

Executive Summary

“Contactless payments have emerged as an essential solution for many companies across the globe, allowing them to boost their business whilst simultaneously ensuring safety to combat the coronavirus pandemic.

Additionally, the virus spread has accelerated a structural shift in demand towards digital commerce, as many companies moved their offering online to mitigate the impact of non-physical store movement.

Following the recent published results by RS2, we maintain our **Buy** recommendation and 1-year price target of €2.12.

Updates to the valuation model:

Allocation of preference shares: Following the preference share offering, the Group received applications for a total amount of *circa* 9m preference shares amounting to a value of €15.7m, as per the recent public announcements.

In view of this, we adjusted our aggregate total number of shares within our valuation, to reflect the aforementioned newly floated shares.

IPO Projections: Notwithstanding the lower than expected participation, management reiterated the Group’s projections provided to investors at IPO stage.

In addition, management further noted that in view of RS2’s healthy project pipeline and the recent on-boarding of a number of large clients, as at Q1-2021, the Group exceeded budgeted expectations within some of its business segments.

To this extent, management confirmed that through internally generated fund, in addition to the preference shares proceeds, the Group is confident to continue on its current growth trajectory and deliver on the previously announced IPO projections. Nevertheless, we maintained our previous expectations on the Group across our projected period (FY21-FY26).

Use of proceeds: In addition to the above, management re-confirmed that the intention of the Group is still to settle off their debt (€10m) with the remaining proceeds being earmarked for investment purposes as originally planned.

FY20 results update:

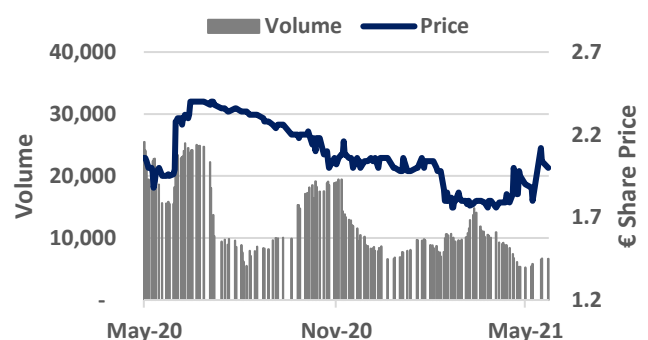
Over the past years, RS2 has shifted its principal focus from the original licensing solution towards the processing and merchant solutions. Inevitably, this change in strategy has altered the Group’s overall revenue generation model from one that is highly

Stock Rating	Buy
Price target (1Yr)	€2.12
Country	Malta
Industry	Software and IT Services
Ticker	RS2
Current Price - Preference Shares	€1.85
1 Year PT - Preference Shares	€2.12
Upside/ Downside to PT	14.6%
12m cash div. (Forecast)	Nil
12m Total S’holder Return	14.6%
Current Price – Ordinary Shares	€2.00
1 Year PT – Ordinary Shares	€2.12
Upside/ Downside to PT	6.0%
12m cash div. (Forecast)	Nil
12m Total S’holder Return	6.0%
Current Market Cap	€402.6m ¹
Current Shares Outstanding	202m ¹
Current Free Float	34.1% ¹
Net Dividend Yield	N/a
Current P/E	N/a
1Yr Forward P/E (FY22e)	84.0x

Group Overview: RS2 Software plc (the “Issuer” or the “Group”) is engaged in the development, installation, implementation and marketing of computer software for financial institutions under the trademark of BankWORKS®. Through its subsidiaries, the Issuer also acts as service provider with the use of BankWORKS® and has recently established its own ‘Acquiring’ business line.

Exchange	Malta Stock Exchange (MSE)
52-week range	€1.70 - €2.56

Price and Volume Movement (20 day moving average) of RS2’s existing ordinary shares



Source: Malta Stock Exchange

Research Analysts



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

¹ The Group’s current market cap, total outstanding shares and free float take into account both the ordinary and preference share classes of the Group.

dependent on one-time licensing fee, to one which is mainly characterised by ongoing and recurring revenue based on the number and value of transactions processed.

More specifically, apart from the fact that RS2's FY20 revenue increased by 6.7% over IPO projections, these results also incorporate €2m in revenue from its new merchant solutions business segment, following the acquisition of Kalicom in January 2020.

When compared to IPO expectations, the Group's 2020 financial performance was also characterised by an elevated level of operating expenditure, with management attributing this to the Group's international expansion strategy as well as an impairment loss on contract on a specific project which is currently on hold. In view of the aforementioned improvement in revenue, RS2 reported a negative EBTIDA of *circa* €1.4m compared to the estimated figure of negative €1.9m.

Concluding remarks:

The payments industry is expected to play a crucial role in rebooting the global economy once the COVID-19 pandemic situation edges closer to normality. More importantly, these fast-emerging digital payment systems, together with the companies providing such service, continue to enjoy high-level trust from the general public.

This being said, as the importance and dependence of cashless payments is visibly growing on a global level, we believe that habitual changes will continue to rely on the support provided by technology oriented companies. To this extent, we expect to possibly continue seeing additional growth in the payments industry.

In view of the above, we reiterate that the RS2 shares provides investors with an attractive entry point into a company that offers an exposure within the lucrative payments industry in Malta, and which is also uniquely positioned for further expansion in other regions, namely in the US market, Europe and Asia Pacific. In view of the above mentioned positive traits, in addition to the milestone achievements announced by the Group during Q1-2020, we believe that a **Buy** recommendation is justified on RS2's share offerings.

Group updates

- **E-Money institution (EMI) licence:** Earlier this week the Group announced that it has been granted an EMI licence by the BaFIN, the German Financial Supervisory Authority. As an EMI institution, the Group will be able to provide direct acquiring and issuing services to merchants, and will be offering such services as from the second half of 2021. RS2 further reported that the intention of the Group will be on the German market, and eventually pass-porting the licence to other European countries at a later stage.

- **Conclusion of major contracts:**

- i. The Group recently announced that it has concluded a major processing outsourcing agreement with its business partner Alpha Fintech to provide acquiring services to Bank of New Zealand in New Zealand. The agreement has been signed for an initial term of 3 years with the option to extend yearly.
- ii. Through its agreement with Alpha, RS2 has also signed on another two clients, a large fintech company in Singapore and a financial institution in Indonesia, for which it is currently in implementation phase.
- iii. RS2 also announced that it has concluded a major processing outsourcing agreement with one of the largest European Fintech companies enabling them to provide acquiring services in Latin America. The agreement has been signed for an initial term of 3 years with the option to extend yearly.
- iv. In addition to the above, the Subsidiary RS2Smart Processing has signed a processing agreement in the Nordic with Landesbankinn in Iceland to provide Omni-channel Acquiring Services to the bank.

Valuation

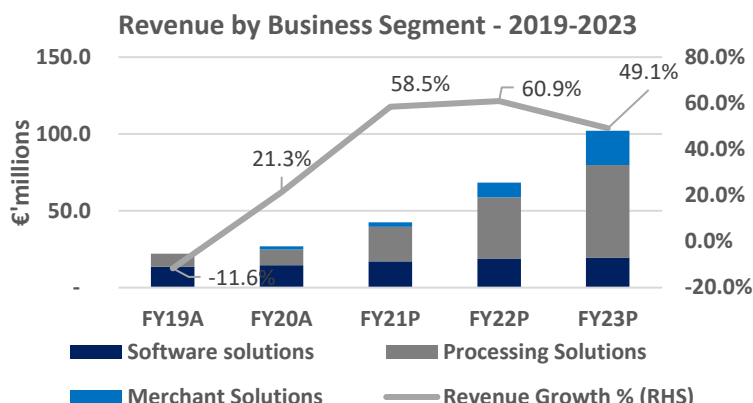
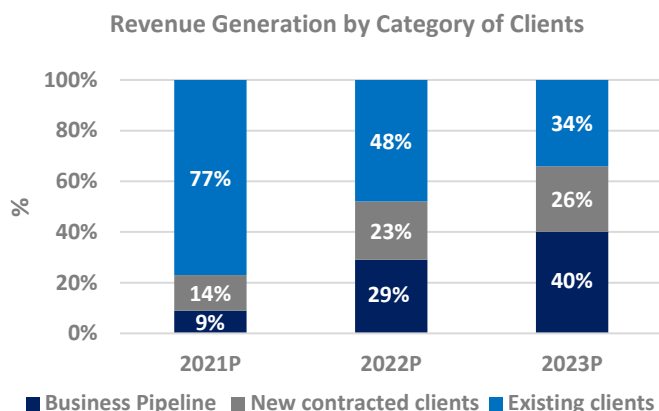
Our 1-year price target of €2.12 is calculated using a Free Cash Flow to the Firm Model ("FCFF") and a weighted average cost of capital of (WACC) of 10.3%. In arriving at our terminal value, we applied an exit multiple of 19.3x on FY26 forecasted FCFF. We also corroborated our price target with an EV/ EBITDA multiple approach.

RS2 Software plc for the year ended 31 Dec €'000s (unless otherwise indicated)	FY18A	FY19A	FY20A	FY21P	FY22P	FY23P
Revenue	25,008	22,100	26,814	42,486	68,416	102,007
Cost of sales (excl. amortisation)	(13,160)	(16,529)	(20,322)	(27,340)	(40,272)	(52,387)
Gross Profit	11,848	5,571	6,492	15,146	28,144	49,620
Other income	67	64	105	43	52	55
Marketing and promotional expenses	(1,013)	(1,852)	(1,525)	(3,317)	(6,462)	(8,381)
Administrative expenses (excl. depreciation)	(4,430)	(6,022)	(7,227)	(8,289)	(10,646)	(11,832)
Other expenses	(13)	(111)	(813)	-	-	-
Impairment on loss on trade receivables and contract assets	123	(73)	(27)	-	-	-
Impairment on loss on contract	-	-	(1,046)	-	-	-
Capitalised development costs	1,268	2,224	2,637	-	-	-
EBITDA	7,851	(199)	(1,404)	3,583	11,088	29,462
Depreciation & Amortisation	(1,245)	(1,796)	(2,044)	(2,653)	(3,403)	(4,541)
EBIT	6,606	(1,995)	(3,448)	930	7,685	24,921
Finance Income	32	31	41	30	30	30
Finance Costs	(72)	(152)	(482)	(345)	(117)	(94)
Profit Before Tax	6,565	(2,115)	(3,889)	615	7,598	24,857
Income tax expense	(3,324)	(1,089)	(2,067)	(601)	(1,744)	(6,404)
Net Profit After Tax	3,241	(3,204)	(5,955)	14	5,854	18,453
Non-controlling interest	(1,006)	(1,570)	(2,175)	(149)	1,045	3,680
Owners of the company	4,247	(1,634)	(3,780)	163	4,809	14,773
	3,241	(3,204)	(5,955)	14	5,854	18,453

Ratio Analysis:	FY18A	FY19A	FY20A	FY21P	FY22P	FY23P
Revenue Growth (YoY)	43.9%	-11.6%	21.3%	58.4%	61.0%	49.1%
EBIT Margin	26.4%	-9.0%	-12.9%	2.2%	11.2%	24.4%
EBITDA Margin	31.4%	-0.9%	-5.2%	8.4%	16.2%	28.9%
Net Margin	13.0%	-14.5%	-22.2%	0.0%	8.6%	18.1%
Shares Outstanding (million)	193	193	193	202	202	202
Earnings Per Share	0.022	(0.008)	(0.020)	0.001	0.024	0.073
Dividend per Share (€)	n/a	n/a	n/a	n/a	n/a	n/a
Dividend pay-out-ratio	n/a	n/a	n/a	n/a	n/a	n/a
Dividend Yield	n/a	n/a	n/a	n/a	n/a	n/a

Source: RS2's Financial Statements, Registration Document and CC workings

Segmental Analysis



Source: RS2's Financial Statements, Registration Document and CC workings

Key Financials Indicators

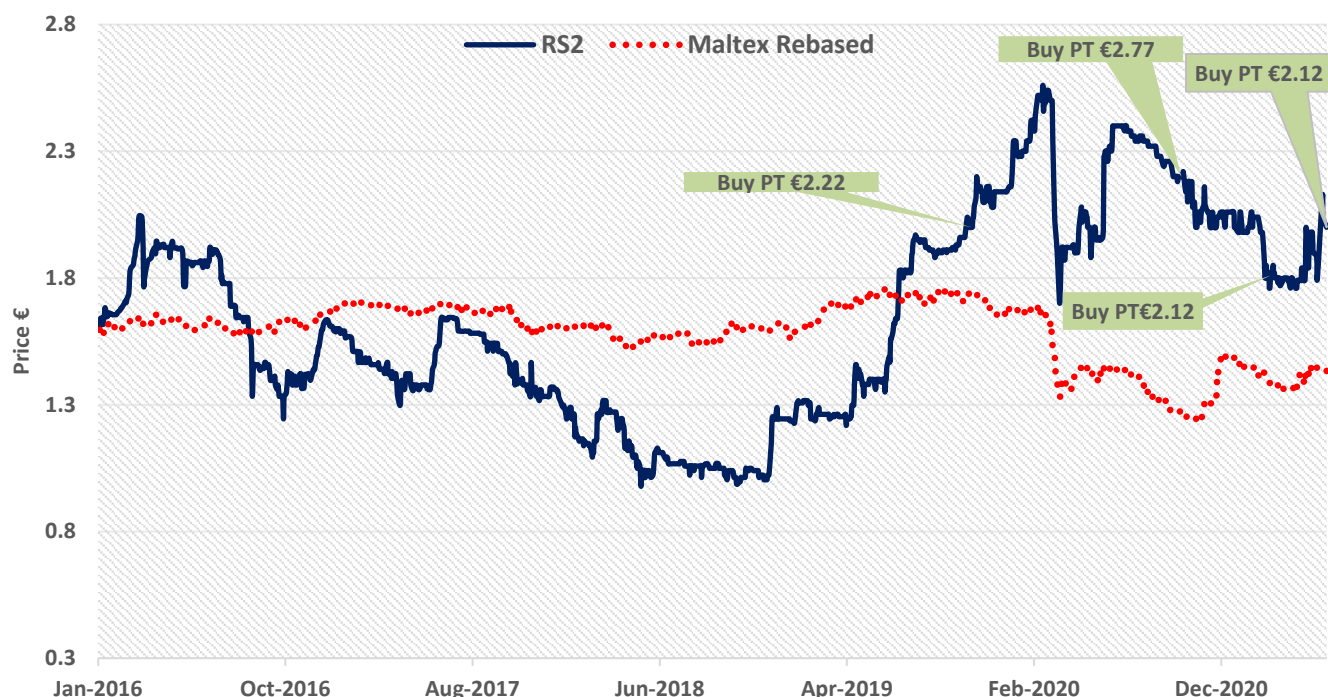
RS2 Software plc for the year ended 31 Dec - €'000s (unless otherwise indicated)	Dec-18	Dec-19	Dec-20
Balance Sheet			
Cash and Cash Equivalents	3,403	2,422	6,822
Current Assets	10,116	10,074	13,114
Non-Current Assets	17,854	21,738	24,971
Total Assets	27,970	31,812	38,085
Current Liabilities	6,505	11,053	22,213
Non-Current Liabilities	4,233	6,674	8,802
Total Liabilities	10,738	17,727	31,015
Total Financial Debt	834	6,542	14,041
Total Equity	17,232	14,085	7,070
Net Debt	n/a	4,120	7,219
Cash flow			
Cash Flow from Operating Activities (CFO)	1,297	(1,109)	2,716
Capex	(2,145)	(2,666)	(2,937)
Free Cash Flow (FCF)	(848)	(3,775)	(221)
Cash Flow from Investing Activities	(2,145)	(2,679)	(4,888)
Cash Flow from Financing Activities	(3,525)	2,798	1,355
Ratios			
Profitability			
Return on Common Equity (Net Income / Common Equity)	34.8%	n/a	n/a
Return on Assets (Net Income / Total Assets)	11.3%	n/a	n/a
Solvency			
Gearing Ratio Level 1 (Net Debt / Net Debt and Total Equity)	n/a	22.6%	50.5%
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	38.4%	55.7%	81.4%
Net Debt / EBITDA	n/a	n/a	n/a
Current Ratio (Current Assets / Current Liabilities)	1.56x	0.91x	0.59x
Interest Coverage Ratio (EBITDA)	0.12x	n/a	n/a
Cash from Operations / EBIT	0.20x	0.56x	n/a

Source: RS2's Financial Statements and CC workings

Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
RS2	27.05.2021	€2.00	€2.12	Andrew Fenech	Buy
RS2	25.02.2021	€1.81	€2.12	Andrew Fenech & Rowen Bonello	Buy
RS2	05.10.2020	€2.18	€2.77	Andrew Fenech & Rowen Bonello	Buy
RS2	04.11.2019	€2.00	€2.22	Simon Psaila & Andrew Fenech	Buy

Reference	Date	Price	Price Target	Analyst	Recommendation
RS2P	27.05.2021	€1.85	€2.12	Andrew Fenech	Buy
RS2P	25.02.2021	€1.75	€2.12	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 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.