

Update to Price Target and Investment Stance

Last December, BMIT Technologies plc (“BMIT” or the “Group”) reported on its robust Q3 results and the acquisition of an associate holding in EBO Ltd. In view of these positive developments, which were achieved throughout the COVID-19 pandemic, we increased our 1-year price target from €0.49 to €0.53 and upgraded our Hold stance to a **Buy** recommendation on the stock.

Changes to valuation model:

- **Revenue:** In the first 9-months of 2020, BMIT’s revenue increased by 6.1% over the comparative period, which exceeded our annualised expectations of 3.0%. The main contributors for this organic growth were cloud and connectivity services, which in H1 2020 grew by 47% and 13%, respectively.

Management noted that, the Group was still negatively impacted by the outbreak, in fact, in order to retain existing clients which were worst hit by the pandemic, the Group had to offer contract price discounts. Naturally, this prevented the loss of customers, however such discounts will continue to impact BMIT’s revenue post FY20. Notwithstanding this, we believe that BMIT’s growth in cloud and connectivity services will more than offset the effect of these discounts.

In view of this developments, we have adjusted our revenue forward expectations, where we are now factoring a growth of 6.3% in FY20. As noted above, upon discussions with management, revenue growth in FY21 is expected to taper down as new business growth is set-off against the realisation of the full-year effect of the renegotiated terms given to existing clients during the pandemic.

- **EBITDA:** The Group’s improvement noted above translated into an EBITDA growth of 4% on a comparative basis (previous estimate: 1.9% annualised growth). Accordingly, we have updated our forecasts for FY20 and beyond.

- **Partial acquisition of EBO Ltd:** The Group announced that it acquired 15% of EBO Ltd (“EBO”) for the price of circa €1.5m. EBO is a technology company focused on the provision of Artificial Intelligence solutions in the Healthcare, iGaming and Financial Services sectors.

Upon discussions with management EBO is a mature start-up company, which kicked-off operations in 2018. Accordingly, the company is not yet profitable, however it has a very

Stock Rating	Buy
Price target (1Yr)	€0.53
Country	Malta
Industry	Data Centre / Cloud and Managed IT Services
Ticker	BMIT
Price (06/01/2021)	€0.48
Price Target (1-Year)	€0.53
Upside to PT	10.0%
12m cash div. (Forecast)	€0.023
12m Total S’holder Return	14.7%
Market Cap	€98.1m
Shares Outstanding	203.6m
Free Float	49%
Net Dividend Yield	4.5%
Current P/E	21.1x
1Yr Forward P/E	19.0x
Exchange	Malta Stock Exchange
52-week range	€0.45 - €0.55

Price and Volume Movement (20 day moving average)



Source: Bloomberg

Research Analysts



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



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

healthy pipeline, including growth in the UK's public (NHS) and private health sectors in which EBO is already present through its fully-owned UK subsidiary - EBO.ai (UK) Ltd. BMIT acquired EBO through internally generated funds, and management views this transaction as a medium to long-term investment. EBO will continue to operate as a standalone company, however it is expected to assist BMIT reach international partners.

In view of the above, we believe it is appropriate to factor in a conservative return from this investment, starting at 2% in FY21 and gradually increasing the return to 10% in FY24.

- **Other considerations:** The Group re-confirmed that it is still re-evaluating the strategic decision to develop the Zejtun Data Centre. Previously, it was expected that this development will provide BMIT with excess capacity that will allow it to cater for abnormal growth. However, given the delay in this development we believe it is appropriate to reduce our terminal growth rate beyond FY24 to 2.0% from our previous rate of 2.5%. This growth is in line with the broad economic target inflation of 2.0% annually.

In addition to the above mentioned investment in EBO, in mid-2020, the Group entered into a partnership agreement with EBO, whereby BMIT will sell EBO's artificial intelligence customer support agent to gaming companies. BMIT will recognise a portion from the sale of this service. Upon discussions with management, the Group started to sign new contracts for this service late in 2020. Over FY21, more contracts are expected to be signed, with management aiming to start generating revenue in FY21 and continue to grow this service over a 2/3 year period. Accordingly, we incorporated an insignificant turnover in FY21 from this partnership and gradually increased it up to FY24.

Given the inorganic growth factored within our valuation model as a result of the new business expected to be generated by BMIT (as noted above), we believe it is appropriate to revise our discount rate (WACC) to reflect the added execution risk. Our revised discount rate increased to 8.8% from our previous rate of 8.6%.

Conclusion:

Notwithstanding the macroeconomic downturn caused by the COVID-19 pandemic, the Group has exceeded expectations and reported a robust financial performance. It is evident that despite the re-evaluation of the Zejtun Data Centre development, the Group is actively pursuing new growth opportunities.

We are cognisant that new ventures may expose the Group to additional risks, such as the deployment of supplementary funds into new ventures which may impact the Group's cash position, however we are also aware of the relatively stable data centre operations.

Additionally, BMIT is involved in an interesting industry which is forecasted to keep on growing as the dependence on information technology continues to increase. The Group has maintained its dividend distribution policy and currently yields a net dividend yield of 4.5%. BMIT's recurrent capex of €1m is relatively low, which continues to strengthen the Group's cash generation ability. We believe that at the current price, in addition to, the forward dividend yield, BMIT offers investors an attractive return and therefore we are issuing a **Buy** recommendation on the stock.

Company Update

Despite the COVID-19 situation, during 2020 the Group paid a final net dividend on FY19 of €4.4m or €0.022/share. Notwithstanding this payment, the Group's liquidity position remained strong (June 2020: €3.6m cash reserves).

Valuation

Our 1-year price target is €0.53. The price target is derived using the Free Cash Flow to the Firm model, with a WACC of 8.8% and a terminal growth of 2.0%. We substantiated our price target using the Price to Earnings model with a P/E ratio of 22x.

€'000s (unless otherwise indicated)	FY17A	FY18A	FY19A	LTM20	FY20F	FY21F	FY22P
Revenue	19,717	21,398	22,430	22,972	23,834	24,499	25,038
Cost of sales	(8,835)	(9,120)	(8,976)	(9,295)	(9,540)	(10,799)	(11,035)
Gross profit	10,882	12,278	13,454	13,677	14,293	13,701	14,003
Administrative and other expenses	(2,260)	(2,931)	(3,440)	(3,663)	(3,760)	(2,789)	(2,860)
EBITDA	8,622	9,347	10,014	10,014	10,533	10,912	11,143
Depreciation & amortisation	(2,262)	(2,374)	(2,702)	(2,505)	(2,350)	(2,466)	(2,525)
EBIT	6,360	6,973	7,312	7,509	8,183	8,446	8,618
Finance costs	-	-	(137)	(168)	(232)	(216)	(199)
Share of profits in associate	-	-	-	-	-	30	75
Profit before tax	6,360	6,973	7,175	7,341	7,951	8,260	8,493
Income tax expense	(2,309)	(2,477)	(2,726)	(2,697)	(2,783)	(2,891)	(2,973)
Net profit after tax	4,051	4,496	4,449	4,644	5,168	5,369	5,521
Minority interests	256	9	-	-	-	-	-
Owners of the Company	3,795	4,487	4,449	4,644	5,168	5,369	5,521
Earnings Per Share – in (€)	0.019	0.022	0.022	0.023	0.025	0.026	0.027

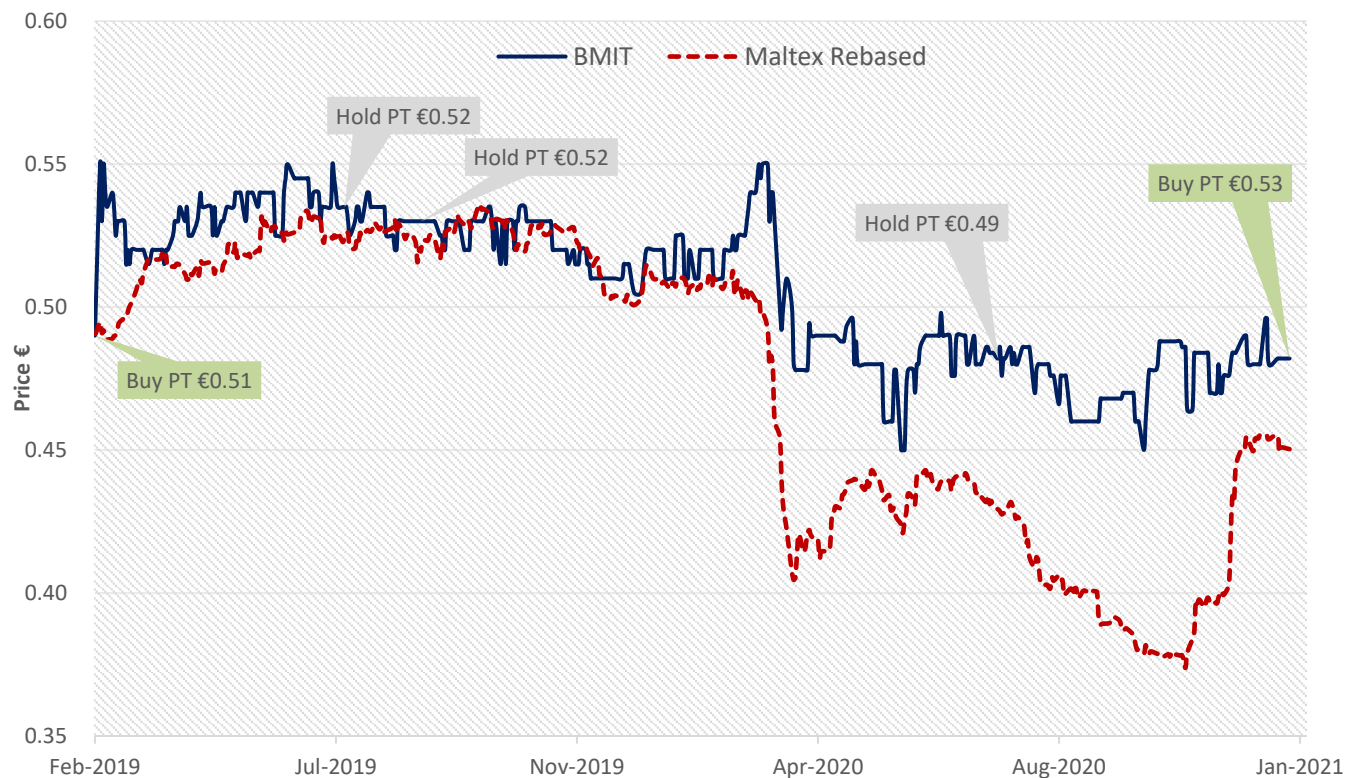
Ratio Analysis:	FY17A	FY18A	FY19A	LTM20	FY20F	FY21F	FY22P
Revenue growth (YoY)	9.4%	8.5%	4.8%	2.4%	6.3%	2.8%	2.2%
EBITDA margin	43.7%	43.7%	44.6%	43.6%	44.2%	44.5%	44.5%
EBIT margin	32.3%	32.6%	32.6%	32.7%	34.3%	34.5%	34.4%
Net margin	20.5%	21.0%	19.8%	20.2%	21.7%	21.9%	22.0%
Shares outstanding (in millions)	203.6	203.6	203.6	203.6	203.6	203.6	203.6
Growth in EPS (YoY)	6.8%	18.2%	-0.8%	4.4%	16.2%	3.9%	2.8%
P/E ratio	n/a	n/a	22.1x	21.1x	19.0x	18.3x	17.8x
Earnings yield	n/a	n/a	4.5%	4.7%	5.3%	5.5%	5.6%
Dividend per share (€)	0.021	0.020	0.022	0.022	0.023	0.024	0.024
Growth in dividends (YoY)	18.7%	-8.0%	9.8%	0.0%	5.9%	3.9%	2.8%
Dividend pay-out ratio	114.6%	89.1%	98.7%	94.5%	90.0%	90.0%	90.0%
Dividend yield	n/a	n/a	4.5%	4.5%	4.7%	4.9%	5.1%

Historic Solvency Ratios	Dec-18	Dec-19	Jun-20
Gearing Ratio Level 1 (Net Debt / Total Equity)	n/a	n/a	37.9%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	42.3%	51.0%	62.9%
Net Debt / EBITDA	n/a	n/a	35.8%
Current Ratio (Current Assets / Current Liabilities)	0.5x	1.2x	0.9x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	-	73.1x	86.3x
Cash from Operations / EBIT	0.7x	1.1x	1.0x

Source: BMIT's Financial Statements and Calamatta Cuschieri Investment Management

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
BMIT	07.01.2021	€0.48	€0.53	Rowen Bonello & Andrew Fenech	Buy
BMIT	20.07.2020	€0.48	€0.49	Andrew Fenech & Rowen Bonello	Hold
BMIT	23.08.2019	€0.53	€0.52	Simon Psaila & Rowen Bonello	Hold
BMIT	09.07.2019	€0.54	€0.52	Simon Psaila & Rowen Bonello	Hold
BMIT	27.12.2018	€0.49	€0.51	Simon Psaila & Rowen Bonello	Buy



Source: Bloomberg

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

This equity research document is issued by Calamatta Cuschieri Investment Services Ltd ("CCIS") of Ewropa Business Centre, Triq Dun Karm, Birkirkara, BKR9034, Malta (C13729). CCIS is licensed to conduct Investment Services under the Investment Services Act in Malta by the Malta Financial Services Authority. The value of the investment may go down as well as up. Any performance figures quoted refer to the past and past performance is not a guarantee of future performance nor a reliable guide to future performance. This information is being provided solely for information purposes and should not be deemed or construed as investment advice, advice concerning particular investments, advice concerning investment decisions, tax, legal or any other ancillary regulatory advice. Similarly, any views or opinions expressed are not intended and should not be construed as investment, tax and/or legal recommendations or advice. CCIS has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this document. CCIS does not accept liability for actions, proceedings, costs, demands, expenses, damages and losses suffered by persons as a result of information, views or opinions appearing on this document. No person should act upon any opinion and/or information in this document without first obtaining professional advice.

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	
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 the average total assets (average assets of two years financial performance).
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 the statement of financial position date.
Dividends Ratios	
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 the statement of financial position date.
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	
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 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.
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 repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.