

Tuesday, May 13, 2025 | update

Sygnity: sell (reiterated)

SGN PW; SGN.WA | IT, Poland

Improved Margins and M&A Potential Overshadowed by Challenging Valuation

Sygnity significantly improved its financial results in 2024, and the main driving force behind the improvement were measures taken by the Company to discontinue low-margin contracts. At the same time, Sygnity secured new contracts in the Banking & Finance and Utilities segments last year that contributed to stronger momentum in the year's earnings. Simultaneously, the Company successfully renegotiated its rates in a number of legacy projects. Fourthly, Sygnity has implemented initiatives to improve work productivity.

Consequently, gross margin in 2024 soared to 40.3% – an unprecedented number in Sygnity's history. Nevertheless, according to the Company, a repeat of that margin level, while ambitious, is not an impossible task. At the same time, it is worth noting Sygnity's healthy balance sheet, showing a net cash position that carries potential to carry out M&As.

We have updated our financial forecasts for Sygnity to reflect 2024 FY results, the Company's stated goal of staying profitable in 2025, and reduced pressure on pay raises in the IT industry compared to the last few years. We have raised our earnings expectations accordingly. We have also revised our valuation model by adjusting the risk-free rate and raising the equity risk premium.

We set our new target price for SGN at PLN 63.70, which implies 30% downside potential and a reiterated sell recommendation. Sygnity stock has rallied by more than 38% in the last three months, and it is currently trading at 33x 2025E P/E, showing a high premium to the peer group.

A Growing Pipeline of Projects

In 1H of 2024, the number of projects carried out by Sygnity in each of the main business segments was on a decline as the Company worked to phase out projects generating inadequate profits. In the latter half of the year, in turn, Sygnity successfully pursued opportunities to secure new, higher-margin contracts. As a result, the number of projects in the Banking & Finance and Utilities segments grew 25% and 26%, respectively, during 2H'24.

M&A Potential

As of end-2024, Sygnity had a net cash balance of PLN 119m, implying a net debt/ EBITDA ratio of -1.5x. The Company has confirmed that it wants to leverage its healthy cash position to pursue M&A deals in the medium term. With net cash on hand and organic earnings growth, we reckon Sygnity has potential to complete M&As worth up to PLN 400m. The acquisition targets have not been clearly defined except to say that they should be businesses with good market standing and high recurring revenues, not necessarily complementary to the business of Sygnity.

High Premium to the Peer Group

After the huge gains of the last few months, Sygnity is currently trading at 21.6x EV/EBITDA'25 and 32.7x P/E'25, implying premiums compared to peer multiples of 115% and 59%, respectively. At these levels, any upside catalysts are more than fully priced in.

Current Price*	PLN 91.00
Target price	PLN 63.70
MCap	PLN 2.07bn
ADTV (3M)	PLN 0.7m

*Price as of 12 May 2025, 5:00 PM

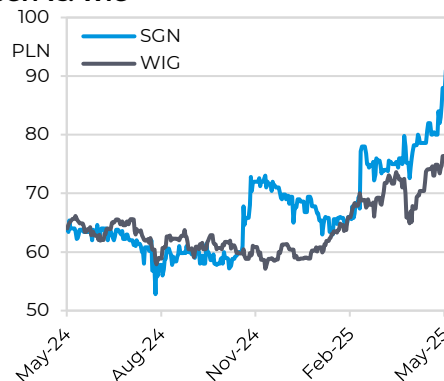
Shareholders

TSS Europe B.V.	72.68%
Blacksheep Fund Management Ltd.	6.67%
Barca Global Master Fund LP	9.00%
Others	11.64%

About Sygnity

Sygnity creates IT solutions and offers advisory services to customers across many different industries. The Company generates over PLN 300m in annual sales. Headquartered in Warsaw, Sygnity generated the majority of its sales in Poland.

SGN vs. WIG



Company	Target Price		Recommendation	
	New	Old	New	Old
Sygnity	63.70	39.00	sell	sell

Company	Current Price	Target price	Upside
Sygnity	91.00	63.70	-30.0%

Forecast Revision	2025E	2026E	2027E
Revenue	+2.1%	+3.0%	+4.4%
EBITDA	+22.1%	+23.1%	+25.6%
Net profit	+31.7%	+33.5%	+37.1%

(PLN m)	2023 adj.*	2024	2025E	2026E	2027E
Revenue	229.3	293.2	325.9	354.5	384.2
EBITDA	49.0	81.7	87.2	96.7	106.5
EBITDA margin	21.4%	27.9%	26.8%	27.3%	27.7%
EBIT	39.2	66.8	71.3	80.3	89.7
Net profit	39.3	60.5	63.4	71.6	79.9
P/E	52.7	34.3	32.7	28.9	25.9
P/CE	42.1	27.5	26.1	23.5	21.4
P/B	9.4	7.3	6.0	4.9	4.2
EV/EBITDA	40.6	23.9	21.6	18.6	16.1
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

*calendar years

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Key Risks

Mergers & Acquisitions

Growth through acquisitions represents one of the three pillars of Sygnity's new strategy plan. There is a substantial amount of risk involved in business acquisitions, both at the stage of carrying out the transaction and in terms of achievable synergy. At the moment, Sygnity is aiming to acquire between three and five software companies per year – a high number of transactions that seems an unrealistic goal for the IT industry, indicating heightened risk of failure.

No Dividends

Sygnity as part of its business strategy plans to use free cash flow to pay for acquisitions. As such, this strategy in our view might lead to curbed medium-term dividend payments despite fairly good cash flow generation.

Dependence on Third-Party Solutions

Sygnity serves as a local partner to global technology companies, integrating their solutions into customer systems and providing a range of services, from training to maintenance, upgrades, and extensions. If global software providers were to change the terms of their partner policies, for example by limiting the number of local partners or by bringing implementation services in different markets in house, this could have a negative effect on revenues.

Increase in Labor Costs

Payroll accounts for a major part of Sygnity's operating expenses. Salaries in the IT sector have increased significantly in recent years, however, according to No Fluff Jobs, lately, there is evidence of pay stabilization or even stagnation in certain segments of the industry. There is less demand for programmers and more demand for AI, machine learning, cloud, Big Data and cybersecurity skills. That being said, IT salaries still continue to trend upwards, and businesses with slow sales growth are struggling to remain profitable.

Public Contracts

Sygnity competes in government tenders for IT services which are typically awarded to the lowest bidder. Meanwhile, the biggest contracts usually require the onboarding of subcontractors, which heightens the risk of nonperformance. Another risk are cost overruns on underestimated projects (Sygnity's 2013 e-Taxes contract is one example of an underrated budget).

Long-Term Contracts

The valuation and successful delivery of a long-term contract hinges on many factors, some of which are beyond the control of the supplier. For example, the actual figures at the end of the contract might miss the initial revenue, cost, and profit targets, leading to provisions, adjustments, and write-offs (cost overruns are the most common issue), and in the worst case to events of default.

Exchange Rate Risk

Sygnity's revenues and costs are affected by movements in the Polish zloty's exchange rates relative to the euro and the US dollar. On the balance sheet, assets and liabilities denominated in foreign currencies consist exclusively of trade receivables and trade payables.

Corruption Probe

In 2019, Sygnity became involved in an investigation into allegations of corruption in the award of contracts by the Polish Post Office brought against its employees, including the CEO and the Supervisory Board Chairman. The Company cooperated with the authorities and turned over all requested records and items. Since we do not have insight into the current status of the case, we cannot tell whether or not it might affect the Company's business in the future.

Valuation

Using DCF analysis and relative valuation, we set our nine-month per-share price target for Sygnity at PLN 63.70.

Valuation Summary

(PLN)	Weight	Price
Relative Valuation	50%	59.74
DCF Analysis	50%	56.25
	Price	57.99
	12M Target Price	63.70

Source: mBank

Relative Valuation

We compared Sygnity with a peer group based on forward P/E and EV/EBITDA multiples. Each of the forecast years, calendar 2025, 2026, and 2027, is assigned an equal weight. Forecasts for Sygnity use expected 2025, 2026 and 2027 earnings, respectively. We have removed Atos from the peer group.

Relative Valuation

	P/E			EV/EBITDA		
	2025E	2026E	2027E	2025E	2026E	2027E
Sap	27.6	23.7	20.4	42.8	36.2	30.6
Oracle	17.8	15.7	13.0	26.3	23.5	19.4
Cap Gemini	8.6	8.3	7.9	13.7	13.0	12.0
Sage Group	19.9	17.9	16.0	29.8	26.2	23.3
Indra Sistemas	9.8	8.8	8.2	15.8	14.0	12.9
Computacenter	7.0	6.5	6.0	14.8	13.6	12.4
Asseco Poland	6.9	6.7	6.3	23.8	21.0	18.6
Asseco South Eastern Europe	17.7	15.9	14.7	25.7	22.9	21.3
Asseco Business Solutions	10.3	9.8	9.4	16.7	15.1	13.7
Maximum	27.6	23.7	20.4	42.8	36.2	30.6
Minimum	6.9	6.5	6.0	13.7	13.0	12.0
Median	10.3	9.8	9.4	23.8	21.0	18.6
Sygnity	21.6	18.6	16.1	32.7	28.9	25.9
Premium / discount	109.7%	89.3%	71.7%	37.2%	37.7%	39.7%
Implied Valuation						
Value per share (PLN)	47.75	53.64	59.52	66.31	66.09	65.14
Multiple weight		50%			50%	
Year weight	33%	33%	33%	33%	33%	33%
Equity value per share (PLN)	59.74					

Source: mBank

DCF Valuation

DCF model assumptions:

- The forecast period spans the years 2025-2034.
- The perpetuity risk-free rate is 4.5%.
- We have raised the equity risk premium from 5.0% to 5.5% for all the companies in our coverage universe.
- We assume FCF after the forecast period will grow at a rate of 2.0%.
- Net debt is on an IFRS 16 basis as of December 2024, adjusted for payments for two acquisitions completed by Sygnity.
- D&A expenses in the terminal period are equal to CAPEX.

DCF Model

(PLN m)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	34+
Revenue	325.9	354.5	384.2	412.2	439.7	468.4	498.5	528.8	560.9	595.0	
Y/Y pct. change	9.3%	8.8%	8.4%	7.3%	6.7%	6.5%	6.4%	6.1%	6.1%	6.1%	
EBIT	71.3	80.3	89.7	98.6	107.8	117.7	128.1	138.6	150.1	162.3	
EBIT margin	21.9%	22.7%	23.3%	23.9%	24.5%	25.1%	25.7%	26.2%	26.8%	27.3%	
Tax on EBIT	10.7	12.9	15.2	17.7	20.5	22.4	24.3	26.3	28.5	30.8	
Effective tax rate	15.0%	16.0%	17.0%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
NOPLAT	60.6	67.5	74.4	80.8	87.3	95.3	103.8	112.3	121.6	131.5	
D&A	15.9	16.4	16.8	17.2	17.5	17.8	18.1	18.3	18.6	18.8	
CAPEX and leases	-8.5	-9.1	-9.9	-10.7	-11.7	-12.7	-13.9	-15.3	-16.9	-18.8	
Working capital & other	-0.7	0.4	0.4	0.2	0.0	0.0	-0.1	-0.2	-0.3	-0.4	
FCF	67.3	75.2	81.7	87.5	93.2	100.4	107.8	115.0	122.9	131.0	133.6
WACC	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Discount factor	0.9	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.4	
PV FCF	63.5	64.1	62.9	60.6	58.0	56.1	53.9	51.4	49.0	46.7	
WACC	10.3%	10.6%	10.8%	11.2%	11.4%	11.3%	11.7%	12.0%	12.0%	11.9%	10.0%
Cost of debt	5.8%	6.1%	6.3%	6.7%	6.9%	6.8%	7.2%	7.5%	7.5%	7.4%	5.5%
Risk-free rate	4.8%	5.1%	5.3%	5.7%	5.9%	5.8%	6.2%	6.5%	6.5%	6.4%	4.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	15.0%	16.0%	17.0%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	10.3%	10.6%	10.8%	11.2%	11.4%	11.3%	11.7%	12.0%	12.0%	11.9%	10.0%
Risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	1670.3
Present value of terminal value	595.6
Present value of FCF in the forecast period	566.3
Goodwill (EV)	1161.9
Net debt (adj. 2024 eop)	-118.2
Other noncore assets	0.0
Minority interest	0.0
Equity value	1280.1
Shares outst. (millions)	22.8
Equity value per share (PLN)	56.2
12-month cost of equity	9.8%
Target price (PLN)	61.8
EV/EBITDA ('25) at target price	13.81
P/E('25) at target price	20.2
TV / EV	51.3%

Source: mBank

Sensitivity Analysis

	FCF growth in perpetuity				
	1.0%	1.5%	2.0%	2.5%	3.0%
RFR terminal period +1.0 p.p.	55.80	57.12	58.58	60.22	62.06
RFR terminal period 0.5 p.p.	57.00	58.46	60.08	61.92	63.99
RFR terminal period (g =4.5%)	58.33	59.95	61.78	63.84	66.20
RFR terminal period -0.5 p.p.	59.82	61.63	63.69	66.04	68.75
RFR terminal period -1.0 p.p.	61.49	63.54	65.88	68.58	71.73

P&L						Cash Flow					
(PLN m)	2023 Adj.	2024	2025E	2026E	2027E	(PLN m)	2023 Adj.	2024	2025E	2026E	2027E
Revenue	229.3	293.2	325.9	354.5	384.2	Operating CF	54.8	84.1	82.9	94.3	104.7
YoY % change	4.7%	27.9%	11.2%	8.8%	8.4%	Working capital	0.2	-0.1	-0.7	0.4	0.4
EBIT	39.2	66.8	71.3	80.3	89.7	Investing CF	-3.8	-37.3	-3.6	-4.3	-5.0
margin	17.1%	22.8%	21.9%	22.7%	23.3%	CAPEX	-3.8	-3.0	-3.6	-4.3	-5.0
D&A	9.9	14.9	15.9	16.4	16.8	Financing CF	-20.5	-18.5	-21.3	-10.7	-12.5
EBITDA	49.0	81.7	87.2	96.7	106.5	Change in debt	-9.0	-12.0	-12.1	0.0	0.0
Financing activity	0.6	2.4	3.3	4.9	6.6	CF	30.6	28.3	58.0	79.2	87.2
Profit before tax	39.7	69.2	74.6	85.2	96.3	OCF/EBITDA	111.8%	102.9%	95.0%	97.4%	98.3%
margin	17.3%	23.6%	22.9%	24.0%	25.1%	FCFF	45.3	76.2*	74.4	85.1	94.8
tax	-0.4	-8.7	-11.2	-13.6	-16.4	FCFF/EV	2.3%	3.9%	4.0%	4.7%	5.5%
Discontinued ops.	0.0	0.0	0.0	0.0	0.0	FCFE	42.2	74.9*	70.1	79.2	87.2
Net profit	39.3	60.5	63.4	71.6	79.9	FCFE/MCAP	2.2%	3.7%	3.4%	3.8%	4.2%
Balance Sheet						ROIC	22.2%	35.3%	35.8%	42.2%	49.5%
(PLN m)	2023 Adj.	2024	2025E	2026E	2027E	ROCE growth	17.6%	25.0%	21.6%	20.2%	19.0%
Fixed assets	179.2	223.7	216.3	209.0	202.1	DPS	0.00	0.00	0.00	0.00	0.00
Goodwill	157.2	161.9	161.9	161.9	161.9	Divid. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Current assets	147.0	184.3	248.1	331.4	422.9	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Inventory	0.1	0.1	0.0	0.0	0.0	Key Ratios					
Accounts receivable	1.2	0.6	0.6	0.6	0.6		2023 Adj.	2024	2025E	2026E	2027E
Cash	102.9	131.1	189.1	268.3	355.5	P/E	52.7	34.3	32.7	28.9	25.9
Equity	220.6	283.6	347.0	418.6	498.5	P/CE	42.1	27.5	26.1	23.5	21.4
Profit to minorities	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	40.6	23.9	21.6	18.6	16.1
Noncurrent liab.	16.7	14.3	14.3	14.3	14.3	EV/EBIT	50.9	29.2	26.4	22.4	19.1
Loans	12.0	0.0	0.0	0.0	0.0	P/S	9.0	7.1	6.4	5.8	5.4
Bonds	0.0	0.0	0.0	0.0	0.0	P/BV	9.4	7.3	6.0	4.9	4.2
Current liabilities	88.9	110.1	103.1	107.5	112.2	P/FCFE	49.1	27.2	29.5	26.1	23.7
Loans	12.0	12.0	0.0	0.0	0.0	EBITDA margin	21.4%	27.9%	26.8%	27.3%	27.7%
Bonds	0.1	0.1	0.0	0.0	0.0	YoY % EBITDA change	18.0%	66.7%	6.7%	10.9%	10.1%
Trade and other payables	38.3	45.8	50.9	55.4	60.0	Net profit margin	17.1%	20.6%	19.5%	20.2%	20.8%
Net debt	-78.8	-118.9	-189.1	-268.3	-355.5	YoY net change	24.3%	53.9%	4.9%	12.9%	11.7%
Net debt/EBITDA	-1.6	-1.5	-2.2	-2.8	-3.3	Price (PLN)	91.0	91.0	91.0	91.0	91.0
Source: mBank, *ex. payments for acquisitions						Shares outst. (millions)	22.8	22.8	22.8	22.8	22.8
						MCap	2071.1	2071.1	2071.1	2071.1	2071.1
						EV	1992.2	1952.1	1882.0	1802.8	1715.5

List of abbreviations and ratios used by mBank:

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); **EBITDA margin** – EBITDA/Sales

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Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

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.

mBank issued the following recommendations for Sygnty in the 12 months prior to this publication:

Sygnty (Pawel Szpigiel)

Rating	sell
Rating date	2024-10-10
Target price (PLN)	39.00
Price on rating day	58.00

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