

BMIT Technologies p.l.c.



Executive Summary:

"We are issuing a Buy stance on BMIT with a price target of €0.51. BMIT, currently a fully owned subsidiary of GO plc, is in the process of issuing up to 49% of its shares to the public, with the shares expected to commence trading in February 2019. The Company is primarily engaged in the provision of data centre services. BMIT services the major players of the Maltese gaming industry, representing around 75% of the Company's total revenue. The Company is currently in the process of developing a new data centre in Zejtun, which is expected to be completed in 2020, with GO plc already secured as an anchor client. The inherent risk of the gaming sector portray the main threat to the Company. We are of the opinion that the Company is fairly valued at €99.8 million and offers an attractive forward dividend yield of 4.3%."

Company Overview:

BMIT Technologies ("BMIT" or "the Company") principal activities are the provision of data centre services, including provision of bandwidth, connectivity and co-location services, and the sale of hardware to third parties.

BMIT, currently a fully owned subsidiary of GO plc, operates predominantly in the Maltese market. Historically, its main target clients were online gaming companies operating out of Malta. While today this market still represents 75%/80% of total revenue, over the years the Company extended its product, services offering and markets to cater for cloud and managed IT Services, and to target other knowledge-based segments in Malta. At present, the client portfolio apart from the gaming companies includes also financial institutions, professional and media organisations, and similar businesses.

The core business of the BMIT Group ("the Group") is primarily carried out through four companies: BM IT Limited, Kinetix IT Solutions Limited, BM Support Services Limited and BellNet Limited. Through BM IT Ltd, the Group also holds investment in two associates: MIGS Limited and IGaming Idol Limited, in addition to an investment of 50% in Kinetix IT Services, the latter of which is currently in dissolution.

Company Update:

Following an approval of an extraordinary general meeting of GO plc carried out on 3 December 2018, it was authorised that the board of directors of GO plc can dispose a maximum of 49% of the ordinary issued share capital of BMIT for a consideration of up to €49 million. The proposed initial public offering (IPO) shall

Stock Rating
Price target (1Yr)

Buy
€0.51

Country	Malta
Industry	Data Centre / Cloud and Managed IT Services
Ticker	To be announced
Issue Price	€0.49
Price Target (1 Year)	€0.51
Upside / downside to PT	4.1%
Market Cap	€99.76
Shares Outstanding	203.60m
Free Float	25-49%
Net Dividend Yield *	4.4%
Current P/E *	23.1x
Forward P/E **	22.1x

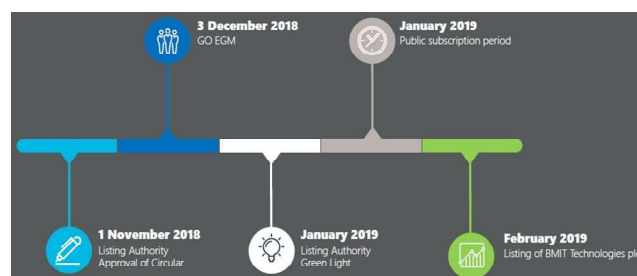
* Based on the LTM data for June 2018 at an issue price of €0.49.

** CC estimates

Initial Public Offering

It is anticipated that the public subscription of BMIT Group will be carried out in January 2019 and the Group to be listed on February 2019.

BMIT IPO Timeline



Source: IPO of BMIT slideshow

Market Research



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materialise upon the approval from the listing authority, which is forecasted to be in January 2019 and where at least a minimum of 25% of BMIT Group shares are taken up at the IPO.

Dividends - BMIT paid a net dividend of €4.35 million (€0.021 per share) for the year ended 31 December 2017. In preparation for the IPO, the number of issued ordinary shares were increased to 203.60 million from 9.11 million.

SWOT Analysis

Strengths

- ✓ Strong historical performance.
- ✓ A reputable brand.
- ✓ Strategic acquisitions carried out by BMIT has increased the Group's economies of scale.
- ✓ BMIT has more than 16-years of experience and serves over 500 customers.
- ✓ The Group has partnerships with industry leaders, including: Microsoft Partner, Cisco and Hewlett-Packard.
- ✓ BMIT has a diversified customer base and is continuously looking for ways to diversify its revenue stream and enhance its product range.

Weaknesses

- ✗ Despite the efforts of BMIT's Group to diversify its revenue, reliance on revenue from gaming companies still represents around 75% of the total revenue generated by the Group.
- ✗ The Group is predominantly focused in Malta.
- ✗ Despite the Group's experience, it is a constant challenge for management to acquire talent in this sector.
- ✗ BMIT being a provider of collocation services faces constant challenges in consumer pricing due to bandwidth charges.

Opportunities

- The Group has plans for an investment of €10 million in a new data centre in Zejtun, with a Tier III certification, which will offer over 400 racks, resulting in an increase of approximately 30% from the current capacity.
- Potential investment returns of Blockchain technology and Artificial Intelligence.
- Further to the increasing uncertainties of Brexit, companies are relocating their offices from the UK, with Malta being a potential substitute.
- The Group can further diversify its revenue streams by accessing the international market.

Threats

- ! Evolution of the gaming and tax regulations of Malta and the European Union regulations.
- ! Increase in local competition.
- ! Pricing pressures as a result of increase in costs or/and increase in competition.
- ! The potential loss of market share to international service technology providers.
- ! Risks of loss of key personnel and the threat of finding qualified substitutes.

Investment Stance

We are issuing a Buy stance on BMIT with a price target of €0.51. BMIT, currently a fully owned subsidiary of GO plc, is in the process of issuing up to 49% of its shares to the public, with the shares expected to commence trading in February 2019. The Company is primarily engaged in the provision of data centre services. BMIT services the major players of the Maltese gaming industry, representing around 75% of the Company's total revenue. The Company is currently in the process of developing a new data centre in Zejtun, which is expected to be completed in 2020, with GO plc already secured as an anchor client. The inherent risk of the gaming sector portray the main threat to the Company. We are of the opinion that the Company is fairly valued at €99.8 million and offers an attractive forward dividend yield of 4.3%. Albeit, we are conscious that most of the projected potential growth in earnings of the Company is already priced in.

The BMIT Group has a proven historical track record and has experienced year on year increases in both its revenue and EBITDA, contributing to a growth in net income. We view management short-term growth targets to be achievable and reflective of the current valuation. However, the longer-term growth prospects are more uncertain given the size of the addressable market in which the Group operates, together with its competitive environment, as well as management's lack of intention to tap into foreign markets. Depreciation costs and finance costs are expected to disturb the growth in the profitability of the Group in year 2020, as a result of the completion of the new data centre in Zejtun with an estimated cost of €10 million, which will be financed through an equivalent loan amount granted by GO plc.

BMIT is currently trading at 23.1x earnings for the last twelve months (LTM) financial data of June 2018. Based on our 2018 projected earnings and the issue price of €0.49, the forward price ratio is of 22.1x earnings.

Valuation

Our one-year price target, using a Free Cash Flow to the Firm ("FCFF") model is of €0.51, using a weighted average cost of capital of 8.3%. This translates to a forward PE of 22.1x earnings.

BMIT Group – in (€'Millions)	FY 2016	FY 2017	LTM 2018	FY2018F	FY2019P	2020P
	€	€	€	€	€	€
Revenue	18.02	19.72	20.55	21.67	22.65	24.59
Cost of sales (excluding depreciation & amortisation)	(7.10)	(8.84)	(9.38)	(9.59)	(10.02)	(10.88)
Administrative and other related Expenses	(3.04)	(2.26)	(2.11)	(2.49)	(2.80)	(2.41)
EBITDA	7.88	8.62	9.05	9.59	9.82	11.29
Depreciation & Amortisation	(2.18)	(2.26)	(2.18)	(2.57)	(2.17)	(3.45)
EBIT	5.69	6.36	6.88	7.02	7.64	7.84
Finance income	-	-	-	-	-	-
Finance Costs	-	-	-	-	(0.31)	(0.94)
Profit Before Tax	5.69	6.36	6.88	7.02	7.33	6.90
Income tax expense	(1.96)	(2.31)	(2.41)	(2.46)	(2.57)	(2.42)
Net Profit available to Shareholders	3.73	4.05	4.47	4.56	4.76	4.49
Minority interests	0.18	0.26	0.15	0.05	0.00	0.00
Net Profit available to Company shareholders	3.55	3.80	4.32	4.52	4.76	4.49
Earnings Per Share – in (€)	0.017	0.019	0.021	0.022	0.023	0.022

Source: Audited Financial Statements and CC Estimates

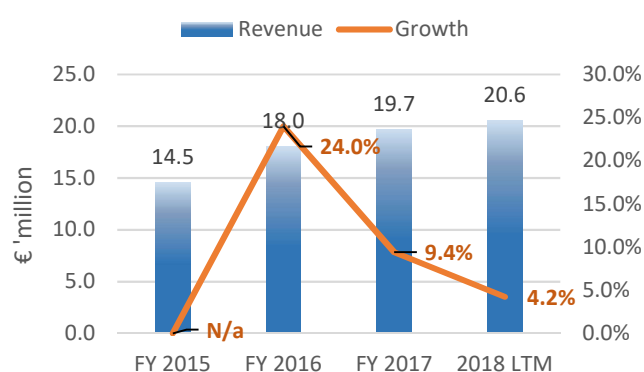
Investment Thesis Variables

• Revenue

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2018	21,673	21,673
2019	22,646	22,646
2020	24,588	24,588

Source: Company Announcements and CC Estimates

We expect revenue to increase by 9.9% or to €21.7 million in 2018 from €19.7 million in 2017, which is in line with management expectations. The growth rate in revenue is expected to taper down to 4.5% in 2019 and to boost up to 8.6% in 2020 upon the recognition of the increase in revenue derived from the new datacentre in Zejtun, which is anticipated to be in operation by end of the first quarter of 2020. As announced by BMIT, GO plc being the major shareholder of the Group, has been secured as anchor client of the new datacentre in Zejtun.



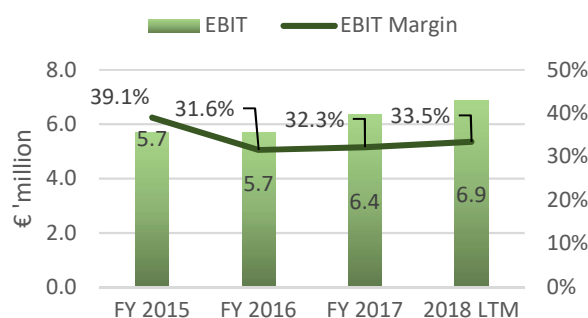
Source: Financial Statements / CC Workings

As shown in the graphical presentation above BMIT has maintained a healthy growth rate in its revenue from 2015 to the LTM of 2018. It is worthy to note that the increase in revenue of 24.0% experienced in 2016 mainly comprises of €2.2million in revenue of Kinetix IT Solutions Limited, which was acquired early in 2016, and if adjusted for the actual growth rate of BMIT was of 9%.

• EBIT

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2018	6,919	7,022
2019	7,729	7,644
2020	8,207	7,844

The EBIT has increased from €5.7 million in 2016 to €6.4 million in 2017. The EBIT margin has also improved from 31.6% in 2016 to 32.3% in 2017. LTM results for 2018 demonstrate the growth potential of BMIT with both the EBIT and the EBIT margin experiencing an increase when compared to 2017. We are forecasting the EBIT to increase to €7.0 million in 2018 from €6.9 million for the LTM results of 2018. Our estimates for 2018 project an EBIT in-line with that of management.

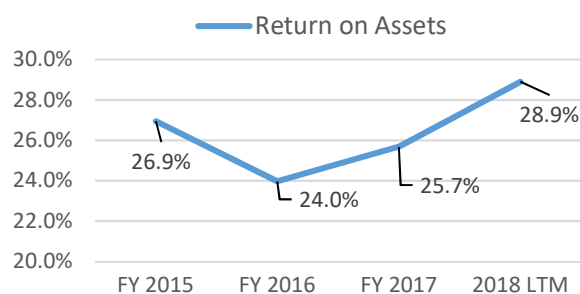


Source: Financial Statements / CC Workings

- **Depreciation** – Depreciation expense has been fairly stable for 2016 and 2017, representing around 11.6% of the total assets for each respective year. It is estimated that BMIT will have a relatively low capital expenditure requirement of €1 million per year. Albeit, the investment of €10 million in a new datacentre in Zejtun, which will be financed through a loan of an equivalent amount granted by GO plc. The new datacentre, which is to be finalised by early 2020, will be owned under a lease agreement classified as a finance lease. The implication of the latter is that rather than showing the lease expense under the administrative expenses, the total cost of the lease is capitalised and this is depreciated over the term of the lease. Consequently, the depreciation charge for projected year 2020 has been adjusted to reflect the yearly cost of the lease amounting to €0.6 million.
- **Finance Costs** – Historically, the BMIT Group was debt free and is forecasting to continue this trend for forecasted year 2018. However, in projected years 2019 and 2020 the Group is expected to leverage its balance sheet by €10 million representing the loan from GO for the Zejtun datacentre and a lease liability also of around €10 million, representing the total lease payable on the aforementioned datacentre. The loan granted from GO plc is to be repaid within 5 years, bearing an interest rate of 3.25% per annum. In respect of the lease, it is estimated that finance costs of €0.2 million and €0.6 million will be incurred in projected years 2019 and 2020 respectively.
- **Net Income and Earnings per share**

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2018	4,270	4,564
2019	5,153	4,764
2020	4,670	4,488

We are forecasting net income to increase to €4.6 million in 2018 compared to €4.1 million in 2017. This translates to an EPS of €0.022 compared to an EPS of €0.019 in 2017, experiencing a growth of 19.0%. Our forecasts are substantiated by the LTM results for June 2018 where net income was of €4.5 million was realised, with an EPS of €0.021. Reason for variance between net income reported by management and our estimates for 2018, is due to the income tax rate that we assumed to remain constant in our projections and equal to the 35% corporate tax level. Since the Group have a negative equity due to the amortisation of intangible assets that ultimately does not affect its performance, the Return on Assets (RoA) was analysed as opposed to the Return on Equity. Eliminating FY 2015, the RoA has constantly improved with the LTM of 2018 having a favourable return of 28.9% compared to 2017 with a return of 25.7% on total assets.



Source: Financial Statements / CC Workings

- **Dividends** – It is projected that the BMIT Group will have a relatively low annual capital expenditure of €1 million, which has facilitated the Group to project a dividend payout ratio of 95%, resulting in an attractive forward dividend yield of 4.3%.

Key Financial Indicators

BMIT Technologies plc – in (€'Millions)	FY 2015	FY 2016	FY 2017	2018 LTM
Income Statement				
Revenue	14.53	18.02	19.72	20.55
Growth in Revenue (YoY)	n/a	24.01%	9.41%	4.23%
EBITDA	7.05	7.88	8.62	9.05
EBITDA Margin (EBITDA / Revenue)	48.51%	43.71%	43.73%	44.05%
Operating Income (EBIT)	5.68	5.69	6.36	6.88
Operating (EBIT) Margin (EBIT / Revenue)	39.06%	31.59%	32.26%	33.46%
Net Income	3.63	3.73	4.05	4.47
Net Margin (Net Income / Revenue)	25.00%	20.71%	20.55%	21.73%
Earnings per Share (EPS) - in €	0.018	0.017	0.019	0.021
Growth in EPS (YoY)	n/a	-2.23%	6.84%	21.51%
Dividend per Share (Net Dividends / Shares Outstanding) - in €	0.018	0.018	0.021	0.021
Growth in Dividends (YoY)	n/a	-0.95%	18.69%	18.69%
Dividends Yield (Dividend per Share / Issue Price) ¹	3.71%	3.67%	4.36%	4.36%
Balance Sheet				
Inventory	0.23	0.22	0.23	0.23
Cash and Cash Equivalents	0.93	1.19	2.24	2.26
Current Assets	2.55	3.24	4.67	5.11
Non-Current Assets	10.94	12.32	11.11	10.34
Total Assets	13.48	15.57	15.78	15.45
Current Liabilities	16.31	17.09	18.21	17.24
Non-Current Liabilities	0.28	0.68	0.65	0.59
Total Debt	-	-	-	-
Total Equity	(3.10)	(2.21)	(3.08)	(2.37)
Net Debt	n/a	n/a	n/a	n/a
Shares Outstanding	203.60	203.60	203.60	203.60
Cash flow				
Cash Flow from Operating Activities (CFO)	8.81	6.10	7.03	6.87
Capex	(5.27)	(1.59)	(1.05)	(0.24)
Free Cash Flow (FCF)	3.54	4.51	5.98	6.64
Cash Flow from Investing Activities	(5.27)	(2.17)	(1.05)	(0.90)
Cash Flow from Financing Activities	(3.70)	(3.67)	(4.93)	(5.11)
Ratios				
Profitability				
Return on Common Equity (Net Income / Common Equity) ²	-117.08%	-140.62%	-153.33%	-163.80%
Return on Assets (Net Income / Total Assets)	26.95%	23.98%	25.67%	28.90%
Solvency				
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	-117.08%	-140.62%	-153.33%	-163.80%
Current Ratio (Current Assets / Current Liabilities)	0.16x	0.19x	0.26x	0.30x
Quick Ratio (Acid Test Ratio)	0.14x	0.18x	0.24x	0.28x
Cash from Operations / EBIT	1.55x	1.07x	1.10x	1.00x

Source: Audited Financial Statements and Interim Results

¹ The dividend yield is based on the issue price of €0.49.

² The return on common equity is negative as a result of amortisation of the intangible assets, which ultimately does not affect the performance of the BMIT Group.

Historical 1 Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
BMIT MV	27.12.2018	€0.49	€0.51	Simon Psaila & Rowen Bonello	Buy

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
Growth in Revenue (YoY)	This represents the growth in revenue when compared with previous financial year.
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at statement of financial position date.
Growth in EPS (YoY)	This represents the growth in Earnings per Share (EPS) when compared with previous financial year.
Dividends Ratios	
Net Dividends	Net dividends represent the net amount of dividends in respect of a Group's/Company's fiscal year.
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at statement of financial position date.
Growth in Dividends (YoY)	This represents the growth in dividends when compared with previous financial year.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.

Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Cash Flow from Operating Activities (CFO)	Cash generated from the principal revenue producing activities of the Group/Company.
Cash Flow from Investing Activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company.
Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Group/Company.
Capex	Represents the capital expenditure incurred by the Group/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Assets	What the Group/Company owns which can be further classified into Non-Current Assets and Current Assets.
Non-Current Assets	Assets, full value of which will not be realised within the forthcoming accounting year
Current Assets	Assets which are realisable within one year from the statement of financial position date.
Inventory	Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.
Cash and Cash Equivalents	Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately.
Total Equity	Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves.
Total Liabilities	What the Group/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities.
Non-Current Liabilities	Obligations which are due after more than one financial year.
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Current Liabilities	Obligations which are due within one financial year.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.

Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

Explanation of Equity Research Ratings

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

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