11 July 2017

# AMINO TECHNOLOGIES

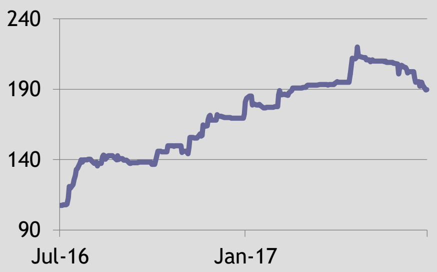
# TECHNOLOGY HARDWARE AND EQUIPMENT

**AMO.L**

187.5p

Market Cap: £134.7m

**SHARE PRICE (p)**




| | |
|---|---|
| 12m high/low | 220p/107p |

***Source: LSE Data***

**KEY INFORMATION**

| | |
|---|---|
| Enterprise value | £128.5m |
| Index/market | FTSE AIM |
| Next news | Trading Update, Oct 17 |
| Gearing | N/A |
| Interest cover | N/A |

**AMINO TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE**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## Strong H1 2017 delivery

**Amino has reported H1 17A results ahead of management's expectations, and a closing net cash position (£13.1m) confirmed as having more than doubled over FY 16A. Key metrics saw impressive growth, with turnover and adjusted EBITDA up 21% and 70% respectively. IP device sales were strong, particularly in the Americas. In software, the group continues to report positive momentum. We leave earnings estimates unchanged at this stage and believe the maintained progressive dividend policy (+10% y/y) continues to demonstrate management's confidence in the outlook.**

- **Impressive growth and margin improvement:** Group revenue in the first half was up 21% to £39.9m and adjusted EBITDA 70% higher at £8.8m, albeit materially boosted by FX. Against an industry backdrop of higher memory prices, IP device sales (Amino View) were strong (ex-Europe), with margin performance boosted by a higher proportion of mature products sold in the period and also by ex-Entone products entering the Amino supply chain with margin improvement.
- **IP devices performing strongly:** View TV device sales were particularly strong in the Americas, with turnover up 38% in North America and 196% in Latin America. A number of contract wins were recorded during the period in both regions and sales via distribution partners in North America "showed good momentum".
- **Europe (temporarily) impacted by one customer:** Offsetting the impressive performance in the Americas, European revenues fell 48%, primarily as a result of the takeover of one large customer that we believe may be Vodafone Netherlands. Although disappointing, management is optimistic that the impact is temporary and volumes will rebuild as the client re-establishes normal operations.
- **Enable gaining further traction:** H1 17A saw the launch of the Enable software suite, allowing operators to upgrade legacy (non-Amino) STB (Set-top box) deployments with Amino software, at a material cost saving vs new hardware. Following the Cincinnati Bell and PCCW software contracts (both 2016), the GTD (Chile) deal is a further positive, and the upbeat comments around the pipeline give further confidence in the outlook.

European business aside, in our view Amino has enjoyed a strong first half. Promising pipeline development around Enable should allow further expansion into FY 18E and beyond. As a signal of management confidence, after six consecutive years of growth, the progressive dividend growth story remains intact - the yield is becoming increasingly attractive.

| YEAR END NOVEMBER | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|
| **Revenue (£m)** | 36.2 | 41.7 | 75.2 | 80.5 | 83.7 |
| **Adjusted EBITDA (£m)** | 6.7 | 7.5 | 13.5 | 14.6 | 15.6 |
| **Adjusted PBT (£m)** | 4.2 | 5.2 | 10.2 | 11.0 | 12.0 |
| **Adjusted EPS** | 7.8 | 8.5 | 13.5 | 13.8 | 15.1 |
| **EV / Adj EBITDA** | 19.1x | 17.2x | 9.5x | 8.8x | 8.2x |
| **P/E** | 24.0x | 22.0x | 13.9x | 13.6x | 12.4x |
| **Dividend Yield (%)** | 2.7% | 2.9% | 3.2% | 3.6% | 3.9% |

***Source: Company Information and Progressive Equity Research estimates***

## Regional performance

**North America** (*62% turnover H1 17A*): The key North America business saw revenue growth of 38% during the period. Sales via distribution partners were strong; these are typically to small and medium-sized operators. Follow-on orders were received for IP devices following a previous software sale and post-period-end, a new contract was signed with Muscatine Power and Water for a legacy Cable TV to IP devices migration.

**Latin America** (*20% turnover H1 17A*): Latin America saw revenue growth of 196%. Business volumes in Amino's second largest unit continue to be driven by both new and existing customers for both IP devices and the Enable software platform.

**Europe** (*15% turnover H1 17A*): Within the group H1 strength, European revenues showed a material decline (48% YoY), as the company had previously heralded, as one of the largest customers underwent a major M&A activity. We note that Amino (and Entone) had previously supplied IP devices to Vodafone Netherlands. The consumer fixed-line business of Vodafone Netherlands was acquired by T-Mobile in December 2016. We therefore assume Vodafone Netherlands is the affected client. Amino is hopeful that volumes will rebuild as the client re-establishes normal operating procedures, but clearly this dip impacted on global performance.

On a more positive note, H1 17A saw the first implementation of an end-to-end entertainment service to Netherlands-based operator Delta, comprising both the MOVE cloud-TV platform and VIEW IP devices.

## Enable suite key to medium-term success

Recent years have seen Amino place increasing focus on software solutions alongside the traditional IP set-top box (STB) business. Software sales contributed 7.5% of H1 17A turnover.

The period also saw the launch of the Enable "virtual set-top box" software suite. The platform allows existing operators to upgrade legacy STB deployments with Amino software, at a material cost saving compared with a new hardware deployment.

Announced earlier this month, the signing of the contract with Chilean operator GTD is a further sign of the suite's potential, and follows the Cincinnati Bell and PCCW (Hong Kong) software-only contracts, both of which were signed during FY 16A.

Over the medium term, we believe that gaining commercial traction with Enable will be key to Amino's financial success. The Enable solution is targeted primarily at network operators, who face the twin problem of legacy TV delivery platforms and vast numbers of old-technology hardware devices installed in subscribers' homes. Enable offers the customer three key attributes:

- A reliable telco-grade platform for installation within the company's own infrastructure
- Ability to run easily-installed and "light" software inside EXISTING (often non-Amino) STB installations in subscriber's homes. There is no need for expensive engineer visits, and with minimal disruption, the end-user receives a noticeably-better experience (new services and user interface etc) all delivered through their existing (old) equipment
- Over time, older equipment is replaced with new STBs, but the CAPEX is limited and phased, and subscribers see additional enhancements to full functionality as and when this is prioritised

Clearly, for large companies, there is a prohibitive expense and logistical challenge around a major “rip and replace” programme to migrate large subscriber bases from old-style cable TV to latest IPTV delivery. Amino offers clients, through the Enable solution, a clever hybrid and “staged” approach, allowing quick setup of the head end, immediate benefits to all subscribers through IPTV enhancements over their existing hardware, and then steady rollout of full cutting-edge experience as and when the CAPEX is warranted.

Premium subscribers can be migrated rapidly, new subscribers (and perhaps large blocks of customers in certain buildings/locations) can be switched to the new equipment. The flexibility and elegance of Enable allows these decisions to be managed and controlled within an operator’s budget and cash constraints, rather than IPTV being an all-or-nothing switchover with associated risk and pressure.

### Enable and its impact for Amino

Enable, as described above, is a highly attractive offering to customers. Its impact on Amino, and in particular the financial implications, can be more difficult to analyse.

The Enable offering is essentially a software sale, followed by modest hardware sales over time. The financial model is, in general, a recurring licence fee, which therefore takes time to build, and which is (in the early months) less lucrative than the traditional customer engagement model of simply selling a number of boxes.

Over time, this SaaS-style delivery and revenue recognition will be more valuable to Amino, with high levels of recurring revenue and visibility. However, in the near term, Amino will be recognising lower levels of revenue.

The Cincinnati Bell (CBT) deal, announced during FY 16A, was, we understand, different to this generic SaaS approach. There was a material software licence sale as the company announced at the time, which was recognised during FY 16A. We believe the GTD win in Chile is, for now, a one-off deal, so won’t contribute to H2 17E.

Combined with the major scale of the CBT and PCCW wins over the last year, and the strong sales of traditional (non-Enable) hardware that the group enjoyed during H1 17A, the overall financial progression is positive, but difficult to map precisely.

## Earnings estimates unchanged

Amino has historically been highly concentrated in terms of customers – the top two account for c.30% of sales, while the top 15 account for nearly 85% of revenue. As discussed above, the side effects of high customer concentration were clearly demonstrated in the European business in the H1 17A results.

In a business such as Amino’s, which is primarily driven by hardware shipments, half-on-half performance can be relatively volatile. Despite the very strong H1 17A performance therefore, we are reluctant to extrapolate necessarily to full-year outperformance.

We would expect that H2 17E will benefit modestly from GTD in Chile (and any further wins) but the strength of H1 17A in hardware sales may not be repeated. A strong H1 17A may therefore be followed by a quieter H2 17E. There are clear signs of success in the move towards a software-heavier model (and Enable) but we anticipate that material success in software will necessarily take time to manifest itself in the financial performance,

For these combined reasons, we choose to leave our full-year 2017 estimates largely unaltered at this time. That said, we have made alterations to FY 17E and FY18E revenue estimates (c4% reduction in both years). Whilst our expectation of underlying business performance is unchanged, we have made revisions to exchange rate assumptions. In offset, we have also reduced opex forecasts. The net result is that other key metrics - EBITDA, adjusted PBT, EPS and the net cash position - are unchanged from those published in our previous research. (*Solid H1 2017, on track for the full year, PERL 06/06/17*).

## SUMMARY FINANCIALS

| Year ended November | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Profit & Loss** | Act | Act | Act | Act | Est | Est |
| Revenue £m | 35.9 | 36.2 | 41.7 | 75.2 | 80.5 | 83.7 |
| Adj EBITDA £m | 6.0 | 6.7 | 7.5 | 13.5 | 14.6 | 15.6 |
| Adj EBIT £m | 3.3 | 4.1 | 5.1 | 10.2 | 11.0 | 12.0 |
| Reported PBT | 4.2 | 4.0 | 0.3 | 2.9 | 6.4 | 9.0 |
| PBT before exceptionals and AAG | 3.4 | 4.0 | 5.3 | 10.5 | 11.7 | 12.7 |
| Fully adj PBT | 3.4 | 4.2 | 5.2 | 10.2 | 11.0 | 12.0 |
| NOPAT | 3.3 | 4.1 | 5.1 | 10.2 | 11.0 | 12.0 |
| Reported EPS | 7.8 | 7.6 | 0.6 | 3.8 | 7.5 | 11.1 |
| EPS before exceptionals and AAG | 6.4 | 7.5 | 9.0 | 14.5 | 14.8 | 16.1 |
| Fully adj EPS | 6.3 | 7.8 | 8.5 | 13.5 | 13.8 | 15.1 |
| Dividend per share p | 3.5 | 5.0 | 5.5 | 6.1 | 6.7 | 7.3 |
| **Cash flow & Balance sheet** | | | | | | |
| Operating cash flow | 7.1 | 7.2 | 6.4 | 13.6 | 13.1 | 14.6 |
| Free Cash flow £m | 4.4 | 4.7 | 2.8 | 10.8 | 9.5 | 11.0 |
| FCF per share p | 8.3 | 8.7 | 4.7 | 15.2 | 13.0 | 15.0 |
| Capex | (2.9) | (2.5) | (3.3) | (3.5) | (3.5) | (3.5) |
| Acquisitions | 0.0 | 0.0 | (38.8) | (2.6) | (1.5) | 0.0 |
| Net cash flow | 2.1 | 1.5 | (38.6) | 4.2 | 3.7 | 6.1 |
| Shares issued | 0.3 | 0.0 | 19.9 | 0.0 | 0.0 | 0.0 |
| Net cash/(debt) | 19.5 | 20.8 | 2.0 | 6.2 | 9.9 | 16.0 |

| Metrics | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| Revenue growth | *-14.0%* | *0.9%* | *15.1%* | *80.6%* | *7.1%* | *4.0%* |
| Adj EBITDA growth | *-3.2%* | *11.1%* | *11.2%* | *81.0%* | *8.1%* | *6.7%* |
| Adj EBIT growth | *14.8%* | *24.1%* | *24.0%* | *100.7%* | *7.8%* | *8.9%* |
| Adj PBT growth | *16.4%* | *22.6%* | *22.9%* | *98.1%* | *7.8%* | *9.0%* |
| Adj EPS growth | *12.8%* | *23.6%* | *9.2%* | *58.5%* | *2.0%* | *9.5%* |
| Dividend growth | *15.0%* | *44.9%* | *10.0%* | *10.2%* | *10.0%* | *10.0%* |
| Adj EBIT margins | *9.2%* | *11.4%* | *12.2%* | *13.6%* | *13.7%* | *14.3%* |
| Operating cash conversion | *116.7%* | *106.5%* | *85.6%* | *100.3%* | *89.7%* | *93.5%* |
| Capex/Depreciation | 106% | 95% | 115% | 334% | 259% | 258% |

| Valuation | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| EV/sales | 3.6 | 3.6 | 3.1 | 1.7 | 1.6 | 1.5 |
| EV/EBITDA | 21.5 | 19.4 | 17.4 | 9.6 | 8.8 | 8.2 |
| EV/NOPAT | 39.3 | 31.7 | 25.5 | 12.7 | 11.6 | 10.7 |
| PER | 30.1 | 24.3 | 22.3 | 14.1 | 13.6 | 12.4 |
| Dividend yield | 1.8% | 2.6% | 2.9% | 3.2% | 3.6% | 3.9% |
| FCF yield | 4.4% | 4.6% | 2.5% | 8.0% | 6.9% | 8.0% |

***Source: Company information, Progressive Equity Research estimates***

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