

eServGlobal

Trading update

Core business order shortfall

eServGlobal has announced that due to order slippage in the core business, it does not expect to reach operational break-even in FY18, with revenues expected of €7-7.5m versus a break-even cost base of €11-11.5m. We have reduced our forecasts to reflect the revised revenue outlook and increased EBITDA loss. We estimate that eServGlobal's cash balance is more than enough to cover core business working capital requirements as well as expected investment in HomeSend capital raises.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
10/16	21.6	(7.0)	(3.88)	0.0	N/A	N/A
10/17	10.8	(11.7)	(3.53)	0.0	N/A	N/A
12/17**	12.2	(15.2)	(4.17)	0.0	N/A	N/A
12/18e	11.3	(6.2)	(1.57)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **14-month period.

Order slippage reduces FY18 revenues

When the company reported H118 results in September, it was confident of reaching operational break-even for FY18, which with an expected cost base of €11-11.5m implied FY18 revenues of at least A\$17.4m. It now expects to report revenues of €7-7.5m/A\$11.1-11.9m, which implies H218 revenues flat to slightly higher than the A\$5.6m reported in H118. The company entered FY18 with €5.7m in recurring and deferred revenue; based on order intake to date and revenues recognised in FY18e, it expects this to increase to €7.5m by the start of FY19. It also expects to reduce costs to a break-even level of €10m by the start of FY19.

Forecasts reflect lower H2 orders and HomeSend investment

We have reduced our FY18 revenue forecast to A\$11.3m, which results in a widening of the EBITDA loss from A\$0.3m to A\$6.2m and a reduction in normalised EPS from -A\$0.96 to -A\$1.57. The business continues to explore the sale of the core business. At the end of November, eServGlobal contributed to HomeSend's €6.1m capital raise in proportion to its 35.68% stake. We forecast the company will have net cash of A\$29m by the end of FY18 and we expect HomeSend to request more funds later in FY19 (its plan is to raise €47m in total), of which we expect eServGlobal to have to contribute up to €14.6m/A\$23.1m to maintain its stake.

Valuation: HomeSend the main driver

We believe that most of the company's value is provided by its stake in the HomeSend joint venture. We estimate that in addition to the well-established use of HomeSend for remittance volumes, the share price is factoring in adoption of HomeSend by banking customers for cross-border payments. Evidence of recent bank signings transferring cross-border payments over to the HomeSend platform will be key to supporting and driving the current share price. Contract wins in the core business could also have a more limited impact on the share price.

Software & comp services

20 December 2018

Price **4.60p**
Market cap **£56m**

A\$1.75:€1.11:£1

Net cash (A\$m) at end H118 2.9

Shares in issue 1,210.9m

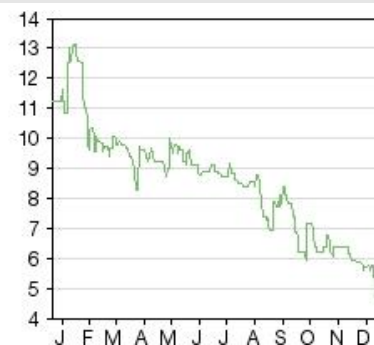
Free float 96.8%

Code ESG

Primary exchange AIM

Secondary exchange ASX

Share price performance



%	1m	3m	12m
Abs	(22.7)	(25.8)	(55.7)
Rel (local)	(19.8)	(18.6)	(50.3)
52-week high/low		13.2p	4.6p

Business description

eServGlobal develops mobile software solutions to support mobile financial services, with a focus on emerging markets. It also has a 35.7% share in the HomeSend cross-border payments hub, alongside Mastercard and BICS.

Next events

FY18 results	February 2019
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Changes to forecasts

Exhibit 1: Changes to estimates			
A\$'000	FY18e	FY18e	Change
	Old	New	
Revenues	18,978	11,278	-40.6%
Gross profit	6,149	2,448	-60.2%
Gross margin	32.4%	21.7%	-10.7%
Normalised gross profit	6,149	2,448	-60.2%
Normalised gross margin	32.4%	21.7%	-10.7%
Normalised EBITDA	(277)	(6,228)	2148.4%
Normalised EBITDA margin	(1.5%)	(55.2%)	-53.8%
Normalised EBIT	(3,647)	(9,598)	163.2%
Normalised EBIT margin	(19.2%)	(85.1%)	-65.9%
Reported EBIT	(4,119)	(10,070)	144.5%
Normalised PBT	(8,088)	(14,039)	73.6%
Reported PBT	(8,560)	(14,511)	69.5%
Normalised net income	(9,420)	(15,398)	63.5%
Reported net income	(9,958)	(15,909)	59.8%
Normalised EPS	(0.96)	(1.57)	63.5%
Net debt/(cash)	(35,137)	(28,977)	-17.5%

Source: Edison Investment Research

Exhibit 2: Financial summary

	A\$'000s	2014	2015	2016	2017	2017*	2018e
Year end 31 October/31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		31,261	25,866	21,577	10,791	12,240	11,278
Cost of Sales		(13,359)	(20,608)	(15,490)	(13,509)	(16,729)	(8,830)
Gross Profit		17,902	5,258	6,087	(2,718)	(4,489)	2,448
EBITDA		2,571	(10,449)	(6,982)	(11,709)	(15,204)	(6,228)
Operating Profit (before amort acq intang, SBP and except.)		1,987	(12,469)	(10,039)	(15,391)	(19,959)	(9,598)
Amortisation of acquired intangibles		0	0	0	0	0	0
Exceptionals		28,735	(12,539)	(3,533)	(7,905)	(8,649)	(107)
Share-based payments		(438)	(54)	(75)	(160)	(297)	(365)
Operating Profit		30,284	(25,062)	(13,647)	(23,456)	(28,905)	(10,070)
Income from associate		(2,275)	(3,831)	(4,638)	(4,478)	(5,491)	(4,435)
Net Interest		(254)	(1,356)	(2,861)	(2,302)	(2,090)	(6)
Profit Before Tax (norm)		(542)	(17,656)	(17,538)	(22,171)	(27,540)	(14,039)
Profit Before Tax (FRS 3)		27,755	(30,249)	(21,146)	(30,236)	(36,486)	(14,511)
Tax		(13,515)	(2,125)	(596)	(592)	(681)	(1,198)
Profit After Tax (norm)		(379)	(14,125)	(14,030)	(22,605)	(28,054)	(15,198)
Profit After Tax (FRS3)		14,240	(32,374)	(21,742)	(30,828)	(37,167)	(15,709)
Minority interest		(138)	(166)	(196)	(12)	(134)	(200)
Net Income (norm)		(517)	(14,291)	(14,226)	(22,617)	(28,188)	(15,398)
Net Income (FRS3)		14,102	(32,540)	(21,938)	(30,840)	(37,301)	(15,909)
Average Number of Shares Outstanding (m)		253.1	264.0	366.6	640.2	676.4	982.9
EPS - normalised (c)		(0.20)	(5.41)	(3.88)	(3.53)	(4.17)	(1.57)
EPS - FRS 3 (c)		5.57	(12.33)	(5.98)	(4.82)	(5.51)	(1.62)
DPS (c)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		57.3%	20.3%	28.2%	(25.2%)	(36.7%)	21.7%
EBITDA Margin (%)		8.2%	(40.4%)	(32.4%)	(108.5%)	(124.2%)	(55.2%)
Operating Margin (before am and except.) (%)		6.4%	(48.2%)	(46.5%)	(142.6%)	(163.1%)	(85.1%)
BALANCE SHEET							
Fixed Assets		43,431	42,928	33,274	27,567	31,373	29,832
Intangible Assets		9,011	6,939	5,598	4,411	3,856	3,356
Tangible Assets		3	84	32	136	127	147
Other Fixed Assets		34,417	35,905	27,644	23,020	27,390	26,329
Current Assets		30,761	34,895	28,240	40,361	16,499	35,128
Stock		173	66	72	110	139	139
Debtors		26,811	24,403	17,976	6,870	4,181	4,635
Cash		3,679	4,976	9,375	33,255	10,801	28,977
Other		98	5,450	817	126	1,378	1,378
Current Liabilities		(18,033)	(25,520)	(14,469)	(11,812)	(10,810)	(10,053)
Creditors		(13,010)	(22,285)	(14,189)	(11,812)	(10,757)	(10,000)
Taxation & social security		(2,023)	(235)	(280)	0	(53)	(53)
Short term borrowings		(3,000)	(3,000)	0	0	0	0
Long Term Liabilities		(865)	(19,532)	(12,649)	(20,392)	(777)	(777)
Long term borrowings		0	(16,531)	(11,759)	(19,075)	0	0
Other long term liabilities		(865)	(3,001)	(890)	(1,317)	(777)	(777)
Net Assets		55,070	32,359	33,823	35,718	36,158	53,945
CASH FLOW							
Operating Cash Flow		(5,810)	(12,130)	(10,712)	(9,492)	(12,630)	(7,439)
Net Interest		(271)	(423)	(175)	0	(2,735)	0
Tax		2,018	(3,148)	(1,159)	(719)	(132)	(650)
Capex		(6,403)	(2,921)	(1,583)	(2,351)	(2,821)	(2,890)
Acquisitions/disposals		5,418	0	5,133	0	0	0
Financing		3,964	4,365	15,929	32,007	32,286	29,296
Dividends		(146)	0	0	(579)	(581)	(142)
Net Cash Flow		(1,230)	(14,257)	7,433	18,866	13,387	18,176
Opening net debt/(cash)		(1,909)	(679)	14,555	2,384	2,384	(10,801)
HP finance leases initiated		0	0	48	0	0	0
Other		0	977	(4,690)	2,302	202	0
Closing net debt/(cash)		(679)	14,555	2,384	(14,180)	(10,801)	(28,977)

Source: eServGlobal, Edison Investment Research. Note: *14-month period ended 31 December 2017.

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