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## Sygnity: 2020/21 Q3 Results

Rating: hold | target price: PLN 11.60 | current price: PLN 9.82

SGN.PW; SGN.WA | IT, Polska

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**Sygnity reported results below our expectations. The Company's EBITDA stood at PLN 11 million (-24% YoY). Sygnity faces difficulties in generating higher revenue, which is why its profits keep falling despite maintaining high gross sales profitability (approx. 32%) and cost discipline in the SG&A area. Guidance of the Management Board regarding revenue evolution is crucial for the Company's share price. In a letter to shareholders, the Management Board stressed that July and August 2021 were a period of favourable conditions for the Company marked by an increase in contracting new orders for own products and services (+12% YoY), which translated into a rising backlog of the Company, including the backlog for Q4 2020/2021 (+7% YoY).**

- In Q3 2020/21 Sygnity generated a sales revenue of PLN 49.8 million, which means an over 10% decrease YoY.
- Gross sales margin stood at 32.1% (vs forecast 32.0% and 33.3% a year before).
- SG&A costs amounted to PLN 8.1 million (vs expected PLN 7.9 million and PLN 8.2 million a year before).
- Net other operating activity stood at +PLN 0.4 million (our forecast: PLN 0.0 million).
- Net financial activity amounted to -PLN 1.1 million (vs -PLN 1.3 million expected by us). Effective tax rate totalled 21.1% (vs estimated 19.0%).
- Eventually, Sygnity reported a net profit of PLN 5.6 million (-33% YoY).

### 2020/21 Q3 Results of Sygnity

(PLN m)	3Q'20/21	3Q'19/20	YoY	3Q'20/21E	differ.
revenue	49.8	55.5	-10.3%	53.8	-7.5%
EBITDA	11.0	14.5	-23.8%	12.5	-11.6%
EBITDA margin	22.2%	26.1%	-	23.2%	-
EBIT	8.2	10.4	-20.5%	9.3	-11.3%
pre-tax profit	7.1	9.6	-26.2%	8.0	-11.7%
net profit	5.6	8.3	-33.4%	6.5	-14.0%

Source: Sygnity, E - mBank estimates

**List of abbreviations and ratios contained in the report:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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