

GFT Group

Cautiously optimistic

Interim results

GFT Group posted a strong set of H1 results, with organic revenue growth of 18% and margins strengthened in both divisions. GFT, the group's solutions business, continued to grow apace, with H1 organic revenue growth of 32% (40% in Q1 and 26% in Q2), while emagine saw a small revenue decline but returned to profit. We are maintaining our forecasts, which are based on conservative assumptions, and we note the group benefits from a number of strong growth drivers as management scales up the business internationally. Hence, following the correction in the share price, the valuation looks appealing at c 10x our FY15 earnings.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/12	230.7	9.6	21.9	15.0	39.2	1.7
12/13	264.3	18.5	55.3	20.0	15.6	2.3
12/14e	352.0	25.3	67.3	22.5	12.8	2.6
12/15e	403.9	32.0	85.0	25.0	10.1	2.9

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

Interim results: GFT solutions revenues up 26% in Q2

The GFT solutions division's total H1 growth, after the inclusion of GFT Italy, acquired in May 2013, was 65% at €114.1m and the EBT margin lifted by 0.4% to 10.3%. emagine's revenues slipped by 5% to €42.7m, while the margin rose to 2%. Following the acquisition of c 98% Rule Financial for c €60m just before the period end, the number of group employees doubled to 2,983 from 1,503 a year earlier, including c 660 from Rule. The group swung to a net debt position of €34.4m at 30 June from €16.3m net cash at 31 March, after the initial €43.7m paid for Rule. In addition, a further €17.1m is to be paid for Rule in November, and acquisition liabilities remain over the remaining Rule 2% minority interest and GFT Italy.

Forecasts: Conservatively maintained

The company maintained its guidance given at the time of the acquisition of Rule in June. This is for FY14 revenues of €352m (including €42m from Rule), EBITDA of €29.5m and EBT of €23m (see our [April outlook](#) note for the GFT definitions). The guidance implies a 2% decline in revenues from continuing businesses in H2, over H1. However, given the considerable geopolitical and economic uncertainties that could potentially encourage banks to defer their decision making, we believe it is wise to be conservative. Hence, we have maintained all our forecasts, except that year-end net debt rises by €2.4m to €28.7m, as we have made adjustments to the group balance sheet for the acquisition of Rule, in line with the accounts.

Valuation: Remains cheap compared with its peers

The stock trades on 0.7x FY15 EV/revenues and 7.5x EBITDA. These numbers look favourable when compared to c 1.3-2.3x sales and c 9.4-9.8x EBITDA for larger global IT services businesses. Our DCF model (which assumes a WACC of 11%) values the shares at €11.04 (previously €11.07), which is 28% ahead of the current share price. The fall is mainly due to the increased acquisition cost of Rule.

Software & comp services

11 August 2014

Price €8.61
Market cap €226m

Net debt (€m) at 30 June 2014	34.4
Shares in issue	26.3m
Free float	57%
Code	GFT
Primary exchange	Frankfurt
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(13.4)	(5.4)	74.3
Rel (local)	(6.1)	0.9	60.9
52-week high/low	€10.50	€4.80	

Business description

GFT Group is a global technology services and recruitment business primarily focused on banks and insurance companies. GFT Group has two divisions: GFT, the group's solutions business, and emagine, a contract recruitment business.

Next events

Züricher Kapitalmarkt Konferenz	10 September 2014
German Mittelstand conference, New York	20 October 2014
Q3 results	6 November 2014
Deutsches Eigenkapitalforum	24-26 November 2014

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Exhibit 1: Financial summary

	€'000s	2011	2012	2013	2014e	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		272,381	230,691	264,285	352,028	403,919	417,969
Cost of Materials*		(157,380)	(108,304)	(108,559)	(136,249)	(148,919)	(150,923)
Gross Profit		115,001	122,387	155,726	215,779	255,000	267,046
Adjusted EBITDA		12,750	10,794	20,939	31,006	37,249	41,763
Adjusted Operating Profit		11,396	9,307	18,699	27,316	33,651	37,550
Amortisation of acquired intangibles		0	(80)	(2,250)	(4,030)	(2,530)	(2,530)
Exceptionals		(556)	2,657	1,320	0	0	0
Associates		3	(17)	(9)	0	0	0
Operating Profit		10,843	11,867	17,760	23,286	31,121	35,020
Net Interest		202	243	(241)	(2,000)	(1,700)	(1,400)
Profit Before Tax (norm)		11,598	9,550	18,458	25,316	31,951	36,150
Profit Before Tax (FRS 3)		11,045	12,110	17,519	21,286	29,421	33,620
Tax		(2,756)	(3,774)	(3,890)	(7,595)	(9,585)	(10,845)
Profit After Tax (norm)		8,842	5,775	14,568	17,721	22,366	25,305
Profit After Tax (FRS 3)		8,290	8,335	13,628	13,691	19,836	22,775
Minority interest		0	0	0	0	0	0
Adjustments for normalised earnings		0	0	0	0	0	0
Net income (norm)		8,842	5,775	14,568	17,721	22,366	25,305
Net income (FRS 3)		8,290	8,335	13,628	13,691	19,836	22,775
Average No of Shares Outstanding (m)		26.3	26.3	26.3	26.3	26.3	26.3
EPS - normalised (c)		33.6	21.9	55.3	67.3	85.0	96.1
EPS - normalised & fully diluted (c)		33.6	21.9	55.3	67.3	85.0	96.1
EPS - FRS 3 (c)		31.5	31.7	51.8	52.0	75.3	86.5
Dividend per share (c)		15.00	15.00	20.00	22.50	25.00	27.50
Gross Margin (%)		42.2	53.1	58.9	61.3	63.1	63.9
EBITDA Margin (%)		4.7	4.7	7.9	8.8	9.2	10.0
Adjusted Operating Margin (%)		4.2	4.0	7.1	7.8	8.3	9.0
BALANCE SHEET							
Fixed Assets		51,574	47,446	80,761	132,866	130,373	126,973
Intangible Assets		37,345	36,686	68,210	118,314	115,784	113,254
Tangible Assets		2,807	3,208	7,666	9,667	9,704	8,834
Other		11,422	7,551	4,885	4,885	4,885	4,885
Current Assets		86,708	84,311	125,616	131,713	153,093	167,290
Stocks		0	0	0	0	0	0
Debtors		50,962	44,206	73,010	97,249	111,584	115,466
Cash		32,473	35,912	47,149	29,006	36,051	46,367
Current Liabilities		(54,075)	(47,055)	(70,769)	(116,248)	(120,976)	(114,964)
Creditors		(54,075)	(47,055)	(70,037)	(85,516)	(100,244)	(104,232)
Short term borrowings		0	0	(732)	(30,732)	(20,732)	(10,732)
Long Term Liabilities		(8,592)	(4,598)	(48,460)	(41,403)	(41,403)	(41,403)
Long term borrowings		0	0	(27,006)	(27,006)	(27,006)	(27,006)
Other long term liabilities		(8,592)	(4,598)	(21,453)	(14,396)	(14,396)	(14,396)
Net Assets		75,616	80,105	87,148	106,928	121,087	137,897
CASH FLOW							
Operating Cash Flow		14,048	7,892	9,531	31,006	37,249	41,764
Net Interest		945	545	384	(2,000)	(1,700)	(1,400)
Tax		(1,703)	(2,284)	(2,091)	(7,089)	(8,946)	(10,122)
Capex		(1,563)	(1,790)	(5,484)	(3,520)	(3,635)	(3,344)
Acquisitions/disposals		(7,885)	0	(15,254)	(61,275)	0	0
Shares issued		6,227	3,000	587	0	0	0
Dividends		(3,949)	(3,949)	(3,949)	(5,265)	(5,923)	(6,581)
Net Cash Flow		6,121	3,414	(16,276)	(48,143)	17,044	20,316
Opening net debt/(cash)		(26,233)	(32,473)	(35,912)	(19,410)	28,733	11,688
HP finance leases initiated		0	0	0	0	0	0
Other		118	25	(225)	0	0	0
Closing net debt/(cash)		(32,473)	(35,912)	(19,410)	28,733	11,688	(8,628)

Source: GFT Group (historicals), Edison Investment Research (forecasts). Note: *Mainly expenses for services rendered by outside personnel, including freelancers.

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