

Piteco

Final results

EPS beat on favourable Italian tax changes

FY16 net revenues grew by 5% to €13.5m (we forecast €13.7m), while EBITDA eased by 2% to €5.6m (€6.0m). Revenue and the EBITDA margin both showed a small improvement in H2. The numbers were slightly below expectations, largely due to the challenging economic backdrop. However, EPS beat by 4% on lower than expected tax. We have conservatively eased our revenue and EBITDA forecasts, although EPS remains the same after taking into account favourable tax changes (expanded 'Patent Box' rules and reduced corporate tax charges). Given the attractive growth opportunities, strong cash generation and the healthy balance sheet, we believe the shares remain attractive on c 15x our FY18e earnings.

Year end	Net sales revenue* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/15	12.8	5.7	21.5	10.0	22.7	2.0
12/16	13.5	5.6	25.1	15.0	19.5	3.1
12/17e	14.5	6.3	28.3	17.5	17.3	3.6
12/18e	15.5	6.9	31.2	20.0	15.7	4.1

Note: *Excludes the capitalisation of development costs, change in work in progress and other revenues (largely expenses charged back to customers). **Normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY16 results: 26 new clients added during the year

EBITDA represented 41.6% of net sales, down from 44.5% a year earlier, reflecting additional costs. However, H2 recovered to 45.4%, from 37.6% in H1. The 26 new clients in FY16 indicates that four were added since our note in late October. Cash flow was strong with operating cash flow (before interest and tax) representing 99% of EBITDA. While the group closed the year with €1.9m of net cash, which is similar as at end-June, it was after the payment of a €1.9m dividend during H2. Also, the net cash position includes the €4.6m convertible bond, which is well above its 420c conversion price; if the bonds all converted, the net cash position would be €6.5m. Management hopes to move from AIM to the main market by December, and it believes this will help to boost the stock's liquidity as the free float will rise to c 30%.

Forecasts: Sales and EBITDA eased, EPS maintained

We have conservatively cut our forecasts to reflect the challenging economic backdrop in Italy. Revenue comes back by 4% in FY17 and by 5% in FY18 while EBITDA falls by 9% and 11%, respectively. However, our EPS forecasts remain broadly unchanged due to the tax benefits from extended 'Patent Box' rules in Italy and lower Italian corporate tax rates from FY17.

Valuation: DCF suggests fair value

The stock looks attractive, trading on c 17.3x our EPS in FY17e, falling to c 15.7x in FY18e and to c 15.1x in FY19e. Our DCF model suggests a valuation of 497c, slightly above the current price. The calculation uses conservative assumptions including a 4.7% CAGR in net sales revenue over 10 years, a long-term EBITDA margin (40% to net sales) that is below current levels and a discount rate of 9%. It has also been adjusted for the dilution impact of the convertible bonds.

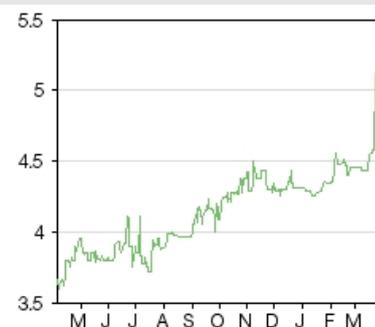
Software & comp services

3 April 2017

Price **€4.90**
Market cap **€89m**

Net cash (€m) at end FY16	1.9
Shares in issue	18.1m
Free float	14.7%
Code	PITE
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.0)	3.2	15.2
Rel (local)	(4.5)	(2.4)	9.7
52-week high/low		€4.56	€3.594

Business description

Piteco is Italy's leading company in designing, developing and implementation of software for treasury, finance and financial planning management.

Next events

AGM	28 April 2017
Interim results	28 September 2017

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Final results: 26 new clients added during the year

26 new clients were added in FY16 meaning the total is now approaching 700. The 26 gains imply that four clients were added since our last note in late October. This was below our expectations, reflecting the challenging economic backdrop in Italy and some management time spent on the group's internationalisation strategy. However, management is optimistic that activity will improve in FY17, given the recent modest improvements in the Italian economy along with a greater management focus. This optimism is reflected in the dividend, which is boosted by 50% to 15c (total cost of €2.7m), and is 60% covered by earnings.

Piteco has one pilot project in Mexico, which was through its local distributor, PAGAFLEX, and management anticipates initial sales will be made in FY17. While a typical licence size remains the same, the company did not get the benefit from any abnormally large deal in FY16, as is often the case. EBITDA represented 41.6% of net sales in FY16, down from 44.5% a year earlier, reflecting additional costs including the listing, an additional salesman and costs in preparation for expansion, which includes a new 'cloud' solution. The sales team stands at seven, including the sales director. The H2 EBITDA margin recovered to 45.4%, up from 37.6% in H1 when there was a c €0.2m one-off cost relating to the listing. Cash flow was strong with operating cash flow (before interest and tax) representing 99% of EBITDA. The group closed the year with €1.9m of net cash, which was below our €2.9m forecast. While this was similar as at end-June, there were also €1.9m in dividend payments made during H2. The net cash position includes the €4.6m convertible bond, which is well above its 420c conversion price; if the bonds all converted, the net cash position would be €6.5m. The convertibles can convert at any time up until 2020; therefore any early conversions will boost the net cash position.

The group tax charge fell from €1.1m in FY15 to €0.5m in FY16, for a 10% tax rate, as Piteco benefited from the newly implemented 'Patent Box' rules. These 'Patent Box' rules are set to be expanded in FY17 to bring them in line with other countries in Europe. This will mean the group's entire recurring revenue book will be covered. Further, the corporate tax rate in Italy is falling from 27.5% to 24% in FY17. We also note that there have recently been significant tax incentives announced for retirement investment plans to invest in small companies, which could help the company to expand its shareholder base.

The company began a share buyback scheme in January to purchase up to 5% of the shares, over an 18-month period. No shares have yet been purchased. However, share purchases are expected to take place over the coming months.

Forecasts: Sales and EBITDA eased, EPS maintained

We have conservatively cut our forecasts to reflect the challenging economic backdrop in Italy. Revenue comes back by 4% in FY17 and by 5% in FY18, while EBITDA falls by 9% and 11%, respectively. However, EPS remains broadly unchanged due to the tax benefits from extended 'Patent Box' rules and lower Italian corporate tax rates. We have also introduced FY19 forecasts. In all, we forecast net sales revenue to grow by 7.5% in FY17, 6.9% in FY18 and 6.1% in FY19, with adjusted EBITDA rising from €6.3m to €7.4m over the period and EPS showing a CAGR of 8.9% over the three-year period. We also note that the group could potentially benefit from a €0.5m exceptional gain, as the expanded 'Patent Box' rules should apply to FY16's taxes also, but we have not yet included this in our model.

Exhibit 1: Forecast changes

	Net sales revenue (€m)			Adjusted EBITDA (€m)			EPS (c)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2016	13.7	13.5	(2)	6.0	5.6	(7)	24.1	25.1	(4)
2017e	15.1	14.5	(4)	6.9	6.3	(9)	28.2	28.3	0
2018e	16.4	15.5	(5)	7.7	6.9	(11)	31.3	31.2	0
2019e	N/A	16.4	N/A	N/A	7.4	N/A	N/A	32.4	N/A

Source: Edison Investment Research

Exhibit 2: Financial summary

	€'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Turnover		12,334	13,384	14,122	15,281	16,332	17,328
Net Sales Revenue		11,550	12,838	13,477	14,484	15,480	16,425
EBITDA		5,229	5,719	5,606	6,271	6,889	7,374
Adjusted Operating Profit		5,149	5,620	5,466	6,026	6,542	6,913
Amortisation of acquired intangibles		(623)	(157)	(157)	0	0	0
Exceptionals		17	(323)	106	0	0	0
Share based payments		0	0	0	0	0	0
Operating Profit		4,543	5,140	5,415	6,026	6,542	6,913
Net Interest		(1,011)	(585)	(365)	(200)	(100)	
Profit Before Tax (norm)		4,139	5,035	5,102	5,826	6,442	6,913
Profit Before Tax (FRS 3)		3,532	4,555	5,050	5,826	6,442	6,913
Tax		(1,090)	(1,130)	(547)	(699)	(789)	(1,037)
Profit After Tax (norm)		3,049	3,905	4,554	5,127	5,653	5,876
Profit After Tax (FRS 3)		2,443	3,426	4,503	5,127	5,653	5,876
Average Number of Shares Outstanding (m)		0.0	18.1	18.1	18.1	18.1	18.1
EPS - normalised (c)		0.0	21.5	25.1	28.3	31.2	32.4
EPS - FRS 3 (c)		0.0	18.9	24.8	28.3	31.2	32.4
Dividend per share (c)		0.00	10.00	15.00	17.50	20.00	22.50
Gross Margin (%)		0.0	0.0	0.0	0.0	0.0	0.0
EBITDA Margin (%)		42.4	42.7	39.7	41.0	42.2	42.6
Op Margin (before GW and except.) (%)		41.7	42.0	38.7	39.4	40.1	39.9
BALANCE SHEET							
Fixed Assets		29,303	30,055	30,090	30,251	30,337	30,337
Intangible assets and deferred tax		27,442	28,522	28,626	28,790	28,950	29,013
Tangible Assets		1,455	1,421	1,365	1,361	1,288	1,224
Investments		406	112	99	99	99	99
Current Assets		6,005	14,846	15,531	16,463	17,958	19,470
Stocks		0	0	0	0	0	0
Debtors		4,013	4,494	4,524	4,661	4,770	4,850
Cash		1,862	10,198	10,870	11,665	13,050	14,482
Current Liabilities		(4,994)	(5,408)	(5,023)	(5,523)	(6,002)	(6,451)
Creditors		(3,794)	(3,688)	(3,304)	(3,804)	(4,283)	(4,731)
Short term borrowings		(1,200)	(1,720)	(1,719)	(1,719)	(1,719)	(1,719)
Long Term Liabilities		(12,052)	(10,114)	(8,576)	(6,826)	(5,514)	(4,201)
Long term borrowings		(10,694)	(8,825)	(7,204)	(5,454)	(4,142)	(2,829)
Other long term liabilities		(1,359)	(1,289)	(1,372)	(1,372)	(1,372)	(1,372)
Net Assets		18,262	29,379	32,022	34,365	36,779	39,155
CASH FLOW							
Operating Cash Flow		5,739	5,056	5,525	6,416	7,044	7,538
Net Interest		(1,011)	(585)	(365)	(200)	(100)	0
Tax		(973)	(1,146)	(661)	(547)	(641)	(709)
Capex		(273)	(330)	(347)	(406)	(433)	(460)
Acquisitions/disposals		0	(972)	0	0	0	0
Financing		(2,265)	7,671	0	0	0	0
Dividends		0	0	(1,860)	(2,719)	(3,172)	(3,625)
Net Cash Flow		1,217	9,695	2,293	2,545	2,698	2,744
Opening net debt/(cash)		11,249	10,032	347	(1,946)	(4,491)	(7,189)
Other		()	(10)	0	0	0	()
Closing net debt/(cash)		10,032	347	(1,946)	(4,491)	(7,189)	(9,933)

Source: Piteco (historics), Edison Investment Research (forecasts)

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