EDISON **Scale research report - Update**

DATAGROUP

IT services

31 May 2019

Order book boosted by numerous large orders

DATAGROUP recorded a strong H1, with revenue growth of 7.2% (pre IFRS 15 and 16 for comparison purposes), the bulk of which was organic, while the EBITDA margin expanded by 30bp to 12.0%. Adoption of the new accounting standards has made significant changes to the P&L. Notably, the company says that numerous large-scale orders have led to a positive order situation, particularly in the financial services sector – the order book stands at more than €200m in financial services alone. The group announced its 22nd post-IPO acquisition after the period end, which boosts its relatively weak position in the Rhine-Main region and adds competencies in containerised software solutions. While the shares have jumped by c 55% from their late December lows, the c 20x rating looks fair value given the bulging order book and attractive growth opportunities.

H119 results: Top-line growth was 7.2%

H119 group revenue grew by 7.2% to €143.1m (pre-IFRS 15 and 16), while EBITDA rose 10.5% to €17.2m as the margin expanded by 30bp to 12.0%. After including the new accounting standards, revenue was €138.7m, EBITDA €20.4m. Operating cash flow was affected by a c €9m investment in hardware for the new NRW Bank transition project. Net debt was hit by the first-time adoption of IFRS 16, which added €18.6m from lease liabilities, and the group ended the period with net debt of €35.8m, up from €12.1m at end-September and €14.5m a year earlier.

Acquisition of UBL Informationssysteme

In April, the group announced the acquisition of UBL Informationssysteme, a multi-cloud and managed service provider, for an undisclosed amount. UBL develops and operates IT infrastructures and platforms for larger Mittelstand companies. This is the group's 22nd acquisition since DATAGROUP came to the market in 2006. UBL, which is based near Frankfurt/Main, generated revenues of more than €20m in 2018, with double-digit EBITDA margins, and has more c 70 employees.

Valuation: Increasingly attractive after the drift back

DATAGROUP has a strong track record, high recurring revenues, a clear focus on the huge German Mittelstand sector and a rising number of key differentiators. The shares look fairly valued trading on c 20.1x FY20e EPS and c 7x EBITDA, given an outlook underpinned by a favourable business model supported by attractive business drivers, which also provide a compelling case for acquisitions.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
09/17	223.1	27.0	1.41	0.45	31.3	1.0
09/18	272.1	34.5	1.55	0.60	28.5	1.4
09/19e	291.9	43.3	1.87	0.66	23.6	1.5
09/20e	312.9	46.9	2.19	0.77	20.1	1.7

Source: Refinitiv

Price	**€44.10**
Market cap	**€368m**

Share price graph

Share details

Code	D6H
Listing	Deutsche Börse Scale
Shares in issue	8.349m
Last reported net debt at 31 March 2019	€35.8m

Business description

DATAGROUP is a full IT outsourcing provider, focused on the German Mittelstand market. The company offers the full range of IT services on a modular basis, through its CORBOX 'cloud-enabling platform'. Services include service desk, end-user services, data centre services, application management and SAP services.

Bull

- A compelling growth strategy, scaling the business across the Mittelstand sector.
- Cloud services business model gives it a clear advantage over competitors.
- Centralised SLA-based approach with a focus on customer satisfaction puts company in a strong position to consolidate a fragmented market.

Bear

- Highly exposed to the German economy.
- Acquisitions bring risks, but DATAGROUP has a proven track record in integrating acquisitions.
- Increased debt levels, but the group is still well within its covenants.

Analyst

Richard Jeans +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

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H119 results: Accounting changes give additional boost to EBITDA

H119 group revenue grew by 7.2% to €143.1m (pre-IFRS 15 and 16), the bulk of which was organic apart from a small impact from Almato, which contributed for the full period having been consolidated from January 2018. EBITDA (pre-IFRS 15 & 16) lifted by 10.5% to €17.2m as the margin expanded by 30bp to 12.0%. The adoption of IFRS 16 has reduced operating costs and increased depreciation and, to a smaller extent, the financial costs, as operating leases are now treated as a financial item. After applying the new accounting standards, revenue was €4.4m lower at €138.7m, as the standards have an impact on the date when revenue from a project, which has a transition and subsequent operating phase, can be recognised. For instance, no revenue is shown for large-scale projects that are still in the transition phase, even though a considerable amount of services is provided. EBITDA was €3.2m higher at €20.4m, boosting the margin by 270bp to 14.7%, primarily as operating costs switch to depreciation, which rose by €3.2m to €8.3m.

Exhibit 1: Key H1 figures

€000s	H118	H119 Without IFRS 15&16	Change %	H119 Including IFRS 15&16
Revenues	133,513	143,076	7.2	138,722
Services & maintenance	109,115	119,029	9.1	114,674
Trade	24,335	23,977	(1.5)	23,977
Other	63	70	11.1	71
Own work capitalised	350	302	(13.7)	302
Total revenues	133,863	143,378	7.1	139,024
Material expenses/purchased services	(39,260)	(42,956)	9.4	(39,184)
Gross profit	94,603	100,422	6.2	99,840
Personnel expenses	(66,193)	(71,099)	7.4	(70,577)
Other income	1,867	2,630	40.9	2,630
Other expenses	(14,707)	(14,745)	0.3	(11,478)
EBITDA	15,570	17,208	10.5	20,415
Depreciation from PPA	(1,975)	(1,852)	(6.2)	(1,852)
Other depreciation	(4,949)	(5,144)	3.9	(8,335)
EBIT	8,646	10,212	18.1	10,228
Financial result	(1,353)	(970)	(28.3)	(1,122)
EBT	7,293	9,242	26.7	9,106
Taxation	(2,277)	(2,989)	31.3	(2,946)
Net income	5,016	6,253	24.7	6,160
Average number of shares (000's)	8,331	8,331	0.0	8,331
EPS (€)	0.60	0.75	24.7	0.74

Source: DATAGROUP

Notably, DATAGROUP says that numerous large-scale orders have led to positive order situation, particularly in the financial services sector. Since the beginning of FY19, the group has signed multi-year contracts with companies across a range of industries which have volumes in the mid-single to double-digit million euros range. It says that demand in the financial services sector has been particularly strong. Having won the tenders for the full-service outsourcing of IKB Deutsche Industriebank and for the operation of the IT infrastructure services of BayernInvest, a five-year contract was signed with Bankhaus Lampe. This contract has a volume in the double-digit million euros. As a result, the order book amounts to over €200m in the financial services sector alone.

Outside financial services, DATAGROUP won the public tender for the reallocation of service desk and onsite services of the ARD broadcasting stations. The framework contract agreed with the German regional public broadcasting agencies, Deutsche Welle and Deutschlandradio has a term of at least four years and a volume in the double-digit million euros. With effect from 1 March 2019, DATAGROUP is responsible for the operation of the entire SAP environment as a managed service for a well-known German automotive manufacturer. The range of services includes the operation of some 160 SAP instances on the customer infrastructure, including critical production systems. The contract also covers consulting services on SAP S/4HANA and innovative topics such as SAP Cloud Platform.

During H1, the number of the group's CORBOX contracts increased by 20 to 165. In addition, 23 existing contracts have been extended and the range of services for nine customers has been expanded. CORBOX is the group's core IT services offering – a flexible, all-in-one-solution for carefree IT operations. CORBOX is a cloud-enabling platform, in which DATAGROUP integrates third-party cloud solutions such as Microsoft and Amazon Web Services, enriches them with additional services and combines them with its own cloud and outsourcing services.

Operating cash flow was affected by a c €9m investment in hardware for the transition project of the new landmark NRW Bank contract. This investment was reflected in working capital, but will reverse out in H2 as it moves from inventories to financial assets at the end of the transition phase of the contract.

Net debt was hit by the first-time adoption of IFRS 16, which added €18.6m from lease liabilities, and the group ended the period with net debt of €35.8m, up from €12.1m at end-September and €14.5m a year earlier.

Due to the positive developments in H1 and the acquisition of UBL, management now expects FY19 revenue of more than €300m and EBITDA of over €38.5m (prior to adoption of IFRS 15 and 16). After application of IFRS 15 and 16, management expects revenue of more than €295m and EBITDA of more than €45m.

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Australia

New Zealand

United Kingdom

United States

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