

Seamless Distribution... SDS

Company page

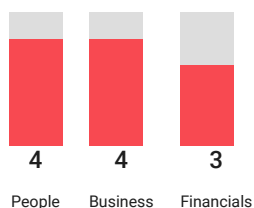
<https://www.redeye.se/company/seamless-distribution-systems>

Publication date

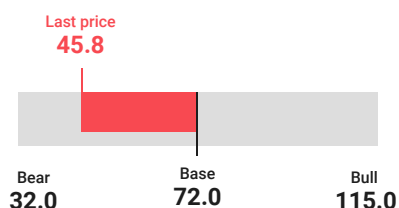
May 31 2021

Redeye Rating

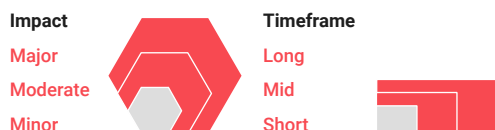
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL

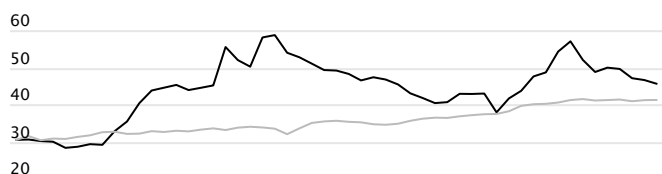


Turn page for catalyst specifics

Snapshot

Seamless Distribution Systems

OMXS30



Volume



Marketplace First North Stockholm

CEO Tommy Eriksson

Chairman Gunnar Jardelöv

Share information

Share price (SEK) 45.8

Number of shares (M) 9.9

Market cap (MSEK) 454

Net debt (MSEK) 56

Analyst



Forbes Goldman

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Conflict of interests

Forbes Goldman owns shares in Seamless Distribution Systems: **Yes**

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2019	2020	2021E	2022E	2023E
Revenue, MSEK	246	296	328	419	477
Growth	>100%	20.4%	11.1%	27.6%	13.8%
EBITDA	24	50	57	79	98
EBITDA margin	9.8%	17.0%	17.4%	18.9%	20.6%
EBIT	14	21	23	35	45
EBIT margin	5.9%	7.3%	7.1%	8.4%	9.5%
Pre-tax earnings	8	15	13	23	33
Net earnings	3	9	11	18	26
Net margin	1.6%	3.2%	3.6%	4.4%	5.6%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.52	1.15	1.18	1.85	2.67
P/E adj.	N/A	N/A	N/A	N/A	N/A
EV/S	1.2	1.6	N/A	N/A	N/A
EV/EBITDA	12.1	9.3	N/A	N/A	N/A

Last updated: 2021-05-28

Owner	Equity	Votes
Avanza Pension	13.2%	13.2%
Saxo Bank A/S Client Assets	10.3%	10.3%
Goldman Sachs International LTD	9.8%	9.8%
ÖstVäst Capital Management	9.8%	9.8%
Swedbank Försäkring	8.0%	8.0%
Gunnar Jardelöv	6.5%	6.5%
Veronica Wallman	6.4%	6.4%
Tomas Klevbo	5.7%	5.7%
Leif Brandel	4.3%	4.3%
Martin Roos	3.6%	3.6%

Company description

Seamless Distribution Systems (“SDS”) is a Swedish software company that provides solutions for digital sales, distribution, and financial services to private individuals through telecom operators in emerging countries. To a large extent, it operates solutions that are business-critical for its customers, managing the monetary flows throughout the value chain. Its systems are responsible for, in many cases, channeling up to 80-90% of its customers’ revenues. In 2020, 15 billion transactions were generated in its systems, to a value of USD 15bn.

SDS has launched a series of solutions, which aim to leverage the data from the billions of transactions in its systems. By applying big data analytics and AI tools, in what the Company refers to as “Business Intelligence”, it aims to help its customers make better business decisions. Its broad portfolio of solutions includes Sales Force Optimization and Micro Credits, to name a few. These are forecast to significantly increase SDS’ recurring revenues, which in 2020, accounted for ~30% of total sales. The acquisition of Riaktr, the most significant acquisition to date, seriously demonstrates SDS’s focus on strengthening this offering.

Investment case

- Business-critical systems
- Large and stable customers
- Attractive secular trends
- Transitioning to SaaS

Business-critical systems

SDS is responsible for managing the product and monetary flows in its customers’ value chains – in some cases accounting for 80-90% of their revenue streams. Its systems are indeed business-critical, creating high switching costs for its customers, in addition to a loyal customer base. SDS’s business relationship with MTN, its most significant customer to date, has been running steadily for more than a decade.

Large and stable customers

SDS’s customers include some of the largest telecom operator groups in Africa and the Middle East, e.g., MTN, Safaricom, Zain, and Ooredoo. The telecom networks represent, to a large extent, the best (and sometimes only) reliable infrastructure throughout extensive land areas, servicing hundreds of millions of people. Essentially, the telecom operators play a crucial role in these societies, representing highly stable and reliable business partners. Also, the telecom operator groups comprise dozens of regional mobile network operators - providing a great platform for organic growth.

Attractive secular trends

The global prepaid and top-up market is worth around USD 600bn, fueled by the exceptional prepaid penetration rates (+90%) in Africa. This is a large and growing market, set to benefit from the population growth, improved connectivity, and user penetration in Africa. The digitalization of Africa enables

SDS to launch additional (and more advanced) services and solutions.

Transition to a SaaS business model - boosted by Riaktr

SDS has begun to employ a SaaS business model for some of its most recent solutions. While recurring revenues accounted for ~30% of sales in 2020, this figure is bound to increase. A successful rollout would see the Company generate substantial revenues and improved operating margins. The Riaktr acquisition is forecast to accelerate this transition further. It comprises a portfolio of pure-play SaaS solutions and ~50% of its revenues are already recurring.

Professional management and well-run business

SDS has seen consistent top-line growth, both organic and through acquisitions, and reports consistently in the black. It is a lean and cost-effective organization – management based in Stockholm and the remaining workforce dispersed in emerging and low-cost countries. Senior management has been in the Company for an extensive period of time and has successfully delivered on its strategic targets.

Catalyst types

Institutional investors

We spot room for increased institutional ownership - which would strengthen the case further. At this point, SDS has one qualified investor - ÖstVäst Capital Management.

Gaining additional customers

Adding a new telecom operator group to the customer base is an important milestone. It enables SDS to expand within the group, potentially generating substantial income over a longer period of time.

M&A activity

SDS has a solid M&A track record, identifying targets where substantial synergies can be realized. The Riaktr acquisition is forecast to add double-digit growth to the core business. Future M&A announcements should have a significant impact on the share price.

Business Intelligence (BI)

SDS applies a shared revenue model for its BI-solutions, which yields significantly higher potential than its traditional business model. The Bull case is strongly coupled to a successful BI-rollout. For this reason, we expect a positive news flow to have a substantial share price impact.