EDISON

Piteco

Final results

Rating is attractive despite 7-8% EPS cuts

Software & comp services

Piteco traded broadly in line with management objectives, with 30 new contracts signed in FY17, up from 26 in FY16. Nevertheless, revenue and EBITDA came in below our forecasts, as the group lacked any large-size projects during the year, while Juniper Payments suffered on translation from the continued strength in the dollar. Recurring revenues grew by 5% organically and by 46% including Juniper, which is predominantly recurring revenues, and now represent 65% of the total. We have cut revenues by 5% and EPS by 7-8% in FY18 and FY19 mainly due to the weakness in services and the strong dollar. With Juniper trading in line with targets and management expecting the treasury business to return to its growth trend in FY18, we believe the shares are attractively priced on 12x our FY19e earnings.

Year end	Net sales revenue* (€m)	EBITDA** (€m)	EPS** (c)	DPS (c)	P/E (x)	Yield (%)
12/16	13.5	5.6	24.4	15.0	16.4	3.0
12/17	16.4	6.5	30.3	15.0	13.8	3.5
12/18e	19.3	8.0	36.0	17.5	12.7	4.0
12/19e	21.0	9.0	39.3	20.0	11.9	4.5

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.

Final results: Held back by dollar and lack of larger projects

Net revenues grew by 21% to €16.4m (we forecast €17.1m), reflecting flat organic revenues and an initial €2.9m from Juniper Payments, which contributed from May. While the 30 new contract wins were 15% ahead of the number signed in FY16, the FY17 batch lacked sizeable deals with large services elements and consequently services revenues were subdued. Juniper contributed in line with plans in dollar terms, but suffered on the decline in the dollar against the euro. Cash generation remained healthy, with FCF increasing by c 7% to an estimated €4.4m, and the group ended the year with net debt of €6.5m (we forecast €6.0m).

Forecasts: Revenues cut by 5%, EPS by 7-8%

We have cut our revenues by 5% in each of FY18 and FY19, while EBITDA falls by 11% in each year and EPS comes back by 7% in FY18 and 8% in FY19. We forecast operating margins to recover in FY18, and head back towards 40%. We forecast the group to remain strongly cash generative, ending FY18 with net debt of €2.7m (previously €2.4m) and swing into net cash a year later.

Valuation: Attractive low double-digit P/E with growth

The stock looks attractive, trading on c 14x our EPS in FY18e, falling to c 13x in FY19e and to c 12x in FY20e. Our DCF model suggests a valuation of 591c (previously 598c), which is 21% above the current price. The calculation uses assumptions including a 6.5% CAGR in organic net sales revenue over 10 years, long-term operating margins of 40% of net sales and a WACC of 9%. It has also been adjusted for the dilution impact of the convertible bonds.

21 March 2018

Price	**€4.98**
Market cap	**€90m**
	US$1.226/€
Net debt (€m) at 31 Dec 2017	6.5
Shares in issue	18.1m
Free float	27.4%
Code	PITE
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.5	(3.0)	9.8
Rel (local)	2.1	(4.2)	(2.9)
52-week high/low		€5.5	€4.6

Business description

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

Next events

Annual accounts approved	16 April 2018
AGM	May 2018
Interim results	26 September 2018

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Edison profile page

Piteco is a research client of Edison Investment Research Limited

Final results: 30 new contract wins, up from 26 in FY16

Net sales revenue rose by 21% to €16.4m, reflecting flat organic growth and an initial €2.9m for Juniper Payments, which contributed for eight months. The number was 4.1% below our forecast, mainly due to the lack of major services projects in FY17, along with continued weakness of the dollar, which weighed on the translation of Juniper revenue. Piteco acquired Juniper in early April, and revenue of €261k generated in that month was not booked but instead reduced the purchase cost. Excluding this effect, Juniper revenues were broadly in line with our forecast. Cash generation remained very healthy, with free cash flow increasing by c 7% to an estimated €4.4m, (assuming that normal capex was €0.4m out of the total capex of €10.23m), and the group ended the year with net debt of €6.5m (we forecast €6.0m) .

Software sales rose by 8% to €2.4m, compared with our €3.0m forecast, which included hosted SaaS sales. We have switched hosted SaaS into the recurring maintenance line, and the recurring maintenance line rose by 5% to €7.4m, partly due to the growth in the hosted SaaS offering. After including Juniper's revenues (Jupiter has 90%+ recurring revenues), recurring revenues jumped by 46% to €10.3m, to represent 63% of net sales revenues, up from 52% in FY16. Services dipped by 12% to €3.7m (we forecast €3.9m).

There were 30 new contract wins, of which three were hosted cloud deals. While 30 new contracts was within the historical range, the company lacked larger sales in FY17, eg a normal deal could generate €50k in software sales and €50k in services, while a larger deal can generate €100k in software and €300k in services. Two customers were lost through bankruptcy in FY17, with a €180k exceptional charge made for bad debtors, which was reflected in the depreciation and amortisation line for the statutory accounts. The group made €334k exceptional gains, mostly relating to the patent box tax benefits, while there was €208k in exceptional costs for the acquisition of Juniper. The company employed an additional sales person in Italy, with the full cost expensed in FY17, while it takes a year or two to reach high productivity.

Juniper, previously known as LendingTools, operates in the US correspondent banking software market. It was acquired when the exchange rate was $1.06/€. The dollar slipped $1.20/€ at the year end and now stands at $1.226/€, representing a 13.5% decline since the acquisition 11 months ago. A contract with Juniper's biggest client has been renewed, alleviating risk following the change of control. The group recorded a €1.106m unrealised loss on the 10-year $10m intercompany loan, which financed the Juniper deal; we note that the company had already repaid a tenth of the loan in FY17. In addition, there is a new liability of €1,192k for the acquisition of an additional 5% of Juniper, scheduled for payment in April 2019. Further, there is another €2,427k liability, which relates to a put option for Piteco's US partners to sell to the remaining 40% of Juniper to Piteco NA starting in five years' time. This liability is not included in the group's €6.5m net debt position. Intangible items relating to the acquisition are being amortised over seven years, with €956k expensed in FY17. Having owned Juniper for nearly a year, Piteco is working on developing a new strategy with which to attack the North American market. Juniper was originally acquired with a view to use it as a route to the North American market for the group's core treasury software.

The annual dividend has been maintained at 15c, reflecting a 50% payout ratio on normalised earnings and 72% on statutory earnings.

Piteco has undergone most of the necessary steps to move its listing to the MTA, including hiring new advisers, and the new shift to MTA is now looking probable in Q3.

Management expects the core treasury business to return to normal trend growth in FY18 and FY19, potentially in the 8-10% range. We note that the core treasury software grew at 8% CAGR over the five years to FY16. Juniper has a stronger growth profile, and is likely to grow in the 10-20% range.

Forecasts: Revenues cut by 5%, EPS by 7-8%

We have cut our revenues by 5% in each of FY18 and FY19, while EBITDA falls by 11% in each year and EPS comes back by 7% in FY18 and 8% in FY19. Nevertheless, the group will benefit from a full 12 months' contribution from Juniper in FY18, from eight months in FY17. Hence we are forecasting net sales revenue to grow by 18.0% in FY18 to €19.3m, and by 8.5% in FY19 to €21.0m, while we forecast EPS growth of 18.5% and 9.2% respectively.

We forecast operating margins to recover in FY18, and head back towards 40%. We forecast the group to remain strongly cash generative, ending FY18 with net debt of €2.7m (previously €2.4m) and swing into net cash a year later. On our forecasts, recurring revenues (including Juniper) will reach €12.5m in FY18, or 65% of net sales revenue, rising to €13.5m or 64% of the total in FY19.

Exhibit 1: Forecast changes

€000s	2017e Old	2017 Actual	Change (%)	2018e Old	2018e New	Change (%)	2019e Old	2019e New	Change (%)	2020e New
Revenues										
Software	3,023	2,400	(20.6)	3,410	2,772	(18.7)	3,816	3,162	(17.1)	3,453
Services	3,883	3,670	(5.5)	4,328	4,027	(7.0)	4,823	4,340	(10.0)	4,614
Recurring maintenance and rentals	6,977	7,430	6.5	7,256	7,784	7.3	7,554	8,123	7.5	8,496
Juniper Payments	3,195	2,874	(10.0)	5,396	4,737	(12.2)	5,936	5,329	(10.2)	5,995
Net sales revenue	17,078	16,374	(4.1)	20,390	19,319	(5.3)	22,129	20,954	(5.3)	22,558
Capitalisation of dev'ment costs	342	327	(4.1)	408	386	(5.3)	443	419	(5.3)	451
Change in work in progress	0	(35)	N/A	0	0	N/A	0	0	N/A	0
Other revenues	347	380	9.3	450	424	(5.7)	486	453	(6.8)	477
Turnover	17,767	17,046	(4.1)	21,248	20,130	(5.3)	23,058	21,825	(5.3)	23,486
Growth (%)	25.8	20.7	(19.8)	19.6	18.1	(7.7)	8.5	8.4	(1.1)	7.6
Operating expenses before dep'n	(10,643)	(10,589)	(0.5)	(12,279)	(12,171)	(0.9)	(12,949)	(12,829)	(0.9)	(13,675)
Capitalisation of dev costs (net)	217	93	(56.8)	258	236	(8.3)	137	100	(26.8)	99
EBITDA	7,124	6,457	(9.4)	8,969	7,959	(11.3)	10,109	8,997	(11.0)	9,812
Depreciation	(250)	(113)	(54.8)	(225)	(115)	(48.9)	(215)	(100)	(53.6)	(90)
Amortisation of development costs	(125)	(234)	87.2	(150)	(150)	0.0	(306)	(319)	4.3	(352)
Depreciation & amortisation	(375)	(347)	(7.5)	(375)	(265)	(29.3)	(521)	(419)	(19.6)	(442)
Adjusted operating profit	6,749	6,110	(9.5)	8,594	7,694	(10.5)	9,587	8,578	(10.5)	9,370
Operating margin (%)	38.0	35.8	(5.6)	40.4	38.2	(5.5)	41.6	39.3	(5.5)	39.9
Growth (%)	27.1	14.7	(45.7)	27.3	25.9	(5.2)	11.6	11.5	(0.6)	9.2
Net interest	(494)	(537)	8.8	(400)	(450)	12.5	(250)	(300)	20.0	(200)
Profit before tax norm	6,255	5,573	(10.9)	8,194	7,244	(11.6)	9,337	8,278	(11.3)	9,170
Amortisation of acq'd intangibles*	(870)	(956)	9.9	(870)	(956)	9.9	(870)	(956)	9.9	(956)
Exceptional items (net of tax)	(666)	(1,160)	74.1	0	0	N/A	0	0	N/A	0
Profit before tax	4,719	3,457	(26.7)	7,324	6,288	(14.1)	8,467	7,322	(13.5)	8,214
Taxation	(707)	(72)	(89.8)	(1,147)	(724)	(36.9)	(1,587)	(1,159)	(27.0)	(1,559)
Net income	4,012	3,385	(15.6)	6,177	5,563	(9.9)	6,880	6,163	(10.4)	6,655
Statutory EPS	22.1	18.7	(15.6)	34.1	30.7	(9.9)	38.0	34.0	(10.4)	36.7
Adjusted EPS (c)	30.6	30.3	(0.9)	38.9	36.0	(7.5)	42.8	39.3	(8.1)	42.0
P/E - Adjusted EPS		**16.4**			**13.3**			**12.7**		**11.9**

Source: Piteco accounts (historics), Edison Investment Research (forecasts). Note: *Relates to Jupiter Payments.

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Exhibit 2: Financial summary

€'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Turnover	13,384	14,122	17,046	20,130	21,825	23,486
Net Sales Revenue	12,838	13,477	16,374	19,319	20,954	22,558
EBITDA	5,719	5,623	6,457	7,959	8,997	9,812
Adjusted Operating Profit	5,463	5,326	6,110	7,694	8,578	9,370
Amortisation of acquired intangibles	0	0	(956)	(956)	(956)	(956)
Exceptionals	(323)	89	(1,160)	0	0	0
Share based payments	0	0	0	0	0	0
Operating Profit	5,140	5,415	3,994	6,738	7,622	8,414
Net Interest	(585)	(365)	(537)	(450)	(300)	(200)
Profit Before Tax (norm)	4,878	4,962	5,573	7,244	8,278	9,170
Profit Before Tax (FRS 3)	4,555	5,050	3,457	6,288	7,322	8,214
Tax	(1,130)	(547)	(72)	(724)	(1,159)	(1,559)
Profit After Tax (norm)	3,748	4,415	5,501	6,519	7,119	7,611
Profit After Tax (FRS 3)	3,426	4,503	3,385	5,563	6,163	6,655
Average Number of Shares Outstanding (m)	18.1	18.1	18.1	18.1	18.1	18.1
EPS - normalised (c)	20.7	24.4	30.3	36.0	39.3	42.0
EPS - FRS 3 (c)	18.9	24.8	18.7	30.7	34.0	36.7
Dividend per share (c)	10.00	15.00	15.00	17.50	20.00	22.50
EBITDA Margin (%)	42.7	39.8	37.9	39.5	41.2	41.8
Op Margin (before GW and except.) (%)	40.8	37.7	35.8	38.2	39.3	39.9
BALANCE SHEET						
Fixed Assets	30,055	30,090	39,320	38,563	37,691	36,834
Intangible assets and deferred tax	28,522	28,626	37,834	37,114	36,258	35,402
Tangible Assets	1,421	1,365	1,486	1,448	1,432	1,432
Investments	112	99	0	0	0	0
Current Assets	14,846	15,531	9,526	12,076	14,783	18,081
Stocks	0	0	0	0	0	0
Debtors	4,494	4,524	4,096	4,115	4,160	4,175
Cash	10,198	10,870	5,154	7,685	10,347	13,629
Current Liabilities	(5,408)	(5,023)	(8,425)	(9,600)	(10,390)	(11,155)
Creditors	(3,688)	(3,304)	(6,100)	(7,275)	(8,065)	(8,830)
Short term borrowings	(1,720)	(1,719)	(2,325)	(2,325)	(2,325)	(2,325)
Long Term Liabilities	(10,114)	(8,576)	(10,505)	(9,193)	(7,880)	(6,568)
Long term borrowings	(8,825)	(7,204)	(9,326)	(8,014)	(6,701)	(5,389)
Other long term liabilities	(1,289)	(1,372)	(1,179)	(1,179)	(1,179)	(1,179)
Net Assets	29,379	32,022	29,916	31,846	34,204	37,192
CASH FLOW						
Operating Cash Flow	5,056	5,525	5,670	8,152	9,207	10,037
Net Interest	(585)	(365)	(538)	(450)	(300)	(200)
Tax	(1,146)	(661)	(309)	(72)	(652)	(1,076)
Capex	(330)	(347)	(400)	(464)	(503)	(541)
Acquisitions/disposals	(972)	0	(9,830)	(605)	(605)	0
Financing	7,671	0	0	0	0	0
Dividends	0	(1,860)	(3,094)	(2,719)	(3,172)	(3,625)
Net Cash Flow	9,695	2,293	(8,501)	3,843	3,975	4,595
Opening net debt/(cash)	10,032	347	(1,946)	6,497	2,654	(1,321)
Other	(10)	0	58	0	0	0
Closing net debt/(cash)	347	(1,946)	6,497	2,654	(1,321)	(5,916)

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

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