

2 August 2018



## Elecosoft (ELCO): Corp

### A good half of organic growth shown in H1

H1 saw continued organic momentum in the international construction industry solutions supplier. Solid 5% YoY revenue growth and impressive 45% YoY earnings growth, allied to excellent cash generation leave the group well positioned to at least meet our FY 2018 forecasts. H2 will be augmented by acquisition of Shire Systems, a leading UK facilities-management solutions supplier. The group is consistently delivering both organic and acquired earnings growth supported by cashflow. It remains undervalued compared to sector peers despite a strong market position and a wide range of future growth opportunities. We reiterate our forecasts and TP.

## eServGlobal (ESG): Corp

### PayMobile on track for cash breakeven

The Interim update shows the core PayMobile business remains on track for cash breakeven this year. Revenue was c.A\$5.7m with a further A\$10.2m of new orders in H1 to be recognised in future. This, alongside a reliable H2 pipeline, gives us confidence in our expectation of c.A\$19m sales while the cost base has been heavily cut back to match. The funds raised last year have been put to use in restructuring and there will be some exceptionals in H1. That left cash at a low point of A\$2.8m, but a large debt was collected in H2 and the position should improve by YE. With ongoing reduction of its cost base the core business is being shaped for corporate action and intriguingly, management now notes initial interest from a number of parties. HomeSend continues to develop its banking business with FY 2017 revenue growing 59% YoY. Following its recent funding it is investing heavily, and we continue to anticipate long-term success and value.

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## Corp

Ticker **ELCO:AIM**

Software &amp; Computer Services

Shares in issue (m) 77.4

Next results H1 Sept

Price **80.0p**

Target price 88.0p

Upside 10%

Market cap **£62.0m**

Net debt/(cash) -£2.6m

Other EV adjustments £0.0m

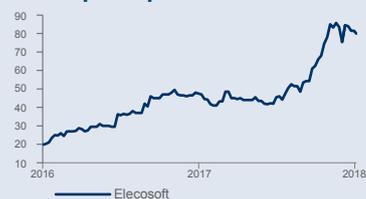
Enterprise value £59.4m

What's changed? **From To**

Adjusted EPS 3.6 n/c

Target Price 88.0 n/c

## Share price performance



%	1M	3M	12M
Actual	6.0	24.0	68.4

## Company description

Supplier of software and services for the architectural, engineering and construction industries

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## Elecosoft\*

## A good half of organic growth shown in H1

H1 saw continued organic momentum in the international construction industry solutions supplier. Solid 5% YoY revenue growth and impressive 45% YoY earnings growth, allied to excellent cash generation leave the group well positioned to at least meet our FY 2018 forecasts. H2 will be augmented by acquisition of Shire Systems, a leading UK facilities-management solutions supplier. The group is consistently delivering both organic and acquired earnings growth supported by cashflow. It remains undervalued compared to sector peers despite a strong market position and a wide range of future growth opportunities. We reiterate our forecasts and TP.

► **Results on track:** H1 revenue is expected to increase 5% YoY to £10.5m, on track for our FY target of £22.5m sales, and benefiting from the addition of £0.5m of Shire sales in H2. The organic growth was suppressed by forex in the period and in LFL terms was actually 7% YoY. Even more encouraging in H1 adj. PBT rose 45% YoY to an expected £1.5m against our FY target of £3.5m, 30% YoY growth. We thus remain confident in our earnings growth expectations for the year.

► **Strong cash generation:** The £1.6m rise in net cash during the half is particularly impressive. With £0.2m of dividends and £0.6m of capex likely to have been paid, it suggests £2.4m generated from operations (on likely EBITDA of £1.9m) and excellent working capital management, similar to H1 LY. H2 cash will be affected by the £5.1m (net of cash) acquisition of Shire and the consolidation of debt into a £8m loan. We continue to expect net debt of £2.5m at the year-end.

► **Extending the portfolio:** Shire's acquisition is a good deal. Elecosoft is paying £5.1m cash for the business net of cash. The deal is funded by relatively inexpensive debt from Barclays; an £8m facility which wraps up the existing £2m loans on the balance sheet. It significantly strengthens Elecosoft's BIM (Building Information Management) solutions range, expanding its construction industry offering from the early planning stages through into the later life of buildings; where they are managed by contracted maintenance companies using that data. There are many further applications for BIM; building insurance, or safety certification for example. The portfolio is far from complete and further expansion is likely.

► **Results in September:** We look forward to greater detail with the Interim results expected next month.

Key estimates   Year end: Dec		2015A	2016A	2017A	2018E	2019E
Revenue	£m	15.3	17.8	20.0	22.5	26.2
Adj EBITDA	£m	1.8	2.7	3.7	4.4	5.3
Adj EBIT	£m	1.1	2.2	2.8	3.8	4.6
Adj PBT	£m	1.0	2.1	2.7	3.5	4.2
Adj EPS	p	1.1	2.3	2.9	3.6	4.3
DPS	p	0.0	0.4	0.6	0.7	0.7

Key valuation metrics		2015A	2016A	2017A	2018E	2019E
EV/EBIT (adj)	x	52.7	27.1	21.0	15.7	12.9
P/E (adj)	x	74.7	34.2	27.2	21.9	18.4
Dividend yield	%	0.0%	0.5%	0.8%	0.8%	0.9%
Free cash yield	%	0.9%	1.8%	4.0%	3.3%	3.8%
Pre-tax ROCE	%	10.6%	15.5%	17.8%	17.7%	19.4%

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## Corp

**Ticker** **ESG:AIM**

**Software & Computer Services**

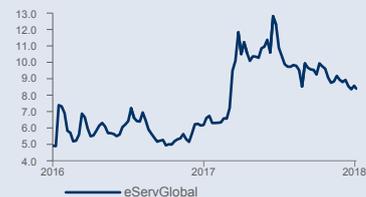
Shares in issue (m) 906.9  
Next results H1 Sept

**Price** **8.4p**  
Target price 20.0p  
Upside 138%

**Market cap** **£76.2m**  
Net debt/(cash) -£1.6m  
Other EV adjustments £0.0m  
Enterprise value £74.6m

**What's changed?** **From** **To**  
Adjusted EPS -0.7 n/c  
Target Price 20.0 n/c

### Share price performance



%	1M	3M	12M
Actual	-3.7	-13.8	26.7

### Company description

Innovative end-to-end mobile solutions for financial services industry

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## eServGlobal\*

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► **Breakeven target:** Since it took control, this management team has been focused on stemming cash outflows from the core business to allow HomeSend to develop. PayMobile has been heavily loss making; it saw adj. LBITDA losses of A\$7.0m in FY 2016 and A\$15.2m in FY 2017 (ahead of exceptional cash costs of over A\$4m). It took further investment from funds raised LY, but that unsustainable cost base has been drastically reduced to match the revenue level and we continue to anticipate a very small adj. LBITDA of c.A\$0.2m with profit likely next year should the sales pick-up continue. The cost base reduction looks to be running ahead of target (c.€11.5m/A\$18.5m) which will allow some leeway on the sales required to deliver breakeven. Cash appears low at €1.8m/A\$2.8m however we expect this to improve with H2 profit and debt collection.

► **HomeSend:** The JV with Mastercard continues to scale up its operations in the banking market, the current focus remains on-boarding more banks to the hub. It was expected that two large agreements would soon be signed to exploit the HomeSend network. One has now been signed and should go live in Q3, and the other is still expected although delayed by contract details. FY Dec 2017 accounts released in Belgium show revenue grew 59% to €6.7m while costs increased by slightly more to deliver a €8.6m loss compared with an €8.3m loss in FY 2016.

► **No changes:** We remain very confident that both targets will be achieved. The core operations have been turned around and can either be disposed of for value or will now be sustainable in their own right. Meanwhile, eServGlobal's HomeSend JV continues to grow in strength and value.

Key estimates   Year end: Dec		Dec 2014A	Dec 2015A	Dec 2016A	Dec 2017A	Dec 2018E
Revenue	AUDm	31.3	25.9	21.6	12.2	19.0
Adj EBITDA	AUDm	0.3	-14.0	-7.0	-15.2	-0.2
Adj EBIT	AUDm	-0.3	-16.0	-10.0	-20.0	-3.7
Adj PBT	AUDm	-2.8	-21.2	-21.8	-27.5	-6.0
Adj EPS	c	-6.4	-8.0	-6.2	-4.0	-0.7
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		Dec 2014A	Dec 2015A	Dec 2016A	Dec 2017A	Dec 2018E
EV/EBIT (adj)	x	-489.7	-8.3	-13.2	-6.6	-35.7
P/E (adj)	x	-0.0	-0.0	-0.0	-0.0	-0.2
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-7.8%	-13.8%	-10.1%	-12.9%	-5.1%
Pre-tax ROCE	%	-0.5%	-30.5%	-21.8%	-55.0%	-13.1%

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