

Keywords Studios

Currency headwinds, outlook maintained

Trading update

Software & comp services

Keywords's trading update indicated continued robust performance with y-o-y revenue and PBT growth of 72% and 66% respectively, despite the currency headwind from a weaker dollar. With the integration of acquisitions going well, a robust demand environment and a stronger dollar, the company looks set for a strong H2 and is well placed to meet our (unchanged) FY estimates.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (p)	P/E (x)	Yield (%)
12/16	96.6	14.9	20.3	1.3	97.9	0.08
12/17	151.4	23.0	29.9	1.5	66.4	0.08
12/18e	252.3	37.3	47.7	1.6	41.6	0.09
12/19e	283.3	42.5	52.8	1.8	37.3	0.10

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

H118 revenues are expected to increase 72% y-o-y to €110m (FY18e: €252m), with adjusted PBT rising by 66% y-o-y to €15.9m (FY18e: €37.3m). The expansion comes despite currency headwinds, with the average US\$/€ rate in H118 declining c 12% to 0.83 (H117: 0.92). The compression in margins is predominantly due to the absorption of the lower margin VMC (acquired in October 2017 where €2.5m of cost synergies are expected to be progressively released over two years), while the group has also invested in improving capacity at a number of its studios.

The company looks well placed to deliver the strong H2 required to meet our full year estimates. The statement confirms that all of the 18 acquisitions since the beginning of 2017 are performing to expectations and that the wider group is starting to benefit from both cost synergies and improved client relationships, key to releasing revenue synergies. The demand environment is robust – market analyst NewZoo recently upgraded its 2017-2021 growth forecasts for the games industry to 10.3% from 7.4% previously. The stronger US dollar will also help (US\$/€ currently 0.86).

The company remains in a net cash position having deployed €10m cash for acquisitions over H1. The company's €105m facility, combined with a robustly cash generative business model, leaves plenty of firepower for earnings enhancing acquisitions.

6 August 2018

Price 1,742.0p

Market cap £1,088m

£/€1.12

Net cash (€m) at end FY17 11.1

Shares in issue 63.0m

Free float 87%

Code KWS

Primary exchange AIM

Secondary exchange N/A

Share price performance



Business description

Keywords Studios is now the largest and most diverse supplier of outsourced services to the games industry. Through regular acquisitions, the company is building its scale, geographic footprint and delivery capability. Its ambition is to become the 'go-to' supplier across the industry.

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