

June 11th, 2018
Research comment

SMC Research
Small and Mid Cap Research



Sandpiper Digital Payments AG

Successful consolidation

Rating: Speculative Buy (unchanged) | Price: 0.081 Euro | Price target: 0.27 Euro

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Progress in cost structure



Basic data

Based in:	St. Gallen
Sector:	Payment, IT-Security
Headcount:	approx. 200 (Group)
Accounting:	Swiss GAAP FER
ISIN:	CH0033050961
Price:	0.081 Euro
Market segment:	Regulated Market Berne Open Market Frankfurt
Number of shares:	211.7 m
Market Cap:	17.1 m Euro
Enterprise Value:	27.7 m Euro
Free float:	46 %
Price low/high (12 M):	0.25 / 0.03 Euro
Ø turnover (12 M Bern):	10,300 Euro

FY ends: 31.12.	2017	2018e	2019e
Sales (m Euro)	30.5	31.1	34.6
EBIT (m Euro)	-1.2*	-0.5	0.7
Net profit	6.3	-1.1	-0.2
EpS	3.00	-0.41	-0.06
Dividend per share	0.00	0.00	0.00
Sales growth	5.4%	2.0%	11.1%
Profit growth	-	-	-
PSR	0.56	0.55	0.50
PER	2.7	-	-
PCR	-	-	31.2
EV / EBIT	-	-	42.3
Dividend yield	0.0%	0.0%	0.0%

*operating

Current development

In 2017, a year marked by consolidation measures, the Sandpiper Group increased sales from EUR 28.9 m to EUR 30.5 m (+5.4 percent), slightly exceeding our expectations (EUR 30.1 m). The sum of the most important expense categories (materials, personnel and other) also developed better than expected and was EUR 0.4 m below our estimate. Together with slightly higher depreciation and amortization than we had anticipated, operating result improved from EUR -5.9 m to EUR -1.2 m, while we had expected EUR -2.2 m.

As expected, net profit was strongly influenced by special effects such as a subsequent purchase price adjustment (EUR +6.8 m), the deconsolidation of net liabilities of Payment Solution (EUR +3.9 m) and the balance sheet restructuring of Multicard Nederland (EUR +0.8 m). We had already taken these effects into account, but not the book loss of EUR 5.4 m resulting from the separation from Polyright, so that net profit improved from EUR -8.2 m to EUR 6.8 m (SMC estimate EUR 13 m).

Conclusion

Overall, the consolidation of those activities as part of which cost structures were adjusted made significant progress in the past year. For 2018, the focus is now on exploiting synergies within the Group, for instance through joint sales activities or shared services. This should have a positive effect on growth dynamics and profitability, especially in the medium-term. We had already taken this into account and have left our assumptions for the Group's growth unchanged, while we have slightly raised our margin estimate (see p. 3). Overall, at EUR 0.27 per share (previously EUR 0.26 per share), the fair value is still well above the current share price, and the rating remains "Speculative Buy".

Annex I: DCF and revenue model

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
InterCard*	16.8	18.4	20.3	22.3	24.5	27.0	29.7	32.6
Ergonomics	7.3	7.8	8.4	9.2	10.1	11.2	12.3	13.6
IDpendant	4.5	4.8	5.2	5.5	5.9	6.3	6.8	7.2
Multicard	2.0	2.8	3.9	5.5	7.7	10.0	12.0	13.8
PAIR Solutions	0.55	0.72	0.93	1.21	1.57	1.96	2.36	2.83
Sales	31.1	34.6	38.7	43.7	49.8	56.5	63.1	70.1
Sales growth	2.0%	11.1%	12.0%	12.9%	13.9%	13.4%	11.8%	11.0%
EBIT margin	-1.5%	1.9%	3.3%	4.4%	6.2%	7.6%	8.6%	10.3%
EBIT	-0.5	0.7	1.3	1.9	3.1	4.3	5.5	7.2
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	33.0%	33.0%
Adjusted tax payments	0.0	0.0	0.0	0.0	0.0	0.0	1.8	2.4
NOPAT	-0.5	0.7	1.3	1.9	3.1	4.3	3.7	4.8
+ Depreciation & Amortisation	1.1	0.9	1.0	1.2	1.3	1.4	1.5	1.6
+ Increase long-term accruals	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.8
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	1.0	2.0	2.8	3.6	4.9	6.3	5.8	7.1
- Increase Net Working Capital	-0.8	-0.6	-0.5	-0.4	-0.3	-0.2	-0.1	0.0
- Investments in fixed assets	-1.4	-1.7	-1.8	-1.8	-1.9	-2.0	-1.9	-1.9
Free cash flows	-1.2	-0.3	0.5	1.3	2.7	4.1	3.9	5.2

**incl. Polyright; SMC estimation*

Model adjustments

Sandpiper's planned measures are in line with our expectations, which is why we are leaving our sales estimate unchanged. However, we have adjusted our assessment of the future cost structure to the current data situation. We have essentially reduced the personnel expense ratio, the positive development of which made a significant contribution to the improvement in earnings in 2017. Depreciation is now also

somewhat lower, as we classify the increase in 2017 as unscheduled, while the cost of materials ratio was slightly higher. Overall, the expected EBIT for 2018 is now slightly better at EUR -0.47 m than previously estimated (EUR -0.62 m). Similar adjustments were made for subsequent periods, so that the fair value increased moderately from EUR 0.26 to EUR 0.27 per share, which is equivalent to our new price target.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
ASSETS									
I. Total non-current assets	10.7	11.0	11.8	12.5	13.2	13.9	14.5	14.9	15.2
1. Intangible assets	3.5	3.9	4.3	4.7	5.1	5.5	5.8	6.2	6.6
2. Tangible assets	1.1	1.1	1.4	1.7	2.1	2.3	2.6	2.6	2.6
II. Total current assets	8.5	18.7	19.4	20.8	22.4	25.6	29.1	33.2	38.3
LIABILITIES									
I. Equity	1.5	10.1	10.0	10.3	11.1	12.7	14.5	16.6	19.6
II. Accruals	1.3	1.6	2.1	2.5	3.1	3.6	4.2	4.9	5.7
III. Liabilities									
1. Long-term liabilities	7.8	9.1	9.7	10.4	10.8	11.6	12.4	13.1	13.8
2. Short-term liabilities	9.2	9.3	10.0	10.6	11.2	12.1	13.0	14.0	15.0
TOTAL	19.7	30.2	31.7	33.9	36.2	40.1	44.1	48.6	54.1

P&L estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
Sales	30.5	31.1	34.6	38.7	43.7	49.8	56.5	63.1	70.1
Total operating revenues	31.0	31.1	34.6	38.7	43.7	49.8	56.5	63.1	70.1
Gross profit	18.7	19.3	21.8	24.7	28.0	32.4	37.0	41.7	46.6
EBITDA	0.4	0.6	1.6	2.3	3.1	4.4	5.7	6.9	8.8
EBIT	-1.2	-0.5	0.7	1.3	1.9	3.1	4.3	5.5	7.2
EBT	6.9	-1.1	0.0	0.6	1.2	2.4	3.7	4.9	6.6
EAT (before minorities)	6.8	-1.3	-0.2	0.4	0.7	1.6	2.5	3.3	4.5
EAT	6.3	-1.1	-0.2	0.3	0.6	1.4	2.1	2.8	3.8
EPS (Cent)	3.00	-0.41	-0.06	0.12	0.24	0.52	0.79	1.04	1.42

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
CF operating	-3.9	-0.6	0.6	1.4	2.0	3.1	4.3	5.4	6.8
CF from investments	-0.9	-1.4	-1.7	-1.8	-1.8	-1.9	-2.0	-1.9	-1.9
CF financing	4.2	11.1	0.9	0.9	0.6	1.2	0.4	-0.1	-0.5
Liquidity beginning of year	2.0	1.3	10.4	10.2	10.8	11.5	13.8	16.5	19.9
Liquidity end of year	1.3	10.4	10.2	10.8	11.5	13.8	16.5	19.9	24.3

Key figures

m Euro	12 2017	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025
Sales growth	5.4%	2.0%	11.1%	12.0%	12.9%	13.9%	13.4%	11.8%	11.0%
Gross margin	61.5%	62.0%	63.0%	63.7%	64.0%	65.0%	65.5%	66.0%	66.5%
EBITDA margin	1.3%	1.9%	4.5%	6.0%	7.0%	8.8%	10.1%	11.0%	12.5%
EBIT margin	-4.0%	-1.5%	1.9%	3.3%	4.4%	6.2%	7.6%	8.6%	10.3%
EBT margin	22.6%	-3.4%	0.1%	1.6%	2.8%	4.9%	6.5%	7.8%	9.5%
Net margin (after minorities)	20.5%	-3.5%	-0.4%	0.8%	1.4%	2.8%	3.7%	4.4%	5.4%

Disclaimer

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Charts

The charts were made with Tai-Pan (www.lp-software.de).

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Participants in the preparation of the present financial analysis: -

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14.03.2018	Speculative Buy	0.26 Euro	1), 3), 4)

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