EDISON

SCISYS Group

Final results

Outlook is 'very encouraging'

Software & comp services

SCISYS reported strong performance in FY18, led by the UK-focused Enterprise Solutions and Defence (ESD) division, which benefited from a reinvigorated sales team. We expect the Space division to lead growth in FY19, following the recent spate of contract wins, while the enlarged Media Solutions division has strong potential for margin recovery. We have upgraded our revenue forecasts but maintained profits as the group needs to invest in its infrastructure to sustain growth. Noting management's new goal to achieve revenue of £75m and operating profit of £7.0m by end FY22, we believe the stock is attractive on c 13x 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	18.2	1.3
12/18	58.4	4.6	13.1	2.38	13.0	1.4
12/19e	61.5	5.0	12.7	2.62	13.4	1.5
12/20e	63.5	5.4	13.4	2.88	12.7	1.7

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.

Final results: Adjusted operating profit jumps 19%

FY18 revenue rose 9.8% to £58.4m whereas adjusted operating profit (before associates) jumped 19% to £5.1m, as the margin increased by 70bp to 8.8%. The numbers were restated for IFRS15, which reduced FY17 revenues by £4.0m and operating profit by £0.2m. ESD led the growth in FY18, after reporting a subdued performance in FY17, increasing revenues by 17% and contribution by 34%. Operating cash flow was strong at £7m before exceptionals and net debt fell by £2.8m to £3.1m. The annual dividend increased by 10% to 2.38p.

Outlook is buoyed by strong order book

The group closed FY18 with a record order book of £98.6m. This was bolstered by c £23m of contract wins since mid-December, of which c £8m were after the period end. Hence, the order book exceeded £100m in January; £41.0m of this was for delivery in the current year, which compared to £32.6m at the same point the prior year. The longer-term balance includes Annova's contract with the BBC.

Forecast changes: Revenues increased, profits held

We have increased our revenue forecasts by £1.5m in each of FY19 and FY20 to £61.5m and £63.5m respectively and have introduced FY21 estimates. We maintain our other forecasts, including the 25% tax rate, hence this implies a 3% EPS decline in FY19. We now forecast the group to end FY19 with net debt of £0.3m (previously £1.0m), which swings to net cash of £2.6m at end FY20.

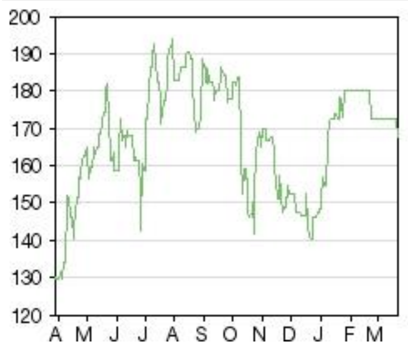
Valuation: £100m order book underpins forecasts

The stock trades on 13.4x our maintained earnings in FY19e, falling to 12.7x in FY20 and 12.0x in FY21. Alternatively, the stock trades on 0.84x our FY20 sales and 7.6x 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 187p, 10% above the current share price.

28 March 2019

Price	**170p**
Market cap	**£50m**
Net debt (£m) at 31 December 2018	3.1
Shares in issue	29.5m
Free float	64%
Code	SSY
Primary exchange	AIM
Secondary exchange	ESM

Share price performance



%	1m	3m	12m
Abs	4.0	16.4	28.8
Rel (local)	3.2	6.5	26.6
52-week high/low		194.00p	129.50p

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

AGM	June 2019
Interim results	September 2019

Analysts

Richard Jeans +44 (0)20 3077 5700

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

Edison profile page

SCISYS Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

£'000s	2016	2017	2018	2019e	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
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
BALANCE SHEET						
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
CASH FLOW						
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.

General disclaimer and copyright

This report has been commissioned by SCISYS Group and prepared and issued by Edison, in consideration of a fee payable by SCISYS Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: 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 and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. 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.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, 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 securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. 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, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

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. 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 (i.e. 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.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison 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. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia