White Pearl Technology Group

Research Update - H1 2024

TradeVenue

2024-09-16

Continued good growth and profitability

Despite the uncertain economic environment, the Group managed to increase organic sales by 20% to 139 (117) MSEK and reached an EBIT-result of 19,8 (17,1) MSEK. The growth is driven by continued high demand for the company's products and services, with all business areas contributing. Excluding Ayima (see below), revenue was in line with our expectations, while the result exceeded our projections.

Signed a large contract and strong order situation

During the first half of the year, the Group signed a large contract with a South African government agency worth 118 MSEK. The agreement spans two years (with an impact starting already in Q2 2024) and includes both IT support and implementation services. Furthermore, WPTG continues to expand its business through acquisitions. During the first half of the year, a letter of intent was signed to acquire a majority in OneBrain – a company that develops software for work processes. Even though OneBrain is a relatively small company, we believe other companies within the Group can benefit from marketing their software.

Record low valuation

For the full year, the management expects a 25% growth, which implies a forecast for accelerating revenue growth during H2. Out of caution, our forecast assumes a slightly lower revenue growth (+21%), which is marginally below the Group's own forecast. Based on the EBIT-margin in the first half of the year, this would result in a profit that implies the stock is trading at a P/E ratio of only 3x for the current year. The market's distrust of the Group thus remains significant. We estimate that this distrust will gradually disappear as the Group continues to report growth and results as outlined above. For 2025 and 2026, we forecast growth of 17% and 14% per year, respectively. At the same time we see conditions for an even higher margin level. Based on our new forecasts, a DCF valuation gives a market value of 250 MSEK or 9,4 SEK per share, which should be compared to the current share price of 3,5 SEK.

MSEK	2023	2024E	2025E	2026E
Revenue	239,6	289,9	339,2	386,7
Growth	*31%*	*21%*	*17%*	*14%*
EBITDA	33,8	39,7	55,2	68,0
EBITDA-margin	*14,1%*	*13,7%*	*16,3%*	*17,6%*
EPS, adj.	1,05	1,31	1,70	2,09
P/E-ratio, adj.	3x	3x	2x	2x
EV/Sales	0,5x	0,4x	0,4x	0,3x
EV/EBITDA	4x	3x	2x	2x

Analyst

Axel Pettersson

axel.pettersson@tradevenue.se

Company facts

Chairman	Sven Otto Littorin
VD	Marco Marangoni
List	First North
Stock price (SEK)	3,5
Number of shares (m)	27,0
Market cap. (MSEK)	95
Net debt (MSEK)	32
EV (MSEK)	127
Next report	2024-11-25

Forecast changes

	24e	25e	26e
Revenue	-18%	-28%	-28%
EBITDA	-12%	-9%	-6%

Price performance 12 months

This is a commissioned analysis. Read the full disclosure on the last page.

MSEK	H1 2024	H1 2023	2023
Revenue	139,5	116,9	239,6
Cost of goods sold	-87,1	-79,3	-151,5
Gross profit	**52,4**	**37,6**	**88,1**
Other operating income	0,2	0,6	0,4
Other operating expenses	-32,6	-20,8	-54,8
EBITDA	**20,0**	**17,4**	**33,8**
Depreciation & amortization	-0,2	-0,3	-0,6
Impairments & reversals	0,0	0,0	0,2
EBIT	**19,8**	**17,1**	**33,4**
Net interest expense	-0,5	-0,4	-0,4
Translation Gain/Loss	0,6	-0,4	-0,9
EBT	**19,9**	**16,4**	**32,0**
Net profit	**19,4**	**16,2**	**28,3**

Continued good growth and profitability

WPTG continues its growth journey with an increase in sales by over 20% to 139 MSEK in the first half of the year. This despite a weaker economy in many of the countries where the Group operates and with large budget cuts among the company's customers. Excluding Ayima (see below), this was the growth level we had expected. The growth can be explained by continued high demand for the company's products, with all business areas showing positive growth. The business area that grew the most in absolute terms was the Support & Maintenance area, which accounted for 45% of the revenue during the period. As a result of an improved product mix, the gross margin improved to 38 (32)%. For the period, the operating profit amounted to 19,8 MSEK, which is an increase of 16% compared to the same period last year. Despite the significantly higher gross margin, the EBITDA-margin decreased to 14 (15)%. We believe that the higher cost level during the year is at least partly due to the failed purchase of the Swedish Ayima Group. WPTG has likely incurred significant consulting and legal costs during the period in an attempt to halt the minority's efforts to bankrupt the company. However, as mentioned earlier the management's actions were in vain. Due to the acquisition, where Ayima Group was paid for with shares equivalent to 18 MSEK, WPTG will be forced to write down the equivalent amount at the end of the year.

Continued good growth and profitability

The operating cash flow amounted to only 2,9 MSEK during H1, as the company's strong expansion led to a negative development of working capital. Accounts receivable and accrued revenue amounted to 88 MSEK at the half-year mark, which is an increase of 2% compared to the end of the previous year. At the end of quarter, White Pearl's cash amounted to approximately 13 MSEK.

Signed a major agreement and strong order situation

During the first half of the year, WPTG signed a new contract with a South African authority worth a total of 120 MSEK. The agreement spans two years and creates conditions for increased planning and stability in operations. It is also a clear quality stamp for WPTG to receive such a large order from a government authority. According to the management, the order book is strong and they see high demand across all business areas. The group continues to grow through acquisitions and in 2024, a letter of intent was signed to acquire 51% of the shares in OneBrain. The Indian company is an AI firm that develops software to streamline work processes. Through the acquisition, WPTG's product portfolio is further expanded and the group can leverage the expertise in an expanded product and service offering. OneBrain is expected to generate 4 MSEK in revenue during 2024.

Company description

White Pearl Technology Group ("White Pearl" or "WPTG") is an international IT Group focusing on digital information by supporting its customers with various technologies and digital solutions. The company currently has a market presence in 30 different countries with a workforce of over 650 employees.

White Pearl's operations are largely based in growth regions such as Africa, the Middle East and Latin America, with future expansion plans targeting Europe, especially the Nordic countries. The listing occurred in 2023 through a reverse acquisition of DS Plattformen.

MSEK	2022	2023	2024E	2025E	2026E
Revenue	182,5	239,6	289,9	339,2	386,7
Cost of goods sold	-116,1	-151,5	-181,5	-208,6	-236,3
Gross profit	**66,5**	**88,1**	**108,4**	**130,6**	**150,4**
Gross margin	*36,4%*	*36,8%*	*37,4%*	*38,5%*	*38,9%*
Capitalized development	0,0	0,4	0,5	0,6	0,6
Other operating expenses	-46,1	-54,8	-69,2	-76,0	-83,0
EBITDA	**20,4**	**33,8**	**39,7**	**55,2**	**68,0**
Depreciation & amortization	-0,9	-0,6	-0,5	-0,6	-0,6
Impairments & reversals	-0,1	0,2	-18,0	0,0	0,0
EBIT	**19,3**	**33,4**	**21,2**	**54,6**	**67,4**
EBIT-margin	*10,6%*	*13,9%*	*7,3%*	*16,1%*	*17,4%*
Net interest expense	0,0	-0,4	-0,8	-0,7	-1,0
Translation Gain/Loss	0,0	-0,9	0,2	0,0	0,0
EBT	**19,4**	**32,0**	**20,6**	**53,9**	**66,4**
Net profit	**16,6**	**28,3**	**17,5**	**45,8**	**56,5**

*In our projections, we have excluded profits profits attributable to non-controlling interests, given their marginal implications

Record low valuation

The development during the first half strengthens our view that WPTG's diversified business model allows the Group to navigate a tougher market environment better than many competitors. Management forecasts that the Group will achieve revenue of 300 MSEK this year, representing a 25% growth. With 20% growth achieved in the first half, this indicates that the management expects accelerating revenue growth in H2. The belief in a strong second half is explained by a strong order book and that the company sees high demand across all business areas. We assess that the majority of this projected revenue growth is organic. Out of caution, we have chosen to assume that revenue only reaches 290 MSEK, which still represents significant growth of 21%. Our EBIT-margin forecast (excluding the Ayima write-down) for the full year remains at 14%, consistent with what has been achieved so far. This would result in an 18% increase in EBIT to 39 MSEK and a 20% increase in pre-tax profit to 39 MSEK compared to 2023. Despite taking a more cautious approach to revenue development, this implies that the stock is trading at a P/E ratio of only 3x for the current year, which is far below comparable technology companies.

Record low valuation

We believe that this distrust will gradually disappear as the Group continues to report growth and results as outlined above. Naturally, it is difficult to maintain WPTG's historical growth streak (an average of 55% per year over the past three years) and in our forecast for 2025 and 2026, we have therefore included a growth of 17% and 14%, respectively. Even this represents high growth for a fast-growing IT company. This growth is driven by upselling - across all business areas - to an increasingly larger installed base and that the company continues to expand its product offering. Given that the company's larger size, in our view, will lead to economies of scale and that we expect higher growth within Support & Maintenance compared to hardware sales (which has a lower average margin), we forecast that the EBIT-margin will reach 17% in 2026. This is an increase of three percentage points compared to the current year. Based on our new forecasts, a DCF valuation gives a market value of 250 MSEK or 9,4 SEK per share, which should be compared to the current share price of 3,5 SEK.

MSEK	2024E	2025E	2026E
EBIT	21,2	54,6	67,4
Paid tax (-)	3,1	8,1	10,0
Non-cash items (+)	18,5	0,6	0,6
Operating cash flow	**36,7**	**47,1**	**58,1**
CapEx (-)	4,5	6,3	7,8
ΔWorking capital (-)	15,9	23,4	27,5
Sum	**16,3**	**17,4**	**22,8**
Present value - DCF (12,5%)	14,5	13,8	16,0
Present value forecast	44,2		
Present value of terminal value	241,7		
Company value (EV)	**285,9**		

Terminal value assumptions	
Growth	4%
EBIT	18%
Depreciation, % of revenue	4%
CapEx, % of revenue	4%
Working capital, % of revenue	6%
Tax rate	20,60%

Valuation | White Pearl	
Company value (EV)	**285,9**
Number of shares	27 004 989
Company value per share	10,6
Net debt, last reported	31,6
Fair value	254,3
Fair value per share	**9,4**

Required rate of return	
Riskfree-rate	1,9%
Risk premium	6,1%
Small-cap premium	4,5%
WACC	**12,5%**

"Looking ahead to the second half of 2024, we see exciting opportunities to further expand our capabilities and market presence. Our strong order book and pipeline give us confidence in our ability to maintain this growth trajectory."
- **CEO Marco Marangoni**

Investment case

- Scalable and diversified business model
- Strong underlying market growth
- Margin expansion
- Low valuation
- Profitable growth
- Good potential upside

Disclaimer

This publication (hereinafter the "Publication") has been compiled by TradeVenue AB (hereinafter "TV") exclusively for TV's customers. The content is based on information from publicly available sources which have been deemed reliable. The accuracy and completeness of the factual content as well as the forecasts cannot therefore be guaranteed. TV may have employees from another department or analyzed company (hereinafter the "company") read facts or series of facts to have them verified. TV does not provide conclusions or judgments in advance in the Publication. Opinions expressed in the Publication are those of the analyst at the time the Publication was prepared and may change. There is no assurance that future events will be consistent with opinions expressed in the Publication.

The information in the Publication should not be construed as an invitation or advice to enter into transactions. The information does not target the individual recipient's knowledge and experience of investments, financial situation, or investment goals. The information is therefore not a personal recommendation or investment advice.

TV disclaims all liability for direct or indirect damage that may be based on this Publication. Investments in financial instruments are associated with economic risk. The investment can increase or decrease in value or become completely worthless. The fact that an investment has historically had good value development is no guarantee for the future.

The Publication may not be distributed to or made available to any physical or legal person in the United States (except as provided by Rule 15a - 16, Securities Exchange Act of 1934), Canada, or any other country that has established restrictions on the distribution and availability of the material.

Neither TV nor the persons who compiled this publication hold (either long or short) positions in the analyzed company's issued financial instruments.

This is a commissioned analysis in which the analyzed company has entered an agreement with TradeVenue.