

Monday, May 06, 2024 | Monthly Market Outlook, an excerpt

Sygnity sell (no change)

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According to preliminary figures, Sygnity delivered 22% of our FY2024 full-year sales forecast, 18% of estimated EBITDA, and 20% of the expected FY net profit, in 1Q'24. Compared to the same year-ago quarter, the company achieved revenue growth of approx. 18% and EBITDA growth close to 24% in 1Q'24.

Keep in mind, however, that the quarterly results were influenced by two recent acquisitions (of which the financials of Sagra Technology likely only began to be consolidated in early March 2024). Organic earnings growth was in line with our expectations, as set out in the 15 April 2024 research update on Sygnity. Hence, we stand by our FY2024 earnings forecast and target price for the company.

Sygnity stock has markedly outperformed the broad market benchmark in the year to date. Indeed, Sygnity has substantially improved its earnings by optimizing its backlog, raising prices for selected customers, and reducing headcount. We assume the company will continue to take measures to grow sales profits in 2024.

On the other hand, SGN stock is trading well above its peers on both EV/EBITDA and P/E multiples. Meanwhile, we see limited room in the long term for further gross margin expansion given that Sygnity already achieves some of the highest margins compared to other Polish IT companies (our 2024 gross margin forecast not counting the latest acquisitions is 35% vs. a Polish IT sector median of 25%).

Current Price*	64.00 PLN	Downside
12M Target Price	35.80 PLN	-44.1%
*Price as of May 03, 2024, 6:00 PM		
	rating	target price
unchanged	sell	35.80 PLN
		2024-04-15

Key Metrics		SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	-3.6% -4.5%
ISIN	PLCMPLD00016	YTD Price Chng	+53.1% +45.5%
Outst. Stock (m)	22.8	ADTV 1M	PLN 0.2m
MC (PLN m)	1,456.6	ADTV 6M	PLN 0.2m
EV (PLN m)	1,345.0	EV/EBITDA 12M fwd	20.9 +61.2%
Free Float	27.3%	EV/EBITDA 5Y avg	12.9 premium

Earnings Projections					
(PLN m)	2022*	2023*	2024P	2025P	2026P
Revenue	219.1	229.3	250.6	271.4	293.5
EBITDA	41.5	49.0	55.0	61.6	68.4
EBITDA margin	19.0%	21.4%	22.0%	22.7%	23.3%
EBIT	31.1	39.2	45.0	51.4	57.8
Net income	31.6	39.3	37.6	42.4	47.4
P/E	46.1	37.1	38.8	34.4	30.7
P/B	8.1	6.6	5.6	4.8	4.5
EV/EBITDA	34.4	28.2	24.4	21.2	18.8
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%
Forecast Update (% change)			2024P	2025P	2026P
Revenue			0.0%	0.0%	0.0%
EBITDA			0.0%	0.0%	0.0%
EBIT			0.0%	0.0%	0.0%
Net income			0.0%	0.0%	0.0%
CAPEX			0.0%	0.0%	0.0%

Financial Highlights

(PLN m)	2022*	2023*	2024P	2025P	2026P
Revenue	219.1	229.3	284.6	314.6	339.3
COGS	-150.7	-152.7	-185.9	-204.5	-220.0
Gross profit	68.4	76.6	98.7	110.1	119.3
margin	31.2%	33.4%	34.7%	35.0%	35.2%
Sales costs	-6.8	-6.6	-8.0	-8.9	-9.6
G&A expenses	-31.5	-32.2	-40.2	-42.6	-44.0
Other op. Activity	1.0	1.3	0.0	0.0	0.0
EBIT	31.1	39.2	50.5	58.7	65.7
margin	14.2%	17.1%	17.7%	18.6%	19.4%
D&A	10.5	9.9	10.0	10.2	10.6
EBITDA	41.5	49.0	60.9	68.9	76.2
Financials	-1.9	0.6	0.0	0.0	0.0
Profit before tax	29.1	39.7	50.5	58.7	65.7
Tax	2.5	-0.4	-8.2	-10.1	-11.5
Net income	31.6	39.3	42.2	48.6	54.1

Key Balance Sheet Figures

(PLN m)	2022*	2023*	2024P	2025P	2026P
Operating cash flow	55.1	54.8	51.2	58.1	63.7
OCF/EBITDA	133%	112%	84%	84%	84%
CAPEX	-8.2	-3.8	-4.9	-5.4	-5.8
Assets	300.8	326.2	371.1	423.0	480.6
Equity	179.9	220.6	263.8	312.4	366.5
Net debt	-35.5	-78.8	-63.4	-108.3	-158.4
Net debt/EBITDA (x)	-0.9	-1.6	-1.0	-1.6	-2.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	24P	25P	26P	24P	25P	26P
Minimum	2.8	1.1	0.9	4.1	3.6	3.0
Maximum	35.3	29.3	25.9	24.4	19.6	17.5
Median	19.0	14.9	13.7	9.1	8.4	7.9
Weight	33%	33%	33%	33%	33%	33%

DCF Analysis

(PLN m)	24P	25P	26P	27P	28P	29P	30P	31P	32P	33P	+
Revenue	285	315	339	363	388	413	440	469	497	527	538
EBITDA	62	69	76	83	90	97	105	114	123	132	135
EBITDA margin	21.7%	21.9%	22.5%	22.8%	23.2%	23.5%	23.9%	24.3%	24.6%	25.0%	25.0%
D&A	10	10	11	11	12	12	13	14	15	17	17
EBIT	52	59	66	72	78	85	92	99	107	115	117
Tax	8	10	12	13	14	16	17	18	20	21	22
NOPLAT	43	49	54	59	64	69	75	81	87	94	96
CAPEX + leases	-13	-13	-14	-14	-14	-15	-15	-16	-16	-17	-17
Working capital	0	-1	-1	0	0	1	1	1	1	1	1
FCF	40	45	50	55	61	67	74	80	87	95	97
PV FCF	40	45	50	55	61	67	74	80	87	95	97
WACC	10.9%	10.8%	11.2%	11.2%	11.6%	10.9%	11.5%	11.7%	11.9%	11.9%	11.9%
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%
Risk-free rate	4.9%	4.8%	5.2%	5.2%	5.6%	4.9%	5.5%	5.7%	5.9%	5.9%	5.9%

* adjusted

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	362
Adj. net debt ex. IFRS16	-21
Other adjustments	0
Value per share (PLN)	34.29

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	31.92
DCF Val.	85%	34.29
Implied Price		33.10
Cost of equity (12M)		8.2%
12M Target Price		35.80

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)

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

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mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Sygnty (Paweł Szpigiel)

Rating	sell	sell
Rating date	2024-04-15	2023-09-15
Target price	35.80	21.60
Price on rating	64.00	32.80

Comparable Companies Used In Relative Valuation Models

Sygnty Ailleron, Asseco Business Solutions, Asseco Poland, Asseco South Eastern Europe, Atende, Comarch

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