CREALOGIX Group

Software & comp services

International revenues rise to 57%

CREALOGIX has established a strong track record of delivering software solutions to the banking industry in Switzerland and it is transitioning the business to the international markets. FY18 numbers were below our expectations, mainly due to the faster-than-anticipated switch to SaaS, which spreads out revenue. International revenues represent 57% of the total (50% in FY17). CREALOGIX acquired the 80% remainder of Elaxy BS&S in July and acquired Innofis to target the Middle Eastern markets earlier this year. The stable, cash-generative nature of Elaxy BS&S balances the higher-risk, stronger growth profile of Innofis. Given the attractive industry dynamics and with CREALOGIX ideally positioned to capitalise on these, the shares look attractive on c 22x our FY20 EPS.

Digital banking remains in a strong growth phase

CREALOGIX develops software solutions that enable digital banking for 'the digital bank of tomorrow'. The solutions are most often used by traditional banks to enable their journey to digitalisation. Digital banking is in a major growth phase globally, boosted by the advent of smartphones and tablets and the pressure on banks to streamline their branches to reduce costs. These factors are driving increasing spend on front-end systems with global spend forecast to rise to c 50% of banks' total IT budgets by 2020, according to Gartner, from c 10% in 2010.

FY18: Local currency revenue growth was 13.1%

FY18 revenues grew 13.1% at constant currencies (guidance was 10–15%) to CHF87.1m, while EBITDA eased by 3.8% to CHF7.0m. All new business in Germany has been recurring; had it been on a traditional licence basis, revenues would have been CHF3.8m higher. This was due to a greater-than-anticipated switch to SaaS, which meant the 8.1% EBITDA margin was below the >10% management guidance. We have broadly maintained our forecasts, having cut them following the pre-announced trading in August.

Valuation: Significant upside if targets are reached

A DCF scenario incorporating 10% organic revenue CAGR over 2019–29e falling thereafter to 2%, operating margins tapering up to a level of 15% from FY22e along with a 9% WACC, would suggest a per-share valuation of CHF217, 60% above the current share price. Increasing the margin target to 20% lifts the valuation to CHF284, whereas reducing the margin to 10% cuts it to CHF150. These valuations are after the dilution impact from the outstanding convertible bonds.

Edison estimates

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
06/17	74.9	5.0	2.59	0.50	52.5	0.4
06/18	87.1	5.1	2.39	0.25	56.9	0.2
06/19e	110.2	8.1	4.09	0.75	33.2	0.6
06/20e	121.0	12.2	6.10	1.25	22.3	0.9

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

Price	CHF136
Market cap	CHF189m

Share price graph

Share details

Code	CLXN
Shares in issue	1.39
Net cash (€m) as at 30 June 2018	11.4

Business description

CREALOGIX Group provides digital banking technology solutions to banks, wealth managers and other financial services companies. The company's suite of solutions includes online and mobile banking, digital payments, digital learning and security.

Bull

- Management anticipated strong medium-term sales growth (>20%) and EBITDA margin progression (15% target).
- Digital banking is in a major growth phase.
- CREALOGIX is building a reputable position in this market with strong references and awards.

Bear

- Current year P/E is relatively punchy and dividend yield is modest.
- Convertible bond conversions will further dilute equity, although the conversion process will also boost net cash.
- The ongoing consolidating traditional banking sector could reduce the size of the end market.

Analysts

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CREALOGIX Group is a research client of Edison Investment Research Limited