

KAPE TECHNOLOGIES

SOFTWARE AND COMPUTER SERVICES

KAPE.L

126p

Market Cap: £177.7m

SHARE PRICE (p)



12m high/low

126p/57p

Source: LSE Data

KEY INFORMATION

Enterprise value	£124.7m
Index/market	AIM
Next news	Interims, 24 Sep '18
Gearing	N/A
Interest cover	N/A

**KAPE TECHNOLOGIES IS A RESEARCH
CLIENT OF PROGRESSIVE**

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Honing the focus on cybersecurity and SaaS

Following the announcement of its acquisition of Intego earlier this week, Kape has issued a positive trading update for the first half of its current financial year (FY 2018E). EBITDA has shown a good increase over the same period in 2017 on the back of the expected reduction revenues. The latter reflects lower revenues from the Media division – the disposal of which Kape also announces – and the discontinued activity of the web apps business. This leaves Kape neatly focused on its core App Distribution segment with a stronger outlook for margin improvement and with a consistent approach to being a SaaS-enabled consumer cybersecurity business. We note the strong start to FY 2018E which incorporates good recurring revenue (40% of new Reimage sales were subscription based). Looking at H1 2018E revenues and the Media disposal, we reduce revenue estimates for FY2018E by 18% and 13% for FY 2019E. Adjusted EBITDA estimates reduce by 2% and 4% respectively.

- A strong first half performance by Kape has resulted in anticipated Adjusted EBITDA of around U\$4.3 million in H1 2018E versus U\$2.9 million in H1 2017, growth of 48%. Adjusted EBITDA growth from core activities of around 172% reflects strong organic growth. CyberGhost continues to exceed management expectations.
- Revenues are expected to be around U\$26.4 million for the first half of FY 2018E (H1 2017: U\$30.1 million). Within that, revenues from the App Distribution division increased by 14%. The overall decline reflects the discontinued activity of the web apps business and the Media division being treated as a discontinued activity starting April.
- Kape has also announced the sale of its Media division to Ecom online Ltd. This sale is consistent with Kape's strategy of developing and distributing its own cybersecurity products and further focuses the group on its core activities. As consideration, Kape will receive a 50% profit share for the next five years from the Media division following the sale. All Media division employees will be transferred to Kape's core App Distribution segment.
- In FY 2017, the Media division generated revenue of U\$15.78 million and Adjusted EBITDA of U\$0.2 million. We are reducing our revenue estimates by 18% for the current financial year and by 13% for FY 2019E. Adjusted EBITDA reduce by 2% and 4% respectively reflecting the higher margins associated with revenues from core activities and the Intego acquisition.

FYE DEC (\$M)	2015	2016	2017	2018E	2019E
Revenue	84.6	56.5	66.4	60.7	71.1
Adjusted EBITDA	10.1	6.4	8.3	10.2	13.5
Adjusted PBT	8.1	4.8	6.7	9.2	12.1
Adjusted EPS (€)	4.6	2.7	3.8	5.2	7.4
EV/Sales	1.9	2.9	2.5	2.7	2.3
EV/ Adj. EBITDA	16.2	25.5	19.8	16.0	12.1
P/E	35.6	61.2	43.5	31.7	22.3

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Kape Technologies

Year end: December (\$m unless shown)

PROFIT & LOSS (U\$m)	2015	2016	2017	2018E	2019E
Revenue	84.6	56.5	66.4	60.7	71.1
Adj EBITDA	10.1	6.4	8.3	10.2	13.5
Adj EBIT	0.7	(3.5)	6.9	8.8	11.8
Reported PBT	(14.7)	(10.0)	(2.9)	7.9	11.5
Fully adj PBT	8.1	4.8	6.7	9.2	12.1
NOPAT	8.2	4.3	6.2	8.2	11.0
Reported EPS (c)	(11.9)	(7.6)	(2.5)	3.8	5.7
Fully adj EPS (c)	4.6	2.7	3.8	5.2	7.4
Dividend per share (c)	0.0	0.0	4.9	0.0	0.0
CASH FLOW & BALANCE SHEET (U\$m)	2015	2016	2017	2018E	2019E
Operating cash flow	5.9	5.9	6.5	12.1	14.3
Free Cash flow (U\$m)	1.8	3.0	4.5	8.9	10.7
FCF per share (c)	1.2	2.1	3.1	6.1	7.4
Acquisitions	(0.9)	(1.1)	(5.5)	(16.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	(5.1)	(1.0)	0.0	0.0	0.0
Net cash flow	(4.7)	0.7	(2.6)	(14.1)	10.7
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	71.3	72.1	69.5	55.4	66.1
Net (Debt)/Cash	71.3	72.1	69.5	55.4	66.1
NAV AND RETURNS (U\$m)	2015	2016	2017	2018E	2019E
Net asset value	91.5	80.6	79.4	78.0	86.2
NAV/share (c)	64.8	57.1	56.3	55.1	60.9
Net Tangible Asset Value	72.3	73.4	67.0	51.3	60.9
NTAV/share (c)	51.1	52.1	47.5	36.2	43.0
Average equity	101.2	86.0	80.0	78.7	82.1
Post-tax ROE (%)	(17.4%)	(12.4%)	(4.5%)	7.1%	10.0%
METRICS	2015	2016	2017	2018E	2019E
Revenue growth	19.0%	(33.2%)	17.4%	(8.5%)	17.1%
Adj EBITDA growth	(26.2%)	(36.3%)	28.8%	23.3%	32.7%
Adj EBIT growth	(85.3%)	(600.1%)	(297.6%)	28.9%	33.9%
Adj PBT growth	(10.2%)	(41.5%)	40.2%	37.4%	32.6%
Adj EPS growth	(49.1%)	(41.7%)	40.5%	37.4%	42.3%
Dividend growth	N/A	N/A	N/A	(100.0%)	N/A
Adj EBIT margins	0.8%	(6.1%)	10.3%	14.6%	16.6%
VALUATION	2015	2016	2017	2018E	2019E
EV/Sales	1.9	2.9	2.5	2.7	2.3
EV/EBITDA	16.2	25.5	19.8	16.0	12.1
EV/NOPAT	19.8	37.7	26.2	19.9	14.8
PER	35.6	61.2	43.5	31.7	22.3
Dividend yield	N/A	N/A	3.0%	N/A	N/A
FCF yield	0.7%	1.3%	1.9%	3.7%	4.5%

Source: Company information and Progressive Equity Research estimates

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