

GAMMA COMMUNICATIONS

SOFTWARE AND COMPUTER SERVICES

GAMA.L

1070p

Market Cap: £1005.6m

SHARE PRICE (p)



12m high/low

1,195p/688p

Source: LSE Data

KEY INFORMATION

Enterprise value	£974m
Index/market	AIM
Next news	Interims, 3 Sep 2019
Gearing	N/A
Interest cover	N/A

GAMMA COMMUNICATIONS IS A
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An impressive first half

Gamma's H1 trading update reports another strong performance. In light of that, while management expects full year revenue to be within consensus range, it anticipates that EBITDA and EPS for FY 2019E will be slightly above the range of market expectations. As a result, we are assuming greater overhead efficiency than we had previously allowed for and we are increasing our FY 2019E EBITDA estimate by £1 million to £56.5 million - with the expectation of reassessing this further (positively) at the time of the interims in September. The update confirms that there has been continued growth in the UK across both direct and indirect channels. Cloud PBX sales have performed well again but there is a nod to the effects of an increasingly competitive market in the statement. Additionally, during the period, Gamma implemented the first phase of its digital transformation program in the Direct business. In all, this represents another strong period of growth for Gamma which, as CEO Andrew Taylor notes, balances near-term delivery with the execution of the Group's longer term strategy.

- During the first half, the Indirect Channel business signed commitment deals with several Channel Partners while the Direct business has been awarded a number of new multi-year contracts across its Enterprise customer base.
- The group launched Collaborate, Gamma's new UCaaS (Unified Communications as a Service) product in March, bringing additional features to the core Horizon product. The launch has provided channel partners with the opportunity to service the UK mid-market with Gamma's products, thus extending its current addressable market for Cloud PBX. The update says that the reception in the market has been positive.
- Gamma's cash generation remains strong and the Group ended the half year with around £44.6 million compared to £35.5 million at the end of December 2018. The update says that cash conversion from EBITDA is anticipated to be in line with previous levels. Management has previously guided to a range of between 80-85% following the accounting standard changes that have been applied to recent results periods.
- The update states that the Dutch business is performing in line with management's expectations, as Cloud seats increase while the traditional ISDN business declines as anticipated. Acquisitions in Western Europe remain on the cards where they would provide a channel to sell UCaaS products into a larger geographic market.

FYE DEC (€M)	2017	2018	2019E	2020E	2021E
Revenue	242.0	284.9	318.4	345.0	370.0
Adjusted EBITDA	36.0	48.3	56.5	60.0	65.0
Adjusted PBT	26.2	34.8	41.0	43.4	47.7
Adjusted EPS	23.1	30.3	35.3	37.4	41.0
EV/Sales (x)	4.0x	3.4x	3.1x	2.8x	2.6x
EV/ Adj. EBITDA (x)	27.1x	20.2x	17.3x	16.2x	15.0x
P/E (x)	46.3x	35.3x	30.3x	28.6x	26.1x

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Gamma Communications

Year end: December (£m unless shown)

	2017	2018	2019E	2020E	2021E
PROFIT & LOSS					
Revenue	242.0	284.9	318.4	345.0	370.0
Adj EBITDA	36.0	48.3	56.5	60.0	65.0
Adj EBIT	25.6	34.4	40.2	42.4	47.3
Reported PBT	26.5	34.6	40.6	43.0	47.3
Fully adj PBT	26.2	34.8	41.0	43.4	47.7
NOPAT	21.6	28.7	32.9	34.7	47.7
Reported EPS	24.0	30.1	34.9	36.9	40.6
Fully adj EPS	23.1	30.3	35.3	37.4	41.0
Dividend per share	8.4	9.3	10.3	11.3	12.5
CASH FLOW & BALANCE SHEET					
Operating cash flow	29.8	40.6	47.2	50.0	54.6
Free Cash flow	10.7	23.8	26.5	28.1	32.0
FCF per share	11.3	25.1	28.1	29.7	33.9
Acquisitions	0.0	(11.1)	(1.7)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	3.4	3.9	15.8	18.2	21.1
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	31.6	35.5	51.3	69.5	90.6
Net (Debt)/Cash	31.6	35.5	51.3	69.5	90.6
NAV AND RETURNS					
Net asset value	95.3	121.7	145.6	170.5	197.8
NAV/share	104.1	129.5	154.9	181.4	210.4
Net Tangible Asset Value	79.8	83.7	108.3	135.7	165.7
NTAV/share	87.2	89.1	115.2	144.4	176.3
Average equity	87.8	108.5	133.6	158.0	184.1
Post-tax ROE (%)	25.9%	26.3%	24.6%	22.1%	20.8%
METRICS					
Revenue growth	13.3%	17.7%	11.8%	8.3%	7.2%
Adj EBITDA growth	5.3%	34.2%	16.9%	6.3%	8.3%
Adj EBIT growth	5.3%	34.4%	16.8%	5.6%	11.4%
Adj PBT growth	10.4%	32.8%	17.9%	5.9%	9.7%
Adj EPS growth	16.4%	31.2%	16.5%	5.9%	9.7%
Dividend growth	12.0%	10.7%	10.2%	10.2%	10.6%
Adj EBIT margins	10.6%	12.1%	12.6%	12.3%	12.8%
VALUATION					
EV/Sales	4.0	3.4	3.1	2.8	2.6
EV/EBITDA	27.1	20.2	17.3	16.2	15.0
EV/NOPAT	45.0	33.9	29.6	28.1	20.4
PER	46.3	35.3	30.3	28.6	26.1
Dividend yield	0.8%	0.9%	1.0%	1.1%	1.2%
FCF yield	1.1%	2.3%	2.6%	2.8%	3.2%

Source: Company information and Progressive Equity Research estimates

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