

HRV: Company and Industry Overview

Harvest Technology plc (“Harvest” or “Group”) is an investment and holding company, which does not carry out trading activities of its own. Its principal purpose is that of investing and holding interests in companies and other ventures operating in the technology and e-commerce solutions industries across a spread of geographical regions, primarily in Malta but also in parts of Europe and Africa. From a Group perspective, the Group currently holds 100% of the share capital in three significant operating subsidiaries, which operate separately and distinctly from each other under their respective brand names as discussed in further detail below:

- PTL Limited (PTL) – A multi-brand information technology solutions provider, whereby its principal business activity is that of providing bespoke information technology solutions to clients based on its expertise in hardware infrastructure and software business applications. PTL is the sole authorised distributor for a number of products which it resells and enters into partnership agreements with a number leading players in the technology field, including NCR, Microsoft, Cisco, Oracle and Lenovo. Furthermore, PTL is the preferred local partner of IBM and offers its technology consultancy services.
- APCO Systems Limited – This Company operates under the brand Apcopy and is a payment solutions provider offering e-commerce processing services for retailers and internet-based merchants with the objective of simplifying payments for businesses globally. APCO Systems Limited’s primary business is to enable merchant banks to accept a variety of card and various alternative payment options on their respective e-commerce portals and applications. Its offerings include front-end authorisation processing, settlement and funding processing, full customer support, consolidated billing and statements, and online monitoring and reporting.

Through Apco Systems Limited, Harvest also owns Ipsyon Limited, whose sole purpose is to retain and maintain the intellectual property rights and software pertaining to APCO Systems Limited, which largely involves the “Apcopy” trademark.

- APCO Limited – Apart from providing maintenance and support services, this company is mainly engaged in the supply of a wide range of automation and security solutions catering principally to the sectors listed below:
 - Retail Sector – amongst other products APCO Limited provides self-check-out systems, point of sale (POS) systems and back office cash systems.
 - Banking sector – the provision of contactless and biometric cards, ATMs, self-service kiosks, mobile applications and other similar products.
 - Security – the offering of CCTV, safes, access control and similar security-related products.
 - Fuel – the provision of outdoor payment terminals together with software solutions to the fuel industry.
 - Maintenance and support – this offering is provided through a number of leading partners such as Gemalto, Diebold Nixdorf, Chubb and Pacom.

FY19 results: Outperformed expectations; FY20 Update and COVID-19 impact

	FY18	FY19	FY19: IPO Projections	Growth: FY19 vs FY18
Revenue (€'m)	15.6	16.0	15.4	3.1%
Net profit (€'m)	0.6	2.1	1.6	259.5%
CC Adj. EPS (€)	0.026	0.092	0.069	259.5%
DPS (€)	0.033	0.06	0.042	81.3%
Dividend pay-out	129.1%	65.1%	60.9%	97.4%

Country	Malta
Industry	Hardware and Software
Ticker	HRV
Price (as at 11/05/2020)	€1.46
Market Cap	€33.3m
Ranking on the MSE	20 th largest market cap
Shares Outstanding	22.8m
Free Float	40%

Net Dividend Yield*	4.1%
Current P/E (FY19)	15.9x

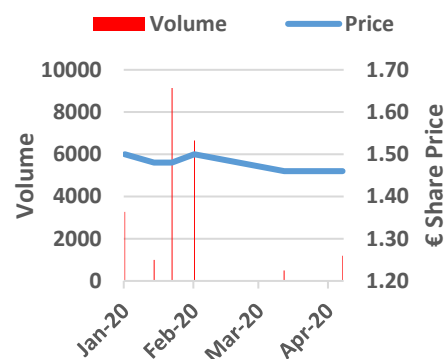
*Includes a dividend payment which was paid during FY19 prior to the listing of the securities

Group’s Principal Activities:

The Group is mainly involved in the sale, maintenance and servicing of information technology solutions, security systems, and to provide electronic payment solutions.

Exchange	Malta Stock Exchange (MSE)
4- month range	€1.46 - €1.50

Price and Volume Movement



Source: Bloomberg

Market Research



Andrew Fenech
 Research Analyst
 +356 25 688 133
andrewfenech@cc.com.mt



Rowen Bonello
 Research Analyst
 +356 25 688 305
rowenbonello@cc.com.mt

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As per latest results (FY19), Harvest registered a positive financial performance, with the results exceeding previous IPO budgetary targets. During FY19, the Group recognised revenues amounting to €16.0m, representing an increase of circa 3% when compared to a revenue figure of €15.6m in FY18. This revenue growth was predominantly driven by an increase in the payment gateway services division, reflecting additional revenue derived from APCO Systems Limited, which during FY19 continued to diversify its client base and extended its reach into the growing payments industry. Revenue growth was also attained by other members within the Group, namely PTL and APCO Limited. In a partnership entered into with IBM during FY19, PTL managed to secure a significant five-year contract in Mauritius to install and maintain a broader security system. No revenue has been recognised on this project as it is still in early stages, however the conclusion of this contract is expected to boost the Group's revenue potential moving forward. Moreover, the Group also reported that APCO Limited had an encouraging response to its efforts in terms of expanding its automation business segment, particularly in retail automation.

Although the Group reported an increase in revenue during FY19, cost of sales and administrative expenses (exclusive of depreciation and amortisation) decreased by 9.4% and 26.1% respectively in comparison to FY18. In furtherance, Harvest registered an overall net profit figure of €2.1m, signifying an improvement of circa 33.8% from previous targets anticipated at IPO stage (€1.6m).

Prior to the listing of the Harvest securities on the MSE (FY19), Harvest paid a net interim dividend of €950k or €0.0417/share (eligible to shareholders prior to listing). Additionally, as per latest results the directors proposed a final net dividend payment amounting to €410k or €0.018/share. It is important to highlight that this proposition was not included in previous IPO projections, and as such we deem this to be another positive attribute of the Harvest Group.

It is also worth mentioning that as per FY19 results publication, the unaudited consolidated net profit before tax recorded by the Group during Q1 2020 amounted to €0.84m. This signifies a further improvement of 25% on the IPO budget projections (€0.67m), thus once again demonstrating the Group's capability of reaching and exceeding their targeted financial budgets.

Nevertheless, in view of the current COVID-19 pandemic, the Group explained that certain aspects of the business may suffer if the current situation is prolonged. For instance, Apco Systems Limited highlighted that it could experience a decrease in transactions due to a decline in customer spending. Given that Gaming providers represent a significant part of that company's client base, management is anticipating a negative impact on the Group's revenue which is deemed to be in line with a general decline in sports betting. Additionally, PTL has indicated debt collection and reduced sales as the company's main challenges, whereas APCO Limited signalled difficult new business prospects both locally as well as abroad.

Although the pandemic's impact on the Group's financial performance is not fully known, the Group sustained that with the current cash-flow headroom, Harvest is not currently foreseeing any defaults with respect to salary payments, creditors and banking commitments for the immediate future. To this end, the Group also explained that the situation is currently under control and all subsidiaries are seeking to mitigate any downturns with new opportunities that may be created by this new reality.

The truth is that the ongoing COVID-19 pandemic and the potential ensuing recession are reshaping the way business is done and the way payments are being implemented. Across number of industries, merchants are currently struggling with the sudden and steep decline in business, requiring them to pivot, at a moment's notice, towards new business models that reach customers literally at their doorstep.

As contactless payments are becoming the norm in this torrid environment, and as consumers become hesitant to carry and handle cash, companies need IT services and processing partners who can serve merchants' changing needs, even across industries that are currently being decimated, such as travel, hospitality and restaurants. Although this pandemic is expected to adversely impact the Group's revenue mainly due to an expected decline in sports betting, this might however prove to be an opportunity for Harvest to attract and on-board new clients within different industries and assist such companies to make the necessary changes to survive this pandemic, and even thrive in a post-COVID-19 world. In fact, management explained that they are currently in discussions to expand their service offerings both at local and at an international level.

As the payments industry is constantly evolving, and gradually being dependent on by other industries, we believe that Harvest is already well positioned to utilise its essential capabilities within the industry and capitalise on the current situation. We look forward to continue monitoring the COVID-19 situation and we will update investors once the Group provides us with more clarity on the impact from this outbreak and with any potential opportunities which might come along.

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