9th July 2019

BMIT Technologies p.l.c.

Executive Summary:

We are downgrading our investment stance from a Buy to a Hold recommendation on BMIT Technologies plc, with a price target of €0.52 from our previous price target of €0.51. Following the IPO price of €0.49, the share price increased to €0.55 and has since been trading at this level. We believe that this increase in the share price has captured the foreseeable future growth of the Group. Our hold recommendation is based on:

- In the medium-term, the Group's growth in costs is expected to surpass the growth in revenue, which will negatively impact the profitability margins. This is expected as a result of an increase in workforce by around 40%/50%, additional costs that will be incurred in operating the Zejtun data centre, coupled with new finance costs that will be sustained by the Group in financing its capital projects.
- The planned acquisition of the Handaq data centre will ensure that the Group has the necessary elbowroom should it experience abnormal growth. We have not priced this in and given that the Group is gearing up for growth, it will be in a position to accept new contracts, which will give upside to our price target.
- We like the Company as it is currently offering a dividend yield of 3.6%. Despite the short-term impact on profitability due to the Group's investment in its data centre capacity, we are anticipating continuous dividend distributions, with a forward dividend yield of 3.9% based on 2019 projections.

Company Overview:

BMIT Technologies plc ("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 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.

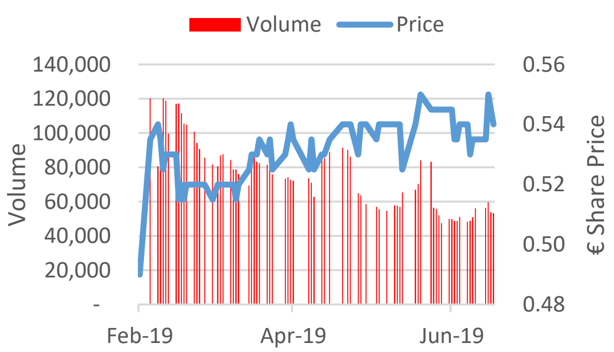
The core business of the BMIT Group ("the Group") is primarily carried out through four companies: BM IT Limited, Kinetix IT Solutions Limited, BM Support Services Limited and BellNet Limited. Through BM IT Ltd, the Group also holds investment in two associates: MIGS Limited and IGaming Idol Limited.

Stock Rating: Hold
Price target (1Yr): €0.52

Country	Malta
Industry	Data Centre / Cloud and Managed IT Services
Ticker Symbol	BMIT
Price (as at 09/07/2019)	€0.54
Price Target (1 Year)	€0.52
Upside / downside to PT	-3.7%
Market Cap	€111.98
Shares Outstanding	203.60m
Free Float	49%
Net Dividend Yield *	3.6%
Current P/E *	24.5x
Forward P/E **	23.0x

* Based on the year-end results of December 2018
** CC estimates

Range from IPO: Price Movement and Volume Movement (20 day moving average)	Exchange: MSE Lowest Price: €0.49 Highest Price: €0.55



Source: Bloomberg

Market Research

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The Company's shares were admitted to listing last February 2019, following a successful initial public offering (IPO), whereby GO plc sold 49% of its shareholding in BMIT Group for a total value of €48.9 million.

Company Update:
Dividends - For FY2018, BMIT paid a net dividend of €4.0 million, which translates to €0.02 per share (2017: €4.4 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.
- ✓ The Group is currently undergoing an investment of €10 million in a new data centre in Zejtun, with a Tier III certification, which will offer over 400 racks.

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 the acquisition of the Handaq data centre. This combined with the new data centre of Zejtun will increase the Group's data centre capacity and as such offers elbowroom for any potential growth.
- 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 downgrading our investment stance from a Buy to a Hold recommendation on BMIT Technologies plc, with a price target of €0.52 from our previous price target of €0.51. Following the IPO price of €0.49, the share price increased to €0.55 and has since been trading at this level. We believe that this increase in the share price has captured the foreseeable future growth of the Group. BMIT's performance for 2018 was mainly in line with that projected by management, with a dividend payout ratio near the 90% level as previously anticipated.

In the short-term, the Group's increase in costs is expected to surpass the growth in revenue. This is mainly attributable to an anticipated increase in workforce, whereby management is expecting this to increase by approximately 40%/50%. Also, additional costs are expected to be incurred on the new Zejtun data centre that will operate in parallel to the other two data centres (Smart City and Handaq), coupled with finance costs that are expected to be incurred on the Group's capital projects. The increase in costs is expected to exert downward pressure on the Group's profit margins whereby in the short to medium term we do not foresee these to recover.

Previously, the Group was planning to terminate its Handaq data centre and transfer it to the Zejtun data centre. However, it has recently decided to purchase the Handaq property for €4.0 million, thus eliminating any data migration risks and accordingly, it will safeguard its reputation. This transaction will enable BMIT to increase its data centre capacity, providing the Group with the necessary elbowroom should, in the future, it experiences abnormal growth. Given the unpredictable nature of the industry in which BMIT operates in, our valuation does not take into consideration any abnormal growth that the Group might experience going forward. This being the main reason why we are issuing a Hold recommendation on the stock.

On a positive note, we like the Company as it is currently yielding a dividend yield of 3.6%. Despite the lower margins expected due to the Group's investment in its data centre capacity, we are of the opinion that the Group will in the short-term, be able to comfortably distribute 90% of its profits, which translates to a forward dividend yield of 3.9%. In the short-term the Group's profitability is expected to be impacted by the additional finance costs that will be mainly incurred on financing the Zejtun data centre. Going forward we anticipate that the Group's profitability will experience continuous growth and accordingly it will be able to distribute a stable growing dividend. Moreover, the Group operates in a strategically important industry, which is vital for the continued technological development of other industries. Consequently, we are of the opinion that BMIT is fairly valued at €109.9 million. Albeit, we are conscious that the foreseeable potential growth in the Company's earnings is already priced in.

The Company is primarily engaged in the provision of data centre services. BMIT serves the major players of the Maltese gaming industry, which represents around 75% of its total revenue. The inherent risk of the gaming sector is the main threat to the Group.

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. Depreciation costs and finance costs are expected to disturb the growth in the profitability of the Group in year 2020 and 2021, this is 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, and the acquisition of the Handaq data centre, which is anticipated to be financed through a bond issue.

BMIT is currently trading at 24.5x earnings for the year ended December 2018. Based on our 2019 projected earnings, the forward price/earnings (P/E) ratio is of 23.0x earnings.

Valuation

Our one-year price target, using a Free Cash Flow to the Firm model and a weighted average cost of capital of 8.5%, is of €0.52. This translates to a forward P/E of 23.0x earnings. In our model we assumed a terminal growth rate of 3%.

BMIT Group – in (€'000s)	FY2016	FY2017	FY2018	2019F[1]	2020P	2021P
	€	€	€	€	€	€
Revenue	18,022	19,717	21,274	22,765	24,730	25,653
Cost of sales (excl. depreciation & amortisation)	(7,610)	(8,835)	(9,853)	(10,780)	(11,714)	(12,105)
Gross profit	10,412	10,882	11,421	11,985	13,016	13,548
Admin and other related expenses (excl. depreciation)	(2,535)	(2,260)	(2,074)	(2,505)	(3,140)	(3,254)
EBITDA	7,877	8,622	9,347	9,480	9,876	10,294
Depreciation & amortisation	(2,183)	(2,262)	(2,374)	(1,999)	(2,645)	(2,953)
EBIT	5,694	6,360	6,973	7,481	7,231	7,341
Finance costs	-	-	-	(114)	(438)	(438)
Profit before tax	5,694	6,360	6,973	7,367	6,794	6,903
Income tax expense	(1,962)	(2,309)	(2,477)	(2,578)	(2,378)	(2,416)
Net profit after tax	3,732	4,051	4,496	4,789	4,416	4,487
Minority interests	180	256	9	-	-	-
Net profit available to Company shareholders	3,552	3,795	4,487	4,789	4,416	4,487
Earnings Per Share – in (€)	0.017	0.019	0.022	0.024	0.022	0.022

Ratio Analysis:	FY2016	FY2017	FY2018	2019F	2020P	2021P
Revenue Growth (YoY)	24.0%	9.4%	7.9%	7.0%	8.6%	3.7%
EBITDA Margin	43.7%	43.7%	43.9%	41.6%	39.9%	40.1%
Net Margin	20.7%	20.5%	21.1%	21.0%	17.9%	17.5%

Source: Audited Financial Statements and CC Estimates/Workings

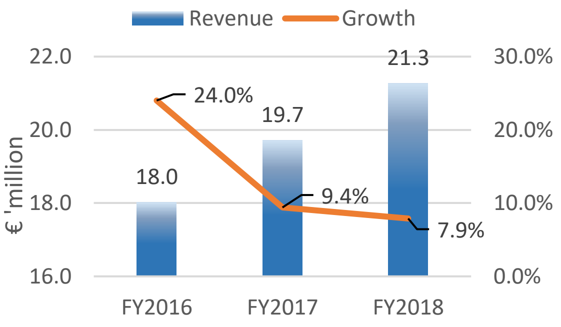
Investment Thesis Variables

- **Revenue**

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2019	22,646	22,765
2020	24,588	24,730

Source: Company Announcements and CC Estimates

We expect revenue to increase by 7.0%, to €22.8 million in 2019 from €21.3 million in 2018, which is in line with management expectations. The growth in revenue is expected to boost up to 8.6% in 2020 upon the recognition of the increase in revenue derived from the new data centre in Zejtun, which is anticipated to be in operation by end of the first quarter of 2020. As previously announced, GO plc, the major shareholder of the



Source: Financial Statements / CC Workings

[1] Our forecasted figures do not take into account the implications brought about by the adoption of IFRS 16, where all leases will be capitalised as from 1 January 2019.

Group, has been secured as anchor client in this data centre. We believe that, given the relatively young age of the date centre and cloud industry, BMIT is perfectly positioned to benefit from the increase in demand for these services and also benefit from the prospective growth of the Maltese gaming sector. As such, we are anticipating a revenue growth of 4% in 2021.

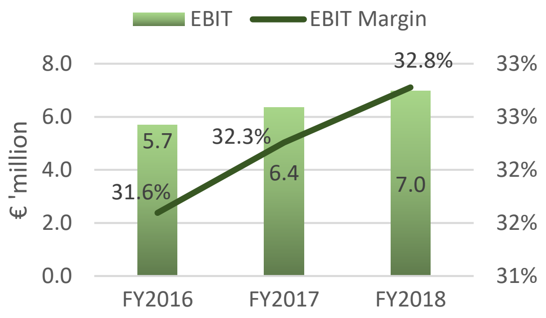
As shown in the graphical presentation above BMIT has maintained a healthy growth rate in its revenue during the period 2016 to 2018. It is worthy to note that the increase in revenue of 24.0% experienced in 2016 mainly consisted of €2.2milllion in revenue of Kinetix IT Solutions Limited, which was acquired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

- **EBIT**

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2019	7,729	7,481
2020	8,207	7,231

Source: Company Announcements and CC Estimates

The EBIT has increased from €5.7 million in 2016 to €7.0 million in 2018. The EBIT margin has also improved from 31.6% in 2016 to 32.8% in 2018. We are forecasting the EBIT to increase to €7.5 million in 2019, experiencing an increase of €0.5 million or 7.3%, from 2018. Our estimates for 2019, project an EBIT in line with that of management. It is worthy to note that management's forecasts take into account the effects of IFRS 16, which we excluded as a result of the Group's recent intention to purchase the Handaq data centre for €4.0 million.



Source: Financial Statements / CC Workings

- **Depreciation** – Depreciation expense has been fairly stable during the period 2016 to 2018, averaging at around €2.3 million annually. During 2018, the Group has revised the estimated useful life of the data centre and infrastructure, which resulted in a depreciation charge reversal of €213k. This was offsetted by a one off impairment charge of €507k on intangible assets in relation to the brand names ('BMIT' and 'Kinetix'), where if the latter was adjusted for the Group's depreciation charge would have been of €1.9 million, rather than that reported of €2.4 million. Accordingly, for 2019 we are forecasting deprecation charge of €2.0 million, which is marginally higher when compared to the adjusted deprecation of 2018.

In 2020 and 2021, we are forecasting deprecation charge to increase to €2.6 million and €3.0 million, where these capture: (i) the acquisition of the Handaq property for a total value of €4.0 million, where the promise of sale is valid and effective up to 23 January 2020, and (ii) the phased investment of €10 million in the Zejtun data centre, which we expect to be carried out between 2020 and 2021. The purchase of the Handaq centre will enable the Group to retain its current 300 racks (capacity of Handaq data centre) and as such, in the short-term it will not be forced to have in operation the full capacity of the Zejtun data centre, where its total capacity is expected to be over 400 racks.

It is anticipated that BMIT will have a relatively low capital expenditure requirement of €1 million per year. Albeit, the investment of €10 million in a new data centre in Zejtun, which will be financed through a loan of an equivalent amount granted by GO plc and will be owned under a lease agreement. In addition to the recent announcement in relation to the acquisition of the Handaq property for €4.0 million, which according to management's indications will be financed through a bond issue.

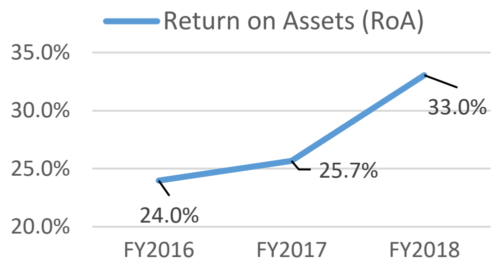
- **Finance Costs** – Historically, the Group was debt free. However, moving forward the Group is expected to leverage its balance sheet by €10 million representing the loan from GO for the Zejtun data centre and the prospective bond issue for the acquisition of the Handaq property, which we estimate at circa €3 million. The loan granted from GO plc is to be repaid within 5 years, bearing an interest rate of 3.25% per annum. Under the current market conditions, we are of the opinion that the Group can obtain public financing with a 3.75% coupon. These translate to an interest cost of €0.1 million and €0.4 million in 2019 and 2020, respectively. As sated above our valuation does not take into account the lease liability upon the recognition of the right of use of leased assets (IFRS 16), which will consequently increase finance costs.

- **Net Income and Earnings per share**

Year	Management Guidance (€000's)	Calamatta Cuschieri Estimates (€000's)
2019	5,153	4,789
2020	4,670	4,416

Source: Company Announcements and CC Estimates

We are forecasting net income to increase to €4.8 million in 2019 compared to €4.5 million in 2018. This translates to an EPS of €0.024 compared to an EPS of €0.022 in 2018, representing a growth of 6.7%. Main reason for variance between net income reported by management and our estimates for 2019, is due to the income tax rate that we assumed to remain constant in our projections and equal to the 35% corporate tax level.



Source: Financial Statements / CC Workings

Since prior to 2018 the Group had a negative equity due to the amortisation of intangible assets that ultimately did not affect its performance, the Return on Assets was analysed as opposed to the Return on Equity. The RoA has constantly improved, with 2018 having a favourable return of 33.0% compared to 2017 with a return of 25.7% on total assets.

- **Dividends** – As discussed above, it is projected that the BMIT Group will have a relatively low annual capital expenditure of circa €1 million, which will allow it to distribute a significant portion of its profits. According to our valuation the Group will, in the short-term, be able to comfortable distribute 90% of its profits

Key Financial Indicators

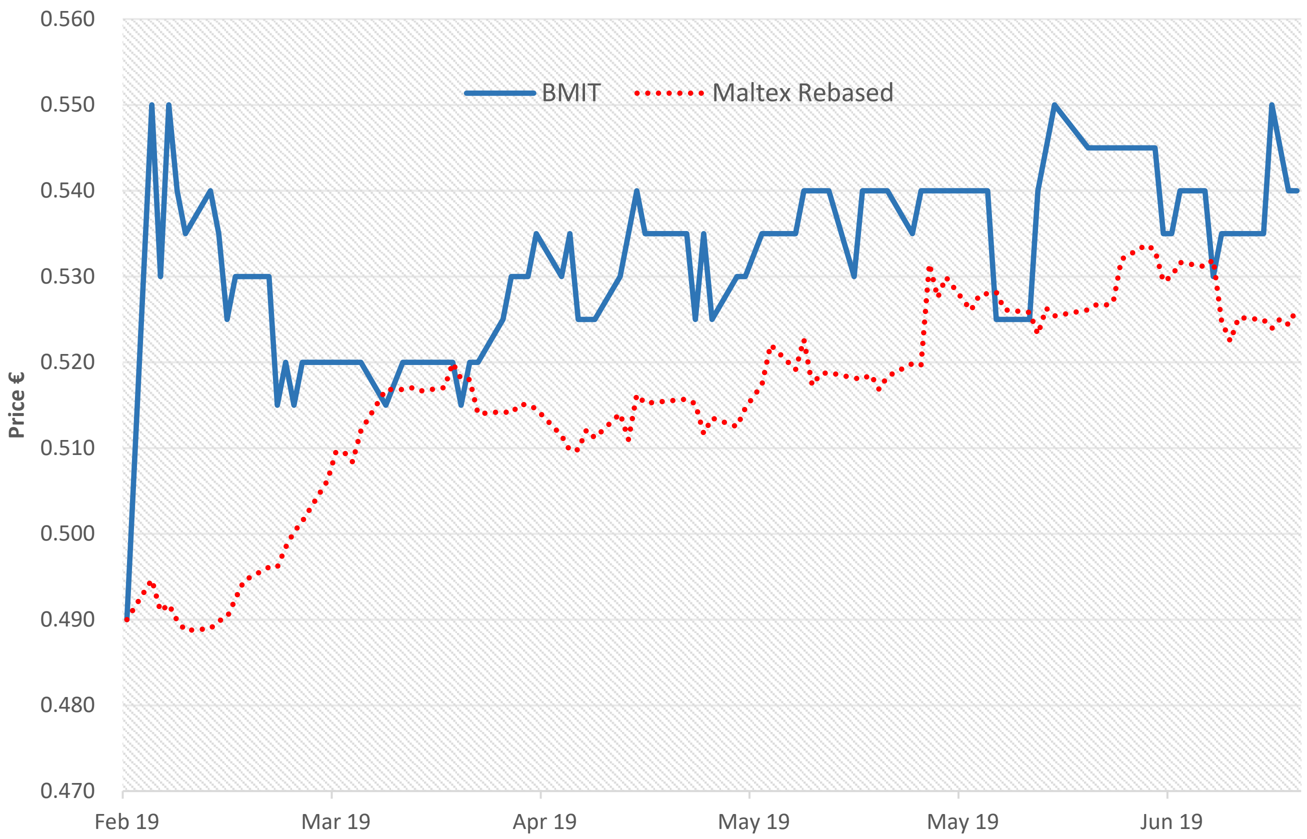
BMIT Technologies plc – €M's (unless stated otherwise)	FY2016	FY2017	FY2018
Income Statement			
Revenue	18.02	19.72	21.27
Growth in Revenue (YoY)	24.01%	9.41%	7.90%
EBITDA	7.88	8.62	9.35
EBITDA Margin (EBITDA / Revenue)	43.71%	43.73%	43.94%
Operating Income (EBIT)	5.69	6.36	6.97
Operating (EBIT) Margin (EBIT / Revenue)	31.59%	32.26%	32.78%
Net Income	3.73	4.05	4.50
Net Margin (Net Income / Revenue)	20.71%	20.55%	21.13%
Earnings per Share (EPS)	0.017	0.019	0.022
Growth in EPS (YoY)	-2.23%	6.84%	18.23%
Dividend per Share (Net Dividends / Shares Outstanding)	0.018	0.021	0.020
Growth in Dividends (YoY)	-0.95%	18.69%	-8.05%
Dividends Yield (Dividend per Share / Share Price)*	3.67%	4.36%	3.64%
Balance Sheet			
Inventory	0.22	0.23	0.21
Cash and Cash Equivalents	1.19	2.24	0.67
Current Assets	3.24	4.67	3.18
Non-Current Assets	12.32	11.11	10.42
Total Assets	15.57	15.78	13.60
Current Liabilities	17.09	18.21	6.03
Non-Current Liabilities	0.68	0.65	0.70
Total Debt	-	-	-
Total Equity	(2.21)	(3.08)	6.87
Net Debt	-	-	-
Shares Outstanding	203.60	203.60	203.60
Cash flow			
Cash Flow from Operating Activities (CFO)	6.10	7.03	5.82
Capex	(1.59)	(1.05)	(1.53)
Free Cash Flow (FCF)	4.51	5.98	4.30
Cash Flow from Investing Activities	(2.17)	(1.05)	(3.40)
Cash Flow from Financing Activities	(3.67)	(4.93)	(4.00)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)*	-140.62%	-153.33%	237.01%
Return on Assets (Net Income / Total Assets)	23.98%	25.67%	33.05%
Solvency			
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	-140.62%	-153.33%	237.01%
Current Ratio (Current Assets / Current Liabilities)	0.19x	0.26x	0.53x
Quick Ratio (Acid Test Ratio)	0.18x	0.24x	0.49x
Cash from Operations / EBIT	1.07x	1.10x	0.84x

Source: Audited Financial Statements

* Return on common equity is negative prior to 2018, as a result of impairment on intangible assets, which ultimately did not affect the performance of the BMIT Group.

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
BMIT	27.12.2018	€0.49	€0.51	Simon Psaila & Rowen Bonello	Buy
BMIT	09.07.2019	€0.54	€0.52	Simon Psaila & Rowen Bonello	Hold



Source: Bloomberg

Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Company/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 Company'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 Company/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 Company/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 Company/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 Company/Company.

Cash Flow from Financing Activities	Cash generated from the activities that result in change in share capital and borrowings of the Company/Company.
Capex	Represents the capital expenditure incurred by the Company/Company in a financial year.
Free Cash Flows (FCF)	The amount of cash the Company/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 Company/Company owns which can de 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 Company/Company owes which can de 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 Company/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 Company/Company to refinance its debt by looking at the EBITDA.
Cash from Operations / EBIT	This ratio measures the ability of the Company/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, we 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.

Disclaimer