

# SCISYS Group

Confident, in line, on record opening order book

AGM trading update

Software & comp services

In an in-line update, SCISYS says it has made a positive start to FY19, with all divisions continuing to expand. Consequently, we are maintaining our forecasts. Management expects FY19 performance to revert to the traditional pattern of a significantly stronger H2 after the more balanced profile in FY18. Noting management's new goal to achieve revenue of £75m and operating profit of £7.0m by the end of FY22, we believe the stock is attractive on c 14x our FY20e EPS.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	53.2	3.6	9.3	2.16	20.8	1.1
12/18	58.4	4.6	13.1	2.38	14.8	1.2
12/19e	61.5	5.0	12.7	2.62	15.3	1.4
12/20e	63.5	5.4	13.4	2.88	14.4	1.5

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. IFRS 15 is applied from 1 January 2017.

## Trading update: All divisions expanding

The Space division secured an additional €9.7m contract in April, taking the total Space contracts to €33.0m since mid-December. Media & Broadcast and Annova Systems now operate under a single management team as the SCISYS Media Solutions division and integration activities will continue to run throughout 2019. The Enterprise Solutions & Defence division has extended its support agreements with UK Power Networks to 2020 and Arqiva to 2021, while securing further orders to maintain its provision of onsite consultancy teams to key customers in the commercial and defence/security arenas.

## Space division flying

In April, SCISYS announced it is extending its footprint in the EU-funded Galileo satellite navigation programme with a €9.7m order from Thales Alenia Space France. The latest order comes on top of the €23.3m of orders secured by the Space division in December and January and highlights the importance of the re-domiciliation to Ireland late last year, as five deals worth €30.2m (£26.7m) in aggregate would not have been awarded to SCISYS had it remained domiciled in the UK, even though Brexit has not yet been formalised.

## Valuation: £100m order book underpins forecasts

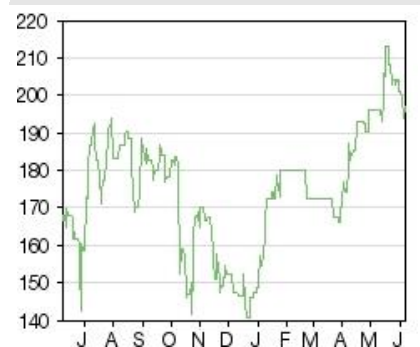
The stock trades on 15.3x our maintained earnings in FY19e, falling to 14.4x in FY20 and 13.7x in FY21. Alternatively, the stock trades on 0.94x our FY20 sales and 8.5x EBITDA, which we believe is attractive if SCISYS can maintain the momentum. Our DCF model, which is based on our forecasts and organic CAGR of 3.7% over 10 years, a weighted average cost of capital of 10% and an 11.0% long-term margin target, values the stock at 194p (vs 187p previously, mainly due to rolling the model forward), in line with the current share price. A 1% reduction in the WACC to 9% increases the valuation to 224p. In our view, the 3.7% revenue CAGR is potentially conservative given that revenue growth was 9.8% in FY18 and that we forecast 5.3% in FY19.

7 June 2019

**Price** 194.00p  
**Market cap** £57m

Net debt (£m) at 31 December 2018	3.1
Shares in issue	29.6m
Free float	64%
Code	SSY
Primary exchange	AIM
Secondary exchange	ESM

## Share price performance



%	1m	3m	12m
Abs	0.5	22.4	14.2
Rel (local)	2.5	21.7	22.2
52-week high/low	213.00p	140.50p	

## 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 2019
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**Exhibit 1: Financial summary**

	£'000s	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		45,744	53,204	58,405	61,525	63,477	65,125
Cost of Sales		0	0	0	0	0	0
Gross Profit		45,744	53,204	58,405	61,525	63,477	65,125
EBITDA		3,995	5,417	6,460	6,718	7,015	7,289
Adjusted operating profit		3,214	4,318	5,118	5,472	5,761	6,052
Amort'n of acq'd intangibles		0	(1,982)	(1,252)	(1,200)	(1,150)	(1,150)
Exceptionals		(458)	2,075	(1,337)	0	0	0
Share based payments		14	0	(36)	(50)	(55)	(60)
Operating Profit		2,770	4,411	2,493	4,222	4,556	4,842
Net Interest		(185)	(710)	(499)	(450)	(400)	(350)
Associates		17	39	0	0	0	0
Profit Before Tax (norm)		3,046	3,647	4,619	5,022	5,361	5,702
Profit Before Tax (FRS 3)		2,602	3,740	1,994	3,772	4,156	4,492
Tax		(380)	(593)	(558)	(1,243)	(1,327)	(1,410)
Profit After Tax (norm)		2,666	3,054	4,061	3,779	4,035	4,291
Profit After Tax (FRS 3)		2,222	3,147	1,436	2,529	2,830	3,081
Average Number of Shares Outstanding (m)		29.0	29.1	29.5	29.7	30.0	30.3
EPS - normalised (p)		9.2	9.3	13.1	12.7	13.4	14.1
EPS - FRS 3 (p)		7.6	10.8	4.9	8.5	9.4	10.2
Dividend per share (p)		1.96	2.16	2.38	2.62	2.88	3.17
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		8.7	10.2	11.1	10.9	11.1	11.2
Operating Margin (%)		7.0	8.1	8.8	8.9	9.1	9.3
<b>BALANCE SHEET</b>							
Fixed Assets		31,955	30,465	30,119	28,904	27,769	26,685
Intangible Assets		22,441	21,086	20,056	18,856	17,706	16,556
Tangible Assets		9,057	9,261	9,411	9,396	9,411	9,477
Deferred tax asset & associates		457	118	652	652	652	652
Current Assets		27,895	27,580	29,710	32,233	33,309	34,385
Stocks		261	321	1,000	1,053	1,087	1,115
Debtors		19,621	18,788	20,545	21,642	22,329	22,909
Cash		6,915	8,021	8,065	9,438	9,793	10,261
Current Liabilities		(18,763)	(17,998)	(23,664)	(24,306)	(24,490)	(24,547)
Creditors		(14,959)	(15,708)	(18,386)	(19,278)	(19,712)	(20,019)
Short term borrowings		(3,804)	(2,290)	(5,278)	(5,028)	(4,778)	(4,528)
Long Term Liabilities		(18,374)	(14,603)	(9,631)	(8,420)	(6,209)	(3,998)
Long term borrowings		(13,355)	(11,667)	(5,886)	(4,675)	(2,464)	(253)
Other long term liabilities		(5,019)	(2,936)	(3,745)	(3,745)	(3,745)	(3,745)
Net Assets		22,713	25,444	26,534	28,411	30,380	32,524
<b>CASH FLOW</b>							
Operating Cash Flow		3,442	10,369	5,642	6,411	6,698	6,963
Net Interest		(185)	(710)	(499)	(450)	(400)	(350)
Tax		(1,250)	147	(257)	(1,171)	(1,405)	(1,487)
Capex		(663)	(1,255)	(1,429)	(1,230)	(1,270)	(1,302)
Acquisitions/disposals		(7,521)	82	0	0	0	0
Financing		15	(131)	115	0	0	0
Dividends		(671)	(586)	(655)	(725)	(806)	(895)
Net Cash Flow		(6,833)	7,916	2,917	2,834	2,817	2,929
Opening net debt/(cash)		959	10,244	5,936	3,099	265	(2,551)
Other including foreign exchange		(2,452)	(3,608)	(80)	0	0	0
Closing net debt/(cash)		10,244	5,936	3,099	265	(2,551)	(5,480)

Source: Company data, Edison Investment Research. Note: IFRS15 is applied from FY17.

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