

Update to Price Target and Investment Stance

Notwithstanding the current distressed economic environment, which was primarily fuelled by the COVID-19 pandemic, Harvest Technology plc (the “Group” or “Harvest”) recently issued a positive performance review for FY20 and improved projections for FY21. After updating our expectations vis-à-vis the Group’s robust Q3-20 results and improved outlook, we maintain our Buy recommendation on the Group with an increased 1-year price target of €1.75 from our previous target of €1.71.

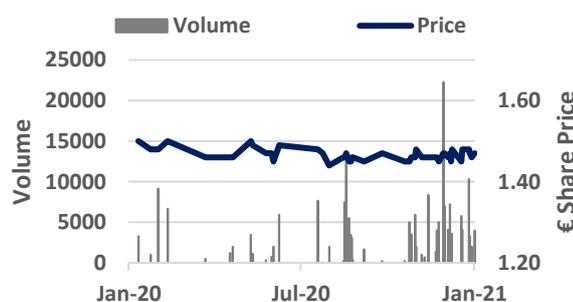
Changes to valuation model:

- **Revenue:** While our previous FY20 revenue expectations remained unchanged, based on the feedback provided by management, which revised upwards its IPO projections, we increased our FY21 revenue forecasts to €19.5m, which more specifically, demonstrates an overall increase of 6.8%. This anticipated improvement is mainly attributable to several important development milestones, including efforts aimed towards extending the Group’s partners network and introducing new online payment products and services, which are expected to come to fruition by the end of Q2-2021.
- **Profitability:** As marketing campaigns had to be postponed due to the COVID-19 outbreak, during FY20, the Group experienced a reduction in travelling costs and marketing expenses. Additionally, management further reported that upon managing project financing in a proactive manner, the Group has also benefitted from a decline in their respective finance costs. As a result, upon assessing the aforementioned Q3-2020 projections, we expect the Group to generate a profit before tax (PBT) of circa €3.9m for FY20. Likewise, in line with the upward revision from IPO forecasts for FY21, we expect PBT to marginally increase to €4m.
- **Discount rate:** Despite the Group reporting positive results and offering an attractive dividend distribution, we cannot neglect the fact that the bid-ask spread on Harvest shares is significantly wide and has been so since its IPO. In this regard, we have included an illiquidity premium of 1% thus increasing our WACC to 9.8%.

Evidently, the Group continued to exceed IPO expectations and achieve solid results even throughout such extraordinary times. In addition to the positive news concerning the conclusion of the Group’s Mauritius contract and the Q3-2020 robust results, management reported that the Group is currently in the process of further consolidating its local presence, as well as focusing on internationalisation across all business segments.

Stock Rating	Buy
Price target (1Yr)	€1.75
Country	Malta
Industry	Hardware & Software
Ticker	HRV
Price (as at 11/01/2021)	€1.47
Price Target (1-Year)	€1.75
Upside/ Downside to PT	18.4%
12m cash div. (Forecast)	0.050
12m Total S’holder Return	21.8%
Market Cap	€33.5m
Shares Outstanding	22.8m
Free Float	40%
Net Dividend Yield	3.7%
Current P/E	14.4x
1Yr Forward P/E	13.2x
Exchange	Malta Stock Exchange (MSE)
52-week range	€1.44 - €1.50

Price and Volume Movement (20 day moving average)



Source: Malta Stock Exchange

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Additionally, we reiterate our stance 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 well-positioned for further expansion in other countries. As such, we believe that a **Buy** recommendation is justified on the shares of Harvest as we believe the Group will continue on its current growth trajectory and deliver on the declared expectations, as witnessed through the Group's Q3-2020 results update.

Company Update

Despite the COVID-19 situation, the Group's liquidity position remained healthy and as a result the Group resolved to distribute an interim dividend of €0.5m or €0.024/ share.

Valuation

Our 1-year price target is €1.75. The price target is calculated using a Free Cash Flow to the Firm model, utilising a discount rate of 9.8%.

€'000s unless otherwise stated	FY17	FY18	FY19	20LTM	FY20F	FY21P
	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	13,087	15,569	16,049	17,513	21,367	19,500
Cost of Sales	(8,505)	(9,888)	(8,963)	(9,885)		
Gross Profit	4,582	5,681	7,086	7,628		
Administrative Expenses	(3,419)	(4,343)	(3,209)	(3,394)	(16,602)	(14,625)
Other Operating Income	17	18	38	36		
EBITDA	1,180	1,356	3,915	4,270	4,765	4,875
Depreciation of right of use asset	-	-	(311)	(317)	(310)	(294)
Depreciation & amortisation	(216)	(388)	(379)	(353)	(464)	(423)
EBIT	964	968	3,225	3,599	3,991	4,158
Government COVID-19 supplement	-	-	-	87	87	-
Net Investment Income/ (Expense)	(54)	-	-	-	-	-
Net Finance Costs	(23)	(39)	(130)	(146)	(165)	(150)
Loss on disposal of subsidiary	-	-	(58)	-	-	-
Profit Before Tax	887	929	3,036	3,540	3,913	4,008
Tax	(557)	(348)	(947)	(1,208)	(1,370)	(1,403)
Profit for the year (Continuing Operations)	330	581	2,089	2,331	2,543	2,605
Loss from Discontinued Operations	(5)	-	-	-	-	-
Profit for the year	325	581	2,089	2,331	2,543	2,605
<i>Earnings Per Share</i>	<i>0.014</i>	<i>0.026</i>	<i>0.092</i>	<i>0.102</i>	<i>0.112</i>	<i>0.114</i>

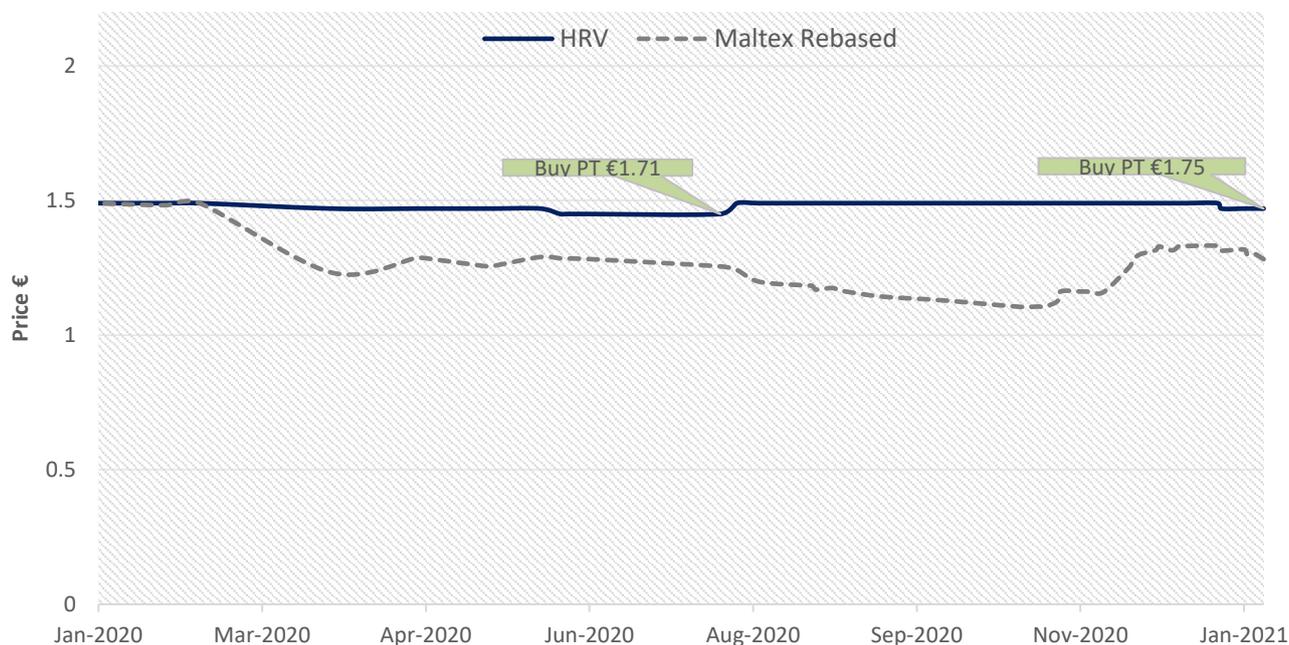
Ratio Analysis	FY17	FY18	FY19	20LTM	FY20F	FY21P
Revenue Growth (YoY)	28.4%	19.0%	3.1%	9.1%	33.1%	-8.7%
EBIT Margin	7.4%	6.2%	20.1%	20.5%	18.7%	21.3%
EBITDA Margin	9.0%	8.7%	24.4%	24.4%	22.3%	25.0%
Net Margin	2.5%	3.7%	13.0%	13.3%	11.9%	13.4%
Earnings Yield	n/a	n/a	n/a	7.0%	7.6%	7.8%
Dividend per Share (€)	0.044	0.033	0.060	0.054	0.050	0.060
Dividend pay-out-ratio	307.7%	129.1%	65.1%	52.6%	45.0%	52.2%

Historic Solvency Ratios	Dec-17	Dec-18	Dec-19
Gearing Ratio Level 1 (Net Debt / Net Debt and 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
Cash from Operations / EBIT	1.4x	(0.6x)	1.1x

Source: Harvest's Financial Statements and CC workings

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
HRV	14.01.2021	€1.47	€1.75	Andrew Fenech & Rowen Bonello	Buy
HRV	20.08.2020	€1.44	€1.71	Andrew Fenech & Rowen Bonello	Buy



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

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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.