

GFT Technologies

Germany | IT software & services | MCAP EUR 320.1m

30 January 2020

Buy

Target Price	EUR 15.00
Current Price	EUR 12.16
Up/downside	23.4%
Change in TP	87.5%
Change in EPS	25.6% 19E / 20.6% 20E

Time to go bullish

After a stellar rerating, we view GFT with a new eye. While we thought the market had not fully priced in the residual risk tied to Deutsche Bank, investors seem to be buying GFT's sound organic growth (excluding its top two clients) and ability to compensate for massive revenue shortfall with Deutsche Bank. Initiatives to diversify the client portfolio and addressable markets are now yielding attractive prospects, while the business is normalising. Investors should consider GFT's impressive margin resilience and attractive FCF yield while the current price offers a good entry point. Our new valuation now points to a EUR15 TP and argues for a Buy rating.

Many reasons for the rerating

Historically rock bottom multiples have led investors to reconsider GFT. The turning point was the release of 9M 2019 figures, which revealed GFT's ability to more than offset a 30% revenue deficit with Deutsche Bank thanks to its other clients. This was made possible by GFT's efficient staffing model, which proved to be crucial to managing the utilisation rate and softening the impact on margins. While the business is normalising and prospects are solid (excluding Deutsche Bank), we see GFT as an appealing recovery story with attractive returns.

Medium-term prospects are getting much better

2020 should be the last year with a significant revenue adjustment from Deutsche Bank. Management is confident that it should more than compensate for lost revenues with its other clients, even more than in 2019. We therefore expect an 18% revenue CAGR over 2019-22E excluding Deutsche Bank. Initiatives in favour of client and sector diversification established since 2017 (commercial efforts, M&A) are already paying off, with 40% of revenues coming from insurance and new technologies. Both sectors offer perky demand and solid organic growth.

Good entry point, TP raised from EUR8 to EUR15, Buy

Despite the rerating, the multiples are attractive for a recovery stock. GFT is trading in line with its historical average at 15.7x 2020E earnings, but well below its peak in 2016 (24.5x 12-month forward earnings) while the business is being de-risked and organic growth excluding Deutsche Bank should remain near the 18% mark until 2022. We raised our revenue and profit forecasts and now derive a new EUR15 TP, from a weighted average of DCF (10.2% WACC, 12% LT EBITDA margin, 2% LT g) and peers.

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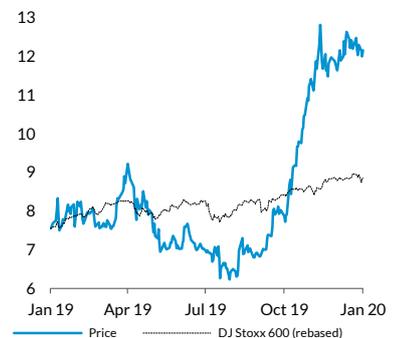
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Market data

Bloomberg: GFT GR	Reuters: GFTG.DE
Market cap (EURm)	320
Free float	64%
No. of shares outstanding (m)	26
Avg. daily volume (EURm)	1.5
YTD abs performance	4.5%
52-week high/low (EUR)	12.82/6.23

FY to 31/12 (EUR)	12/19E	12/20E	12/21E
Sales (m)	421.0	446.2	491.9
EBITDA adj (m)	48.1	50.3	56.9
EBIT adj (m)	21.6	23.8	30.5
Net profit adj (m)	27.3	28.5	31.3
Net debt (m)	132.0	135.9	129.4
FCF (m)	22.5	24.4	29.4
EPS adj. and fully dil.	1.04	1.08	1.19
Consensus EPS	0.64	0.77	0.93
Net dividend	0.30	0.30	0.30

FY to 31/12 (EUR)	12/19E	12/20E	12/21E
P/E adj and ful. dil.	11.7	11.2	10.2
EV/EBITDA	9.4	9.1	7.9
EV/EBIT	20.9	19.2	14.7
FCF yield	7.0%	7.6%	9.2%
Dividend yield	2.5%	2.5%	2.5%
Net debt/EBITDA	2.7	2.7	2.3
Gearing	47.1%	47.1%	38.5%
ROIC	7.6%	7.0%	8.7%
EV/IC	1.8	1.7	1.6



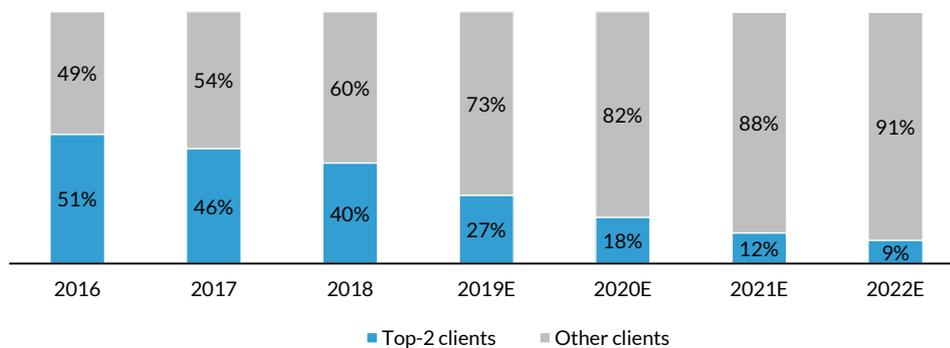
Kepler Cheuvreux and the issuer have agreed that **Kepler Cheuvreux** will produce and disseminate investment research on the said issuer as a service to the issuer.

Many reasons for the rerating

Since 2017, GFT's share price has felt the pain of lost business from Deutsche Bank, often at very short notice. Between 2017 and 2019E, revenues from GFT's top client shrank by 40%, with a EUR77m revenue shortfall over the period. Since September 2019, the downward trend has stopped, and the group has experienced a stellar rebound (perf. 6M: +74%) which we attribute to multiples factors:

- **GFT offset a massive revenue shortfall from Deutsche Bank:** investors praised GFT's ability to compensate for a 26% revenue shortfall from Deutsche Bank in 9M 2019. That in itself is a real accomplishment as GFT managed 23% growth in business from its other clients. This proves that GFT is good at reallocating staff at short notice and minimising the impact of contract downsizing on its utilisation rate. This is the heart of GFT's business: managing its staff capacity well.
- **A derisked business:** the shrinking business from Deutsche Bank is having a normalising effect on group. GFT's biggest client is set to account for 27% of group revenue in 2019E and below 20% in 2020E. Underlying business is going very well and GFT now generates more than 40% of its revenue from fast-growing businesses (insurance clients and new technology-related projects).

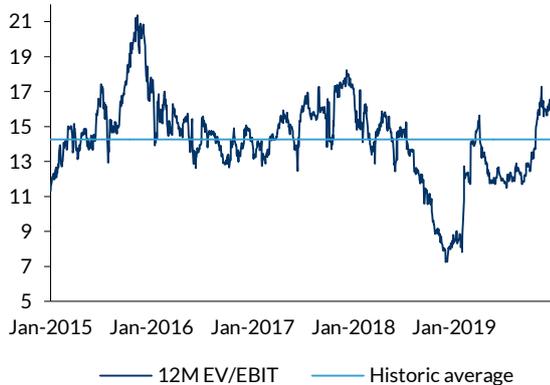
Chart 1: From 51% of group sales in 2016, revenues from DB should fall to 18% in 2020E



Source: Kepler Cheuvreux

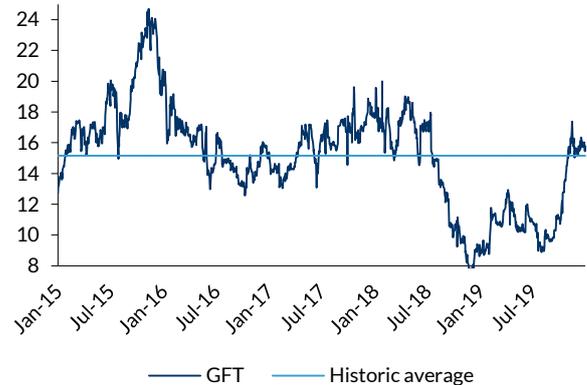
- **Historically cheap multiples:** Going back to early September 2019, GFT's trading multiples stood at 8.9x 12-month forward earnings. Its P/E ratio reached its historic low in mid-December at 7.8x (vs. a peak of 24.5x in December 2015 and 15.1x its 2015-19 average). It now trades at 15.7x 2020E earnings, which is well below peers (at 23.1x) which we see as a fair entry point for investors considering GFT's appealing long-term prospects.

Chart 2: GFT's 12-month forward EBIT



Source: Bloomberg, Kepler Cheuvreux

Chart 3: GFT's 12-month forward P/E



Source: Bloomberg, Kepler Cheuvreux

- **Attractive FCF and dividend yields:** in 2019E, we expect a 7.1% FCF yield (vs. 12.3% in 2018, 7.7% over the next years). Despite business reduction from Deutsche Bank, GFT offers a stable dividend policy (2.6% 2019E dividend yield).
- **Potential M&A announcement:** in an effort to diversify its client and business sectors, M&A has been key to GFT's business expansion, especially to gain access to new markets. The group has a strong M&A culture, with one acquisition a year between 2012 and 2016 and three acquisitions completed since 2018: V-NEO (H1 2018), AXOOM (Q3 2019), and In-GmbH (Q1 2020). In the medium term, we do not rule out another acquisition, while the group should report EUR60m of available cash in 2019E, though part of that should be dedicated to the dividend payout.

Medium-term prospects are getting much better

M&A and commercial offensive are paving the way for organic growth

To diversify its sector and client structure, GFT has been focusing on three strategic initiatives:

1. **Enriching its portfolio of technologies** to enlarge its spectrum of potential clients.
2. **Strengthening its staff capacity**, including in new locations to be able to respond to market demand. Note that GFT's global staffing model, based on onshore and nearshore locations (both generating 50% of group revenue) has been valuable for coping with capacity shortages (IT consultants are hard to find in the market) and the resulting rising salaries. We assume that the labour cost of engineers based in Spain and Poland is 50% and 60% lower than for an IT expert based in Germany (rebased 100), respectively. In the future, GFT plans to expand its staff capacity in nearshore locations.
3. **Expanding its exposure to the fast-growing insurance sector.**
4. **Addressing various sectors** with clients looking to digitalise their business. This was made possible by commercial efforts. For instance, GFT has strengthened its partnership with AWS (Amazon's cloud platform) but also with Google, notably through the training of its IT experts (250 experts at

GFT hold the Google Cloud Certification). This enabled GFT to develop a cloud banking business in Asia with Google. Google provides indirect sales to GFT (which do not require sales efforts) as Google recommends GFT as a preferred partner in financial services. M&A has also been strategic for GFT, whether to beef up its staff capacity or to diversify its addressable clientele. Since 2018, has GFT completed three acquisition:

- **V-NEO (July 2018):** A Canadian specialist in Guidewire implementation in the insurance sector. In addition to acquiring the Guidewire expertise, GFT acquired a team of 160 IT experts across three sites in Quebec, Toronto, and Brussels. Most of them are French speakers who helped GFT win a five-year EUR50m contract with the French insurance leader La Macif in Q3 2019. This contract is strategic for GFT, as the group will use it as a reference to sign contracts with other insurance players in Europe. In this regard, M&A is a powerful lever to expand the group's client portfolio organically.
- **AXOOM (July 2019):** This acquisition was aimed at increasing the group's staff capacity. GFT now has critical mass in the industry sector with AXOOM's 50 IT experts, which are hard to find in the market. AXOOM was a subsidiary of high-tech company TRUMPF, which focuses on the development of machine software solutions for the smart factory market. As part of the acquisition, GFT also strengthened its cooperation with TRUMPF by signing a development partnership that will include joint projects. This partnership opens the door to new industrial clients for GFT.
- **In-GmbH (January 2020):** In-GmbH is a German software supplier with c. 40 IT experts focused on the digitalisation of production and business processes for industrial companies in the automotive, logistics, and energy management sectors. This acquisition was aimed at acquiring In-GmbH's product. The acquisition enhances GFT's portfolio of technologies (IoT, 4.0 solutions), which should fit industrial clients' demands.

Table 1: Three strategic acquisitions completed since 2018

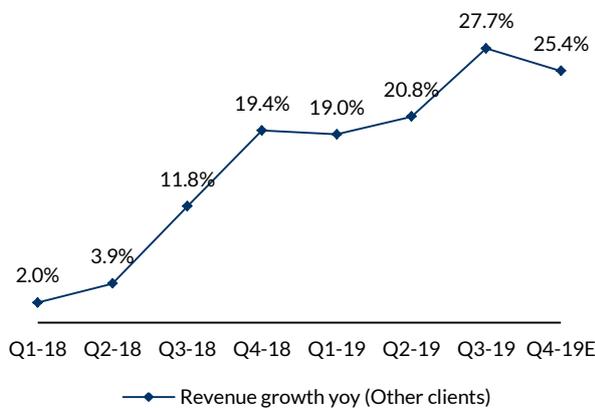
Companies	Sector	Rationale
V-NEO (July 2018)	Insurance	1) Expanding in the insurance sector 2) Acquisition of Guidewire technology 3) 160 IT experts 4) Three new locations (Quebec, Toronto, and Brussels)
AXOOM (July 2019)	Industry	1) AXOOM's 50-60 IT engineers 2) Entry into the industrial sector 3) A new location in Karlsruhe 4) A development partnership with TRUMPF*
In-GmbH (January 2020)	Industry	1) Increasing the spectrum of addressable sectors (i.e. automotive, logistics, energy) 2) Enhancing the group's expertise portfolio for industrial clients 3) A new location (Constance) with 40 IT engineers

*Focused on the development of machine software solutions for the growing smart factory market; Source: GFT Technologies, Kepler Cheuvreux

Several catalysts underpin solid growth of underlying business

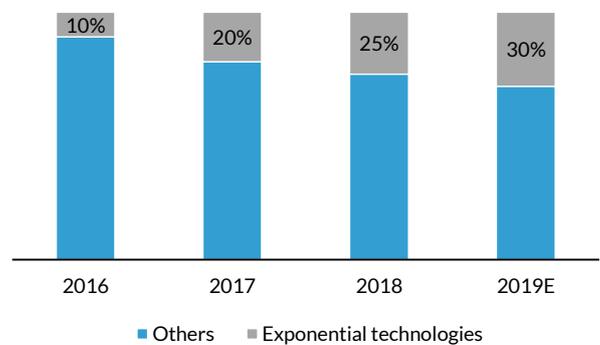
GFT's strategy of sector and client diversification is paying off. The group now generates more than 40% of its sales from contracts in the field of new technologies and insurance clients. This largely explained the solid revenue expansion reported by GFT with its other clients since 2018, with a marked acceleration throughout 2019 as the scale of those businesses has been rising. In 2019, GFT is set to post 23% growth in revenues YOY excluding Deutsche Bank, revealing a sound underlying business. Note that the acquisition of V-NEO (integrated since 1 August 2018) should contribute to c. 30% of this growth, with EUR10.2m of additional revenue reported in H1.

Chart 4: Underlying business has been growing strongly



Source: Kepler Cheuvreux

Chart 5: Exponential technologies' revenue contribution



Source: GFT Technologies, Kepler Cheuvreux

Below, we run through the catalysts that underlie GFT's strong organic growth in the next few years, excluding Deutsche Bank:

- **A structurally growing IT services market:** over 2019 and 2023, the amount to be spent by the banking sector on IT services should grow by 4.8% annually (Gartner, July 2019), from USD199bn in 2019 to EUR240bn in 2023.
- **The fast-growing insurance market (c. 10% of revenues):** the insurance industry offers strong growth potential for GFT, with a limited number of insurers having started their digital transformation (low digital penetration compared to banks). Guidewire technology should be a key driver. It has been a key IT solution for digitalising insurers' businesses.

Over 2016 and 2018, demand for Guidewire technology rose by a 28% CAGR in North America and by 24% in EMEA. GFT has 128 trained engineers that are dedicated to Guidewire technology (and has a medium-term target of 300 Guidewire experts worldwide), based in four locations to serve North American and European clients. In addition to Canada and Italy, GFT has two Guidewire centres in Poland and Spain, both nearshore locations. They are valuable competitive assets due to the lack of capacity in the market (IT experts must be trained). Thus, GFT has the capacity to sign more contracts in the future.

- **New technologies (30% of revenues):** since 2016, GFT has been increasing its share of revenues from the so-called “exponential technologies” (e.g. AI, Cloud, IoT, data analytics, and blockchain). From 10% in 2016, they now account for 30% of 2019E revenue. They have been a catalyst for the brisk demand from clients who are looking to digitalise their businesses. The Cloud is set to be the main driver of revenue growth in the coming years (EUR10m of revenues in 2018, c. EUR20m in 2019E) in light of the low market penetration.

Cloud-related projects are provided to US and UK banks, which are legally allowed to implement cloud solutions. In 2019, public cloud revenues grew by 17% and are set to grow by 50% by 2021 (Gartner). EU countries are not yet allowed to use cloud technology, but continental Europe could become a potential market for GFT if the law were to change.

GFT has built up a team of 500+ cloud experts (including 250 with Google certification). Note that projects related to exponential technologies have good margins, though GFT would need to train IT experts (3-6 months of training), which temporarily weighs on margins (burden on utilisation rate).

- **Positive impact of M&A on commercial development:** acquisitions should entail organic growth in light of GFT’s enriched portfolio of technologies and expertise, as well as its higher staff capacity. In the insurance sector, we expect a ramp-up in contracts with new insurance clients, thanks to Guidewire technology and the MACIF reference. In 2019, GFT announced that French insurer Industrielle Alliance had become one of its 30 largest clients.
- **Announcement of FY 2019 figures and 2020 guidance:** after an impressive rally, these figures should be the next trigger for the share price, although the effect will be moderate. We do not expect major upward movement in the next few months. The current share price already reflects FY 2019 results, which are expected to be in line with guidance. We also expect a stable dividend policy (EUR0.30 per share). We expect a minor share reaction to the announcement of 2020 objectives (due 5 March) since management already informed the market about the significant revenue adjustment from Deutsche Bank (we assume EUR30-35m).

Forecasts revised up, strong underlying business

Revenues to grow by a c. 10% CAGR over 2019-22E

We revised our revenue forecasts as we expect GFT’s business excluding Deutsche Bank to benefit from brisk demand in the next three years. From a 3.5% 2019-22E revenue CAGR, we now expect a 9.5% CAGR, based on the following reasons:

- In 2020, we assume a EUR35m revenue shortfall from Deutsche Bank. At our German Corporate Conference (held on 22 January), GFT’s CFO acknowledged a potential revenue loss from Deutsche Bank, which could be in the EUR30-35m range, in our view. From 2021, the contribution of Deutsche Bank to the group’s revenues should fall below 20%. Therefore, GFT should more easily offset the potential revenue adjustments that may occur in the following years.

Also, we believe that despite being in cost-cutting mode, Deutsche Bank should continue at least a minimum of business with GFT as it must digitalise its business, while its commercial relationship with GFT has been solid and long-standing. However, we remain cautious in light of the poor visibility we have on the revenue floor with Deutsche Bank for the next few years (we assume c. EUR45m from 2023E).

- As of 9M 2019, GFT reported a 23% rise in revenues from other clients. This growth has accelerated throughout 2019, thanks to GFT's rising staff capacity for Guidewire and exponential technologies. In 2020, the group will continue to invest in hiring and training IT experts to respond to strong market demand. We now expect the trend to be maintained, with an 18% revenue CAGR from other clients over 2019-22E.
- The Americas & UK division is set to benefit from: 1) strong demand for cloud implementation in the UK and the US; 2) the fast-growing insurance business in Canada, fostered by Guidewire technology; and 3) the brisk business with retail banks in Mexico (and Spanish banks) and Brazil (local banks) that have been looking to digitalise their businesses.
- The continental Europe division should report sustained organic growth on the back of: 1) continuing strong demand from retail banks for digitalisation across all of GFT's markets; 2) the fast-growing insurance business in France, fuelled by Guidewire implementation; and 3) the Industry 4.0 business.

Table 2: Our revenue forecasts by division

	2018	2019E	Old estimates		New estimates	
			2020E	2021E	2020E	2021E
Top-2 clients	84.8	54.6	46.4	41.8	38.3	28.7
Growth YOY	-25.8%	-35.6%	-15.1%	-10.0%	-30.0%	-25.0%
Other Clients	98.7	141.7	157.0	163.6	181.4	221.3
Growth YOY	21.7%	43.6%	10.8%	4.2%	28.0%	22.0%
Americas & UK	183.5	196.3	203.4	205.4	219.6	250.0
Growth YOY	-6.1%	7.0%	3.6%	1.0%	11.9%	13.8%
Top-2 clients	79.6	59.7	50.8	45.7	41.8	31.3
Growth YOY	4.2%	-25.0%	-15.0%	-10.0%	-30.0%	-25.0%
Other Clients	149.3	164.1	182.2	194.4	183.8	209.5
Growth YOY	2.2%	9.9%	11.0%	6.7%	12.0%	14.0%
Continental Europe	228.9	223.8	233.0	240.1	225.5	240.8
Growth YOY	2.9%	-2.2%	4.1%	3.1%	0.8%	6.8%
Others	0.5	0.9	0.9	0.9	1.0	1.1
Total revenue	412.8	421.0	437.3	446.4	446.2	491.9
Growth YOY	-1.4%	2.0%	3.9%	2.1%	6.0%	16.8%
<i>o/w top-2 clients</i>	<i>-13.8%</i>	<i>-30.4%</i>	<i>-15.0%</i>	<i>-10.0%</i>	<i>-30.0%</i>	<i>-25.0%</i>
<i>o/w Other clients</i>	<i>9.1%</i>	<i>23.3%</i>	<i>10.9%</i>	<i>5.6%</i>	<i>19.4%</i>	<i>18.0%</i>

Source: Kepler Cheuvreux

EBITDA margin rebound to be notable from 2022E

In 2020, the EUR30-35m revenue loss from Deutsche Bank should put the EBITDA margin under pressure, as it should lead to: 1) restructuring charges (we expect EUR4m of restructuring charges in 2019E and EUR1.5m in 2020); 2) a lower utilisation rate in connection with Deutsche Bank; 3) sales efforts that will be needed to offset lower business from Deutsche Bank; and 4) rising staff-related costs from training engineers in new technologies and guidewire implementation.

As a result, we expect the adjusted EBITDA margin to be broadly flat versus 2019 at 8.4%. From 2021, we expect a ramp-up in the margin (+30bps annually) from 8.4% in 2020E to 9.6% in 2022E. Note that in 2015, the EBITDA margin peaked at 11.9%, revealing strong margin potential for GFT. Finally, we expect a 15% CAGR over 2019-22E for adjusted EBITDA.

Table 3: Our profit* forecast by division

	2019E	Old estimates		New estimates	
		2020E	2021E	2020E	2021E
Americas & UK	8.8	15.5	16.2	12.1	16.2
Margin	4.5%	7.6%	7.9%	5.5%	6.5%
Continental Europe	28.0	23.3	25.0	27.1	29.6
Margin	12.5%	10.0%	10.4%	12.0%	12.3%
Others	-1.7	0.0	0.0	-1.8	-2.0
Total adj. EBITDA*	35.1	38.8	41.2	37.3	43.9
Margin	8.3%	8.9%	9.2%	8.4%	8.9%

*Adjusted EBITDA before IFRS 16 impact, Source: Kepler Cheuvreux

In the longer term, we expect GFT to report a 10.7% adjusted EBITDA margin in 2024E (compared to 9% initially) as the group should take advantage of the strong market demand for projects related to insurance clients and exponential technologies.

Strong EPS growth and attractive FCF yield

We expect a 20% CAGR over 2019-22E in adjusted EPS (adjusted for restructuring costs, M&A-related costs, and PPA amortisation), to be supported by an earnings ramp-up from 2021, a marginal cost of debt (we assume a 1.2% average interest cost), and a 22% corporate tax rate.

Table 4: Our P&L forecasts

	2019E	Old estimates			New estimates		
		2020E	2021E	2022E	2020E	2021E	2022E
Revenue	421.0	437.4	446.5	457.9	446.2	491.9	554.3
Pretax profit	17.0	23.4	26.4	30.4	20.5	28.6	39.4
Net profit	13.3	18.2	20.6	23.7	16.0	22.3	30.7
Adjusted net profit	21.5	23.6	25.2	26.4	28.5	31.3	34.7
Adjusted EPS	0.82	0.82	0.90	0.96	1.08	1.19	1.32

Source: Kepler Cheuvreux

While GFT targets a 30% payout, we believe that the group will maintain its generous dividend policy and assume a stable EURO.30 dividend per share for the next few years. At the current price, this implies a 7.1% FCF yield and a 2.4% dividend yield.

Valuation – TP raised from EUR8 to EUR15, Buy

To value GFT, we use a weighted average of DCF (50%) and peers (50%) valuation methodologies. After raising our forecasts, we derive a new fair value of EUR15 per share.

DCF points to a new EUR14 fair value

Our key DCF assumptions/parameters are the following:

- A 2% terminal growth rate in revenue
- LT EBITDA margin: 11.5% (vs. a 12.4% average over 2020-30E)
- A 22% corporate tax rate
- Capex=D&A at maturity: 3.5% of revenues.
- WACC: 10.2% (11.7% cost of equity, 15% gearing, 1.2x beta)

Table 5: Our DCF summary

EURm	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	412.8	421.0	446.2	491.9	554.3	609.5	654.6	688.0	713.6	733.7	750.9	764.9	780.2
Growth	-1.4%	2.0%	6.0%	10.2%	12.7%	10.0%	7.4%	5.1%	3.7%	2.8%	2.3%	1.9%	2.0%
EBITDA	37.4	44.1	48.8	56.9	66.4	75.1	83.0	88.7	93.4	95.6	97.6	99.2	93.6
EBITDA margin	9.1%	10.5%	10.9%	11.6%	12.0%	12.3%	12.7%	12.9%	13.1%	13.0%	13.0%	13.0%	12.0%
EBIT	24.8	17.6	22.3	30.5	41.4	50.1	58.2	63.3	67.5	69.4	71.1	72.4	66.3
EBIT margin	6.0%	4.2%	5.0%	6.2%	7.5%	8.2%	8.9%	9.2%	9.5%	9.5%	9.5%	9.5%	8.5%
Normative tax rate	-11.8%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
NOPAT	21.9	13.7	17.4	23.8	32.3	39.1	45.4	49.4	52.7	54.2	55.4	56.5	51.7
D&A	12.6	26.5	26.5	26.4	25.0	25.0	24.8	25.4	25.8	26.2	26.5	26.8	27.3
% of sales	3.1%	6.3%	5.9%	5.4%	4.5%	4.1%	3.8%	3.7%	3.6%	3.6%	3.5%	3.5%	3.5%
Change in WC	14.4	2.5	1.1	0.6	0.6	-1.7	-1.4	-1.0	-0.8	-0.6	-0.5	-0.4	-0.8
% of sales	3.5%	0.6%	0.2%	0.1%	0.1%	-0.3%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
Capex	-4.9	-20.6	-21.0	-21.9	-23.0	-24.0	-24.8	-25.4	-25.8	-26.2	-26.5	-26.8	-27.3
% of sales	-1.2%	-4.9%	-4.7%	-4.4%	-4.1%	-3.9%	-3.8%	-3.7%	-3.6%	-3.6%	-3.5%	-3.5%	-3.5%
Free cash flow	44.0	22.1	24.0	28.9	34.9	38.4	44.1	48.4	51.9	53.6	54.9	56.0	51.0
Discounted FCF	44.0	22.1	24.0	26.3	28.8	28.8	29.9	29.8	29.0	27.2	25.3	23.4	19.3
Sum of discounted FCF	267.8												
PV Terminal Value	19.3												
Terminal Value	236.8												
Value of operations	504.6												
(-) Net debt	128.9												
(-) Pensions	7.0												
(-) Minorities	0.0												
Equity Value	368.7												
# shares	26.3												
Equity value per share (EUR)	14.0												

Source: Kepler Cheuvreux

We have conducted a sensitivity test on our TP based on the three following scenarios (Table 6). A catastrophic (and unlikely) scenario, assuming no revenues from Deutsche Bank from 2021, a 1.5% LT revenue growth rate, and a 11.5% LT EBITDA margin, suggests a EUR12 target price, in line with GFT's current share price. Our best-case scenario point to a EUR15 TP.

Table 6: Sensitivity case - Impact on GFT's fair value (DCF)

	Worst case	Best case	Base case
LT growth	1.5%	2.5%	2.0%
LT EBITDA margin	10.0%	12.5%	12.0%
Deutsche Bank revenue in 2021E (CAGR 2019E-22E)	EURO*	EUR70m (-15%)	EUR50m (-25%)
Fair value GFT (EUR)	12.0	15.0	14.0

*All else being equal (i.e. without restructuring charges and assuming stable utilisation rate); Source: Kepler Cheuvreux

Peer multiples: EUR16 fair value

We also back our valuation with peers method using EV/EBIT and P/E multiples. GFT trades at a 28% discount to peers on an EV/EBIT basis (2020E) and at a 52% discount in terms of P/E.

Table 7: Peer valuation

	Country	Currency	Market cap.	EV/EBIT			P/E		
				2019E	2020E	2021E	2019E	2020E	2021E
Adesso	Germany	EURm	360	16.3x	12.3x	9.9x	26.7x	20.7x	17.3x
Cancom	Germany	EURm	2,110	25.3x	20.3x	17.1x	38.4x	32.9x	28.5x
Devoteam	France	EURm	749	11.1x	9.2x	8.0x	19.2x	15.6x	14.0x
Peer group median				13.7x	13.9x	11.7x	28.1x	23.1x	19.9x
GFT Technologies	Germany	EURm	316	10.3x	10.0x	8.6x	14.5x	11.1x	10.1x
Premium / (discount)				(25%)	(28%)	(27%)	(48%)	(52%)	(49%)

*EV/EBIT multiple is adjusted for restructuring charges and PPA amortisation; Source: Thomson Reuters, Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	12/14	12/15	12/16	12/17	12/18	12/19E	12/20E	12/21E
Income Statement (EURm)								
Sales	365.3	373.5	422.6	418.8	412.8	421.0	446.2	491.9
% Change	38.2%	2.2%	13.1%	-0.9%	-1.4%	2.0%	6.0%	10.2%
EBITDA adjusted	34.7	44.6	46.8	35.4	39.7	48.1	50.3	56.9
EBITDA margin adj. (%)	9.5%	11.9%	11.1%	8.4%	9.6%	11.4%	11.3%	11.6%
EBIT adjusted	28.1	34.3	34.9	22.9	27.0	21.6	23.8	30.5
EBIT margin adj. (%)	7.7%	9.2%	8.3%	5.5%	6.5%	5.1%	5.3%	6.2%
Net financial items & associates	-1.0	-1.7	-1.8	-1.7	-2.2	-1.9	-1.8	-2.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-7.1	-6.0	-8.8	-0.3	-2.7	-3.5	-4.5	-6.3
Net profit from continuing operations	20.0	26.5	24.2	17.8	20.0	12.3	16.0	22.3
Net profit from discontinuing activities	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	20.0	25.3	24.2	17.8	20.0	12.3	16.0	22.3
Net profit reported	20.0	25.3	24.2	17.8	20.0	12.3	16.0	22.3
Net profit adjusted	20.0	24.1	24.3	20.9	28.6	27.3	28.5	31.3
Cash Flow Statement (EURm)								
Levered post tax CF before capex	15.6	42.5	20.0	23.7	44.3	43.1	45.4	51.2
Capex	-0.7	-1.3	-10.2	-6.9	-4.9	-20.6	-21.0	-21.9
Free cash flow	14.9	41.1	9.9	16.7	39.5	22.5	24.4	29.4
Acquisitions & divestments	-56.9	-16.8	-6.7	-2.8	-48.9	-2.0	-5.5	0.0
Dividend paid	-6.6	-6.6	-7.9	-7.9	-7.9	-7.9	-7.9	-7.9
Others	-10.8	-13.5	0.1	0.8	0.5	-1.9	-1.8	-2.0
Change in net financial debt	59.3	-4.3	4.6	-6.8	16.8	-10.8	-9.2	-19.5
Balance Sheet (EURm)								
Intangible assets	125.9	139.5	136.6	125.0	139.7	144.6	152.2	156.5
Tangible assets	17.8	26.5	31.2	29.4	26.6	87.0	92.4	96.6
Financial & other non-current assets	4.9	6.7	6.8	10.7	12.7	12.7	12.7	12.7
Total shareholders' equity	100.4	124.4	117.2	115.3	127.1	131.5	139.6	153.9
Pension provisions	7.3	8.3	8.7	8.6	7.0	7.0	7.0	7.0
Liabilities and provisions	194.0	194.0	240.2	248.9	238.5	288.8	283.2	279.9
Net debt	49.3	44.8	50.7	47.9	66.6	132.0	135.9	129.4
Net financial debt	42.0	36.5	42.1	39.3	59.7	61.9	65.8	59.2
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	63.2	63.2	63.2
Net working capital	20.4	17.2	33.2	2.8	21.4	25.9	24.8	24.2
Invested capital	164.0	183.1	201.0	157.2	187.7	257.5	269.4	277.3
Per share data (EUR)								
EPS adjusted	0.76	0.92	0.92	0.79	1.09	1.04	1.08	1.19
EPS adj and fully diluted	0.76	0.92	0.92	0.79	1.09	1.04	1.08	1.19
% Change	46.4%	20.9%	0.7%	-14.2%	37.0%	-4.6%	4.4%	9.9%
EPS reported	0.76	0.96	0.92	0.68	0.76	0.47	0.61	0.85
Cash flow per share	0.59	1.61	0.76	0.90	1.68	1.64	1.73	1.95
Book value per share	3.81	4.73	4.45	4.38	4.83	4.99	5.30	5.85
Dividend per share	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Number of shares, YE (m)	26.33	26.33	26.33	26.33	26.33	26.33	26.33	26.33
Ratios								
ROE (%)	21.3%	21.5%	20.1%	17.9%	23.6%	21.1%	21.0%	21.3%
ROIC (%)	16.7%	16.1%	13.3%	12.5%	13.8%	7.6%	7.0%	8.7%
Net debt / EBITDA (x)	1.4	1.0	1.1	1.4	1.7	2.7	2.7	2.3
Gearing (%)	41.9%	29.3%	35.9%	34.1%	46.9%	47.1%	47.1%	38.5%
Valuation								
P/E adjusted	12.5	22.6	22.5	21.5	11.3	11.7	11.2	10.2
P/E adjusted and fully diluted	12.5	22.6	22.5	21.5	11.3	11.7	11.2	10.2
P/BV	2.5	4.4	4.7	3.9	2.5	2.4	2.3	2.1
P/CF	15.9	12.8	27.3	19.0	7.3	7.4	7.0	6.3
Dividend yield (%)	2.6%	1.4%	1.4%	1.8%	2.5%	2.5%	2.5%	2.5%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	6.0%	7.5%	1.8%	3.7%	12.3%	7.0%	7.6%	9.2%
EV/Sales	0.8	1.6	1.4	1.2	0.9	1.1	1.0	0.9
EV/EBITDA adj.	8.6	13.2	12.8	14.1	9.8	9.4	9.1	7.9
EV/EBIT adj.	10.6	17.2	17.1	21.8	14.4	20.9	19.2	14.7

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Companies mentioned

Stock	ISIN	Currency	Price
GFT Technologies	DE0005800601	EUR	12.16

Source: Factset closing prices of 29/01/2020

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Total	100%	100%

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GFT Technologies (EUR)	09/08/2019 06:16	Equity Research	Hold	8.00	7.00

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