EDISON

Deutsches Eigenkapitalforum 2020

mVISE

Software & comp services

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Resilience and product growth?

In Resilient in the downturn we highlighted how a strong showing from mVISE's services business (+6% y-o-y) saw it deliver growth, margin uplift and cash flow in H1 despite the COVID-19 pandemic. However, this was partially offset by another shortfall in product sales, which were affected. Nevertheless, mVISE remains confident about its longer-term prospects here. This appears to be shared by the market; consensus sees sales growth accelerating to 15% in FY21 and the rating (c 18x FY21 EV/EBIT) stands at a premium to a pure-play service company.

Resilient services business

The strong performance of the service business (97% of revenues) in Q1 (see Resuming its product-driven growth strategy?) continued into Q2 despite COVID-19. Longstanding client relationships and 60–70% exposure to telecom and utility sectors, which are experiencing minimal disruption, helped maintain activity levels. In a typically seasonally weaker period, this resumption in growth helped fuel a H120 expansion in EBITDA to €0.3m (a 3.1% margin) and free cash flow of €1.5m.

Products struggled again

Product sales, the expected driver of both growth and higher margins in the long term, were weak again (down 39% y-o-y to just €0.3m). While management states the elastic.io pipeline is at a record level and it has just closed an important deal, SaleSphere, which provides a sales platform to in-store and travelling sales teams, was particularly heavily hit by lockdown restrictions. Reflecting the wider economic uncertainty and last year's miss, management acknowledges that predicting the timing of deal closure is difficult and it has withdrawn guidance. Consensus has lowered FY20 expectations for product revenues to just €0.9m. Implying just €0.6m in H2, this figure looks beatable. However, FY21 estimates imply total sales growth of 15%, a re-acceleration that appears to be largely driven by products.

Valuation: Product catalyst needed

mVISE's share price lost a quarter of its value between May and September while consensus FY21 EPS halved. The price of €2.09 implies a consensus FY21 EV/EBIT multiple of 18x, a c 50% premium to the average of its nearest IT services peers. This rating appears based on growth in its high-margin product sales (software companies can command EV/EBIT multiples above 20x). A product-driven beat of consensus forecasts in H220 could significantly bolster conviction in longer-term prospects in our view, justifying both FY21 forecasts and the rating.

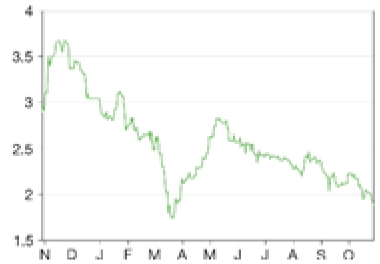
Edison estimates

Year end	Revenue (€m)	EBITDA (€m)	PBT (€m)	EPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/18	22.5	2.5	1.3	0.11	10.9	20.6	19.0
12/19	21.5	1.4	0.1	(0.03)	19.5	269.8	N/A
12/20e	21.8	2.7	1.5	0.11	10.0	18.0	19.0
12/21e	25.1	3.0	1.5	0.12	9.0	18.0	17.4

Source: : Company data, Refinitiv (based on one estimate)

Price	€2.09m
Market cap	€19m

Share price graph



Share details

Code	C1VX
Shares in issue	8.9m
Net debt/(cash) at <insert>	€8.3m

Business description

mVISE's core competencies are IT infrastructures and integration, combined with data management and analytics. With over 160 FTE staff, mVISE supports digitisation projects and offers cloud products such as the integration platforms as a service elastic.io and SaleSphere.

Bull

- mVISE is well placed to benefit from the digital revolution with its orientation to the Internet of Things, digitalisation, integration, data science and security.
- The new strategy is growing margins via increased high-margin product sales and staff efficiency.
- Recent acquisitions, particularly elastic.io, have boosted the group's product offerings, supporting margin and earnings prospects.

Bear

- Project-based consulting business faces risk of low utilisation in the pandemic.
- Own-developed software products (elastic.io and SaleSphere) have not achieved expectations.
- Net debt is €8.3m, 31% of EV.

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