

Axway: Concerns over equity returns persist despite revenue growth

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Axway's (PA:AXW) net income dropped from €31.5m in 2016 to €4.4m in 2017, largely due to a €20.3m downward adjustment of deferred tax assets that was passed through the P&L.

The company is transforming itself towards a cloud-based and HIP (hybrid integration platform) provider to more closely match the needs and direction of its customers. To this end, it spent money to acquire businesses to give it leadership in strategically important areas of its service offering.



Axway competes in the enterprise software market, packaging software for sale to enterprises to install on premises, in the cloud, or in a hybrid model. It reckons its market is \$14.5bn, including a \$7.7bn market for cloud-based infrastructure software that Axway competes in. The market's CAGR is estimated to be 16% from 2017 to 2022 inclusive.

The market of integration technologies (including the Hybrid Integration Platform, HIP) in which Axway competes and intends to grow, has evolved. It includes MFT, API management, iPaaS, B2B integration, and others. By 2020 more than 75% of large organisations will establish a HIP using an integration infrastructure that they assemble from multiple vendors, according to Gartner.

The most pervasive trend in business today, according to Axway, is digital disruption. Companies and governments are either proactively pursuing new opportunities that are enabled by the continued development and deployment of digital technologies, or they are being pulled more deeply into the digital world by their customers. The drivers of digital transformation include: cloud, mobile, IoT, AI, and platforms.

Axway started out as a spin-off of Sopra's infrastructure software division. It grew internationally, notably in the US (which is its greatest revenue earner by region), and became (aided by a series of acquisitions) a leader in managed file transfer (MFT) and B2B integration, it says. An IPO in 2011 made it financially independent from Sopra (which retains a stake).

From 2015, Axway took the strategic decision to position itself as a software editor for digital transformation with its HIP platform, AMPLIFY. The platform connects data from any device anywhere, expands collaboration, fuels millions of apps and supplies real-time analytics to build customer experience networks.

It claims to have solved data challenges for over 11000 customers in 100 countries. It maintains a presence in North America, western Europe, and the Asia-Pacific regions. Axway's revenue comprises licence, cloud, maintenance, and services. Recurring revenue was up from 54% in 2016 to 61% in 2017-recurring revenue is a trend it is pursuing.

Axway's customer base is diverse, including banking and financial services, logistics and service providers, healthcare, automotive, telecoms, energy and utilities, and the public sector.

Its competitors are many and varied in the digital sector: Amazon, Google, IBM, Redhat, Computer Associates, Dell, Jitterbit, Tibco, SAP, Oracle, Microsoft, and Salesforce. These are platform generalists, infrastructure-oriented, or integration specialists. Axway however believes its offering makes it different.

Based on annualised 2018 figures:

For: Revenue generation, low gearing, high interest cover, market price is below book value

Against: High PE (34x), low RoE (2.9%), poor current ratio, bad Tangible Book Value because of massive goodwill in relation to total equity, low EPS (€0.36), low profit after tax

Overall: Poor profitability and low asset cover are mitigated by good revenue generation, but far from enough to recommend Axway as a sound investment. The company operates in a sector that is rapidly evolving and growing, but will depend on continued R&D and strategic acquisitions to stay competitive. This poses a risk to future earnings growth, and current performance does not inspire great confidence

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