GFT Technologies AG

Germany/Software & Computer Services

Analyser

GFT Technologies AG (Buy) Fehler! Kein Text mit angegebener

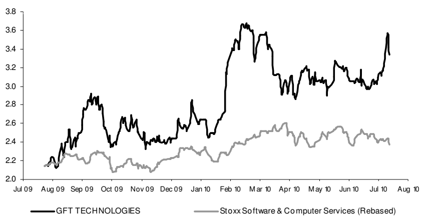
Buy

Recommendation unchanged

Share price: EUR	**3.34**
closing price as of 11/08/2010	
Target price: EUR	**4.70**
vs Target Price: EUR	**4.20**
Reuters/Bloomberg	GFTG.DE/GFT GY

Market capitalisation (EURm)	88
Current N° of shares (m)	26
Free float	57%
Daily avg. no. trad. sh. 12 mth	36,124
Daily avg. trad. vol. 12 mth (m)	0
Price high 12 mth (EUR)	3.68
Price low 12 mth (EUR)	2.06
Abs. perf. 1 mth	8.27%
Abs. perf. 3 mth	8.44%
Abs. perf. 12 mth	57.55%

Key financials (EUR)	12/09	12/10e	12/11e
Sales (m)	217	241	251
EBITDA (m)	9	12	13
EBITDA margin	*3.9%*	*4.8%*	*5.3%*
EBIT (m)	7	10	12
EBIT margin	*3.4%*	*4.3%*	*4.8%*
Net Profit (adj.)(m)	6	8	9
ROCE	10.9%	14.7%	16.5%
Net debt/(cash) (m)	(35)	(41)	(47)
Net Debt/Equity	*-0.5*	*-0.6*	*-0.6*
Debt/EBITDA	-4.2	-3.5	-3.6
Int. cover(EBITDA/Fin. int	(16.4)	(19.3)	(18.3)
EV/Sales	0.1	0.2	0.2
EV/EBITDA	3.4	4.1	3.1
EV/EBITDA (adj.)	3.4	4.1	3.1
EV/EBIT	3.9	4.6	3.4
P/E (adj.)	10.4	11.0	9.5
P/BV	1.0	1.2	1.1
OpFCF yield	*9.0%*	*8.0%*	*10.3%*
Dividend yield	*3.0%*	*3.3%*	*3.3%*
EPS (adj.)	0.23	0.30	0.35
BVPS	2.50	2.70	2.95
DPS	0.10	0.11	0.11



Source: Factset

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Excellent Q210 results – we increase our TP to EUR 4.70

The facts: GFT Technologies has reported excellent Q2 2010 results and raised its guidance for FY 2010 the second quarter in a row. We have also increased our estimates and lift the target price from EUR 4.20 to EUR 4.70. Buy.

Our analysis: Revenues in Q2 2010 rose by 11% yoy to EUR 60.3m. This was roughly 6% ahead of our expectation. The positive trend was also visible in the sequential development, as revenues grew also by 11% vs. Q1 2010.

The main driver of this positive development was the Services segment, which showed an increase of 38% yoy and 11% sequentially. Sales in the Resourcing segment remained stable yoy at EUR 30.6m, with the low margin Third-Party Management business and the higher margin Resource Management achieving similar sales levels. QoQ revenues in the Resourcing segment increased by 11%.

The pre-tax result increased 81% yoy to EUR 3.0m. This implies an EBT margin of 5.0%. We had expected an EBT of 2.8m and an EBT margin of 4.9%. The services segment reached an EBT of EUR 2.7m, an increase of 105% yoy and implying an EBT margin of 9.2%. The resourcing business recorded an EBT of 0.5m in Q2 2010 or roughly 1.6% of sales. While the EBT margin in the Third-Party Management business was in line with the target level of 0.5%, the higher margin Resource Management business was at roughly 2.7% EBT margin and thus below the target rate of 3.0%. This was mainly a result of an increased headcount for sales and marketing, which has been increased in order to exploit growth possibilities in H2 2010.

In Q1 2010 GFT had reached an EBT of EUR 1.6m. This number was however burdened by a cost overrun of EUR 1m in a fixed-price project. Adjusted for this burden GFT Technologies had reached an EBT margin of 4.8% in Q1. The adjusted EBT margin in Q2 was thus only slightly higher than in Q1 2010.

The better than expected earnings development was mainly a result of the better than expected top-line development. The low operating leverage compared to the adjusted EBT in Q1 2010 is in line with our expectations: 1) The additional revenues came partly from the lower margin resourcing business. 2) The services segment was running in Q1 2010 already at almost full capacity and could thus only be grown by adding further head count.

Following the good development in Q2 2010 GFT Technologies has once again increased its guidance for FY 2010. The company now expects revenues of at least EUR 240m and a pre-tax result in the range of EUR 10- EUR 11m.

Given that demand continues to be very strong in the Services segment and that the EBT margin in the Resourcing segment is set to improve in H2 2010 we believe that this new outlook is conservative. We have thus increased our EBT forecast from EUR 9.7m by 15% to now EUR 11.1m, thus exceeding the upper end of the targeted range. Our adjusted EPS forecast is increased by 10% to EUR 0.29 per share. For FY 2011 we have increased our adj. EPS forecast by 14% to EUR 0.35.

Due to the increase in our estimates we have also increased our peer group based target price from so far EUR 4.20 to now EUR 4.70.

Conclusion & Action: *The excellent Q2 2010 results confirm our Buy recommendation for GFT Technologies. GFT Technologies continues to be a highly interesting investment opportunity in our view. Its business model has proven to be extremely resilient during the crisis year 2009, it is highly cash generative and offers a very low level of valuation.*