

SCISYS

Solid order book growth and pipeline strong

AGM trading update

In an in line update, SCISYS reports that its order book grew by 4% over Q1, while net debt fell by £2.4m as at end-April. Cash flow was boosted by the receipt of overdue payments from the MOD and a tax credit from HMRC that were deferred from 2016. All business units have been performing well and we note that this year is likely to be more H2 weighted than is typical due to the acquired ANNOVA. Noting management's goal to achieve £60m in revenues and double-digit operating margins within three to five years, we believe the stock looks attractive on c 9x our maintained FY18e EPS.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	36.1	0.6	1.3	1.78	80.9	1.7
12/16	45.7	3.0	9.2	1.96	11.7	1.8
12/17e	53.4	4.0	11.2	2.16	9.6	2.0
12/18e	55.1	4.4	11.8	2.38	9.1	2.2

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

AGM trading update: Debt dips on cash generation

SCISYS says that FY17 "revenues and profits are comfortably on track to meet current guidance." The order book has grown from £64.6m as at end December to £67.1m at end-March. £37.8m is deliverable after FY17 – this predominantly relates to the long-term BBC contract of ANNOVA, which was acquired at the end of FY16. In February, the Space division won €5.6m of contracts to deliver mission management and control software for two European space programmes. SCISYS is confident that it will be able to extend its footprint in the Galileo satellite navigation programme in spite of media speculation over the impact of Brexit. Media & Broadcast has won a new £1.1m contract for BBC Wales and signed up its first French customer, RTL, which is an existing customer of ANNOVA. In April, the ESD division secured a place on the Metropolitan Police Solution Provider Framework, giving it access to contracts worth c £30m pa over four years. We note that framework contracts are not included in the group's order book.

ANNOVA is "progressing steadily"

ANNOVA, which supplies software-based editorial solutions to the television, radio and online markets is "progressing steadily". A key milestone for the BBC contract is due later this year, which will reflect the completion of the pilot stage of the project and also will determine the size of an earnout payment. After this milestone is met, the revenue model will switch to recurring support and maintenance, although there will be a ramp up as the solution is rolled out across the BBC. Since its acquisition, ANNOVA has added a significant new commercial broadcaster in the UK, together with new customers in the Czech Republic, Austria and Canada.

Valuation: Low P/E despite growth prospects

The stock trades on c 0.81x our FY18e revenues and c 7.4x EBITDA, which is attractive if SCISYS can continue the momentum. Our DCF model – which is based on a weighted average cost of capital of 10% and a 10.7% long-term margin target – values the stock at 149p (previously 145p), 39% above the current level.

Software & comp services

8 June 2017

Price **107p**

Market cap **£31m**

€1.144/£

Net debt (£m) at 31 December 2016 10.2

Shares in issue 29.0m

Free float 63%

Code SSY

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.0 (0.5) 46.5

Rel (local) (1.0) (2.8) 23.8

52-week high/low 112.0p 69.5p

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

Interim results September 2017

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Exhibit 1: Financial summary

	£'000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		40,359	36,106	45,744	53,400	55,140	57,016
Cost of Sales		0	0	0	0	0	0
Gross Profit		40,359	36,106	45,744	53,400	55,140	57,016
EBITDA		4,156	1,548	3,995	5,615	5,980	6,568
Adjusted operating profit		3,361	818	3,214	4,600	4,932	5,513
Amort'n of acq'd intangibles		0	0	0	0	0	0
Exceptionals		(135)	0	(458)	0	0	0
Share based payments		(42)	(11)	14	(40)	(40)	(50)
Operating Profit		3,184	807	2,770	4,560	4,892	5,463
Net Interest		(177)	(196)	(185)	(637)	(567)	(567)
Associates		0	3	17	25	30	30
Profit Before Tax (norm)		3,184	625	3,046	3,988	4,395	4,976
Profit Before Tax (FRS 3)		3,007	614	2,602	3,948	4,355	4,926
Tax		(766)	(241)	(380)	(706)	(865)	(979)
Profit After Tax (norm)		2,394	384	2,666	3,282	3,530	3,997
Profit After Tax (FRS 3)		2,241	373	2,222	3,242	3,490	3,947
Average Number of Shares Outstanding (m)		29.0	29.0	29.0	29.3	29.9	30.5
EPS - normalised (p)		8.2	1.3	9.2	11.2	11.8	13.1
EPS - FRS 3 (p)		7.7	1.3	7.6	11.1	11.7	12.9
Dividend per share (p)		1.61	1.78	1.96	2.16	2.38	2.62
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		10.3	4.3	8.7	10.5	10.8	11.5
Operating Margin (%)		8.3	2.3	7.0	8.6	8.9	9.7
BALANCE SHEET							
Fixed Assets		17,155	16,553	31,955	32,008	32,064	32,149
Intangible Assets		8,233	7,831	22,441	22,441	22,441	22,441
Tangible Assets		8,899	8,635	9,057	9,110	9,166	9,251
Deferred tax asset & associates		23	87	457	457	457	457
Current Assets		18,886	17,839	27,895	31,199	32,448	32,460
Stocks		325	211	261	305	315	325
Debtors		12,334	12,299	19,621	20,374	21,037	21,752
Cash		5,798	4,352	6,915	9,423	9,999	9,285
Current Liabilities		(10,561)	(12,003)	(18,763)	(21,017)	(21,171)	(21,369)
Creditors		(9,686)	(8,699)	(14,959)	(17,463)	(17,867)	(18,315)
Short term borrowings		(875)	(3,304)	(3,804)	(3,554)	(3,304)	(3,054)
Long Term Liabilities		(5,023)	(2,333)	(18,374)	(16,522)	(15,146)	(14,935)
Long term borrowings		(4,595)	(2,007)	(13,355)	(12,042)	(12,929)	(13,318)
Other long term liabilities		(428)	(326)	(5,019)	(4,480)	(2,217)	(1,617)
Net Assets		20,457	20,056	22,713	25,669	28,195	28,306
CASH FLOW							
Operating Cash Flow		4,774	1,570	3,442	7,165	5,704	6,283
Net Interest		(177)	(196)	(185)	(637)	(567)	(567)
Tax		100	(583)	(1,250)	(200)	(638)	(791)
Capex		(618)	(619)	(663)	(1,068)	(1,103)	(1,140)
Acquisitions/disposals		(358)	(889)	(7,521)	(600)	(2,800)	(3,900)
Financing		(61)	(14)	15	0	0	0
Dividends		(435)	(340)	(671)	(589)	(656)	(737)
Net Cash Flow		3,225	(1,071)	(6,833)	4,071	(60)	(853)
Opening net debt/(cash)		2,672	(328)	959	10,244	6,173	6,234
Other		(225)	(216)	(2,452)	0	0	(0)
Closing net debt/(cash)		(328)	959	10,244	6,173	6,234	7,087

Source: SCISYS accounts (historicals), Edison Investment Research (forecasts)

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