

Update to Price Target and Investment Stance

“The COVID-19 pandemic has created a profound shift in how people interact and world economies function. To this extent, while selective sectors were facing an unprecedented scenario with a notable liquidity squeeze, technology oriented businesses have found methods to hold steady and even thrive in a COVID-19 world.

Following the publication of the Group’s FY20 positive results, BMIT’s share price rallied to our previous price target of €0.53, factoring in the Group’s positive financial performance achieved throughout the pandemic.

Moreover, upon assessing BMIT’s latest results, we have reviewed our valuation model and maintain our 1-year price target of €0.53 with a **Hold** recommendation on the Group.

Adjustments to the previous valuation model:

Operating expenditure: Group cost of sales and administrative expenses, excluding depreciation and amortisation incurred during FY20, increased by approximately €1.1m or 8.6% over FY19. This growth in operating expenses is mainly attributable to an increase in sales activity which has ultimately driven up the Group’s cost of goods sold throughout FY20. On the other hand, the Group also incurred additional expenditure in creating a safe working environment for its employees.

More importantly, management reported that the rise in operating expenditure is predominantly attributable to BMIT’s growth in business and is also a reflection of the Group’s shift in service offering, with the Group reporting greater customers’ demand for connectivity and cloud services across FY20.

It is also important to clarify, that in view of the restrictions imposed by the relevant health authorities’ to contain the virus spread, BMIT experienced a decline in several expenses such as travelling, HR and marketing costs specifically related to events and conferences.

Upon taking the above factors into consideration, we believe that the demand for the Group’s cloud and connectivity services will continue to strengthen moving forward. As a result, in order to reflect such growth in demand for these services, and also in view of the fact that such revenue growth is already being reflected within our revenue projections, we have increased our operating expenditure expectations throughout our projected period.

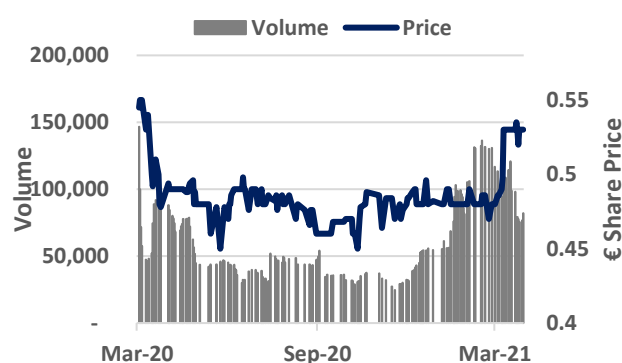
Terminal growth rate: BMIT operates within an attractive and lucrative industry whereby the demand for cloud services and remote working technologies are expected to continue surging amid the COVID-19

Stock Rating	Hold
Price target (1Yr)	€0.53
Country	Malta
Industry	Data Centre/ Cloud and Managed IT Services
Ticker	BMIT
Price (31/03/2021)	€0.53
Price Target (1-Year)	€0.53
Upside to PT	Nil
12m cash div. (Forecast)	€0.022
12m Total S’holder Return	4.2%
Market Cap	€107.9m
Shares Outstanding	203.6m
Free Float	49%
Net Dividend Yield	5.5%
Current P/E (FY20)	22.8x
1Yr Forward P/E (FY21e)	21.6x

Group overview: BMIT Technologies plc (“BMIT” or “the Group”) is engaged in the provision of data centre services, including provision of bandwidth, connectivity and co-location services, and the sale of hardware to third parties.

Exchange	Malta Stock Exchange
52-week range	€0.45- €0.55

Price and Volume Movement (20 day moving average)



Source: Bloomberg

Research Analyst



Andrew Fenech
+356 25 688 133

andrewfenech@cc.com.mt

pandemic. Furthermore, in view of the relative conservative assumptions adopted within our valuation concerning both BMIT's partnership with EBO Ltd ("EBO") and the Group's partial acquisition of EBO, we increased our terminal growth rate assumption from 2% to 2.5%.

Concluding remarks

Notwithstanding the fact that BMIT reported strong financial results for FY20, the Group was still negatively impacted by selective segmental revenue streams. As many businesses implemented remote working policies, management recently reported a lower demand for on premise support during 2020. However, in view of the Group's capabilities within the industry, this was completely offset by a range of new services which were rolled out by the Group to assist customers adjust to the COVID-19 realities.

Furthermore, while many businesses delayed major expansion and investment decisions, which impacted new demand for traditional data centre services, in the online gaming sector, management reported that a good number of online gaming operators continued to register stable or growing demand, with a positive ripple-on effect on BMIT. We deem this to be positive for the Group, more specifically given that as at December 2020, approximately 67% of BMIT's total revenue is derived within the gaming sector.

Despite the current unprecedented situation, the Group proposed a net dividend per share of circa €0.29, translating into a net dividend yield of 5.5%. Although its attractiveness, it reflects a dividend pay-out which is higher than actual earnings, thus the likelihood of the Group maintaining such pay-out is questionable in the foreseeable future.

Moreover, the pandemic accelerated many organisations' focus on attaining business resilience and financial flexibility against similar disruptive episodes, with this creating accelerated demand for cloud and security services. In this regard, we reiterate our stance, that BMIT, being a local technology services provider, is well positioned within the industry to assist businesses make the necessary business model adjustments, whilst continue focusing on additional growth opportunities, investments and internationalisation. Additionally, upon taking the above factors into consideration, we believe that a **Hold** recommendation on BMIT shares is justified."

Group Update

- **Capital expenditure update for 2020 and beyond:**

- ➔ **Zejtun project:** The Group re-confirmed that it is still re-evaluating the strategic decision to develop the Zejtun Data Centre, with management further reporting that a final decision is expected to be taken later on throughout 2021.
- ➔ **Handaq property:** During 2020, BMIT completed the acquisition of the Handaq property for a total consideration of approximately €4m.
- ➔ **EBO Ltd:** Acquisition of 15% in EBO Ltd, a technology company that utilises AI to develop process automation centred on customer conversations and whose technology is powering our CX-VA solution.
- ➔ **Launching of BMIT Technologies CX Virtual Agent (CX-VA):** This service enables an AI-based virtual assistant to help companies enhance their customer support efforts across different communication channels. Management reported that CX-VA is currently being positioned to several prospects.

Valuation

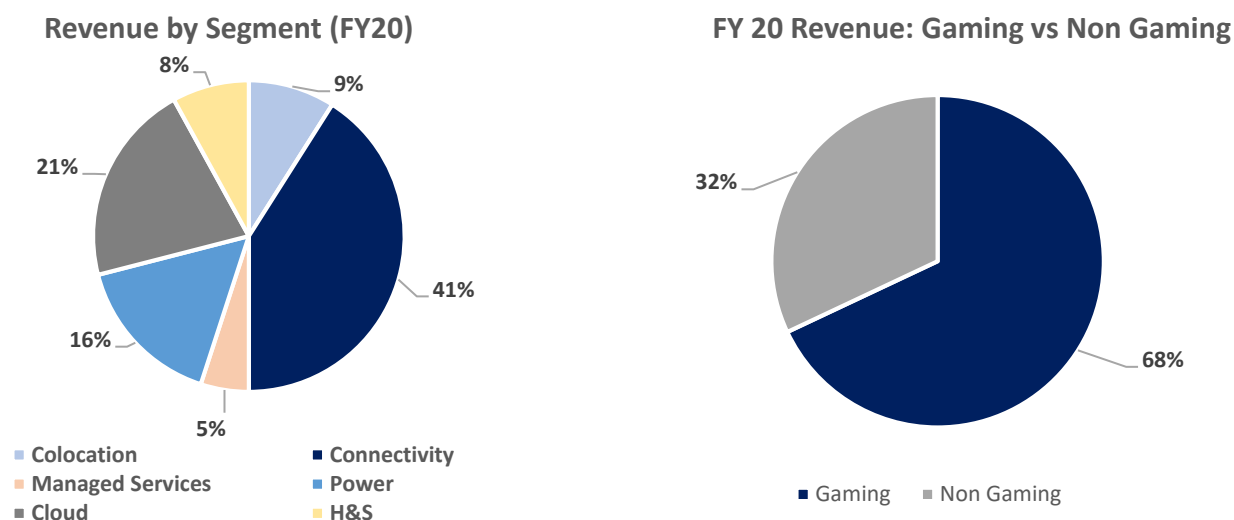
Our 1-year price target of €0.53 is calculated using a Free Cash Flow to the Firm Model (“FCFF”) and a weighted average cost of capital (WACC) of 8.8%. In arriving at our terminal value, we applied a terminal growth rate of 2.5%.

€'000s (unless otherwise indicated)	FY17A	FY18A	FY19A	FY20A	FY21F	FY22P
Revenue	19,717	21,398	22,430	23,977	24,707	25,250
Cost of sales	(8,835)	(9,120)	(8,976)	(10,189)	(11,359)	(11,519)
Gross profit	10,882	12,278	13,454	13,788	13,348	13,731
Administrative and other related expenses	(2,260)	(2,931)	(3,440)	(3,289)	(2,565)	(2,859)
EBITDA	8,622	9,347	10,014	10,499	10,783	10,872
Impairment charge	-	(507)	-	(258)	-	-
Depreciation & amortisation	(2,262)	(1,867)	(2,702)	(2,316)	(2,391)	(2,466)
EBIT	6,360	6,973	7,312	7,925	8,392	8,406
Finance costs	-	-	(137)	(293)	(281)	(268)
Share of profits in associate	-	-	-	-	30	75
Profit before tax	6,360	6,973	7,175	7,632	8,141	8,213
Income tax expense	(2,309)	(2,477)	(2,726)	(2,890)	(2,849)	(2,875)
Net profit after tax	4,051	4,496	4,449	4,742	5,292	5,338
Minority interests	256	9	-	-	-	-
Owners of the Company	3,795	4,487	4,449	4,742	5,292	5,338
Earnings Per Share – in (€)	0.019	0.022	0.022	0.023	0.026	0.026

Ratio Analysis:	FY17A	FY18A	FY19A	FY20A	FY21F	FY22P
Revenue growth (YoY)	9.4%	8.5%	4.8%	6.9%	3.0%	2.2%
Gross Profit margin	55.2%	57.4%	60.0%	57.5%	54.0%	54.4%
EBITDA margin	43.7%	43.7%	44.6%	43.8%	43.6%	43.1%
EBIT margin	32.3%	32.6%	32.6%	33.1%	34.0%	33.3%
Net margin	20.5%	21.0%	19.8%	19.8%	21.4%	21.1%
Shares outstanding (in millions)	203.6	203.6	203.6	203.6	203.6	203.6
Growth in EPS (YoY)	6.8%	18.2%	-0.8%	6.6%	11.6%	0.9%
P/E ratio	n/a	n/a	n/a	22.8x	20.4x	20.2x
Earnings yield	n/a	n/a	n/a	4.4%	4.9%	4.9%
Dividend per share (€)	0.021	0.020	0.022	0.029	0.023	0.024
Growth in dividends (YoY)	18.7%	(8.0)%	9.8%	35.5%	(19.9)%	0.9%
Dividend pay-out ratio	114.6%	89.1%	98.7%	125.5%	90.0%	90.0%
Dividend yield	n/a	n/a	4.1%	5.5%	4.4%	4.5%

Source: BMIT's Financial Statements and CC Workings

Segmental Analysis



Source: BMIT's Stockbrokers' meeting presentations

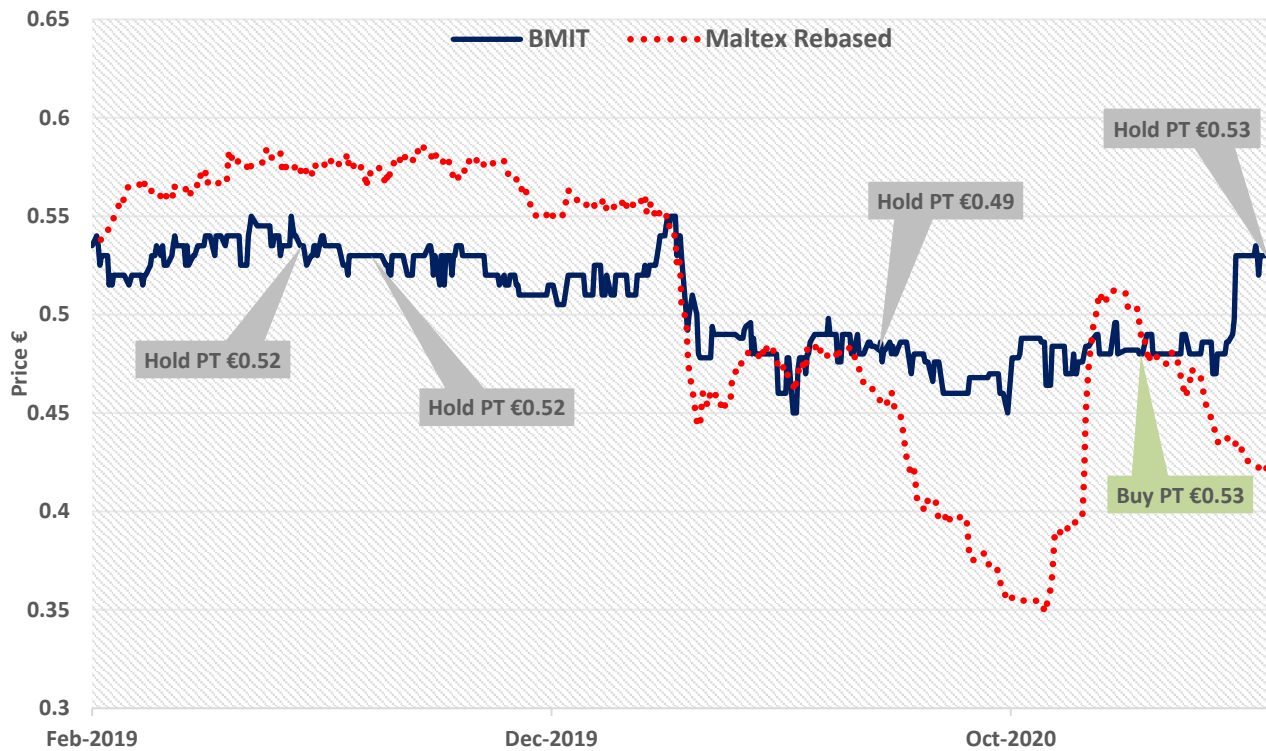
Key Financial Indicators

BMIT Group Financials €'M's unless otherwise indicated	Dec-18	Dec-19	Dec-20
Inventory	0.21	0.19	0.19
Cash and Cash Equivalents	0.67	5.35	3.92
Current Assets	3.18	8.46	7.44
Non-Current Assets	10.42	14.65	18.17
Total Assets	13.60	23.11	25.60
Current Liabilities	6.03	7.11	6.73
Non-Current Liabilities	0.70	4.68	7.20
Total Liabilities	6.73	11.79	13.93
Total Debt	-	4.64	6.97
Total Equity	6.87	11.32	11.67
Net Debt	n/a	n/a	3.06
Shares Outstanding	203.60	203.60	203.60
Cash Flow			
Cash Flow from Operating Activities (CFO)	5.02	7.71	6.62
Capex	1.53	(1.68)	(5.20)
Free Cash Flow (FCF)	6.55	6.04	1.42
Cash Flow from Investing Activities	(3.40)	(1.65)	(6.76)
Cash Flow from Financing Activities	(3.20)	(1.38)	(1.29)
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)*	65.4%	48.9%	41.2%
Return on Assets (Net Income / Total Assets)	33.0%	24.2%	19.5%
Solvency			
Gearing Ratio Level 1 (Net Debt / Total Equity)	n/a	n/a	26.2%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	49.5%	51.0%	54.4%
Net Debt / EBITDA	n/a	n/a	29.1%
Current Ratio (Current Assets / Current Liabilities)	0.5x	1.2x	1.1x
Interest Coverage Ratio (EBITDA / Cash Interest Paid)	n/a	73.1x	41.8x
Cash from Operations / EBIT	0.7x	1.1x	0.8x

Source: BMIT's Financial Statements and CC workings

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
BMIT	01.04.2021	€0.53	€0.53	Andrew Fenech	Hold
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.