

# SHEARWATER GROUP

IT CYBER SERVICES, SOLUTIONS & PROFESSIONAL CONSULTING

27 April 2022

## SWG.L

133p

Market Cap: £31.5m

### SHARE PRICE (p)



12m high/low 215p/74p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (Debt)/Cash	£4.4m (at 30/09/21)
Enterprise value	£27.1m
Index/market	AIM
Next news	FY Results, July '22
Shares in Issue (m)	23.8
Chairman	David Williams
CEO	Phil Higgins
CFO	Paul McFadden

### COMPANY DESCRIPTION

Shearwater provides cyber security, advisory and managed security services

[www.shearwatergroup.com](http://www.shearwatergroup.com)

SHEARWATER GROUP IS A RESEARCH CLIENT OF PROGRESSIVE

### ANALYSTS

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## Trading significantly ahead of estimates

Shearwater has published a trading update for the year ended 31 March 2022. As a result of a strong H2, revenues for the full year are materially ahead of our, and market, expectations, with management now expecting £35.5m for FY22, up 12% on FY21 and £2.0m ahead of our forecast. The update also states that EBITDA is expected to be in excess of £4.2m, ahead of our forecast of £4.1m. This statement, alongside recent contract wins, shows that management's hard work in recent years is paying off. We have adjusted our FY22 figures to reflect this good news, and look forward to the final results in July as an opportunity to find out more and revisit our FY23 estimates.

- The key driver to the strong performance is the progress within the services businesses (FY21: 86% revs). Large enterprises would appear to be stepping up their spend after the pandemic, moving perhaps to more of an investment rather than maintenance stance. We had already seen some evidence of this in the recent contract wins, most notably the announcement earlier this month of a contract with a leading telecoms and media company for £12.9m over a three-year term with the option to extend to £21.0m over five years.
- The expected year-end cash figure of £5.6m is below the £6.9m we had forecast. However, given the strong Q4 trading, this difference would appear to be more a question of timing on working capital flows.
- We have adjusted our FY22 forecasts following the announcement, raising revenue to £35.5m from £33.5m and adjusted EBITDA to £4.2m from £4.1m. We will revisit our FY23 forecasts and introduce FY24 forecasts following the final results in July.

The CEO's comments strike a confident and enthusiastic tone, confirming that progress has been made with both new and existing clients, and pointing to the company's growth trajectory. Shearwater looks to be delivering and moving to a revenue growth path, and more positive news on contracts or guidance could well see the market valuation metrics move to reflect this.

FYE MAR (£M)	2019	2020	2021	2022E	2023E
Revenue	23.5	33.0	31.8	35.5	36.4
Adj EBITDA	-1.4	3.4	3.7	4.2	4.6
Fully Adj PBT	-1.6	2.2	2.4	2.6	3.2
Fully Adj Dil EPS (p)	-8.9	7.6	9.7	11.9	14.1
EV/Sales (x)	1.2x	0.8x	0.9x	0.8x	0.7x
EV/EBITDA (x)	-19.5x	8.0x	7.3x	6.5x	5.9x
PER (x)	N/A	17.4x	13.7x	11.2x	9.4x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

**Financial Summary: Shearwater Group**

Year end: March (£m unless shown)

	2019	2020	2021	2022E	2023E
<b>PROFIT &amp; LOSS</b>					
Revenue	23.5	33.0	31.8	35.5	36.4
Adj EBITDA	(1.4)	3.4	3.7	4.2	4.6
Adj EBIT	(1.5)	3.1	3.4	3.9	4.3
Reported PBT	(6.7)	(1.3)	0.0	0.2	0.8
Fully Adj PBT	(1.6)	2.2	2.4	2.6	3.2
NOPAT	(1.5)	2.8	2.6	2.7	3.3
Reported Dil EPS (p)	(40.3)	(6.8)	0.6	1.0	3.2
Fully Adj Dil EPS (p)	(8.9)	7.6	9.7	11.9	14.1
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	(2.4)	5.6	6.6	(0.7)	4.7
Free Cash flow	(3.9)	3.8	5.7	(2.0)	3.4
FCF per share (p)	(28.0)	17.4	24.1	(8.3)	14.1
Acquisitions	(14.3)	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	16.5	0.0	3.8	0.0	0.0
Net cash flow	(1.7)	2.4	8.8	(2.0)	3.4
Overdrafts / borrowings	(4.4)	(4.8)	(0.8)	(0.5)	0.0
Cash & equivalents	0.6	3.3	8.0	6.1	9.4
Net (Debt)/Cash	(3.8)	(1.4)	7.3	5.6	9.4
<b>NAV AND RETURNS</b>					
Net asset value	49.4	52.5	56.5	56.7	57.5
NAV/share (p)	350.0	275.8	237.2	238.3	241.5
Net Tangible Asset Value	0.2	0.7	0.4	0.3	0.2
NTAV/share (p)	1.8	3.6	1.7	1.2	0.8
Average equity	24.7	50.9	54.5	56.6	57.1
Post-tax ROE (%)	(6.6%)	4.4%	4.4%	4.7%	5.6%
<b>METRICS</b>					
Revenue growth		40.7%	(3.8%)	11.8%	2.6%
Adj EBITDA growth		(344.5%)	8.7%	13.5%	9.1%
Adj EBIT growth		(311.4%)	8.8%	15.4%	10.3%
Adj PBT growth		(235.5%)	8.5%	10.0%	20.0%
Adj EPS growth		(185.3%)	27.0%	22.9%	18.6%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		9.4%	10.6%	10.9%	11.8%
<b>VALUATION</b>					
EV/Sales (x)	1.2	0.8	0.9	0.8	0.7
EV/EBITDA (x)	-19.5	8.0	7.3	6.5	5.9
EV/NOPAT (x)	-18.6	9.8	10.4	10.1	8.3
PER (x)	N/A	17.4	13.7	11.2	9.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(21.1%)	13.1%	18.2%	(6.2%)	10.7%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

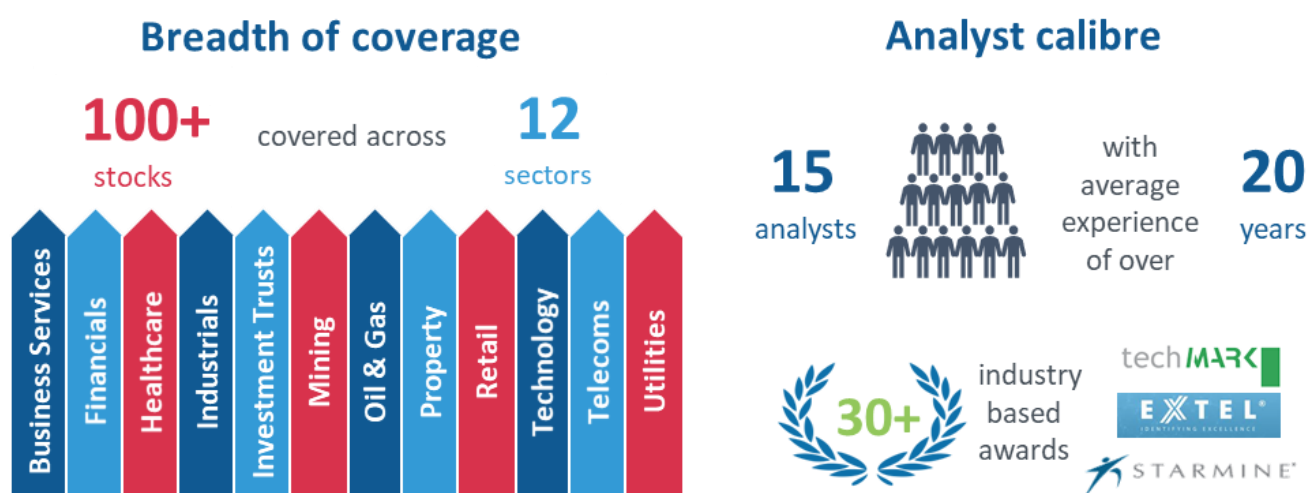
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