

ARR climbs 8% LFL, with YTD PBT in line with ests

25th May 2022

Given the recent tech sell-off, software stocks are flashing 'green' on many GARP investors' radars. No more so than in the "exciting" £8.5bn 'Buildtech' industry, which is expanding at a 10% pa clip.

Here Eleco is transitioning into a highly cash generative & profitable SaaS winner. Indeed, this morning the company said that **April YTD recurring revenues had climbed 8% to £5.4m** (vs £5.0m LY) - representing approx. 60% of group sales vs 54% LY.

As anticipated, this growth was offset by a similar decrease in software licenses/services. Hence total turnover at £8.9m was flat in constant currency terms, & slightly down (4%) vs LY's £9.3m - reflecting forex headwinds (eg SEK - £).

Equally though, **April YTD adjusted PBT is tracking our £2.9m target**, even after factoring in further 'growth' investment for later in the year. Elsewhere **net cash closed April at a healthy £11.3m** (or 13.5p/share vs £10.0m Dec'21), providing **ample firepower for future M&A**.

Plus, if there is ultimately a recession as many investors appear to assume, then underlying demand for its award-winning applications should remain robust, since they enable construction clients to not only significantly improve site productivity, carbon footprints, asset management & project delivery, but also reduce costs & the effects of today's building product / labour shortages.

Shares look materially undervalued across all metrics

With regards to the forecasts, we've **prudently held our adjusted PBT target of £2.9m**, but shaved FY22 revenues by 2% to £27.0 (vs £27.6m B4), along with the valuation 6% to 141p/share (150p) due to sector wide multiple compression.

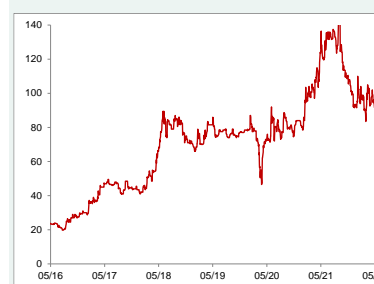
Executive Chairman, Serena Lang, commenting "*I am delighted with Eleco's progress in the first four months of 2022 despite the challenging market conditions. Underlying demand for Eleco's products remains strong as the construction industry moves towards a more sustainable future, digitisation of the built environment and improvements in productivity*".

Meaning that in summary, **we think the stock is significantly undervalued** based on both fundamentals and in relative terms. Trading on 2.3x 2022 EV/revs and 10.1x EV/EBITDA vs 5.7x & 17.5x for peers (see appendices) - & implying **potential upside on a rerating of >50% for patient investors**.

Company Data

EPIC	AIM: ELCO
Price	90p
52 weeks High/Low	147p/83p
Market cap	£75m
Net cash Dec'21	£10m
ED valuation / share	141p
Share count	83.2m

Share Price, p



Source: Yahoo

Description

Eleco is a *BuildTech*, asset/property lifecycle (64.5% sales) & visualisation/CAD (29%) software developer. Its award winning 6D solutions cover project planning, estimating, design, site operations/maintenance & Building Information Modelling (BIM). BIM acts as the glue connecting all the various parts.

Revenue visibility is robust, with c. **60% of Apr'22 YTD revenues recurring & >90% customer retention rates**. Landmark implementations include: The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome. **46% of revenues are generated outside the UK**. Headcount 245.

Next news: July H1 trading update

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*a shareholder in Eleco plc

Summary projections (£'000s)

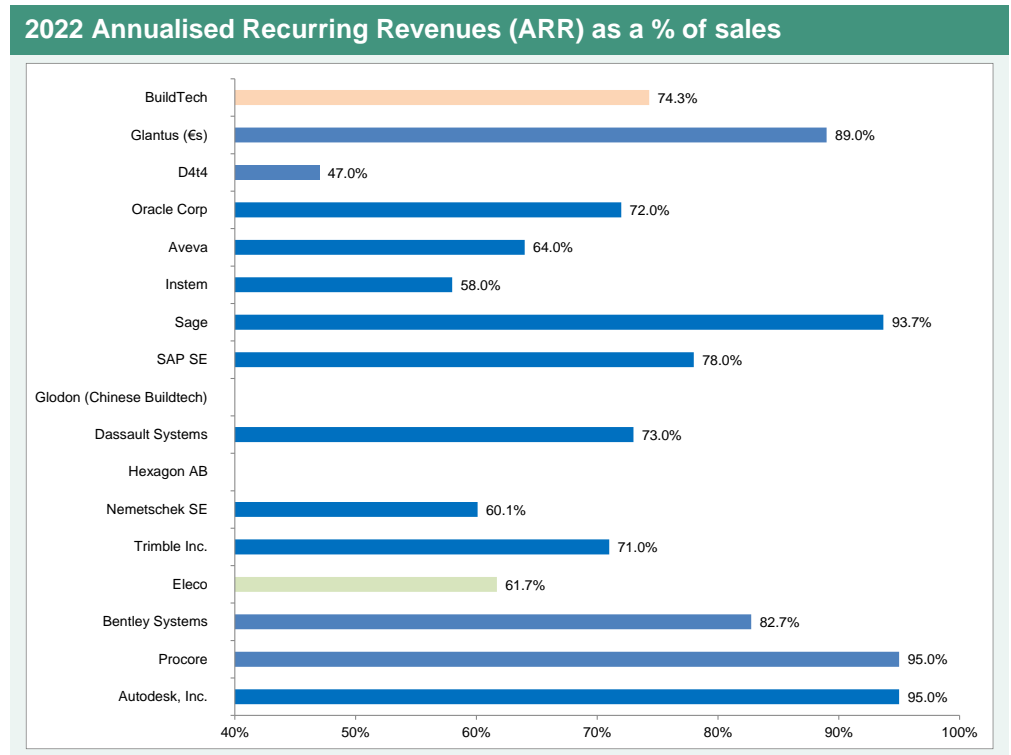
Eleco plc (Dec yearend)	2019 Act £'000s	2020 Act £'000s	2021 Act £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
Software licenses	5,877	5,442	5,913	5,130	4,617	4,155	3,740	3,366
ARR (recurring SaaS & support)	13,557	14,186	15,424	16,658	18,657	21,455	24,888	29,119
Services (eg training)	5,964	5,604	6,007	5,212	5,316	5,422	5,531	5,641
Turnover	25,398	25,232	27,344	27,000	28,590	31,033	34,159	38,126
% growth	14.3%	-0.7%	8.4%	-1.3%	5.9%	8.5%	10.1%	11.6%
Gross Profit	22,751	22,703	24,590	24,280	25,710	27,907	30,718	34,286
% margin	89.6%	90.0%	89.9%	89.9%	89.9%	89.9%	89.9%	89.9%
Adj. EBITDA (post SBPs)	6,302	7,003	7,251	6,217	6,564	7,869	9,648	11,865
% Margin	24.8%	27.8%	26.5%	23.0%	23.0%	25.4%	28.2%	31.1%
Adj. EBIT (post SBPs)	4,545	5,069	4,800	3,100	3,426	4,494	5,972	7,809
% Margin	17.9%	20.1%	17.6%	11.5%	12.0%	14.5%	17.5%	20.5%
Adj. Profit before Tax	4,206	4,807	4,743	2,900	3,276	4,394	5,922	7,809
Adjusted EPS (p)	4.10p	4.80p	4.00p	2.74p	3.00p	4.01p	5.37p	7.05p
EPS growth rate	7.1%	17.2%	-16.7%	-31.5%	9.5%	33.5%	34.1%	31.2%
Dividend (p)	0.30p	0.40p	0.60p	0.66p	0.73p	0.80p	0.88p	0.97p
Yield	0.3%	0.4%	0.7%	0.7%	0.8%	0.9%	1.0%	1.1%
ARR (% recurring revenues)	53.4%	56.2%	56.4%	61.7%	65.3%	69.1%	72.9%	76.4%
Adjusted cash conversion	120.2%	108.8%	99.0%	108.7%	105.3%	104.3%	102.0%	103.3%
Average headcount	251	246	245	254	260	267	274	284
Revenues (£ks) / employee	101.2	102.6	111.6	106.5	109.9	116.3	124.5	134.2
Valuation benchmarks								
P/E ratio	22.0	18.8	22.5	32.8	30.0	22.5	16.7	12.8
EV/Sales	2.5	2.5	2.3	2.3	2.2	2.0	1.8	1.6
EV/EBITDA	10.0	9.0	8.7	10.1	9.6	8.0	6.5	5.3
EV/EBITA	13.8	12.4	13.1	20.3	18.4	14.0	10.5	8.1
Adjusted tax rate	-19.0%	-18.7%	-30.8%	-21.0%	-23.0%	-23.0%	-23.0%	-23.0%
EBITDA drop through rates	32.9%		11.7%	300.2%	21.8%	53.4%	56.9%	55.9%
ROCE	16.4%	16.2%	14.3%	8.7%	9.2%	11.2%	13.5%	15.8%
Dividend cover	13.7		6.7	4.2	4.1	5.0	6.1	7.3
PEG ratio	3.07	1.09	-1.35	-1.04	3.14	0.67	0.49	0.41
Net cash/(debt) - excl IFRS16 leases	1,101	6,154	9,954	11,963	14,056	16,959	20,893	26,336
Sharecount (Ks)	81,100	81,400	82,000	83,570	83,988	84,408	84,830	85,254
Shareprice (p)	90p							

Source: Equity Development

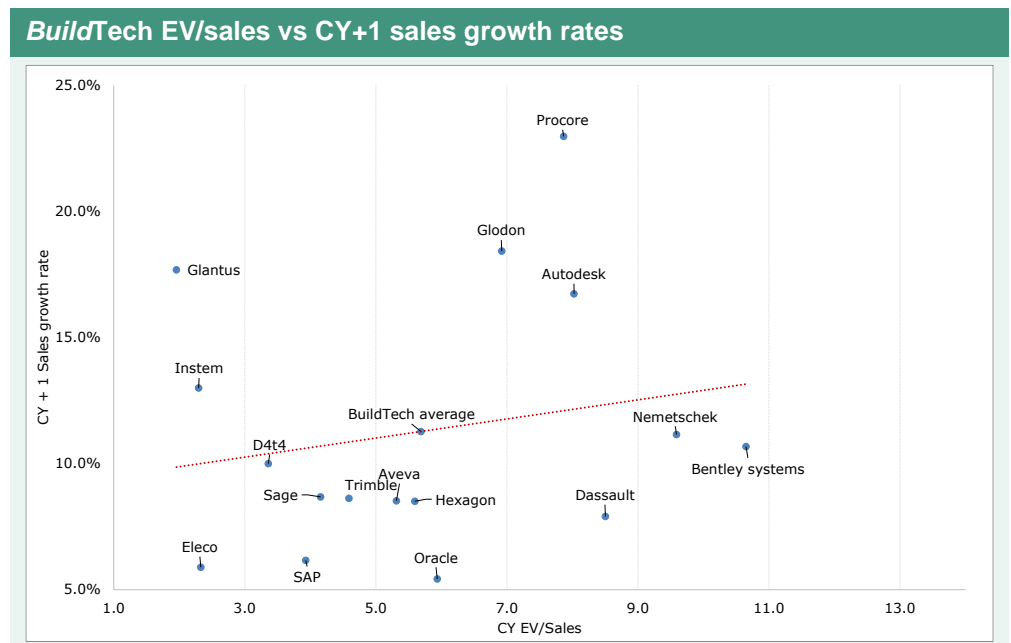
Key risks

- 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 order flow, but this is being equally balanced by recurring revenues from SaaS, support & maintenance contracts.
- Foreign exchange. However, this is primarily a translation risk with 46% 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.

Appendices

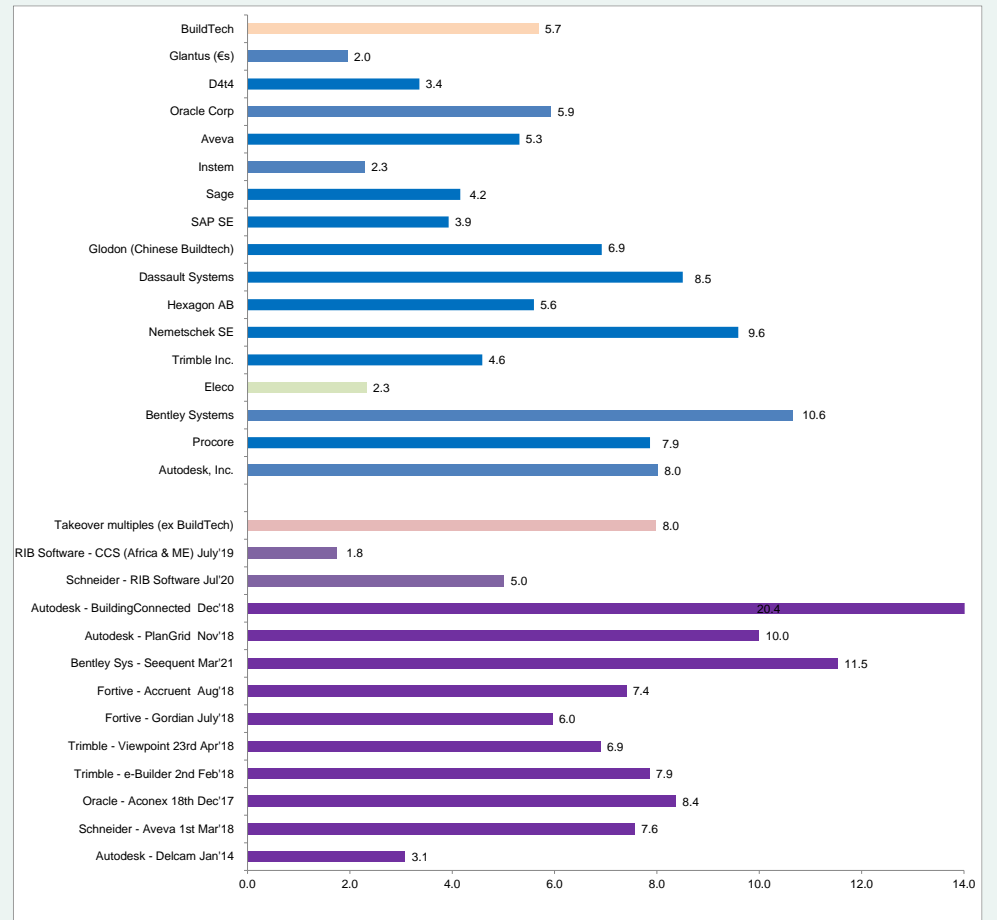


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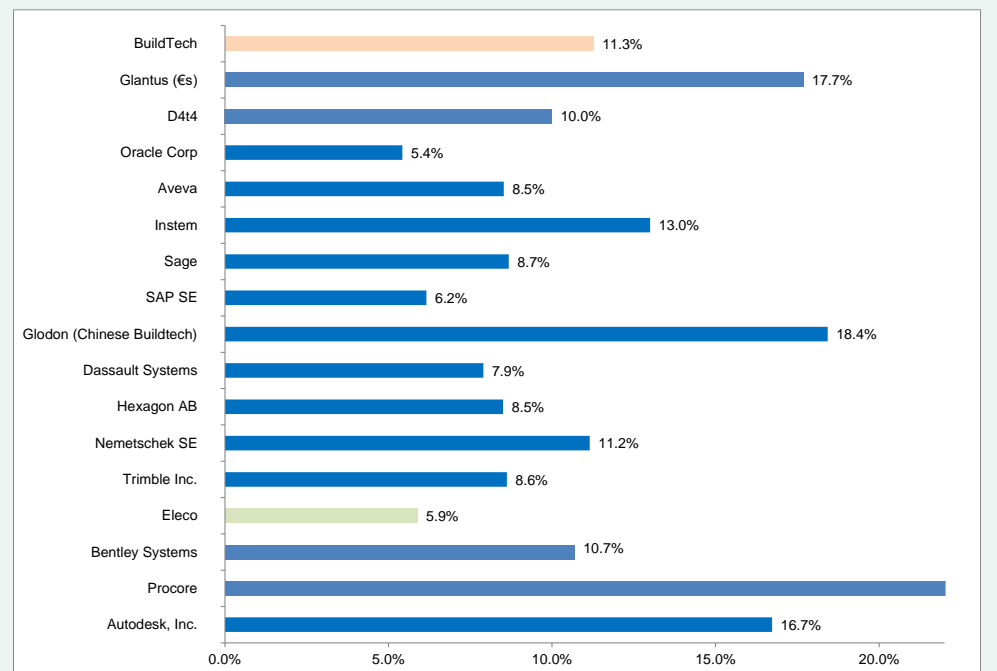
Source: Equity Development.

Current Year (CY) EV/sales multiples vs peers



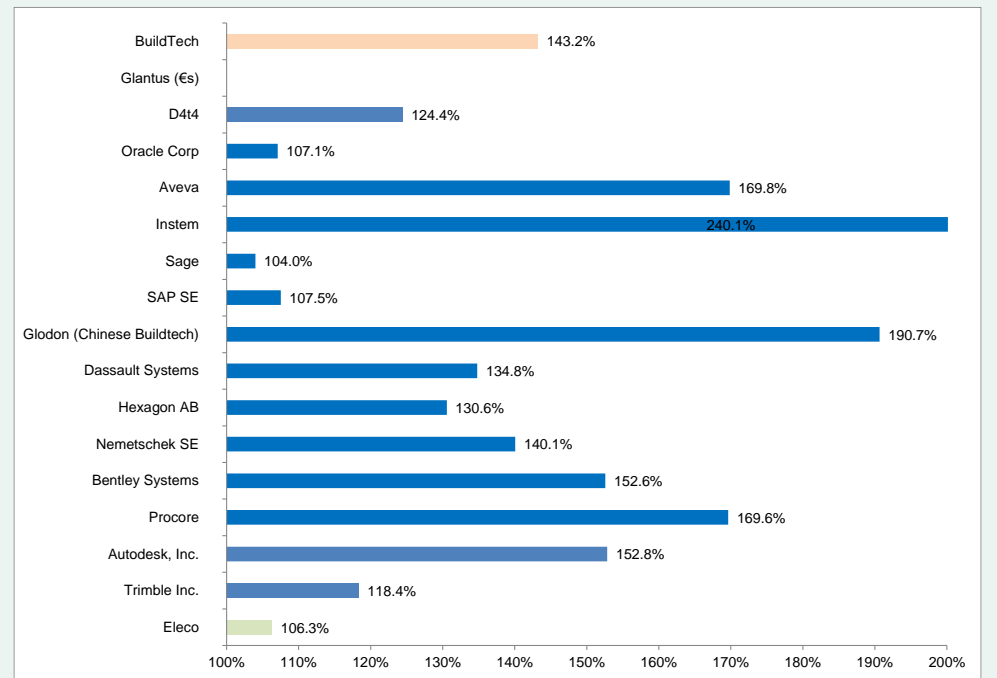
Source: Equity Development

CY+1 sales growth



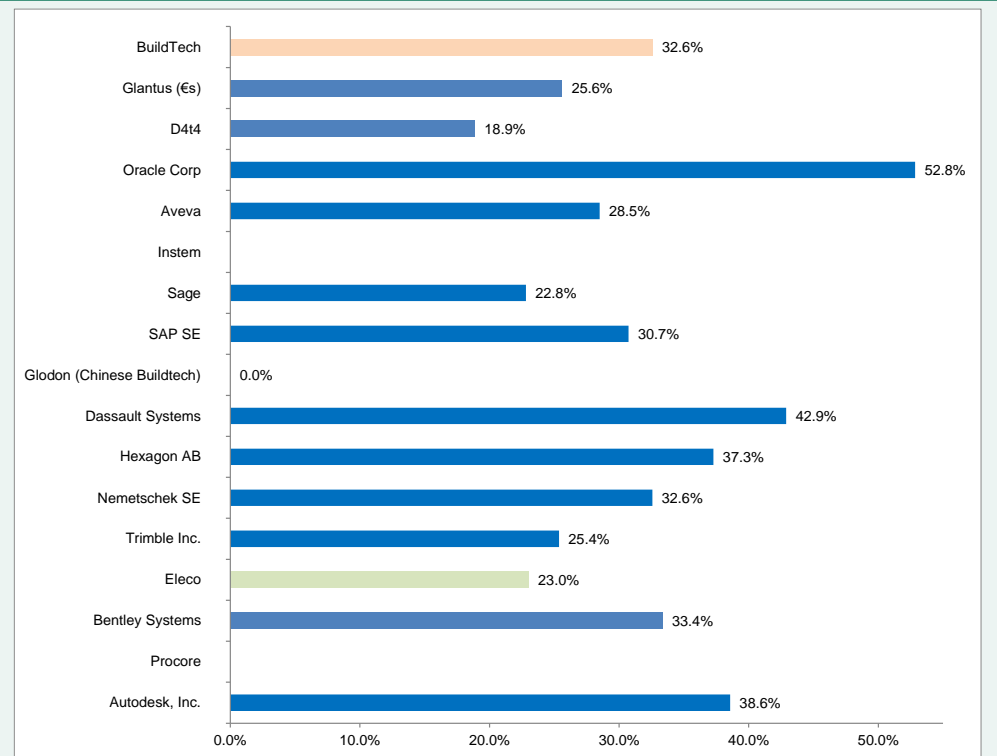
Source: Equity Development

CY sales as % of Pre-Covid



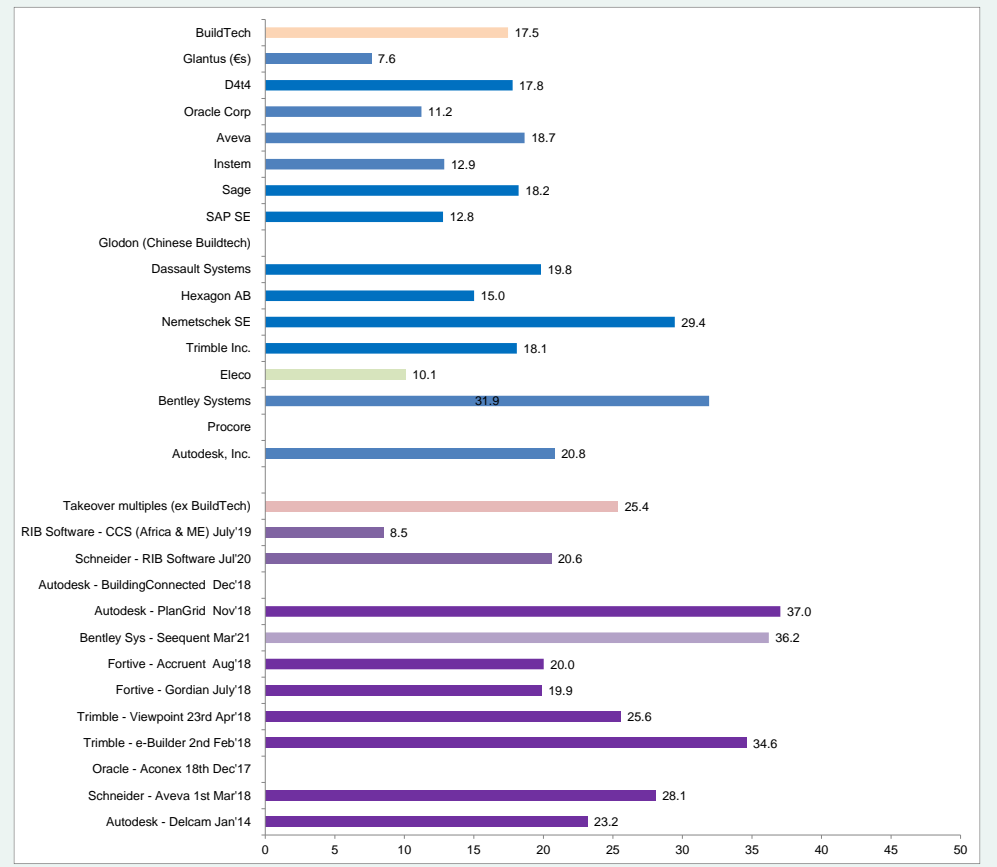
Source: Equity Development

CY EBITDA margins



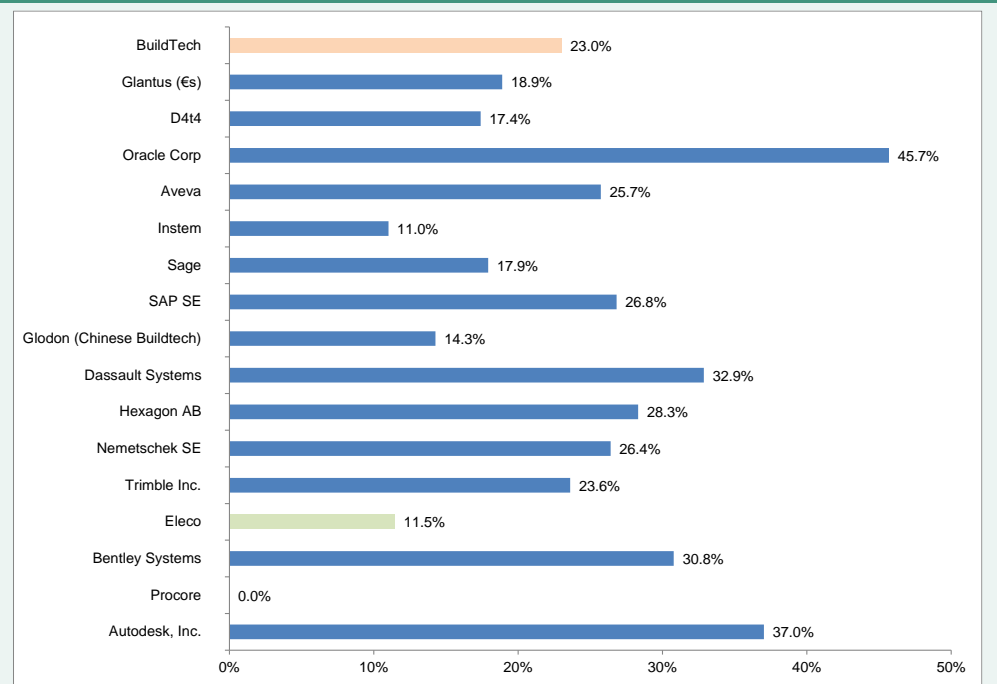
Source: Equity Development

CY EV/EBITDA multiples vs peers



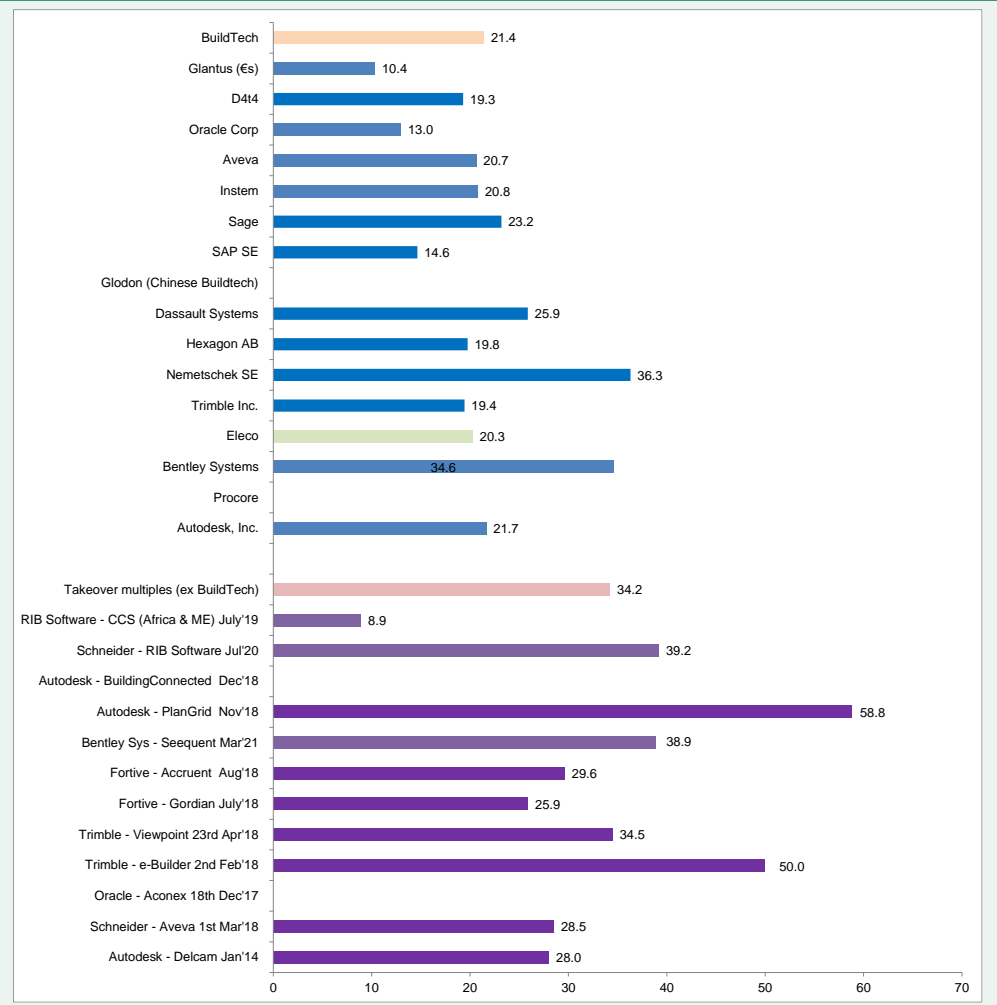
Source: Equity Development

CY EBIT margins

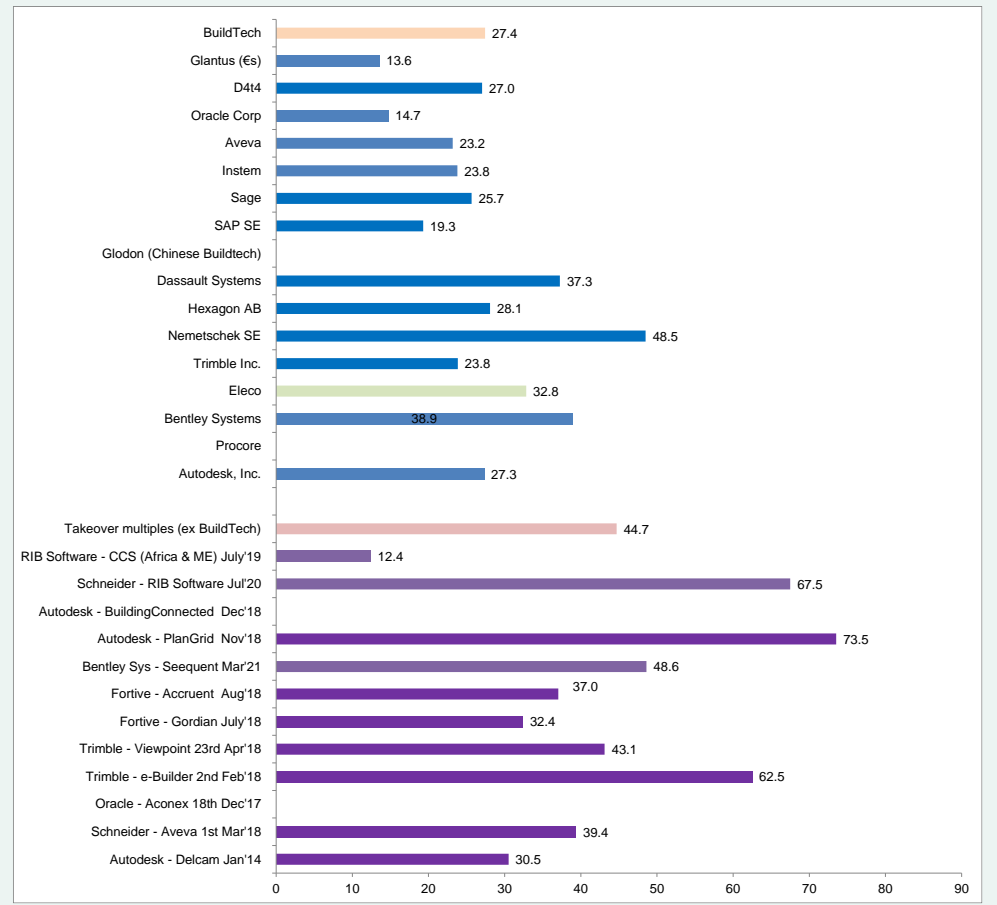


Source: Equity Development

CY EV/EBIT vs peers



Source: Equity Development

CY PERs vs peers


Source: Equity Development

Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Eleco	90p	£74.8	£12.0	£62.9
Trimble Inc.	\$67.0	\$16,757	-\$968	\$17,725
Autodesk, Inc.	\$183.0	\$40,626	\$471	\$40,155
Procore	\$43.0	\$5,831	\$490	\$5,341
Bentley Systems	\$31.5	\$10,427	-\$1,543	\$11,970
Nemetschek SE	€ 65.0	€ 7,508	€ 28	€ 7,480
Hexagon AB	€ 11.0	€ 28,312	-€ 242	€ 28,554
Dassault Systems	€ 38.0	€ 46,208	€ 145	€ 46,063
Glodon (Chinese Buildtech)	\$6.9	\$8,125	\$765	\$7,360
SAP SE	€ 92.5	€ 109,150	-€ 7,237	€ 116,387
Sage	675p	£7,435	-£564	£7,999
Aveva	£21.60	£6,515	-£405	£6,920
Oracle Corp	\$70.0	\$195,300	-\$55,862	\$251,162
D4t4	265p	£107	£16	£91
Glantus (€s)	€ 63.7	€ 24.1	-€ 8.0	€ 32.1

Source: Equity Development, various sites



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