

SCISYS

Final results

Operating profit beats by 4%, solid outlook

Both FY16 revenue and adjusted operating profit were 4% ahead of our forecasts, while EPS beat by 8% on a favourable tax charge. The acquisition of ANNOVA Systems, a leading supplier of software-based editorial solutions to the television sector completed at the end of the period. ANNOVA underpins our financial forecasts and complements SCISYS's **dira!** product offering for radio broadcasters, creating cross-selling opportunities. Management has reintroduced its goal to achieve £60m in revenues and double-digit operating margins within three to five years. Hence, we believe the stock looks attractive on c 9x our 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	83.5	1.6
12/16	45.7	3.0	9.2	1.96	12.0	1.8
12/17e	53.4	4.0	11.2	2.16	9.9	2.0
12/18e	55.1	4.4	11.8	2.38	9.4	2.2

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

Final results: Boosted by decline in sterling vs euro

FY16 revenue rose by 27% (17% constant currency) to £45.7m (we forecast £44.0m), while adjusted operating profit quadrupled to £3.2m, despite a £0.3m hit from an FX hedge. There was a £3.4m working capital outflow, reflecting the lumpy movements around the year-end, including a tax rebate coming in late and the impact from a troubled contractor payment system at the UK Ministry of Defence. Hence, net debt was £2.4m higher than we forecast at £10.2m. This was after the completion of the ANNOVA deal on the last day of the year for an initial £10.5m (ie £9.7m cash paid plus c £3m debt and £2.2m cash acquired), which was slightly above our forecasts. While the opening order book (excluding ANNOVA) was slightly down on the prior period at £34m, the value invoiceable within one year was practically unchanged. £31m of FY17 revenue is already contracted and the pipeline remains healthy. Two significant contract wins have since been announced for the Space division (c €3.9m ExoMars and c €1.9m Mission Control contracts).

Forecasts: FY17 & FY18 maintained, FY19 introduced

We have maintained our FY17 and FY18 revenue and adjusted operating profit forecasts. However, EPS rise by 2% in each year due to lower assumed shares in issue. For FY17 we forecast that working capital will swing back by £1.7m and that tax payments are minimal due to receipt of tax rebates and further R&D tax credits. Hence, year end net debt remains as we previously forecasted at £6.2m for both FY17 and FY18. We forecast 10% dividend growth in each of the next three years.

Valuation: ANNOVA leverages the opportunity

The stock trades on c 0.84x our FY18e revenue forecast and c 7.8x EBITDA, which is attractive if SCISYS can successfully exploit the M&B division's strong BBC success story to drive cross-selling opportunities within Europe and extend the product outside Europe. Our DCF model – which is based on a conservative weighted average cost of capital (WACC) of 10% and a 10.7% long-term margin target – values the stock at 145p (previously 142p), 32% above the current level.

Software & comp services

4 April 2017

Price **110.5p**

Market cap **£32m**

€1.176/£

Net debt (£m) at 31 December 2017 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 0.5 0.0 55.4

Rel (local) (0.8) (5.7) 30.5

52-week high/low 112p 66p

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

AGM 8 June 2017

Trading update July 2017

Interim results September 2017

Analysts

Richard Jeans +44 (0)20 3077 5700

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

**SCISYS is a research client of
Edison Investment Research
Limited**

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)

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by SCISYS and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE data is permitted without FTSE's express written consent.