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Research update

SMC Research
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THOMSON REUTERS ANALYST AWARDS 2018 WINNER

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Sandpiper Digital Payments AG

Good basis for growth despite disappointing development in 2018

Rating: Speculative Buy (unchanged) | **Price:** 0.02 CHF | **Price target:** 0.13 CHF

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Recent business development

Basic data

Based in:	St. Gallen
Sector:	Payment, IT security
Headcount:	approx. 200 (Group)
Accounting:	Swiss GAAP FER
ISIN:	CH0033050961
Price:	0.02 CHF
Ticker:	SDP:SW
Market segment:	Regulated Market Berne
Number of shares:	211.7 m
Market Cap:	4.2 m CHF
Enterprise Value:	16.5 m CHF
Free float:	approx. 39 %
Price high/low (12 m):	0.16 / 0.02 CHF
Ø turnover (12 m Berne):	11,600 CHF

Sandpiper pushed ahead with the consolidation of its portfolio last year, selling its subsidiary PAIR Solutions and the shares in Smart Loyalty (about 15 percent). This year, the smaller investment Multicard Nederland will also be deconsolidated, as the company had to file for insolvency following the failed turnaround in 2018 and a failed sale in April. Sandpiper's portfolio now essentially consists of three larger majority shareholdings (InterCard, Ergonomics, IDpendant) and one minority shareholding (Playpass).

The restructuring phase was still clearly reflected in the Group figures for 2018, with sales falling by 15 percent to EUR 25.9 m and EBIT slipping slightly further into the red at EUR -2.0 m. As a result, the company had to report the loss of half of the share capital and the statutory reserves. Efforts to reduce the cost base are therefore likely to be further intensified, and a capital measure is also conceivable.

However, we now see good growth opportunities for the remaining shareholdings. The associated economies of scale could enable the Group to break even in 2020.

FY ends: 31.12.	2016	2017	2018	2019e	2020e	2021e
Sales (m Euro)	28.9	30.5	25.9	27.8	31.1	33.9
EBIT (m Euro)	-5.9	-1.2	-2.0	-0.6	0.7	1.5
Net profit	-8.3	6.3	-1.9	-0.3	0.3	0.9
EpS	-4.0	3.0	-1.0	-0.1	0.1	0.3
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00
Sales growth	58.0%	5.4%	-15.0%	7.3%	12.0%	9.0%
Profit growth	-	-	-	-	-	202.7%
PSR	0.13	0.12	0.15	0.14	0.12	0.11
PER	-	0.6	-	-	12.7	4.2
PCR	-	-	1.6	13.2	4.1	2.2
EV / EBIT	-	-	-	-	20.9	9.7
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Further consolidation of the portfolio

Sandpiper continues its process of focusing on the most important investments. In the last financial year, the company sold all its shares in the subsidiary PAIR Solutions and the existing package (15.27 percent) of Smart Loyalty AG. In the current period, the wholly-owned subsidiary Multicard Nederland will be deconsolidated as well. After the company had clearly missed the targeted turnaround in 2018 with sales of EUR 1.3 m and a result of around EUR -0.9 m, and after the sale to an investor had failed despite a fully negotiated contract due to additional demands from the local tax authorities, it had to file for insolvency in April. Sandpiper's current portfolio therefore consists mainly of the wholly-owned subsidiary Ergonomics (including its subsidiary e24 AG, of which 80 percent is held), the majority holdings InterCard AG Informationssysteme (51 percent) and IDpendant (54 percent) and the minority holding Playpass (26.7 percent).

Small follow-up investments

Last year, Playpass carried out a growth financing with the help of a new investor, in which Sandpiper did not participate, so that the stake, which was still around 35 percent at the end of 2017, was diluted. However, Sandpiper participated with EUR 0.4 m in a convertible loan with a volume of EUR 1.5 m placed by Playpass in the first half of this year. The investment company also participated in a capital increase of InterCard (EUR 0.4 m) in 2018, of which Sandpiper subscribed to a little more than half and thus slightly increased its share.

InterCard improves result

The listed subsidiary InterCard thus remains one of Sandpiper's central assets. The specialist for multi-functional chip card systems, increasingly expanding its service portfolio to include app-controlled services (in particular also payment functions), stepped up sales last year by 1.9 percent to EUR 14.4 m, but missed its own targets. Nevertheless, EBIT increased significantly from EUR 185,000 to EUR 342,000, and net income also improved from EUR -43,000 to EUR +83,000. Sandpiper includes InterCard in the "Campus & Corporate" segment, whose reported revenues still fell from EUR 17.2 m to EUR 14.9 m last year. This was due to the deconsolidation of the Polyright subsidiary, which had contributed EUR 2.5 m to the segment's income in 2017 and was sold in August 2017. In 2019, however, the company will be included again: InterCard, which had secured a minority interest during the sale by Sandpiper and an option to expand its position via a convertible loan, increased its stake in the former competitor to 52 percent in May and has held the majority since then.

Sales considerably below previous year

In the second largest segment, Security & Services, which reflects the development of the Ergonomics and IDpendant companies, reported revenues fell last year from EUR 11.8 m to EUR 9.7 m. This is mainly due to the significant decline in sales of EUR -1.7 m at Ergonomics. The completion of a major project at the company was delayed, which temporarily tied up capacity. In the third division, Sport & Events, which consisted solely of the subsidiary Multicard Nederland, revenues of EUR 1.3 m were also below the previous year's figure (EUR 1.6 m). In total, Sandpiper's consolidated sales fell from EUR 30.5 m to EUR 25.9 m, of which around 60 percent was due to consolidation effects (in addition to the Polyright effect of EUR 2.5 m, the sold subsidiary Sandpiper Digital Payments Asia Private Ltd. had contributed EUR 0.3 m in the previous year).

Business figures	2017	2018	Change
Group sales	30.50	25.91	*-15.0%*
- Campus & Corporate	*17.18*	*14.94*	*-13.0%*
- Security & Services	*11.81*	*9.70*	*-17.9%*
- Sport & Events	*1.63*	*1.29*	*-20.6%*
EBITDA	0.39	-0.56	-
EBIT	-1.22	-1.96	-
Net result	6.23	-1.90	-

In m Euro and percent, source: Company

No turnaround yet in operating result

The operating result at Group level has not yet improved, but at EUR -2.0 m was slightly more than EUR 700,000 below the previous year's figure (EUR -1.2 m), although the largest cost item, personnel expenses, fell more sharply than sales (-16.4 percent to EUR 12.1 m). However, this was not the case for material expenses (-10.5 percent to EUR 11.0 m) and other operating expenses (-9.6 percent to EUR 4.2 m). In addition, there was a significantly lower positive contribution from the increase in inventories (EUR 0.1 m compared with EUR 0.5 m in the previous year). After taxes and minority interests, the loss for the year was EUR -1.7 m, compared with a net profit of EUR 6.8 m in the previous year. The latter, however, resulted from various special effects, such as a subsequent purchase price adjustment (EUR +6.8 m), the deconsolidation of the net liabilities of Payment Solution (EUR +3.9 m) and the balance sheet restructuring of Multicard Nederland (EUR +0.8 m).

Capital loss reported

At Group level, equity has thus fallen from EUR 1.1 m to EUR -1.0 m. The decisive factor, however, is the equity in the financial statements of the AG, which fell from EUR 12.7 m to EUR 5.6 m because of an annual loss in the income statement of EUR -6.5 m (previous year: EUR +0.5 m), primarily due to write-downs on investments and minority interests (EUR -3.0 m) and on loans (EUR -1.8 m). As a result, the stock company had to report the loss of half of the share capital and the statutory reserves. For this reason, the advisory board will propose further restructuring measures at the Annual General Meeting, with particular emphasis on additional cost-cutting measures. With the liquidity of the AG of EUR 1.5 m and of the Group of EUR 3.2 m at the end of December, there is no immediate need for financing, especially as the majority of the AG's liabilities (including provisions), namely around 78 percent of EUR 7.4 m, is toward Group companies, shareholders and executive bodies.

Boost for InterCard

The outlook for the current financial year is quite optimistic, especially with the largest subsidiary InterCard taking a major step forward with the acquisition of Polyright. Polyright generated sales of CHF 3.7 m last year and could still have a negative impact on earnings as part of the initial consolidation. On an organic basis, i.e. without consolidation effects, InterCard has forecast a revenue of more than EUR 15 m and further profit growth. Even before the takeover, the company was the leading provider of chip card systems at German universities and colleges with a market share of approx. 80 percent, and now its share in Switzerland is also around 90 percent. Synergies are now being exploited to a greater extent and growth is being promoted jointly, for example in the area of APP-based services as well as abroad.

Shareholdings on growth course

The other companies in the portfolio are also expected to grow this year. With the completion of its major project, Ergonomics has not only eliminated its capacity bottleneck, but has also completed a solution that generates recurring revenue. This solution is Currency Xchanger, a currency exchange platform to be marketed to railways and airlines. Playpass is also on course for expansion. As a provider of a platform with which organizers of festivals and other mass events can cover various functions such as access authorization control and cashless payment transactions in an integrated solution, the company wants to grow primarily abroad and has already successfully implemented the necessary financing measures. The company addresses high-potential markets in Europe and Latin America itself, while expansion in Asia, Africa and the USA is being driven by international partners.

Stronger cooperation within the Group

Finally, according to the Sandpiper management, the subsidiary IDpendant, a manufacturer-independent system integrator for comprehensive IT security solutions, is also expected to grow. The company is involved in several growth initiatives aimed at addressing promising business areas and expanding cooperation within the Group. IDpendant, InterCard and Intrakey (a subsidiary of InterCard) are working on new access solutions that can be offered to universities, clinics, administrations, cities and companies. IDpendant has also intensified its cooperation with Ergonomics at various levels, for example in the selection of suppliers and technology partners as well as in marketing and sales, focusing in particular on cross-selling and up-selling potentials. Another joint field of activity within the Group are Smart-City projects. The holding company is currently driving forward a project in which several subsidiaries are involved and which is now generating its first revenues.

Slower than expected

In our opinion, Sandpiper is thus basically heading in the right direction, even though the pace did not yet meet our expectations last year and the insolvency of Multicard Nederland – despite the limited contribution to sales – is a setback. Group revenues fell short of our expectations (EUR 28.5 m) by around EUR 2.6 m, and the EBIT loss was also significantly higher than we had expected (EUR -0.6 m). For the current year, however, we continue to expect a significant increase in revenues due to the growth drivers described above. The renewed inclusion of Polyright should compensate for the absence of contributions from PAIR and Multicard Nederland, so that together with the organic growth of the subsidiaries, we expect Group revenues of EUR 27.8 m. EBIT should also increase noticeably, but for the time being we are still calculating with a small loss (EUR -0.6 m) as part of a conservative approach.

Good opportunities for sustainable expansion

In the following year, a continuation of the organic growth course - we have not assumed any further acquisitions - could lead to an operating break-even. Due to the attractive target markets (keyword Smart City), we have maintained our basic expansion scenario with rising margins. Overall, the development

m Euro	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Intercard	16.9	18.4	20.3	22.3	24.5	27.0	29.7	32.6
Ergonomics	6.3	8.0	8.6	9.4	10.4	11.5	12.6	13.9
IDpendant	4.4	4.7	5.0	5.4	5.8	6.2	6.6	7.1
Sales	27.8	31.1	33.9	37.1	40.7	44.6	48.9	53.6
Sales growth	7.3%	12.0%	9.0%	9.3%	9.6%	9.8%	9.6%	9.6%
EBIT margin	-2.0%	2.3%	4.5%	5.4%	6.1%	6.3%	6.4%	6.5%
EBIT	**-0.6**	**0.7**	**1.5**	**2.0**	**2.5**	**2.8**	**3.1**	**3.5**
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	1.0	1.1
NOPAT	**-0.6**	**0.7**	**1.5**	**2.0**	**2.5**	**2.8**	**2.1**	**2.3**
+ Depreciation & Amortisation	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
+ Increase long-term accruals	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	0.4	1.6	2.4	2.9	3.4	3.7	3.1	3.4
- Increase Net Working Capital	-0.5	-0.4	-0.3	-0.3	-0.2	0.0	0.0	0.0
- Investments in fixed assets	-0.7	-0.7	-0.8	-0.8	-0.9	-0.8	-0.8	-0.8
Free cash flows	**-0.8**	**0.5**	**1.3**	**1.8**	**2.3**	**2.9**	**2.3**	**2.5**

SMC estimation model

path has in principle been postponed by one year, as the restructuring of the portfolio, the acquisition of new projects and the exploitation of synergies have taken longer than we had previously assumed. We continue to treat Playpass as a saleable (non-consolidated) asset and have updated the amount of the investment and set the value somewhat more conservatively (EUR 4.8 m). A key factor for further development is that the reported capital loss does not result in a liquidity bottleneck. We do not see any immediate need for liquidity, but we have nevertheless, out of caution, assumed a large capital increase (100 million shares) at the current price, hypothetically presuming a high dilution, which, however, does not necessarily have to occur. An overview of the key cash flow figures resulting from these assumptions in the detailed forecast period can be found in the table on the previous page; further details on the balance sheet, P&L and cash flows can be found in the tables in the Annex.

Framework data unchanged

Beyond that we still assume a discount on the target margin of 10 percent and a "perpetual" cash flows growth of 1 percent p.a. We have left the discount rate unchanged as well: Based on the assumption of a beta factor of 1.4, a risk-free interest rate of 2.5 percent, a risk premium of 5.4 percent, a target debt ratio of 70 percent and an interest rate on borrowed capital of 5.0 percent, the weighted average cost of capital (WACC) of our model is 5.4 percent.

Price target: 0.13 CHF

These assumptions result in a fair value of equity of CHF 39.9 m. On a fully diluted basis, taking into account a hypothetically assumed capital increase and thus 311.7 m shares, this corresponds to a fair value of CHF 0.128 per share, from which we derive the new price target of CHF 0.13. The significant reduction compared to our last update (EUR 0.22, equivalent to CHF 0.246) is due to the smaller portfolio, a somewhat more conservative estimate of further development and the assumed large equity issue at a low price level. We continue to see the forecast risk at five out of six possible points.

Sensitivity analysis

When the input parameters are varied for our sensitivity analysis (WACC between 4.4 and 6.4 percent and perpetual cash flows growth between 0 and 2 percent), the fair value of the share lies between CHF 0.091 and CHF 0.227.

Sensitivity analysis	perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
4.4%	0.227	0.192	0.168	0.151	0.137
4.9%	0.186	0.163	0.146	0.132	0.122
5.4%	0.157	0.141	**0.128**	0.118	0.110
5.9%	0.136	0.124	0.114	0.106	0.100
6.4%	0.120	0.110	0.103	0.096	0.091

Conclusion

At first glance, Sandpiper's figures for the year 2018 do not look very satisfactory. Group sales declined significantly and the operating loss increased. In addition, the company had to report the loss of half of the share capital (including the statutory reserves) at AG level. The share price suffered greatly as a result.

However, this conceals the fact that portfolio consolidation is well advanced and has created a solid basis for future growth. The three major holdings InterCard, Ergonomics and IDpendant are already operating profitably or are expected to do so in the near future, and Playpass is also an investment in an attractive growth stock.

This could enable the Group to break even in its operating business in 2020 - and this outlook should also have a positive impact on the share price. Assuming that a funding shortfall can be avoided after the capital loss report and that Sandpiper has now embarked on a sustainable and profitable expansion course, we have determined an updated price target of CHF 0.13 (previously: EUR 0.22, equivalent to CHF 0.246), which has dropped significantly due to the reduced portfolio, somewhat more conservative estimates of future performance and, above all, a strong dilution by a capital measure assumed as a precaution.

Nevertheless, the fair value we have determined is far above the current price level, which in our view is due to the recent development and the capital loss report. However, as soon as the company can demonstrate an improvement in the situation, the potential for recovery should be gradually realized. At present, however, this is still a speculative scenario with a high risk, which is why the rating remains "speculative buy".

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Annex I: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
ASSETS									
I. Total non-current assets	5.9	5.8	5.8	5.9	6.1	6.3	6.4	6.5	6.6
1. Intangible assets	3.2	2.9	2.7	2.6	2.6	2.6	2.6	2.6	2.7
2. Tangible assets	1.0	1.2	1.4	1.6	1.8	2.0	2.1	2.2	2.2
II. Total current assets	8.9	9.8	10.2	15.7	18.6	21.1	23.3	25.6	28.2
LIABILITIES									
I. Equity	-1.0	-0.1	0.3	1.5	2.9	4.3	5.4	6.6	7.9
II. Accruals	2.5	2.7	2.9	3.0	3.3	3.5	3.8	4.0	4.4
III. Liabilities									
1. Long-term liabilities	3.1	1.8	1.7	2.8	3.1	3.3	3.4	3.5	3.7
2. Short-term liabilities	10.7	11.7	11.7	14.8	16.0	16.9	17.7	18.5	19.4
TOTAL	**15.3**	**16.1**	**16.5**	**22.1**	**25.2**	**27.9**	**30.3**	**32.6**	**35.3**

P&L estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales	25.9	27.8	31.1	33.9	37.1	40.7	44.6	48.9	53.6
Total operating revenues	26.0	27.8	31.1	33.9	37.1	40.7	44.6	48.9	53.6
Gross profit	15.0	16.4	18.8	20.9	22.9	25.2	27.7	30.3	33.2
EBITDA	-0.6	0.2	1.4	2.2	2.7	3.1	3.5	3.8	4.2
EBIT	-2.0	-0.6	0.7	1.5	2.0	2.5	2.8	3.1	3.5
EBT	-1.7	-0.2	0.5	1.3	1.7	2.2	2.6	2.9	3.3
EAT (before minorities)	-1.7	-0.2	0.4	1.2	1.4	1.5	1.7	1.9	2.2
EAT	-1.9	-0.3	0.3	0.9	1.2	1.2	1.5	1.7	1.9
EPS (Eurocent)	-1.00	-0.11	0.10	0.29	0.37	0.40	0.47	0.53	0.60

Annex II: Cash flows estimation and key figures

Cash flows estimation

m Euro	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
CF operating	2.4	0.3	0.9	1.7	2.0	2.2	2.6	2.9	3.2
CF from investments	4.1	-0.7	-0.7	-0.8	-0.8	-0.9	-0.8	-0.8	-0.8
CF financing	-4.5	0.5	-0.5	3.8	1.1	0.7	-0.1	-0.3	-0.4
Liquidity beginning of year	1.3	3.3	3.4	3.1	7.9	10.2	12.1	13.8	15.7
Liquidity end of year	3.3	3.4	3.1	7.9	10.2	12.1	13.8	15.7	17.7

Key figures

percent	12 2018	12 2019	12 2020	12 2021	12 2022	12 2023	12 2024	12 2025	12 2026
Sales growth	-15.0%	7.3%	12.0%	9.0%	9.3%	9.6%	9.8%	9.6%	9.6%
Gross margin	58.0%	59.0%	60.5%	61.5%	61.8%	62.0%	62.0%	62.0%	62.0%
EBITDA margin	-2.2%	0.9%	4.6%	6.5%	7.2%	7.7%	7.8%	7.8%	7.8%
EBIT margin	-7.6%	-2.0%	2.3%	4.5%	5.4%	6.1%	6.3%	6.4%	6.5%
EBT margin	-6.5%	-0.5%	1.5%	3.9%	4.6%	5.3%	5.8%	5.9%	6.1%
Net margin (after minorities)	-7.3%	-1.2%	1.0%	2.7%	3.1%	3.0%	3.3%	3.4%	3.5%

Disclaimer

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

Disclaimer

Legal disclosures (§85 of the German Securities Trading Act (WHPG), MAR, Commission Delegated Regulation (EU) 2016/958 supplementing Regulation (EU) No 596/2014)

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9) At the time of the publication of the report, the issuer holds holdings exceeding 5 % of its total issued share capital in the sc-consult GmbH

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Following conflicts of interests occurred in this comment: 1), 3)

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 02.07.2019 at 14:00 and published on 02.07.2019 at 14:10.

For the preparation of its financial analyses, the sc-consult GmbH uses a five-tier rating scheme with regard to price expectation in the next twelve months. Additionally, estimation risk is quantified on a scale from 1 (low) to 6 (high). The ratings are as follows:

Strong Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as below average (1 to 2 points).
Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).

Speculative Buy	We expect an increase in price for the analyzed financial instrument by at least 10 percent. We assess the estimation risk as above average (5 to 6 points).
Hold	We expect that the price of the analyzed financial instrument will remain stable (between -10 and +10 percent). The forecast risk (1 to 6 points) has no further impact on the rating. The rating "hold" is also used in cases where we perceive a price potential of more than 10 percent, but explicitly mentioned temporary factors prevent a short-term realization of the price potential.
Sell	We expect that the price of the analyzed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analyzed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

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In den letzten 24 Monaten hat die sc-consult folgende Finanzanalysen zu dem in dieser Studie analysierten Unternehmen veröffentlicht:

Date	Rating	Target price	Conflict of interests
18.12.2018	Speculative Buy	0.22 Euro	1), 3), 4)
13.09.2018	Speculative Buy	0.23 Euro	1), 3), 4)
11.06.2018	Speculative Buy	0.27 Euro	1), 3), 4)
14.03.2018	Speculative Buy	0.26 Euro	1), 3), 4)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one comment

The publishing dates for the financial analyses are not yet fixed at the present moment.

Exclusion of liability

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