

FY20 adjusted PBT up 10% as H2 sales turn positive

19 January 2021

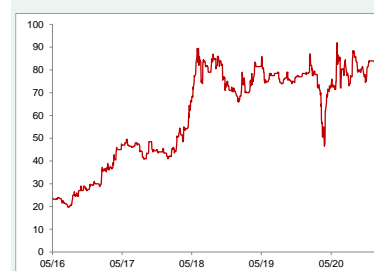
Finding an undervalued stock that has 1st class differentiated products, generating high gross margins in an expanding tech sector, is the perfect recipe to deliver sustainable long term shareholder returns. Particularly when the firm 'relatively' breezes through even the worst of Cat 5 storms.

To us, *BuildTech* software developer Eleco fits the bill. Why? Well, amid some of the toughest conditions in a century, the company impressively said today **it had ended 2020 strongly**. With **H2 turnover climbing +6% sequentially vs H1 and +2% LFL** to £12.9m, and FY performance broadly flat (-1%) at £25.1m. Moreover **adjusted PBT rose 10%** (at least) to £4.6m, reflecting favourable operating leverage & tight cost control. Similarly, pushing Dec'20 **net cash up £5.0m to £6.1m**, worth c. 7.4p/share (£1.1m LY, £4.4m June).

Company Data

EPIC	AIM: ELCO
Price	85p
52 weeks High/Low	92p/47p
Market cap	£70.1m
Net cash December 2020	£6.1m
ED valuation / share	115p/share
Share count	82.5m

Share Price, p



Source: Yahoo

Description

Eleco is a *BuildTech*, asset/property maintenance & visualisation software specialist for the Architectural, Engineering, Construction & digital marketing industries. Its award winning 6D solutions (>100,000 users) cover project planning, estimating, design/CAD, visualisation, site operations/maintenance & Building Information Modelling (BIM). BIM acts as the glue connecting all the various parts.

Visibility is robust, with c. **56% of 2020 revenues recurring and >90% customer retention rates**. Landmark implementations include: The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome. **62% of the business is generated from outside the UK**, and there are c. 248 staff.

Next news: Growth Strategy &/or prelims.

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Momentum is increasing

Summary Financials (£'000s)	H1'19	H2'19	2019	Act H1'20	Est H2'20	Est FY20
Software licenses	3,018	2,859	5,877	2,721	2,862	5,583
Recurring SaaS & support	6,763	6,794	13,557	6,953	7,214	14,167
Services	2,930	3,034	5,964	2,541	2,827	5,368
Sales	12,711	12,687	25,398	12,215	12,903	25,118
Reported % growth rate	20.4%	8.8%	14.3%	-3.9%	1.7%	-1.1%
Acquisition growth %	19.5%	6.5%	13.1%	0.0%	0.0%	0.0%
Estimated forex	-2.0%	-2.0%	-2.0%	-0.9%	-0.9%	-0.9%
Estimated % LFL (constant currency)	2.1%	4.2%	3.2%	-3.0%	2.6%	-0.2%
% recurring revenues	53.2%	53.6%	53.4%	56.9%	55.9%	56.4%
Gross Profit	11,392	11,359	22,751	10,917	11,532	22,449
% margin	89.6%	89.5%	89.6%	89.4%	89.4%	89.4%
Operating expenses (excl D&A)	-8,446	-8,003	-16,449	-7,634	-8,052	-15,686
Adjusted EBITDA (post SBPs)	2,946	3,356	6,302	3,283	3,480	6,763
% margin	23.2%	26.5%	24.8%	26.9%	27.0%	26.9%
Depreciation	-450	-452	-902	-426	-450	-876
Amortisation of intangibles	-358	-497	-855	-491	-509	-1,000
Adjusted EBIT (post SBPs)	2,138	2,407	4,545	2,366	2,521	4,887
% margin	16.8%	19.0%	17.9%	19.4%	19.5%	19.5%
Net interest	-179	-160	-339	-141	-109	-250
Adjusted PBT	1,959	2,247	4,206	2,225	2,412	4,637
PBT margin	15.4%	17.7%	16.6%	18.2%	18.7%	18.5%
Tax	-338	-546	-884	-470	-504	-974
Adjusted earnings	1,621	1,701	3,322	1,755	1,908	3,663
Margin	12.8%	13.4%	13.1%	14.4%	14.8%	14.6%
Adjusted Cashflow	2,519	2,946	5,465	4,154	754	4,908
Cash conversion	118%	122%	120%	176%	30%	100%
Adjusted EPS (pence)	2.00p	2.10p	4.10p	2.16p	2.28p	4.44p
EPS growth %	9.4%	5.1%	7.1%	8.0%	8.9%	8.4%
Dividend (pence)	0.30p	0.00p	0.30p	0.00p	0.00p	0.00p
Net cash / (debt) - Ex IFRS16	-198	1,101	1,101	4,435	6,100	6,100

Source: Equity Development

Additionally, most/all the **growth appears to have come from strategically important cloud based solutions, subscriptions & pure SaaS (+5%)** thanks to new client wins & up/x-selling. In turn, lifting FY20 recurring revenues to above **56% of the group** vs 53% LY. This improving mix was also partly due to declines in face-to-face services (Est -10%) and perpetual licenses (Est-5%).

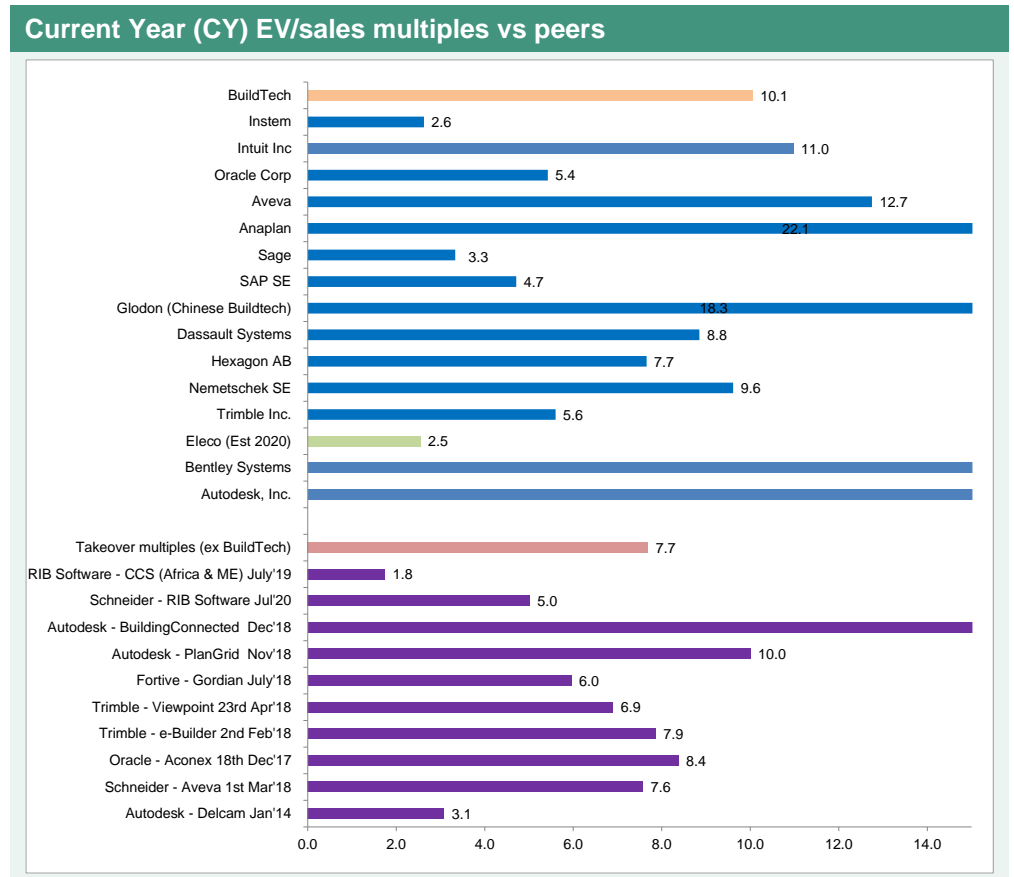
Estimated 100% cash conversion in 2020

Going forward, **we anticipate continued progress in 2021** and accordingly **value the group at a conservative 115p/share**. Equally at 85p, Eleco trades on modest 2020 EV/sales & EV/EBITDA multiples of 2.5x and 9.5x respectively, representing a >50% discount to *BuildTech* peers (see overleaf).

Suggesting **significant upside potential** in the event top line organic growth can be accelerated more towards industry norms.

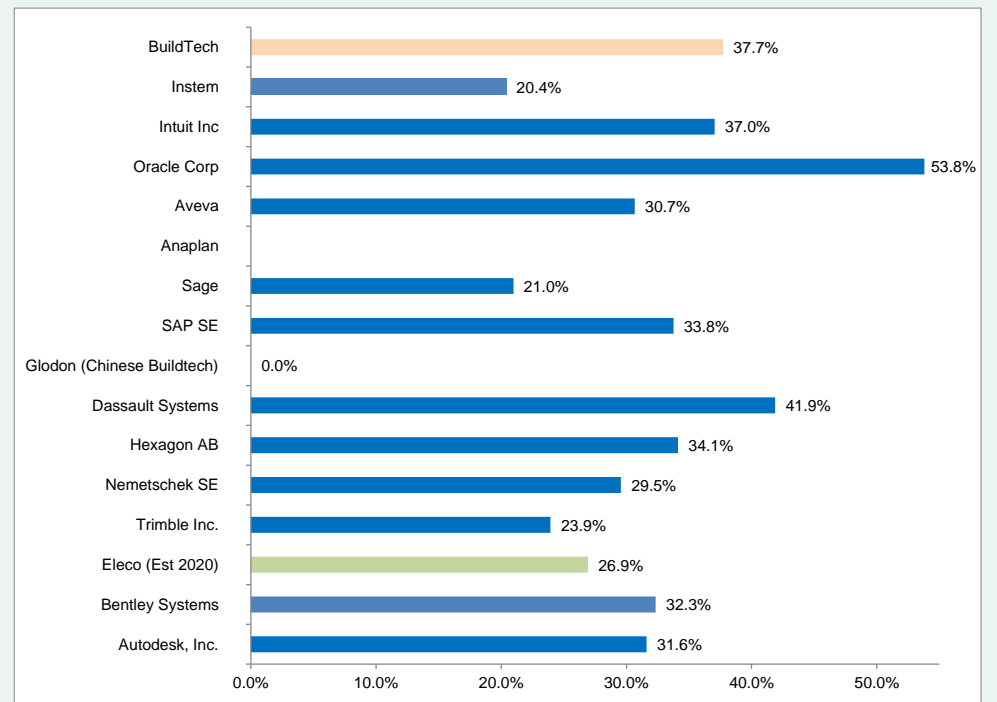
Exec Chairman Serena Lang adding: “*Eleco has shown **great resilience throughout 2020**, despite the adverse impact of the Covid-19 pandemic on our customers’ business activity and the timing of orders as well as on our training and face-to-face services.*”

“*We are nearing the completion of our strategic growth review and will continue to build a business that draws on our core strengths, allowing us to benefit from the accelerated digitisation of the built environment.*”



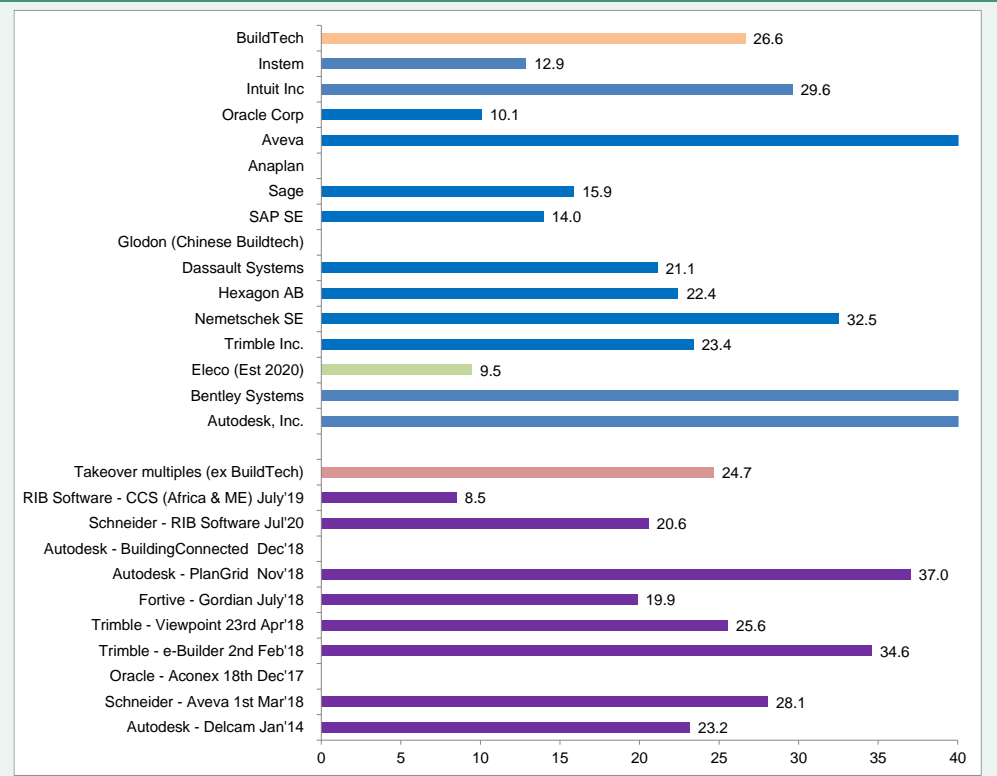
Source: Equity Development

CY EBITDA margins



Source: Equity Development

CY EV/EBITDA multiples vs peers



Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Eleco (Est 2020)	85p	£70.1	£6.1	£64.0
Trimble Inc.	\$69.0	\$17,250	-\$1,418	\$18,668
Autodesk, Inc.	\$308.0	\$67,452	\$255	\$67,197
Bentley Systems	\$51.0	\$15,555	-\$450	\$16,005
Nemetschek SE	€ 55.0	€ 6,353	€ 9	€ 6,344
Hexagon AB	€ 75.0	€ 27,450	-€ 1,277	€ 28,727
Dassault Systems	€ 160.0	€ 39,680	-€ 2,006	€ 41,686
Glodon (Chinese Buildtech)	\$13.08	\$15,643	\$614	\$15,028
SAP SE	€ 103.0	€ 121,540	-€ 7,410	€ 128,950
Sage	560p	£6,278	£185	£6,093
Aveva	£37.50	£10,778	£133	£10,645
Oracle Corp	\$61.0	\$179,950	-\$37,000	\$216,950
Intuit Inc	\$370.0	\$99,900	\$2,132	\$97,768
Instem	505p	£103.5	£22.4	£81.1

Source: Equity Development

Key risks

- Coronavirus induced problems at some of its largest customers, which either lead to late payments and/or doubtful debts.
- Substantial slowdown in global GDP which could impact the worldwide property, construction and infrastructure markets.
- Anticipated growth/profitability may take longer than envisaged, cost more or not be fully realised.
- Larger license deals can lead to lumpy orderflow, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts.
- Foreign exchange. However, this is primarily a translation risk with 63% of Eleco's turnover being generated outside the UK.
- Regulatory and tax changes. Generic risks of retention/recruitment of key staff, etc.
- Competition may intensify due to new/existing players. Indeed being relatively small, Eleco could get squeezed by larger rivals, partners and customers.
- As with many small cap AIM stocks, daily trading volumes can occasionally decline, particularly during seasonally quieter periods and/or between newsflow.

Summary projections (£'000s)

Eleco plc (Dec yearend)	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s
			Restated		
Software licenses	4,955	5,135	5,540	5,877	5,583
Recurring SaaS & support	8,622	11,018	12,326	13,557	14,167
Services	4,218	3,843	4,354	5,964	5,368
Turnover	17,795	19,996	22,220	25,398	25,118
<i>% growth</i>	16.6%	12.4%	11.1%	14.3%	-1.1%
Gross Profit	15,560	17,575	19,536	22,751	22,449
<i>% margin</i>	87.4%	87.9%	87.9%	89.6%	89.4%
Adj. EBITDA (post SBPs)	2,753	3,643	5,257	6,302	6,763
<i>% Margin</i>	15.5%	18.2%	23.7%	24.8%	26.9%
Adj. EBIT (post SBPs)	2,207	2,773	3,951	4,545	4,887
<i>% Margin</i>	12.4%	13.9%	17.8%	17.9%	19.5%
Adj. Profit before Tax	2,117	2,666	3,670	4,206	4,637
Adjusted EPS (p)	2.39p	2.87p	3.82p	4.10p	4.44p
<i>EPS growth rate</i>	58.2%	20.2%	33.3%	7.1%	8.4%
Dividend (p)	0.40p	0.60p	0.68p	0.30p	0.00p
<i>Yield</i>	0.5%	0.7%	0.8%	0.4%	0.0%
<i>% recurring revenues</i>	48.5%	55.1%	55.5%	53.4%	56.4%
<i>Adjusted cash conversion</i>	69.8%	102.2%	114.4%	120.2%	100.4%
Average headcount	190	201	228	251	247
Revenues (£ks) / employee	93.7	99.5	97.5	101.2	101.9
<u>Valuation benchmarks</u>					
<i>P/E ratio</i>	35.6	29.6	22.2	20.8	19.1
<i>EV/Sales</i>	3.6	3.2	2.9	2.5	2.5
<i>EV/EBITDA</i>	23.2	17.6	12.2	10.2	9.5
<i>EV/EBITA</i>	29.0	23.1	16.2	14.1	13.1
<i>Adjusted tax rate</i>	-16.1%	-17.9%	-19.4%	-19.0%	-21.0%
<i>EBITDA drop through rates</i>	37.8%	40.4%	72.6%	32.9%	
<i>ROCE</i>	15.5%	21.3%	15.5%	16.4%	15.7%
<i>Dividend cover</i>	6.0	4.8	5.6	13.7	
<i>PEG ratio</i>	0.61	1.47	0.67	2.90	2.27
Net cash/(debt) - ex IFRS16	-1,304	1,031	-1,814	1,101	6,100
Sharecount (Ks)	74,433	76,309	77,400	81,100	82,465
Shareprice (p)	85p				

Source: Equity Development



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