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Morning Comments

Equity Market, Poland

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DJIA	31,385.8	+0.76%	FTSE 100	6,523.5	+0.53%	Copper (LME)	8,037.0	+1.57%
S&P 500	3,915.6	+0.74%	WIG20	1,952.1	-0.29%	Crude Oil (Brent)	60.37	+1.74%
NASDAQ Q	13,987.6	+0.95%	BUX	44,045.3	-0.41%	USD/PLN	3.7149	-0.29%
DAX	14,059.9	+0.02%	PX	1,062.6	-0.01%	EUR/PLN	4.4766	-0.25%
CAC 40	5,686.0	+0.47%	PLBonds10	1.255	-0.007	EUR/USD	1.2046	+0.69%

Company & Sector News

Sygnity

Buy – 2020-09-01

Target price: PLN 10.70

Settlement with Fast Enterprises and preliminary results for Q1 '20/21

Sygnity concluded a settlement with Fast Enterprises regarding the end of the dispute between the parties in connection with the e-Podatki project. As part of the settlement, Sygnity will pay its former subcontractor USD 3.75m (equivalent to about PLN 14m), while Fast will apply to the competent court for the cancellation of all pending claims. Both entities will waive mutual claims related to the cooperation in the e-Podatki project implemented for the Ministry of Finance. In connection with the above event, Sygnity decided to reverse provisions for Fast's claims, which are estimated, together with accrued interest, at ca. PLN 36m. The above will have a significant positive impact on Sygnity's financial results for Q1'20/21 (calendar Q4'20), i.e. approx. PLN +18.8m at the net profit level. Additionally, the Management Board of Sygnity informed about the company's preliminary financial data for Q1'20/21. Revenues will amount to ca. PLN 52.5m, EBITDA to ca. PLN 26.6m, net profit to ca. PLN 26.0m. **If we adjust the net profit by PLN 18.8m, the result would be PLN 7.2m, down by ca. 9% y/y. This is not surprising considering the amount of generated turnover: PLN 52.5m implies a decline of 18% y/y. The period of Q1'20 / 21 was therefore quite poor at Sygnity. On the other hand, the company ends its long-term dispute and is ready to carry out the refinancing we wrote about in our September analytical report. We emphasize that the dispute with Fast Enterprises had an impact on the results generated by Sygnity (approximately PLN 0.5m was booked quarterly as financial interest on court claims). The end of the dispute ends the 'tough, old times' at Sygnity. Therefore, despite the relatively weak results for Q1'20/21, we expect further improvement in sentiment towards the company. Since our recommendation, the Sygnity's stock has increased by 50%, our target price was reached yesterday. (P. Szpigiel)**

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

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.

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