

## Harvest Technology p.l.c.

### Executive Summary:

“We are initiating our coverage on Harvest Technology p.l.c. (“Harvest” or “Group”) with a Buy recommendation and a 12-month price target of €1.71. The Group’s latest FY20 interim results, in addition to the positive FY19 results, illustrate that Harvest has once again exceeded IPO expectations, not only in terms of revenue and profit generation, but also in relation to dividend distribution.

It is worth highlighting that in the face of such an unprecedented pandemic, where we are currently seeing other companies decreasing or completely halting dividend payments for the current financial year, through its robust business model, Harvest distributed a dividend for H120, which is in excess of IPO expectations.

In light of the current interest rate environment, we deem the Group’s current net dividend yield of 3.7% as attractive. We also believe that through its resilient business model, the Group has sufficient internal capability to maintain such dividend offering and even improve it moving forward.

We are aware that the Group’s improved financial performance is reflective of the fact that contactless payments are becoming the norm in such an environment, and as consumers become hesitant to carry and handle cash, companies need processing partners who can serve merchants’ changing needs, even across industries that are currently being decimated, such as travel, hospitality and restaurants.

We believe that Harvest is uniquely positioned to assist such companies make the necessary changes to survive this pandemic, and even thrive in a post-COVID-19 world. Of note, the conclusion of the Group’s Mauritius contract is expected to further boost the Harvest’s financial standing going forward.

We also believe that the shares provide investors with an attractive entry point into a company that offers exposure to a Group of companies within the technology sector in Malta, and which is poised for further expansion in other countries. As a result we rate the shares a Buy, as we look to the Group to continue on its current growth trajectory and deliver on the declared expectations and beyond as witnessed through the Group’s recent results.

Despite our positive outlook on the Group going forward, we are still conscious that the shares are illiquid and investors can go through a period of high volatility given the high bid/ask spread. ”

### Company Update:

**Dividends** – Despite the COVID-19 situation, the Board decided to proceed with an interim net dividend payment of circa €0.6m or €0.024/share.

### Company Overview:

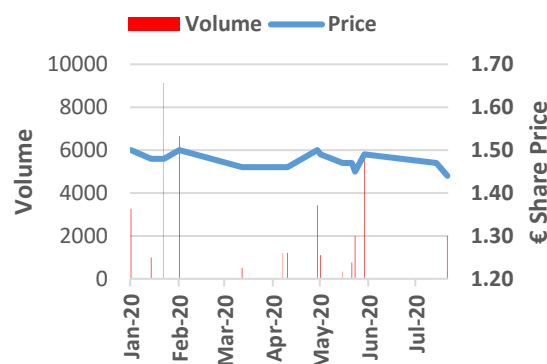
The Group is mainly involved in the sale, maintenance and servicing of information technology solutions, security systems, and to provide electronic payment solutions.

**Stock Rating**  
**Price target (1Yr)** **Buy**  
**€1.71**

<b>Country</b>	Malta
<b>Industry</b>	Hardware and Software
<b>Ticker</b>	HRV
<b>Price (as at 19/08/2020)</b>	€1.44
<b>Price Target (1 Year)</b>	€1.71
<b>Upside / downside to PT</b>	18.8%
<b>12m cash div. (Forecast)</b>	€0.049 / share
<b>12m Total S’holder Return</b>	22.1%
<b>Market Cap</b>	€32.8m
<b>Shares Outstanding</b>	22.8m
<b>Free Float</b>	40%
<b>Net Dividend Yield *</b>	3.7%
<b>Current P/E **</b>	14.1x
<b>1Yr Forward P/E ***</b>	14.0x
*calculated on 50% FY19 and H120 dividends	
** Based on the FY20 Last Twelve Months (LTM) results	
*** CC estimates	

**Exchange** Malta Stock Exchange (MSE)  
**8-month range** €1.44 - €1.50

### Price and Volume Movement (20 day moving average)



Source: Bloomberg

### Research Analysts



**Andrew Fenech**  
 +356 25 688 133  
[andrewfenech@cc.com.mt](mailto:andrewfenech@cc.com.mt)



**Rowen Bonello**  
 +356 25 688 305  
[rowenbonello@cc.com.mt](mailto:rowenbonello@cc.com.mt)

## SWOT Analysis

### Strengths

- ✓ Strong experienced management team, supported by Hili Ventures being the majority shareholder
- ✓ Harvest includes a diversified Group of companies across the technology sphere offering its services to diverse industries
- ✓ In terms of both current and prospective clients, the Group has a track record of benefiting from a period of strong growth acceleration after landing key contracts
- ✓ The Group represents, exclusively in Malta, a large number of well-established international brands such as IBM
- ✓ The Group is becoming more competitive in the services division following the strategic shift to terminate internally developed software and focus on the implementation of the Group's international partners' software
- ✓ The Group has a low level of financial leverage
- ✓ Positive track record of exceeding IPO projections
- ✓ Minimal impact of COVID-19 outbreak on the Company's financial performance
- ✓ The conclusion of the Mauritius contract is expected to boost the Group's revenue and profitability potential

### Opportunities

- Via the Group's international partnerships, it is well-placed to land further lucrative contracts
- Strong pipeline of verified and achievable revenue growth until FY2021
- Growing payment solutions gateway market as a whole should affect the Group positively
- Continued development of new products and services and the emergence of new vertical markets

### Weaknesses

- ✗ Dependent on high quality and specialised staff, typically in the higher salary brackets
- ✗ High degree of execution risk in terms of achieving declared forecasts, since these are based on the ability to tap new markets and win more contracts
- ✗ In line with the nature of the industry, most of the company's assets are of an intangible nature, including goodwill
- ✗ The IT hardware, software and services industry is very fragmented and highly competitive

### Threats

- ! Despite the minimal impact up till now, COVID-19 might still cause disruption to the Group
- ! Dynamic, technology oriented industry
- ! New entrants or consolidation between several large players
- ! Rival breakthrough technologies may negatively impact the Group's business model
- ! Loss of a major prospective contract
- ! Regulatory changes or delays might have an impact on the Group's businesses

## Investment Stance

We are initiating our coverage on Harvest with a Buy recommendation and a 12-month price target of €1.71. The Group's latest FY20 interim results, in addition to the positive FY19 results, illustrate that Harvest has once again exceeded IPO budgetary expectations, not only in terms of revenue and profit generation, but also in relation to dividend distribution.

It is worth mentioning that these results were achieved in the face of an unprecedented pandemic, which has caused a global economic downturn. In line with the Group's FY20 interim results, the positive results were mainly driven by a strong performance of APCO Systems Limited through its growing client base in terms of its payment solutions services. This is deemed to be reflective of the fact that contactless payments are becoming the norm in such an environment, and as consumers become hesitant to carry and handle cash, companies need processing partners who can serve merchants' changing needs, even across industries that are currently being decimated, such as travel, hospitality and

restaurants. To this end, we believe that a company like Harvest is uniquely positioned to assist such companies make the necessary changes to survive this pandemic, and even thrive in a post-COVID-19 world.

Moreover, the Group's results were also positively impacted by the overall good performance of PTL. During H120, PTL's business was strengthened by the commencement of its international project in Mauritius where the company is now in an advanced phase regarding the installation of that country's border security system. We deem such project as pivotal to the Group's financial performance and to Harvest's ability to attract additional business both locally and abroad moving forward.

Although the pandemics' impact on Harvest's financial and operational performance is still not fully known, and whilst the current situation remains relatively fluid, management stated that pursuant with Harvest's healthy pipeline, the Group's outlook remains cautiously optimistic. In view of this, we are of the opinion that the group can continue to exceed the IPO projections over the forecasted horizon.

However, despite the fact that the Group managed to improve on actual results of the previous reporting period and on budgeted figures, management reported that such events might still have an impact on the Group's performance and financial position in the future due to any unforeseen effects that such pandemic might have on the economies and industries.

Harvest provides investors with an attractive entry point into a company that offers exposure to a Group of companies at the forefront of the technology sector in Malta, and which is poised for further expansion in other countries. Upon taking all of the above factors into consideration we rate the shares as a Buy, as we look to the Group to continuing on its current growth trajectory and deliver on the declared expectations and beyond as witnessed through the Group's recent results

Despite our positive outlook on the Group going forward, we are still conscious that the shares are illiquid and investors can go through a period of high volatility given the high bid/ask spread

## Valuation

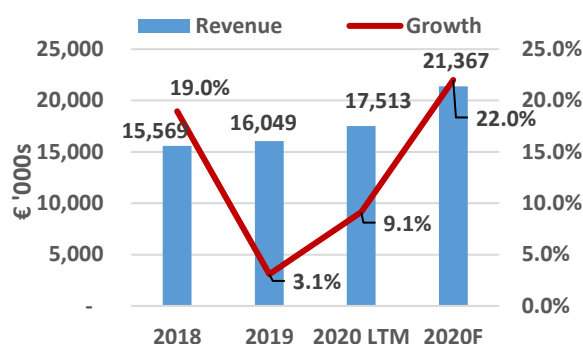
Our one-year price target is €1.70. This is based on our underlying assumption that the Group can continue exceeding IPO projections for the foreseeable future, accordingly we priced in a 5% upside to the company projections. Additionally, the price target is based on the Free Cash Flow to the Firm ("FCFF") model and a discount rate (WACC) of 8.5%. We substantiated our price target using the Price Earnings (P/E) Model with a P/E ratio of 17x.

Harvest Technology plc	FY 2017	FY2018	FY2019	2020LTM	FY2020F	FY2021P
	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	13,087	15,569	16,049	17,513	21,367	18,251
Cost of Sales	(8,505)	(9,888)	(8,963)	(9,885)	(13,218)	(10,448)
<b>Gross Profit</b>	<b>4,582</b>	<b>5,681</b>	<b>7,086</b>	<b>7,628</b>	<b>8,149</b>	<b>7,803</b>
Administrative Expenses	(3,419)	(4,343)	(3,209)	(3,345)	(3,748)	(3,442)
Other Operating Income	17	18	38	36	-	-
<b>EBITDA</b>	<b>1,180</b>	<b>1,356</b>	<b>3,915</b>	<b>4,319</b>	<b>4,401</b>	<b>4,361</b>
Depreciation of right of use asset	-	-	(311)	(317)	-	-
Depreciation & amortisation	(216)	(388)	(379)	(402)	(774)	(716)
<b>EBIT</b>	<b>964</b>	<b>968</b>	<b>3,225</b>	<b>3,599</b>	<b>3,627</b>	<b>3,645</b>
Government COVID-19 supplement	-	-	-	87	-	-
Net Investment Income/ (Expense)	(54)	-	-	-	-	-
Net Finance Costs	(23)	(39)	(130)	(148)	(200)	(246)
Loss on disposal of subsidiary	-	-	(58)	-	-	-
<b>Profit Before Tax</b>	<b>887</b>	<b>929</b>	<b>3,036</b>	<b>3,538</b>	<b>3,427</b>	<b>3,399</b>
Tax	(557)	(348)	(947)	(1,208)	(1,084)	(1,180)
<b>Profit for the year</b>	<b>330</b>	<b>581</b>	<b>2,089</b>	<b>2,330</b>	<b>2,343</b>	<b>2,219</b>

Ratio Analysis	FY 2017	FY2018	FY2019	2020LTM	FY2020F	FY2021P
Revenue Growth (YoY)	28.4%	19.0%	3.1%	9.1%	22.0%	-14.6%
EBIT Margin	7.4%	6.2%	20.1%	20.5%	17.0%	20.0%
EBITDA Margin	9.0%	8.7%	24.4%	24.7%	20.6%	23.9%
Net Margin	2.5%	3.7%	13.0%	13.3%	11.5%	12.8%
Shares Outstanding (million)	22.8	22.78	22.78	22.78	22.78	22.78
Earnings per share (EPS)	0.014	0.026	0.092	0.102	0.103	0.097
Growth in Normalised EPS (YoY)	242.1%	78.8%	259.5%	11.5%	5.6%	-5.3%
Earnings Yield	n/a	n/a	6.2%	7.0%	7.3%	7.0%
Dividend per Share (€)	0.044	0.033	0.060	0.060	0.049	0.060
Dividend pay-out-ratio	307.7%	129.1%	65.1%	58.4%	45.0%	58.4%
Dividend Yield	n/a	n/a	4.1%	4.1%	3.3%	4.1%

## Investment Thesis Variables

- Revenue** – Revenue in FY19 increased by circa 3.1% (€16m) over FY18, reflecting an improvement of 4.1% over IPO projections for the period. As per 2020LTM results, the Group registered a further increase in revenue of 9.1% (€17.5m), which is reflective of the Group's strong performance for H120.

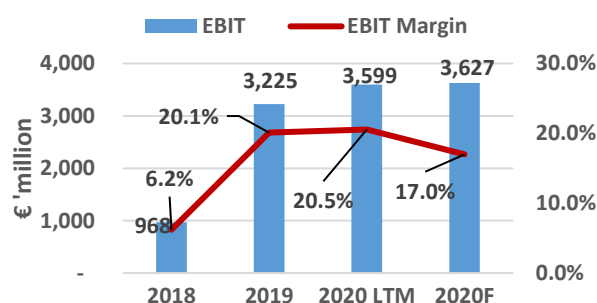


Source: HRV's Financial Statements / CC Workings

This growth was mainly derived from APCO Systems Limited through its growing client base in terms of the payment solutions services in which it offers. The increase in revenue has also been supported by the overall good performance of PTL Limited (PTL). During H120, PTL's business was strengthened by the commencement of its international project in Mauritius where the company is currently in the advance phase in terms of the installation of the country's border security system. Contrarily, APCO Limited experienced a slowdown in product orders due to COVID-19 related issues. In line with the commencement of the Mauritius contract, we expect the Group's revenue to amount to €21.4m during FY20.

Year	IPO Projections (€000's)	Actual Performance (€000's)
2019	15,416	16,049

- EBIT** – As per below table, the Group has also exceeded IPO expectations in terms of EBIT. The decline in operating expenses exclusive of depreciation (-14.1%) followed by the aforementioned marginal increase in revenue (+3.1%) for FY19, led to an overall improvement in EBIT margin from 6.2% to 20.1% as per FY19 results. In line with the H120 interim results, and the anticipated increase in administrative expenses, we expect EBIT margin to taper down to 17% during FY20.

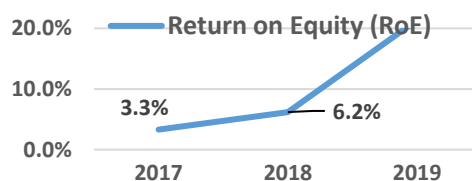


Source: HRV's Financial Statements / CC Workings

Year	IPO Projections (€000's)	Actual Performance (€000's)
2019	2,453	3,225

- Operating expenses** – These mainly consist of cost of sales and administrative expenses. Cost of goods sold includes the cost of the hardware and software sold by the Group, and the direct costs associated with the delivery of the Group's IT and payment gateway services. Through the adoption of IFRS16 from FY19 onwards, cost of goods sold and administrative expenses, collectively declined to €12.2m (FY18: €14.2m). In line with the anticipated increase in revenue, these are expected to collectively amount to circa €17.0m during FY20.

- **Depreciation** – The increase in depreciation and amortisation incurred by the Group during FY19 and H120 is attributable to adoption of IFRS16. We anticipate the Group’s depreciation charge to amount to €0.8m during FY20.
- **Net finance costs** – Upon confirmation from management that one of the Group’s international projects was financed internally through cash, we expect net finance costs for FY20 to amount to €0.2m (thus being lower than previous projections).
- **Net Profit and Earnings per Share** – As per 2020 LTM results, Harvest registered a net profit figure of circa €2.3m, translating into an EPS of €0.102. Moreover, in line with the Group’s positive track record of exceeding IPO expectations, we believe that the Group has the capability of achieving higher levels of net profit moving forward.
- **Dividends** – Despite the COVID-19 situation, the Board decided to proceed with an interim net dividend payment of circa €0.6m or €0.024/share. It is important to note that through such interim dividend payment, Harvest has already exceeded IPO dividend payment expectations for FY20.



Source: HRV’s Financial Statements

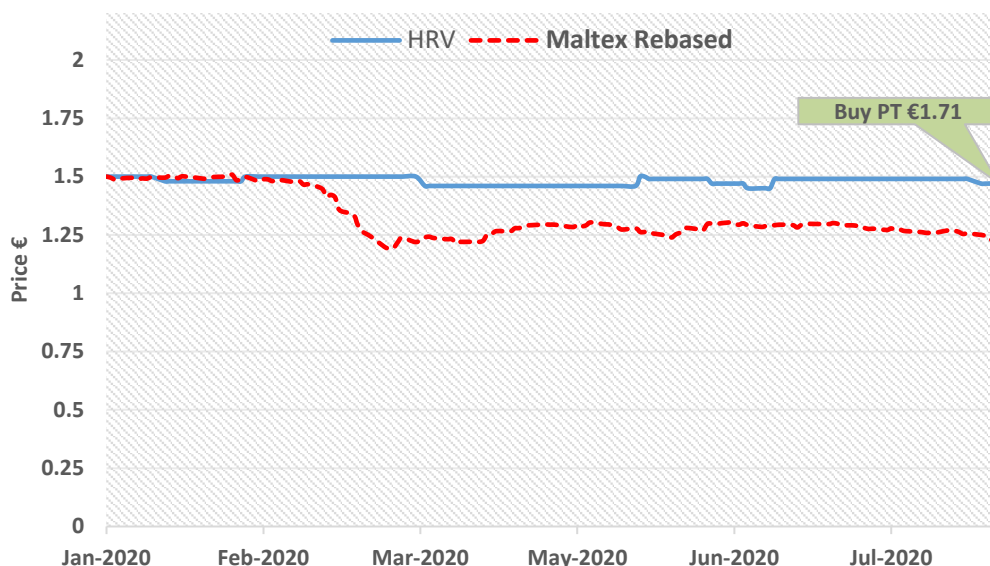
## Key Financial Indicators

€'000s unless otherwise indicated	Dec-17	Dec-18	Dec-19
<b>Balance Sheet</b>			
Inventory	712	740	2,419
Cash and Cash Equivalents	994	990	2,133
Current Assets	8,089	9,196	9,676
Non-Current Assets	10,829	10,474	11,306
Total Assets	18,918	19,670	20,982
Current Liabilities	7,242	7,949	7,745
Non-Current Liabilities	2,135	2,506	2,883
Total Liabilities	9,377	10,455	10,628
Total Financial Debt	615	1,035	4,232
Total Equity	9,541	9,215	10,353
Net Debt	n/a	45	2,099
Shares Outstanding (millions)	23	23	23
<b>Cash Flow</b>			
Cash Flow from Operating Activities (CFO)	1,393	(629)	3,455
Capex	(513)	(465)	(376)
Free Cash Flow (FCF)	880	(1,094)	3,079
Cash Flow from Investing Activities	(600)	(450)	(286)
Cash Flow from Financing Activities	1,583	956	(159)
<b>Ratios</b>			
<b>Profitability</b>			
Return on Common Equity (Net Income / Average Equity)	3.3%	6.2%	21.3%
Return on Assets (Net Income / Average Assets)	1.8%	3.0%	10.3%
<b>Solvency</b>			
Gearing Ratio Level 1 (Net Debt / Total Equity)	n/a	0.5%	20.3%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	49.6%	53.2%	50.7%
Net Debt / EBITDA	n/a	0.03x	0.54x
Current Ratio (Current Assets / Current Liabilities)	1.1x	1.2x	1.2x
Quick Ratio (Acid Test Ratio)	1.0x	1.1x	0.9x
Cash from Operations / EBIT	1.4x	(0.6x)	1.1x

Source: HRV’s Financial Statements / CC Workings

## Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
HRV	20.08.2020	€1.44	€1.71	Andrew Fenech & 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 document is being 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 by the Malta Financial Services Authority. 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 interest bearing 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.