

IT Competence Group

Technology

Strategic refocus to digital transformation

IT Competence Group (ITCG) is focusing on increasing its recurring revenue stream through becoming a partner for digital transformations. After unsuccessful investments, which cast a shadow on last year's results, the company is now back on the growth path with 9M18 sales up y-o-y and a positive EBITDA (margin at 5.2% in 9M18, compared with a negative 5.0% in 9M17). The company also increased its order backlog to €14.8m from €14.5m at end 2017. Better than expected ytd results triggered an upward revision of FY18 EBITDA guidance. The shares are currently trading at a 4% premium to peers on FY18 EV/EBITDA ratio.

Upward FY18 outlook revision based on ytd results

In 9M18 ITCG's EBITDA reached a positive €0.9m (9M17: negative €0.8m) with revenues of €17.3m (up c 10% y-o-y). It is worth noting that ITCG reported its 9M17 results in Dutch GAAP, whereas 9M18 figures were reported in German GAAP. In July 2018, ITCG raised its FY18 EBITDA guidance to €0.7–1.0m (vs €0.3–0.6m previously) and confirmed its sales growth expectations at 10%, implying revenues of €23–24m in FY18. Following the solid Q318, ITCG now expects EBITDA to reach at least the upper end of its FY18 guidance (ie €1.0m).

Focus on recurring income from managed services

ITCG is transitioning from an IT personnel services provider to a partner for digital transformation. The company has already split its business areas into IT and data infrastructure and refocused itself on competencies related to digital transformation. In line with its 'repeatable business' strategy, ITCG will now expand the managed services division in order to strengthen the company's recurring revenue and restore profitability and growth. The role of ITCG's consulting business (currently representing 19% of revenues) will be to spearhead the company's development. ITCG is currently working on revised 2020 targets, which should imply sales in excess of €30m and an EBITDA closer to €2.0m.

Valuation: Dependent on strategy execution

ITCG's shares are trading at an EV/EBITDA ratio of 9.3x based on the upper end of management's EBITDA guidance for FY18 (€1.0m). This represents a c 4% premium to the average calculated for a peer group of IT services/consulting-focused German companies. ITCG trades at a c 50% discount to peers on FY18 EV/Sales based on management guidance.

Historical financials

| Year end | Revenue (€m) | PBT (€m) | EPS (c) | DPS (c) | EV/sales (x) | Yield (%) |
|----------|--------------|----------|---------|---------|--------------|-----------|
| 12/14 | 20.6 | 0.2 | 0.08 | N/A | 0.48 | N/A |
| 12/15 | 24.4 | 0.8 | 0.26 | N/A | 0.40 | N/A |
| 12/16 | 24.8 | (0.3) | (0.16) | N/A | 0.40 | N/A |
| 12/17 | 22.0 | (1.1) | (0.46) | N/A | 0.45 | N/A |

Source: IT Competence Group accounts

Price €5.05
Market cap €10m

Share price graph



Share details

| | |
|----------------------------------|--------|
| Code | 3IT |
| Shares in issue | 1.875m |
| Net cash (€m) as at 30 June 2018 | 0.2 |

Business description

IT Competence Group provides IT services and solutions, with a focus on planning, consulting and operation of IT and mobile data infrastructures. In addition, ITCG assists its clients in digital transformations. The company targets mid-sized companies from the DACH region.

Bull

- Improved outlook for FY18.
- High potential of ITCG's target market.
- Increased IR communication efforts.

Bear

- ITCG is still in a transformational period.
- Local shortage of skilled IT workers.
- High dependency on large clients/projects.

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