

## Migration upstream

The acquisition of Infochem gives KBC a good foothold in upstream oil and gas and substantially expands the company's software capability. KBC is paying a premium rating for these attributes, but this is a strategically important step, the process was competitive and a low cost of debt keeps the acquisition earnings enhancing.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/10	53.1	4.9	5.5	1.85	13.5	2.5
12/11	55.7	5.9	7.1	2.25	10.4	3.0
12/12e	61.2	7.1	8.3	2.60	8.9	3.5
12/13e	63.4	7.7	9.0	2.90	8.3	3.9

Note: \*PBT and EPS are normalised, excluding acquired intangible amortisation and exceptional items.

### Delivering the long vaunted move upstream

KBC is buying Infochem Computer Services, a supplier of reservoir fluid modelling software, for an enterprise value of £9.5m. This marks KBC's first major step in a new growth strategy to move into the more buoyant (and potentially higher-margin) upstream oil and gas segment and to grow the contribution of software sales.

### Reservoir fluid modelling

Infochem's fluid modelling software, Multiflash, enables its clients to maximise the recoverable reserves from fields. Clients include asset owners, operators, oilfield service companies and EPC contractors globally. The business recorded sales of £1.2m in 2011, with a healthy £0.6m PBT, and is growing at a double-digit rate. It is London-based and two of the three founders will remain with the combined entity.

### Premium multiple, but earnings enhancing

KBC is paying £9.5m net of cash balances (£10.9m gross) for Infochem. This equates to a premium 7.9x EV/sales ratio or 16x PBT, but the deal is strategically important to KBC and larger competitors/oil field services companies were also competing in the process. Funded through cash resources and debt (detailed overleaf), we estimate the deal will enhance earnings by 2% this year and 8% next, excluding synergies. We understand that Infochem has been turning away consultancy business, creating a short-term opportunity to drive sales synergies through leveraging KBC's relevant in-house consulting resource and associate network.

### Valuation: Clearer growth strategy gives scope for re-rating

This deal gives KBC a good foothold in the more buoyant upstream oil and gas segment and investors clarity on the growth strategy. Further acquisitions to enhance KBC's technical and economic modelling capability are likely to be considered. We remain mindful of the need to replace the Pemex business as it drops away next year, but with clarity on this, we believe that appreciation to a double-digit 2013 P/E rating would be very justifiable, implying at least 20% share price upside.

## Technology

20 June 2012

Price 74.00p  
Market cap £41m

Shares in issue 56.0m  
Free float 87%  
Code KBC  
Primary exchange AIM  
Other exchanges N/A

### Share price performance



%	1m	3m	12m
Abs	3.5	-11.6	6.5
Rel (local)	-2.1	-5.5	9.8
52-week high/low	88.50p	57.00p	

### Business description

KBC is an independent consulting and software group. Its focus is on optimising process efficiency for refining, petrochemical and now, upstream oil and gas companies worldwide.

### Next events

Interim results 11 September 2012

### Analyst

Dan Ridsdale +44(0)20 3077 5729

[tech@edisoninvestmentresearch.co.uk](mailto:tech@edisoninvestmentresearch.co.uk)

[Edison profile page](#)

## Investment summary: Moving upstream

### Estimate changes and structure

The consideration is being paid in two tranches. An initial £9m is being funded from cash balances (£Xm at year-end), plus £6m debt at 1.75% above LIBOR. A further £1.9m is deferred for 12 months (but is not contingent on performance), funded through 3% loan notes.

This low cost of debt means that the deal is 2% and 8% earnings enhancing in 2012 and 2013, respectively, assuming LIBOR of 0.6%, but excluding synergies.

Exhibit 1: Estimate change post Infochem

		2011e	2011	2012e	2012e	Change	2013e	2013e	Change
Year end 31 December	£'000s	Old	Actual	Old	New		Old	New	
<b>PROFIT &amp; LOSS</b>									
Infochem			0		650			1,400	
Other software revenue			12,992	14,291	14,291	0%	15,863	15,863	0%
Consulting Revenue			42,733	46,280	46,280	0%	46,110.4	46,110	0%
<b>Revenue</b>		<b>57,140</b>	<b>55,725</b>	<b>60,571</b>	<b>61,221</b>	<b>1%</b>	<b>61,974</b>	<b>63,374</b>	<b>2%</b>
Operating profit (before acqu'd amort, SBP and except.)		6,793	5,969	7,048	7,254	3%	7,240	7,971	10%
Net Interest		(143)	(81)	(81)	(138)	70%	(81)	(252)	211%
<b>Profit Before Tax (norm)</b>		<b>6,650</b>	<b>5,888</b>	<b>6,967</b>	<b>7,116</b>	<b>2%</b>	<b>7,159</b>	<b>7,719</b>	<b>8%</b>
Profit Before Tax (FRS 3)		6,070	4,930	6,877	7,026	2%	7,069	7,629	8%
EPS - normalised (p)		7.9	7.2	8.2	8.4	2%	8.4	9.1	8%
<b>EPS - normalised fully diluted (p)</b>		<b>7.4</b>	<b>7.1</b>	<b>8.1</b>	<b>8.3</b>	<b>2%</b>	<b>8.3</b>	<b>9.0</b>	<b>8%</b>
EPS - FRS 3 (p)		7.2	5.9	8.1	8.3	2%	8.3	9.0	8%
Dividend per share (p)		2.28	2.25	2.60	2.60	0%	2.90	2.90	0%
<b>Closing net debt/(cash)</b>		<b>(5,070)</b>	<b>(5,815)</b>	<b>(9,614)</b>	<b>(762)</b>	<b>-92%</b>	<b>(12,782)</b>	<b>(2,256)</b>	<b>-82%</b>

Source: Company data, Edison estimates

## Exhibit 2: Financial summary

	£'000s	2009	2010	2011	2012e	2013e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
<b>Revenue</b>		<b>52,587</b>	<b>53,061</b>	<b>55,725</b>	<b>61,221</b>	<b>63,374</b>
Direct costs		(5,587)	(6,472)	(7,412)	(8,204)	(8,365)
Gross Profit		47,000	46,589	48,313	53,017	55,008
<b>EBITDA</b>		<b>6,627</b>	<b>5,962</b>	<b>7,019</b>	<b>8,504</b>	<b>9,221</b>
Operating profit (before acqu'd amort and except, net capitalised R&D)		5,830	5,016	5,969	7,254	7,971
Amortisation		(245)	(247)	(119)	(90)	(90)
Exceptionals		(667)	(1,703)	(914)	0	0
Net capitalised/amortised development charge		(147)	710	75	0	0
<b>Operating Profit</b>		<b>4,771</b>	<b>3,776</b>	<b>5,011</b>	<b>7,164</b>	<b>7,881</b>
Net Interest		(161)	(128)	(81)	(138)	(252)
<b>Profit Before Tax (norm)</b>		<b>5,669</b>	<b>4,888</b>	<b>5,888</b>	<b>7,116</b>	<b>7,719</b>
<b>Profit Before Tax (FRS 3)</b>		<b>4,610</b>	<b>3,648</b>	<b>4,930</b>	<b>7,026</b>	<b>7,629</b>
Tax		(1,576)	(1,431)	(1,673)	(2,389)	(2,594)
<b>Profit After Tax (norm)</b>		<b>3,730</b>	<b>3,070</b>	<b>3,945</b>	<b>4,696</b>	<b>5,094</b>
<b>Profit After Tax (FRS3)</b>		<b>3,034</b>	<b>2,217</b>	<b>3,257</b>	<b>4,637</b>	<b>5,035</b>
Average Number of Shares Outstanding (m)		56.3	55.3	55.1	56.0	56.0
EPS - normalised (p)		6.6	5.6	7.2	8.4	9.1
EPS - normalised fully diluted (p)		6.5	5.5	7.1	8.3	9.0
EPS - FRS 3 (p)		5.4	4.0	5.9	8.3	9.0
Dividend per share (p)		1.55	1.85	2.25	2.60	2.90
Gross Margin (%)		89.4%	87.8%	86.7%	86.6%	86.8%
EBITDA Margin (%)		12.6%	11.2%	12.6%	13.9%	14.6%
Operating Margin (before amort and except.) (%)		11.09%	9.45%	10.71%	11.85%	12.58%
<b>BALANCE SHEET</b>						
<b>Fixed Assets</b>		<b>11,471</b>	<b>13,424</b>	<b>12,891</b>	<b>31,286</b>	<b>33,181</b>
Intangible Assets		8,311	8,892	8,872	18,007	17,792
Tangible Assets		1,584	1,299	1,255	10,515	12,625
Investment in associates		0	0	0	0	0
Unquoted investments		1,576	3,233	2,764	2,764	2,764
<b>Current Assets</b>		<b>25,132</b>	<b>28,039</b>	<b>29,297</b>	<b>30,622</b>	<b>33,252</b>
Stocks		0	0	0	0	0
Debtors		20,986	23,219	22,860	23,546	24,374
Cash		3,975	4,506	5,815	6,762	8,256
Other		171	314	622	314	622
<b>Current Liabilities</b>		<b>(6,891)</b>	<b>(9,997)</b>	<b>(8,494)</b>	<b>(8,730)</b>	<b>(8,972)</b>
Creditors		(6,380)	(8,858)	(7,850)	(8,086)	(8,328)
Other creditors		(511)	(1,139)	(644)	(644)	(644)
Short term borrowings		0	0	0	0	0
Minority interests		0	0	0	0	0
<b>Long Term Liabilities</b>		<b>(616)</b>	<b>(1,337)</b>	<b>(1,197)</b>	<b>(7,197)</b>	<b>(7,197)</b>
Long term borrowings		0	0	0	(6,000)	(6,000)
Other long term liabilities		(616)	(1,337)	(1,197)	(1,197)	(1,197)
<b>Net Assets</b>		<b>29,096</b>	<b>30,129</b>	<b>32,497</b>	<b>45,982</b>	<b>50,264</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>2,564</b>	<b>5,838</b>	<b>5,714</b>	<b>8,353</b>	<b>8,936</b>
Net Interest		(161)	(128)	(81)	(138)	(252)
Tax		(1,588)	(1,557)	(2,086)	(1,673)	(2,389)
Capex		(603)	(1,309)	(1,078)	(1,235)	(1,370)
Acquisitions/disposals		(879)	(156)	0	(9,000)	(1,900)
Financing		23	(1,440)	0	0	0
Dividends		(816)	(916)	(1,100)	(1,360)	(1,531)
Other		(256)	5	0	0	0
Net Cash Flow		(1,716)	337	1,369	(5,053)	1,494
<b>Opening net debt/(cash)</b>		<b>(5,691)</b>	<b>(3,975)</b>	<b>(4,506)</b>	<b>(5,815)</b>	<b>(762)</b>
HP finance leases initiated		0	0	0	0	0
Other		0	194	(60)	0	0
<b>Closing net debt/(cash)</b>		<b>(3,975)</b>	<b>(4,506)</b>	<b>(5,815)</b>	<b>(762)</b>	<b>(2,256)</b>

Source: Company Data, Edison Estimates

## EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading international investment research company. It has won industry recognition, with awards both in Europe and internationally. The team of 90 includes over 55 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 350 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London, New York and Sydney and is authorised and regulated by the Financial Services Authority ([www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584](http://www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584)).

## DISCLAIMER

Copyright 2012 Edison Investment Research Limited. All rights reserved. This report has been commissioned by KBC Advanced Technologies and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.  
[www.edisoninvestmentresearch.co.uk](http://www.edisoninvestmentresearch.co.uk)

London +44 (0)20 3077 5700  
Lincoln House, 296-302 High Holborn  
London, WC1V 7JH, UK

New York +1 212 551 1118  
380 Lexington Avenue, Suite 1724  
NY 10168, New York, US

Sydney +61 (0)2 9258 1162  
Level 33, Australia Square, 264 George St,  
Sydney, NSW 2000, Australia