
12/18e	56.0	4.4	12.0	2.38	15.0	1.3
12/19e	60.1	5.0	12.7	2.62	14.2	1.5
12/20e	61.9	5.4	13.4	2.88	13.4	1.6

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. IFRS 15 is applied from 1 January 201.

## Trading update: Comfortably meets current guidance

The company says it 'expects to comfortably meet current market guidance in respect of revenues and adjusted operating profit'. The order book was 'in the region of £100m' (roughly where it was mid-way through 2018) compared with £91.3m at end-FY17. Year-end net debt reduced to £3.1m despite c £0.75m Brexit contingency costs and a c £0.7m payment of a final earnout settlement for Annova. Both the Space and Enterprise Solutions & Defence (ESD) divisions saw a significant expansion in headcount to meet demand. Annova was re-named SCISYS Media Solutions in December and a formal merger is planned with SCISYS's Media & Broadcast in 2019, ahead of schedule. The main benefit of the merger will be a unified management team, enabling a co-ordinated approach to account management and sales. Significant cost synergies are not anticipated.

## Six contract wins since mid-December

SCISYS has announced six new contract wins since mid-December, totalling £22.7m. Five were in the Space division, totalling £20.3m, and one, valued at £2.4m, in ESD. Overall £17.9m of the Space deals relate to Galileo and Egnos, which were only awarded to SCISYS because it is now domiciled in an EU country. Meanwhile, the ESD deal provides reassurance that the defence sector is happy to continue to award business to SCISYS despite its redomicile outside of the UK.

## Valuation: £100m order book underpins forecasts

The stock trades on 15.0x our maintained earnings in FY18e, falling to 14.2x in FY19 and to 13.4x in FY20. Alternatively, the stock trades on 0.88x our FY19 sales and 7.9x EBITDA, which we believe is attractive if SCISYS can maintain the momentum. Our DCF model, which is based on our forecasts and organic CAGR of 3.5% over 10 years, a weighted average cost of capital of 10% and an 11.0% long-term margin target, values the stock at 186p, slightly above the current share price.

Software & comp services

28 January 2019

**Price** 180p  
**Market cap** £53m

Net debt (£m) at 31 December 2018	3.1
Shares in issue	29.5m
Free float	64%
Code	SSY
Primary exchange	AIM
Secondary exchange	ESM

### Share price performance



%	1m	3m	12m
Abs	23.3	10.8	38.5
Rel (local)	19.9	13.3	54.5
52-week high/low	194.00p	123.50p	

### Business description

SCISYS provides a range of professional services in support of the planning, development and use of computer systems in the space, media/broadcast and defence sectors, as well as to other public and private sector enterprises.

### Next events

Final results	28 March
AGM	June
Interim results	September

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## £17.9m contracts on EU-funded space programmes since mid-December

SCISYS has announced six new contract wins since mid-December totalling £22.7m. Three of these, valued at c £7.9m, were after the period end, indicating that the order book was comfortably above £100m in early January. Five of the contracts were in the Space division, totalling £20.3m, and one, valued at £2.4m, in Enterprise Solutions & Defence. The bulk of the contracts will be delivered in FY19 and FY20, although the ESA-ESOC deal extends to 2023 and EGNOS V3 to 2025.

To satisfy EU rules for EU-funded space programmes, not only do service providers need to operate within the EU but their parent companies also have to be based in an EU country. Consequently, the SCISYS parent company redomiciled in Ireland in November 2018. As a result, SCISYS management believes it has mitigated Brexit risks affecting the group. In the table below, all the Space deals excluding the ESA-ESOC contract relate to Galileo and Egnos, which are EU-funded programmes. The four deals are worth £17.9m in aggregate and these deals would not have been awarded to SCISYS had SCISYS remained domiciled in the UK, even though Brexit has not yet been formalised. The bulk of this EU-funded work relates to the next stage of work done in previous stage projects. SCISYS also won additional work, including the Galileo ground segment work and taking over a component of the Mission Key Management Facility in the Thales Alenia Space France contract from another sub-contractor.

### Exhibit 1: Recent contract wins

Contract win	Announced	Space	Total	Details
		€m	£m	
Thales Alenia Space France	17/12/2018	11.2	9.8	SCISYS Deutschland has been awarded a contract with Thales Alenia Space France for the continuation and further enhancement of four Galileo Ground Mission Segment (GMS) elements.
Defence sector	20/12/2018	N/A	2.4	SCISYS UK has been awarded follow-on-work, continuing a defence project started in 2016 which SCISYS delivered successfully to schedule.
Galileo ground segment work	24/12/2018	3	2.6	SCISYS Deutschland has received two initial orders with Thales Alenia Space France for the development and implementation of security-relevant elements within the Galileo Ground Segment.
Galileo contract	03/01/2019	5	4.4	SCISYS Deutschland has been awarded a contract with GMV in Spain for the continuation and further enhancement of three elements in the Galileo Ground Control Segment (GCS).
ESA-ESOC ground station	10/01/2019	2.8	2.4	SCISYS Deutschland has been awarded a contract with ESA-ESOC for Monitoring & Control (M&C) system tailoring services for the ESA Tracking Network (ESTRACK).
EGNOS V3	16/01/2019	1.32	1.1	Contract with AIRBUS Defence and Space for development, integration, verification and maintenance of the EGNOS V3 Performance Assessment Facility (PAF).
Totals		23.3	22.7	

Source: Company announcements

## Management board appointment

In December, SCISYS appointed Natasha Laird as legal director. Ms Laird has been general counsel since 2014 and company secretary since September 2016. She was instrumental in the process of redomiciling the parent company in Ireland last year. SCISYS now has four full time executive directors – Klaus Heidrich, CEO, Chris Cheetham, FD, Steve Brignall, technical director and Natasha Laird, legal director.

**Exhibit 2: Financial summary**

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		36,106	45,744	57,164	56,012	60,125	61,940
Cost of Sales		0	0	0	0	0	0
Gross Profit		36,106	45,744	57,164	56,012	60,125	61,940
EBITDA		1,548	3,995	5,619	6,160	6,689	6,984
Adjusted operating profit		818	3,214	4,520	4,983	5,472	5,761
Amort'n of acq'd intangibles		0	0	(1,982)	(1,250)	(1,200)	(1,150)
Exceptionals		0	(458)	2,075	(750)	0	0
Share based payments		(11)	14	0	(45)	(50)	(55)
Operating Profit		807	2,770	4,613	2,938	4,222	4,556
Net Interest		(196)	(185)	(710)	(567)	(450)	(400)
Associates		3	17	39	0	0	0
Profit Before Tax (norm)		625	3,046	3,849	4,416	5,022	5,361
Profit Before Tax (FRS 3)		614	2,602	3,942	2,371	3,772	4,156
Tax		(241)	(380)	(593)	(874)	(1,243)	(1,340)
Profit After Tax (norm)		384	2,666	3,256	3,542	3,779	4,021
Profit After Tax (FRS 3)		373	2,222	3,349	1,497	2,529	2,816
Average Number of Shares Outstanding (m)		29.0	29.0	29.2	29.4	29.7	30.0
EPS - normalised (p)		1.3	9.2	10.0	12.0	12.7	13.4
EPS - FRS 3 (p)		1.3	7.6	11.5	5.1	8.5	9.4
Dividend per share (p)		1.78	1.96	2.16	2.38	2.62	2.88
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		4.3	8.7	9.8	11.0	11.1	11.3
Operating Margin (%)		2.3	7.0	7.9	8.9	9.1	9.3
<b>BALANCE SHEET</b>							
Fixed Assets		16,553	31,955	30,465	29,159	27,944	26,809
Intangible Assets		7,831	22,441	21,086	19,836	18,636	17,486
Tangible Assets		8,635	9,057	9,261	9,205	9,190	9,205
Deferred tax asset & associates		87	457	118	118	118	118
Current Assets		17,839	27,895	33,333	31,862	34,916	36,067
Stocks		211	261	321	315	338	348
Debtors		12,299	19,621	24,541	24,045	25,810	26,588
Cash		4,352	6,915	8,021	7,052	8,318	8,681
Current Liabilities		(12,003)	(18,763)	(23,481)	(23,393)	(24,655)	(24,894)
Creditors		(8,699)	(14,959)	(21,191)	(21,353)	(22,865)	(23,354)
Short term borrowings		(3,304)	(3,804)	(2,290)	(2,040)	(1,790)	(1,540)
Long Term Liabilities		(2,333)	(18,374)	(14,603)	(11,690)	(10,479)	(8,268)
Long term borrowings		(2,007)	(13,355)	(11,667)	(8,754)	(7,543)	(5,332)
Other long term liabilities		(326)	(5,019)	(2,936)	(2,936)	(2,936)	(2,936)
Net Assets		20,056	22,713	25,714	25,938	27,726	29,714
<b>CASH FLOW</b>							
Operating Cash Flow		1,570	3,442	10,369	6,081	6,388	6,674
Net Interest		(196)	(185)	(710)	(567)	(450)	(400)
Tax		(583)	(1,250)	147	(930)	(1,283)	(1,405)
Capex		(619)	(663)	(1,255)	(1,120)	(1,202)	(1,239)
Acquisitions/disposals		(889)	(7,521)	82	(617)	0	0
Financing		(14)	15	(131)	0	0	0
Dividends		(340)	(671)	(586)	(652)	(725)	(806)
Net Cash Flow		(1,071)	(6,833)	7,916	2,194	2,728	2,824
Opening net debt/(cash)		(328)	959	10,244	5,936	3,742	1,015
Other including foreign exchange		(216)	(2,452)	(3,608)	0	0	0
Closing net debt/(cash)		959	10,244	5,936	3,742	1,015	(1,809)

Source: Company data, Edison Investment Research

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