Company Analysis: tTech Limited (TTECH)

VMWM Research and Stockbroking | December 24, 2019

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- Recommendation: HOLD
- Price Target: $5.72
- Current Price: $5.95 [1]

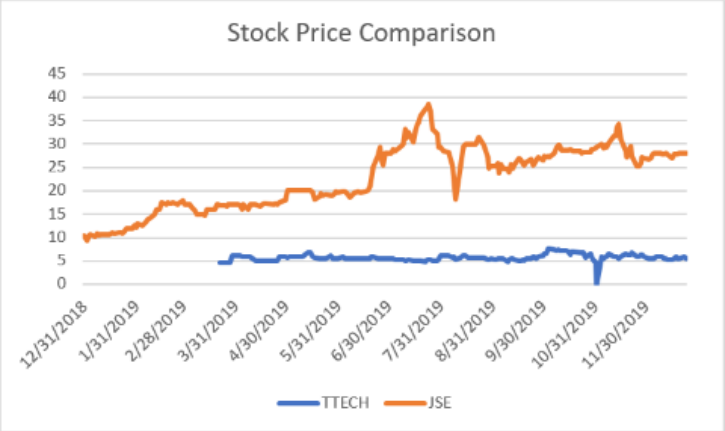
- Shares Outstanding: 106,000,000 units
- Market Value of Shares Outstanding: $630.7 million[1]
- Financial Year End: December 31

ABOUT THE COMPANY

tTech Limited is a limited liability company incorporated in Jamaica with registered office located at 69 ½ Harbour Street, Kingston. tTech provides outsourced IT solutions to businesses in Jamaica including:

- Service Desk
- Managed Infrastructure
- IT Security
- Unified Communications
- Cloud Service
- tTech Consulting

The company was listed on the Junior Market of the Jamaica Stock Exchange in January 2017.



FINANCIAL PERFORMANCE

	2015	2016	2017	2018
Revenue ($M)	178.0	223.2	217.2	283.9
Gross Profit ($M)	150.1	190.4	189.2	220.8
Net Profit ($M)	21.4	40.2	18.6	27.5
Net Profit Margin (%)	12.0	18.0	8.6	9.7

Outlook

We hold a positive outlook for tTech's operations as we believe that the demand for their services will continue to increase in the future. This growth will be dependent on its ability to raise brand awareness and thus increase its customer base.

Projections and Valuations

We used a discounted cash flow model with a required rate of return of 17.2% to arrive at a target price of **$5.72.** We recommend tTech as a HOLD.

Risks to Price Target

Our price target may not be realized if the company loses potential revenue because a customer decides not to use the tTech's services or if the company is unable to expand its customer base.

[1] As at December 23,2019

FINANCIAL PERFORMANCE

	2015	2016	2017	2018	2018 Q3	2019 Q3
Revenue ($M)	178.0	223.2	217.2	283.9	214.8	262.1
Gross Profit ($M)	150.1	190.4	189.2	220.8	161.7	187.2
Net Profit ($M)	21.4	40.2	18.6	27.5	28.7	27.8
Gross Profit Margin (%)	84.4	85.3	87.1	77.8	75.2	71.4
Net Profit Margin (%)	12.0	18.0	8.6	9.7	13.3	10.6

FOR THE FIRST NINE (9) MONTHS OF 2019:

During the first nine months of 2019, tTech experienced revenue growth of 22% in comparison to the same period last year. This increase did not translate to the company's bottom-line as seen by a 3% decrease in net profit during the same period. The decreased margins, a reduction in the gross profit margin from 75.2% to 714% and net profit margin from 13.3% to 10.6%, was caused by the increase in the number of lower margin projects the company was involved in during the period. This included the sale of network equipment as well as network support services.

Within the last three quarters, total assets increased by 8.6%, liabilities by 1% and total equity by 10.6%. The increase in assets was due to increases in cash, receivables balances and inventory which were funded by the sale of short-term securities as well as cash from operations. The increase in equity was due to the profitability of the company for the last 9 months.

FOR THE LAST FOUR (4) YEARS:

tTech has enjoyed revenue growth of 59.5% between 2015 and 2018 from $178 million to $283.9 million. This translated to an 8.8% growth in net profit. The decreased growth in net profit is due to the increased costs of conducting business. Between 2017 and 2018 the company began undertaking lower margin projects which were considered strategic for future growth along with investments in applications to support the company's technical services. The increased expenses caused a decrease in the gross profit margin from 84% to 78% and a subsequent decrease in the net profit margin from 12.0% to 9.7%.

The company's total assets have increased by 45.1% over the period. This increase was attributable to a 230% increase in securities purchased, a 1285.1% increase in long term investments and a 94.4% increase in accounts receivables offset by a 24.1% decrease in property plant and equipment, a 77.29% decrease in other receivables and a marginal decrease in cash. The assets acquired were funded by proceeds from the company's IPO that was issued in December 2016 as well as cash earned from the company's operations. The accounts payables balance experienced a slight decrease of 3.8% and total equity increased by 91.5% due to the profitability of the company.

OUTLOOK:

Increased Demand for IT Service Providers to Supplement Business Needs

Advancement in technology assists businesses in meeting customer demands and hence increase revenue inflow. Technological infrastructure affects the culture, efficiency and relationships of a business as well as provides trade advantages. Because of the effects of technology on a company, an increasing amount of companies have been integrating new advancements for example cloud storage into their regular operations. This integration can, however, be costly. A business would need a qualified team of persons, software and equipment to leverage these benefits. To reduce some of these costs a company may choose to outsource these resources from an IT services company such as tTech. As more companies try to leverage IT, the services industry will grow and tTech is expected to grow in tandem.

Increased Revenue and Profitability to be Experienced

The company is currently experiencing revenue growth due to its network services and infrastructure sales. This area has structurally lower margins than other services that tTech provides which is the cause of the reduced profitability. The company expects future growth to be due to an uptake of its Consulting Services and Managed IT Services. These areas have higher profit margins than its current activities which will allow for even greater growth in net profit. Additionally, the company is experiencing increases in its monthly recurring revenue which is expected to continue in the future. This type of revenue provides greater stability in the company's revenue stream which decreases downside risks involved with the company's revenue stream.

INVESTMENTS POSITIVES

- Exists in a growing market with little competition
- Operates with no long-term debt

INVESTMENT NEGATIVES

- Unpredictable revenue stream

CONCLUSION

We believe that tTech provides services that are sought after by many businesses. This will help to provide revenue growth for the company and therefore increase profits and returns to shareholders. The positive outlook that we hold for tTech's operations seems to be sufficiently priced into the market at a price of $5.98. Our target price of $5.72 represents a 3.9% downside, therefore, we recommend tTech as a **HOLD**.

SOURCES

The Jamaica Stock Exchange, tTech Annual Reports and Quarterly Financials and Deloitte

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