

# SCISYS

Interim results

## Strong H1 but more balanced year is expected

SCISYS has reported a strong H1 with professional fees jumping 24%. However, this was off a weak H117 and some business was brought forward from H2. Consequently, we are forecasting a more balanced H1/H2 in FY18. We have increased our FY18 revenues by £3.0m to reflect this balancing, but we have maintained our profit forecasts. All divisions posted record revenues, the order book remains robust at close to £100m and net debt continues to decline. Management's goal of £60m in revenues and double-digit margins within the next few years looks increasingly conservative and we believe the stock is solid on c 14.6x our FY19e EPS.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	45.7	3.0	9.2	1.96	20.2	1.1
12/17	57.2	3.8	10.0	2.16	18.5	1.2
12/18e	56.0	4.4	12.0	2.38	15.4	1.3
12/19e	60.1	5.0	12.7	2.62	14.6	1.4

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. IFRS 15 is applied from 1 January 2018.

### H1 results: Professional fees jump 24% to £27.6m

Group revenue rose by 13% to £28.7m, while adjusted operating profit more than doubled to £2.5m. The Enterprise Solutions & Defence and Space divisions reported strong contribution growth whereas M&B and Annova recorded declines despite record sales. M&B and Annova are being integrated into a single business unit. The interim dividend has been increased by 10% to 0.65p.

### New £2m contract win with Transport for London

Earlier this week SCISYS announced it has won a £2m contract to provide software design, development and support services to Transport for London (TfL) for its timetabling and scheduling as part of its Future Bus Systems programme.

### Brexit redomicile decision to be made by end 2018

The company says it still does not expect any adverse operational consequences as a result of Brexit. However, it is obliged to protect its positions on Galileo and EGNOS if Brexit proceeds without specific amendments. We anticipate a decision to redomicile the group is likely to be made next month.

### Forecasts: Moving up revenues, earnings maintained

We have increased our revenue forecasts by £3.0m in FY18 to £56.0m and by £3.1m in FY19 to £60.1m. We have conservatively maintained our profits forecasts and continue to forecast end FY18 net debt of £3.0m.

### Valuation: Profits maintained for now

The stock trades on c 15.4x our earnings in FY18e, falling to c 14.6x in FY19e. Alternatively, the stock trades on c 0.95x our FY19e sales and c 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 3.5% over 10 years, a weighted average cost of capital of 10% and an 11.0% long-term margin target, values the stock at 183p, roughly in line with the current share price.

## Software & comp services

20 September 2018

Price **185.00p**  
Market cap **£55m**

Net debt (£m) as at 30 June 2018	3.3
Shares in issue	29.5m
Free float	64%
Code	SSY
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



### 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

Trading update	January 2019
Final results	March 2019

### Analysts

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**Exhibit 1: Financial summary**

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		36,106	45,744	57,164	56,012	60,125	61,940
Cost of Sales		0	0	0	0	0	0
Gross Profit		36,106	45,744	57,164	56,012	60,125	61,940
EBITDA		1,548	3,995	5,619	6,160	6,689	6,984
Adjusted operating profit		818	3,214	4,520	4,983	5,472	5,761
Amort'n of acq'd intangibles		0	0	(1,982)	(1,250)	(1,200)	(1,150)
Exceptionals		0	(458)	2,075	0	0	0
Share based payments		(11)	14	0	(45)	(50)	(55)
Operating Profit		807	2,770	4,613	3,688	4,222	4,556
Net Interest		(196)	(185)	(710)	(567)	(450)	(400)
Associates		3	17	39	0	0	0
Profit Before Tax (norm)		625	3,046	3,849	4,416	5,022	5,361
Profit Before Tax (FRS 3)		614	2,602	3,942	3,121	3,772	4,156
Tax		(241)	(380)	(593)	(874)	(1,243)	(1,340)
Profit After Tax (norm)		384	2,666	3,256	3,542	3,779	4,021
Profit After Tax (FRS 3)		373	2,222	3,349	2,247	2,529	2,816
Average Number of Shares Outstanding (m)		29.0	29.0	29.2	29.4	29.7	30.0
EPS - normalised (p)		1.3	9.2	10.0	12.0	12.7	13.4
EPS - FRS 3 (p)		1.3	7.6	11.5	7.6	8.5	9.4
Dividend per share (p)		1.78	1.96	2.16	2.38	2.62	2.88
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		4.3	8.7	9.8	11.0	11.1	11.3
Operating Margin (%)		2.3	7.0	7.9	8.9	9.1	9.3
<b>BALANCE SHEET</b>							
Fixed Assets		16,553	31,955	30,465	29,159	27,944	26,809
Intangible Assets		7,831	22,441	21,086	19,836	18,636	17,486
Tangible Assets		8,635	9,057	9,261	9,205	9,190	9,205
Deferred tax asset & associates		87	457	118	118	118	118
Current Assets		17,839	27,895	33,333	32,612	35,666	36,817
Stocks		211	261	321	315	338	348
Debtors		12,299	19,621	24,541	24,045	25,810	26,588
Cash		4,352	6,915	8,021	7,802	9,068	9,431
Current Liabilities		(12,003)	(18,763)	(23,481)	(23,393)	(24,655)	(24,894)
Creditors		(8,699)	(14,959)	(21,191)	(21,353)	(22,865)	(23,354)
Short term borrowings		(3,304)	(3,804)	(2,290)	(2,040)	(1,790)	(1,540)
Long Term Liabilities		(2,333)	(18,374)	(14,603)	(11,690)	(10,479)	(8,268)
Long term borrowings		(2,007)	(13,355)	(11,667)	(8,754)	(7,543)	(5,332)
Other long term liabilities		(326)	(5,019)	(2,936)	(2,936)	(2,936)	(2,936)
Net Assets		20,056	22,713	25,714	26,688	28,476	30,464
<b>CASH FLOW</b>							
Operating Cash Flow		1,570	3,442	10,369	6,831	6,388	6,674
Net Interest		(196)	(185)	(710)	(567)	(450)	(400)
Tax		(583)	(1,250)	147	(930)	(1,283)	(1,405)
Capex		(619)	(663)	(1,255)	(1,120)	(1,202)	(1,239)
Acquisitions/disposals		(889)	(7,521)	82	(617)	0	0
Financing		(14)	15	(131)	0	0	0
Dividends		(340)	(671)	(586)	(652)	(725)	(806)
Net Cash Flow		(1,071)	(6,833)	7,916	2,944	2,728	2,824
Opening net debt/(cash)		(328)	959	10,244	5,936	2,992	265
Other including foreign exchange		(216)	(2,452)	(3,608)	0	0	0
Closing net debt/(cash)		959	10,244	5,936	2,992	265	(2,559)

Source: SCISYS, Edison Investment Research. Note: IFRS15 is applied from 1 January 2018.

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