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Eckoh PLC

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Data breaches play into hands of secure payments group Eckoh

The recent data breach at electrical retailer Dixons Carphone Plc (LONN:DC.) underlines why secure payments specialist Eckoh PLC (LON:ECK) is upbeat about its future.

"With regulation tightening and the financial impact of data breaches and fraud growing, organisations around the world are increasingly looking for ways to secure themselves and we see that trend only continuing," Nik Philpot, chief executive, said in his annual review.

US momentum

The group is already seeing good progress at its US contact centre business.

"Our momentum in US Payments is particularly pleasing, where we are the market leader in contact centre security," said Philpot.

WATCH: Eckoh PLC upbeat about its future and keen to build on progress in the US

US sales jumped by 32% in dollar terms in the year to March 2018, though the recent recovery by the pound cut this growth to 16%.

Secure payments revenues in the US were especially strong, rising 179% to US$6.7mln with US9.7mln of unrecognised payments already lined up for the current year.

Solid numbers

In the UK, Eckoh has undertaken a root and branch overhaul of its sales activity and switched focus to larger accounts.

Group sales for the year to March rose 3% to £30mln, which reflected the UK restructuring and sales here dropped 2%.

Pre-tax profits jumped 61% to £2.4mln over the year with a 13% rise on an underlying basis.

Net cash climbed to £3.6mln while the dividend for the year goes up 15% to 0.55p.

"After a year of transition, the UK operation has made good progress and is expected to return to growth this year."

UK contract wins improved significantly on the first half even though nothing came through the channel with outsourcing group Capita for the first time in five years.

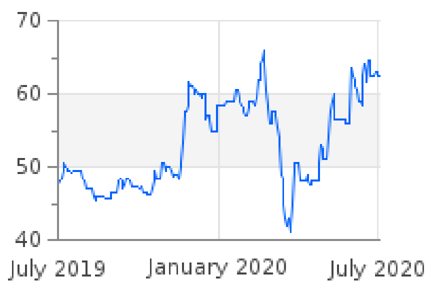
Current activity levels suggest a pick-up in work through Capita this year, Eckoh added.

The advent of new data protection regulations (GDPR) should also help business as the data protection rule demands best-in-class data protection and a focus on greater levels of compliance with security regulation.

Price: 62.5

Market Cap: £158.63 m

1 Year Share Price Graph



Share Information

Code:		ECK
Listing:		AIM
52 week	**High**	**Low**
	67	**40**
Sector:		**Business & education services**
Website:		**www.eckoh.com**

Company Synopsis:
Eckoh is a leading international provider of secure payment and customer contact technology. We specialise in assisting organisations to secure their card-not-present (CNP) transactions. CNP payments are made over the phone, web or mobile without face-to-face contact or verification.

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Patent protection

"In US Payments, given the size of the market opportunity, the quality of our patented products and the limited competition, we expect to see strong US growth over the coming years," added Philpot.

Its products, including CallGuard, are compliant with the Payment Card Industry Data Security Standards.

A layer of patents protects the CallGuard platform, the software underpinning its growth in the US.

This includes the tokenisation process, which is used to encrypt card data or personal information such as social security numbers.

Eckoh also has voice biometrics now on top of the initial patent granted in 2015.

As a result, the company says all current US payments revenue and future contracted payments revenue are protected by at least one patent.

"The US has been a real engine of growth for the group following on from the success of securing its largest every payment contract in March," said City broker N+1 Singer.

A share price of 38p puts Eckoh on a valuation of just below £100mln.

Brokers rate the shares a 'buy'

At their peak, Eckoh's shares were trading at 55p (back in December 2015 and again in August 2017) but have fallen back, potentially as a result of sluggish sales growth in the UK.

Management's change of focus in the UK to concentrate on larger accounts appears to be bearing fruit, with the company winning twice as many contracts in Blighty in the second half of the financial year as it did in the first but in any case, management remains convinced that the US business will ultimately dwarf the US business.

Turnover in the current financial year is expected to consolidate this year at around £30mln but analysts think it will grow to £35.4mln in fiscal 2020 and £41.0mln the year after that.

Underlying earnings, or Ebitda, are projected to be £3.3mln this year but if the top-line starts going vertical, as expected, then next year should see Ebitda rise to £4.9mln while in fiscal 2021 Ebitda is seen rising to £5.3mln, giving earnings per share of 1.7p; based on that, the shares currently trade on a project price/earnings multiple of 22.5.

The company does pay a dividend but is by no means a dividend stock; last year, it paid a divi of 0.55p and this is tipped to rise to 0.6p this year and 0.7p the year after that.

Only two brokers follow the stock but both rate it a 'buy', with the consensus price target clocking in at 60p.

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No investment advice