

**Analyst**

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**Authorisation**

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# Altium (ALU)

## Easy tiger

**Recommendation**

**Hold** (Buy)

**Price**

**\$43.61**

**Target (12 months)**

**\$45.00** (previously \$42.50)

**GICS Sector**

**Software and Services**

**Expected Return**

Capital growth	<b>3.2%</b>
Dividend yield	<b>1.0%</b>
Total expected return	<b>4.2%</b>

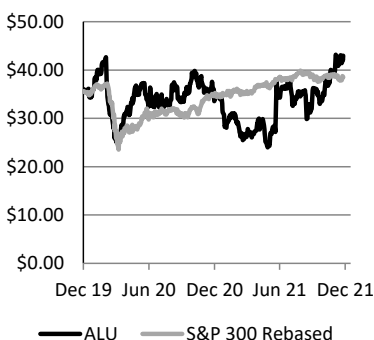
**Company Data & Ratios**

Enterprise value	<b>\$5,478m</b>
Market cap	<b>\$5,733m</b>
Issued capital	<b>131.5m</b>
Free float	<b>95%</b>
Avg. daily val. (52wk)	<b>\$21.1m</b>
12 month price range	<b>\$23.66 - \$43.94</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	40.02	32.10	35.72
Absolute (%)	7.35	33.83	20.27
Rel market (%)	8.47	35.71	8.57

**Absolute Price**



SOURCE: IRESS

**No change in forecasts**

There is no change in our forecasts for Altium which we last updated in early November. We continue to forecast FY22 revenue and EBITDA of US\$218m and US\$80m which is at the top end or slightly higher than the guidance ranges of US\$209-217m and US\$72-80m. We also continue to see some prospect of an upgrade to the guidance at the release of the 1HFY22 result in February especially after the company said at the AGM that it is "confident that it is not likely to be at the low end of the guidance range". We then forecast continued strong revenue growth in the high teen percentages in FY23 and FY24 and then >20% EBITDA growth in each period on the back of anticipated further margin expansion.

**6% increase in PT to \$45.00**

While there is no change in our forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. We have also increased the premium we apply in the relative valuations from 20% to 25% given the prospect, as mentioned, of an upgrade to the FY22 guidance at the release of the 1HFY22 result in February. There are, however, no changes in the key assumptions we apply in the DCF which are an 8.6% WACC and 5.0% terminal growth rate. The net result is a 6% increase in our PT to \$45.00 which has mostly been driven by increases in the relative valuations.

**Investment view: Downgrade to HOLD**

At our updated PT of \$45.00 the total expected return is only 4% so we downgrade our recommendation from BUY to HOLD. The key risks to our downgrade are, firstly, the company does upgrade its FY22 guidance at the result in February but we believe this is already partly reflected in the share price. Secondly, an increased takeover offer from Autodesk and while we believe there is a reasonable chance of this occurring we do not believe there is a high probability. And thirdly a transformative and material acquisition but, as highlighted with Supplyframe, such opportunities are rare and difficult to close so again we do not attach a high probability to such a deal occurring.

**Earnings Forecast**

Year end 30 June	2021	2022e	2023e	2024e
Total revenue (US\$m)	180.2	218.4	257.4	305.8
EBITDA (US\$m)	60.0	79.7	96.5	120.8
NPAT (US\$m)	35.3	49.9	62.1	79.8
EPS (diluted) (US¢ps)	26.9	37.9	47.1	60.5
EPS growth (%)	78%	41%	24%	28%
PER (x)	121.8	86.2	69.4	54.1
Price/CF (x)	69.6	63.1	51.5	44.2
EV/EBITDA (x)	68.5	51.4	42.3	33.6
Dividend (A¢ps)	40.0	42.0	46.0	54.0
Yield (%)	0.9%	1.0%	1.1%	1.2%
ROE (%)	13.8%	19.2%	22.6%	26.4%
Franking (%)	7.9%	0.0%	0.0%	0.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Earnings and Valuation Changes

## No Change in Forecasts

There is no change in our forecasts for Altium which we last updated in early November. We continue to forecast FY22 revenue and EBITDA of US\$218m and US\$80m which is at the top end or slightly higher than the guidance ranges of US\$209-217m and US\$72-80m. We also continue to see some prospect of an upgrade to the guidance at the release of the 1HFY22 result in February especially after the company said at the AGM that it is “confident that it is not likely to be at the low end of the guidance range”. We then forecast continued strong revenue growth in the high teen percentages in FY23 and FY24 and then >20% EBITDA growth in each period on the back of anticipated further margin expansion.

A summary of our key forecasts is shown below. Note our dividend forecasts over the next three years equate to a payout ratio of between 67-83% – after adjusting for currency – which is lower than it has been for the last two years when it has been >100%.

Figure 1 - Key forecasts						
Year end 30 June	FY22e	Growth	FY23e	Growth	FY24e	Growth
Revenue (US\$m)	218.4	21%	257.4	18%	305.8	19%
EBITDA	79.7	33%	96.5	21%	120.8	25%
NPAT	49.9	41%	62.1	24%	79.8	29%
<b>Diluted EPS (USc)</b>	<b>37.9c</b>	<b>41%</b>	<b>47.1c</b>	<b>24%</b>	<b>60.5c</b>	<b>28%</b>
DPS (Ac)	42.0c	5%	46.0c	10%	54.0c	17%

SOURCE: BELL POTTER SECURITIES ESTIMATES

## 6% Increase in PT to \$45.00

While there is no change in our forecasts we have updated each valuation used in the determination of our price target for market movements and time creep. We have also increased the premium we apply in the relative valuations from 20% to 25% given the prospect, as mentioned, of an upgrade to the FY22 guidance at the release of the 1HFY22 result in February. There are, however, no changes in the key assumptions we apply in the DCF which are an 8.6% WACC and 5.0% terminal growth rate.

The key changes in each valuation and the impact on our PT calculation is shown below.

	Old (as at 2-Nov-21)			New (as at 13-Dec-21)		
	Valuation per share	% weighting	Price target	Valuation per share	% weighting	Price target
<b>Methodology</b>						
PE ratio	\$46.65	33%	\$15.55	\$50.46	33%	\$16.82
EV/EBITDA	\$43.12	33%	\$14.37	\$46.46	33%	\$15.49
DCF	\$37.74	33%	\$12.58	\$38.08	33%	\$12.69
<b>Total</b>			<b>\$42.50</b>			<b>\$45.00</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a high single digit percentage increase in each valuation and a much more modest low single digit percentage increase in the DCF. The net result is a 6% increase in our PT to \$45.00 which is only a modest premium to the share price so we downgrade our recommendation from BUY to HOLD.

# Altium

## Company Description

Altium Limited (Altium) develops and sells software and hardware for the design and development of electronic products. The company has three key products:

- **Altium Designer:** Software for the design of printed circuit boards (PCBs);
- **Nexus:** A collaborative, cloud enabled PCB design solution; and
- **Octopart:** An electronic parts search engine.

Altium is based in San Diego, California and sells its products globally (>95% of revenue is outside Australia). The company is one of the largest providers globally of PCB design software and has an estimated market share of around 25%.

## Investment Thesis

We downgrade our recommendation on Altium from BUY to HOLD. Our investment thesis is based on:

- **Valuation:** Our 12 month price target for Altium is \$45.00. The price target is generated from a blend of three valuation methodologies we apply to the company: PE ratio, EV/EBITDA and DCF. The price target is a 3% premium to the current share price and the total expected return (including the dividend yield) is 4%.
- **Higher recurring revenue:** Altium has been steadily increasing its recurring revenue base over the past decade or so with a shift to subscription. Recurring revenue represented 65% of total revenue in FY21 which was up from 59% in FY20. Altium has a target of reaching 95% recurring revenue by FY25 (excluding China and developing countries).
- **Potential takeover target:** Altium has already received an unsolicited takeover offer from Autodesk at \$38.50 which was rejected. Our view is Autodesk's Fusion 360 platform is lacking a high powered ECAD offering so we believe Autodesk would still be very interested in Altium and may come back with a revised offer.

## Key Risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Foreign currency fluctuations:** The majority of Altium's sales are in USD and EUR while the majority of Altium's costs are in USD. There is, therefore, a currency risk from fluctuations in the USD/EUR exchange rate. If there is a material appreciation of the USD against then EUR then this would have a negative impact on our forecasts.
- **Increased competition:** Altium is releasing new products to target the low-end and high-end areas of the market and in our forecasts we have assumed some success in penetrating these new areas. A risk is these products are not successful or cause a competitive response from the established players in these areas of the market.
- **Global economy:** The key market for Altium is the global PCB market and the future condition of the global economy will therefore have an impact on Altium and the growth of its key market. A risk for Altium is a downturn in one or both of Europe and the US as these two regions combined represent approximately 80% of Altium's sales.

Table 1 - Financial summary

Altium (ALU)						Share price:	\$43.61	Target price:	\$45.00		
						No. of issued shares:	131.5m	Market cap:	\$5,733m		
Profit & Loss (US\$m)						Valuation data					
Year end 30 Jun	2020	2021	2022e	2023e	2024e	Year end 30 Jun	2020	2021	2022e	2023e	2024e
Revenue	169.3	180.2	218.4	257.4	305.8	NPAT from cont. ops. (US\$m)	19.7	35.3	49.9	62.1	79.8
Change	-1%	6%	21%	18%	19%	Diluted EPS (USc)	15.1	26.9	37.9	47.1	60.5
						Change	-63%	78%	41%	24%	28%
Expenses (excl. D&A, int.)	-107.6	-120.2	-138.7	-160.9	-185.0	Diluted EPS (Ac)	23.2	35.8	50.6	62.8	80.7
% of revenue	-64%	-67%	-64%	-63%	-61%	P/E ratio (x)	188.2	121.8	86.2	69.4	54.1
EBITDA	61.7	60.0	79.7	96.5	120.8	CFPS (Ac)	66.4	62.7	69.1	84.6	98.6
Depreciation	-7.8	-8.5	-9.4	-9.9	-10.4	Price/CF (x)	65.7	69.6	63.1	51.5	44.2
Amortisation	-3.1	-3.4	-3.7	-3.9	-4.1	DPS (Ac)	39.0	40.0	42.0	46.0	54.0
EBIT	50.8	48.1	66.6	82.8	106.3	Yield	0.9%	0.9%	1.0%	1.1%	1.2%
Net interest (exp)/rev.	0.1	-0.4	-0.1	0.0	0.1	Franking	0%	8%	0%	0%	0%
Pre-tax profit	51.0	47.7	66.5	82.7	106.4	EV/Revenue (x)	21.5	22.8	18.8	15.8	13.3
Income tax expense	-31.2	-12.4	-16.6	-20.7	-26.6	EV/EBITDA (x)	58.9	68.5	51.4	42.3	33.6
NPAT from cont. ops.	19.7	35.3	49.9	62.1	79.8	NTA per share (Ac)	158.2	212.1	218.6	235.2	264.7
Profit from discount. ops.	11.2	71.7	0.0	0.0	0.0	Price/NTA (x)	27.6	20.6	20.0	18.5	16.5
NPAT	30.9	107.0	49.9	62.1	79.8	Performance ratios					
Cash Flow (US\$m)						Year end 30 Jun	2020	2021	2022e	2023e	2024e
Year end 30 Jun	2020	2021	2022e	2023e	2024e	EBITDA margin	36.5%	33.3%	36.5%	37.5%	39.5%
EBITDA	61.7	60.0	79.7	96.5	120.8	EBIT margin	30.0%	26.7%	30.5%	32.2%	34.8%
Change in working capital	1.7	15.6	-3.6	-3.0	-10.6	Return on assets	6.8%	9.2%	12.8%	15.2%	18.2%
Gross operating cash flow	63.4	75.6	76.2	93.5	110.2	Return on equity	10.7%	13.8%	19.2%	22.6%	26.4%
Interest received	0.9	0.2	0.4	0.5	0.6	ROIC	NM	NM	NM	NM	NM
Interest paid	-0.6	-0.7	-0.1	0.0	0.1	Payout ratio	168.2%	111.5%	82.9%	73.1%	66.8%
Tax paid	-7.2	-13.4	-8.3	-10.3	-13.3	Effective tax rate	-61.3%	-26.0%	-25.0%	-25.0%	-25.0%
Operating cash flow	56.5	61.7	68.1	83.6	97.6	Leverage ratios					
Payments for subsidiary	0.0	-3.1	0.0	0.0	0.0	Year end 30 Jun	2020	2021	2022e	2023e	2024e
Payments for PPE	-3.9	-1.7	-3.5	-4.5	-5.5	Net debt/(cash) (A\$m)	-143.2	-255.4	-268.1	-294.4	-327.0
Proceeds of sale of PPE	0.0	85.8	0.0	0.0	0.0	Net debt/equity	NM	NM	NM	NM	NM
Investing cash flow	-5.1	80.3	-4.8	-6.0	-7.3	Gearing	NM	NM	NM	NM	NM
Proceeds from equity/options	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	NM	NM	NM	NM	NM
Dividends paid	-33.6	-37.6	-53.9	-57.9	-65.9	Net interest cover (x)	>100	>100	>100	>100	>100
Repayment of borrowings	-5.1	-5.5	0.0	0.0	0.0	Segmentals (US\$m)					
Payment for treasury shares	0.0	0.0	0.0	0.0	0.0	Year end 30 Jun	2020	2021	2022e	2023e	2024e
Financing cash flows	-38.7	-43.1	-53.9	-57.9	-65.9	Revenue					
Net change in cash	12.7	98.9	9.5	19.7	24.5	Software licence revenue	79.5	79.1	93.0	111.6	133.9
Cash at start of period	80.5	93.1	191.5	201.1	220.8	Hardware revenue	2.5	2.4	2.5	2.6	2.7
Exchange rate impact	-0.2	-0.5	0.0	0.0	0.0	Subscription revenue	62.9	68.7	79.0	94.8	113.7
Cash at end of period	93.1	191.5	201.1	220.8	245.3	Service revenue	3.6	2.8	3.3	3.6	3.9
						Search advertising revenue	18.8	26.8	40.2	44.3	50.9
						Other revenue	2.0	0.4	0.5	0.6	0.7
Balance Sheet (US\$m)						Sales revenue	169.3	180.2	218.4	257.4	305.8
Year end 30 Jun	2020	2021	2022e	2023e	2024e	Interest income	0.9	0.3	0.4	0.5	0.6
Cash	93.1	191.5	201.1	220.8	245.3	Other revenue	0.0	0.0	0.0	0.0	0.0
Receivables	57.5	66.1	71.1	77.4	91.9	Total revenue	170.2	180.5	218.8	257.9	306.4
Inventories	1.8	1.9	1.1	1.3	1.5	Growth					
Other current assets	5.7	6.3	6.3	6.3	6.3	Software licence revenue	-4%	0%	18%	20%	20%
PPE	21.1	16.2	15.0	14.6	14.9	Hardware revenue	0%	0%	5%	5%	5%
Intangibles - Goodwill	7.1	6.0	6.0	6.0	6.0	Subscription revenue	-3%	9%	15%	20%	20%
Intangibles - Other	42.6	41.1	38.7	36.3	33.9	Service revenue	-2%	-21%	15%	10%	8%
Deferred tax assets	58.1	49.5	44.8	39.8	34.6	Sales revenue	-1%	6%	21%	18%	19%
Other non-current assets	1.8	4.5	4.5	4.5	4.5	Interims					
Total assets	288.8	383.2	388.6	407.0	439.0	Year end 30 Jun	1HFY21	2HFY21	1HFY22e	2HFY22e	
Payables	16.6	20.8	21.9	25.8	30.6	Revenue (US\$m)	80.0	100.3	99.4	119.0	
Current borrowings	0.0	0.0	0.0	0.0	0.0	Change	-14%	31%	24%	19%	
Current lease liabilities	5.5	5.6	5.6	5.6	5.6	EBITDA	27.0	33.0	34.8	44.9	
Current provisions	9.5	30.6	30.6	30.6	30.6	Depreciation	-4.4	-4.1	-4.7	-4.7	
Deferred revenue	48.0	52.4	52.4	52.4	52.4	Amortisation	-1.6	-1.7	-1.9	-1.9	
Non-current deferred revenue	8.5	7.5	7.5	7.5	7.5	EBIT	21.0	27.1	28.2	38.4	
Non-current borrowings	0.0	0.0	0.0	0.0	0.0	Net interest (exp)/rev.	-0.3	-0.1	-0.1	-0.1	
Non-current lease liabilities	8.5	5.5	5.5	5.5	5.5	Pre-tax profit	20.7	27.0	28.2	38.3	
Non-current provisions	2.8	0.4	0.4	0.4	0.4	Income tax expense	-4.1	-8.3	-7.0	-9.6	
Other non-current liabilities	5.2	4.6	4.6	4.6	4.6	NPAT from cont. ops.	16.6	18.7	21.1	28.8	
Total liabilities	104.5	127.3	128.3	132.2	137.1						
Contributed equity	126.9	127.7	127.7	127.7	127.7						
Reserves	20.9	22.1	22.1	22.1	22.1						
Retained earnings/(losses)	36.6	106.1	110.4	124.9	152.1						
Total shareholders' equity	184.3	255.9	260.2	274.7	302.0						

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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