

Thursday, March 18, 2021 | update

Sygnity: hold (downgraded)

SGN PW; SGN.WA | IT, Poland

Moving on From Legal Feud But Revenue Outlook Weak

Shares in Sygnity have rallied >54% since our last update in September 2020. In February 2021, the Company finally reached a settlement with its former subcontractor, Fast Enterprises ("Fast"), and by ending the long-standing dispute it addressed the last of the missteps taken during the challenging period of 2014-17. Sygnity's financial standing improved considerably over the past year, and by the end of the current fiscal year of FY2020/21, ending 31 September 2021, we expect the Company to have brought its net debt/EBITDA ratio to 0.6x. Sygnity also currently achieves high FCFE in the range of PLN 26-27m, with potential to offer high yield of 10%. On the downside, earnings in Q1 FY2020/21 came in soft, accompanied by a muted outlook for the quarters ahead, underpinned by a thinner order book than reported around this time last year. In October 2020, Sygnity signed two large framework agreements that might give rise to additional revenues in the coming year, however a repeat of last year's results is unlikely in our view. Under these circumstances, we see FY2020/21 IFRS 16 EBITDA as ending up 5.8% lower than a year ago. Shares in Sygnity are still trading at attractive multiples of 5.9x FY20/21 EV/EBITDA and 9.1x P/E (adjusted), but we do not see upside catalysts until the Company can demonstrate growth in profits. After updating models to reflect the positive effect of the Fast settlement on net debt, on the one hand, and after downward revisions to earnings expectations on the other hand, we downgrade SGN from buy to hold with a new target price of PLN 11.60.

Settlement with Fast Enterprises

In February 2021, Sygnity and Fast Enterprises, a former subcontractor in an "e-Taxes" project, agreed to settle their years-long contractual dispute so that Sygnity will pay Fast \$3.75 million (PLN 14m) and Fast will waive all claims. With the matter over and done with, Sygnity can move on and plan for a refinance of existing debt.

Financial Results for Calendar Q4 of 2020

The settlement with Fast gave rise to substantial one-time gains that lifted profits for the quarter ended 31 December 2020. Stripped of these gains quarterly EBITDA comes out to PLN 12.4m, representing a decrease of 21% from the same year-ago period led by a reduction in orders in the half of last year. Sales margin in calendar Q4 2020 was 32.1% (+0.9pp Y/Y).

Outlook for FY2020/2021

In the fiscal year ending 30 September 2021, Sygnity says it is aiming for slightly higher revenues and similar profits as generated in FY2019/20, supported by cost cuts. The order backlog ex. framework contracts at PLN 196m is 14.0% lower than this time last year, leading us to assume conservatively that Sygnity will register 5% revenue contraction in FY2020/21. Based on this, we believe Sygnity will generate recurring IFRS 16 EBITDA of PLN 50.0m in FY2020/21 after a Y/Y decrease of 5.8%.

(PLN m)	18/19	19/20E	20/21E	21/22E	22/23E
Revenue	234.6	230.0	218.4	226.4	235.3
EBITDA	37.4	53.0	64.3*	50.2	50.4
EBITDA margin	15.9%	23.1%	29.4%	22.2%	21.4%
EBIT	29.4	36.9	48.3	34.2	34.1
Net Profit	15.9	29.2	46.8	26.3	26.8
P/E	15.9	8.6	5.4**	9.6	9.4
P/CE	10.5	5.6	4.0	6.0	5.9
P/BV	3.8	2.7	1.8	1.5	1.3
EV/EBITDA	8.7	5.8	4.6**	5.3	4.7
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

*PLN 50.0m adjusted ** 6.2x EV/EBITDA and 9.6x P/E on adjusted figures

Current Price	PLN 11.10
Target Price	PLN 11.60
MCap	PLN 269m
Free Float	PLN 269m
ADTV (3M)	PLN 0.5m

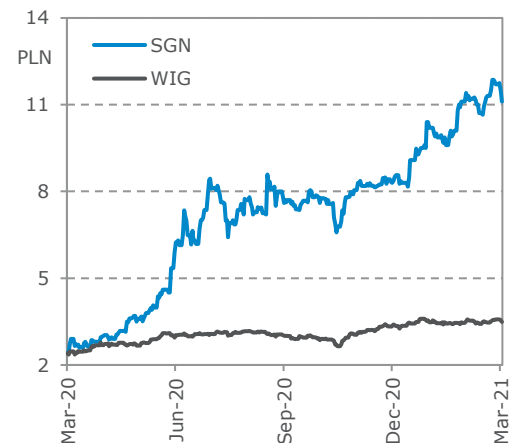
Ownership

Value FIZ	28.39%
Cron sp. z o.o.	24.20%
NN PTE	11.48%
Others	35.93%

About

Sygnity creates IT solutions and offers advisory services to customers across many different industries. The Company generates annual sales of approximately PLN 250m. Headquartered in Warsaw, Sygnity generates more than 95% of annual revenues in Poland.

SGN vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Sygnity	11.60	10.70	hold	buy

Company	Current Price	Target Price	Upside
Sygnity	11.10	11.60	+4.5%

Forecast Update	20/21E	21/22E	22/23E
Revenue	-10.3%	-11.3%	-11.3%
EBITDA (adj.)	-8.3%	-8.5%	-8.3%
Net Profit	+66.3%	-8.5%	-7.5%

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Key Risks

Failure of Debt Restructuring

Sygnity violated debt covenants in 2017, but its lenders and bondholders agreed not to exercise remedies and accepted a restructuring offer. As of 31 December 2020 the amount still outstanding under the restructuring plan totaled PLN 69.6m, of which PLN 24.8m due within 12 months. Sygnity will most likely be able to generate enough cash in the period to fulfill these obligations. However cash generation may come under pressure if market conditions worsen or if contract fulfilment is disrupted.

Goodwill Impairment

Sygnity recorded goodwill in the amount of PLN 157.2m as of 31 December 2020, representing more than half of the balance sheet total. A deterioration in the Company's financial standing could lead to impairment of that goodwill which in turn could lead to a violation of debt covenants.

No Dividends

We predict that Sygnity will end FY2020/21 with IFRS 16 net debt of approximately PLN 41m, equivalent to 0.6x EBITDA. However the actual debt level might not match this prediction considering that the Company is currently in the process of financial restructuring, and that its priority at the moment is to pay off debts. In addition, we want to point out Sygnity's relatively small asset base after a period of very limited investment (with CAPEX between July 2019 and June 2020 totaling only PLN 1.9m or 0.8% of revenues, a much lower proportion than D&A/revenues). Once the Company increases investment and expenses on customer acquisition following successful restructuring, this could result in negative changes in working capital, leading to curbed medium-term dividend payments despite good cash flow generation.

Supplier Risk

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. In the first half of 2020, despite the spread of the coronavirus pandemic, the median salary across top technology jobs is estimated by No Fluff Jobs to have increased 10% compared to the same period a year earlier, an ongoing trend which aside from risk of increasing labor costs puts Sygnity at risk of a shortage of skilled specialists if it is unable to offer competitive pay rates.

Liquidated Damages

Sygnity is always at risk of claims under liquidated damages- and warranty clauses contained in its many contracts with customers and business partners. As of 31 December 2020 the Company reported having conditional off-balance-sheet obligations under performance and warranty clauses in the amount of PLN 21.4m, equivalent to more than 80% of the net profit expected in FY2020/2021.

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 a long-term contract hinges on many factors, some of which are beyond the control of the supplier. As a result, the actual revenues and costs involved in a long-term contracts might not match the initial forecasts, giving rise to a need to set aside reserves and make adjustments during the contract term. In the event of cost overruns, in the worst-case scenario there is a risk of not delivering the required financial ratios.

Exchange Rate Risk

Sygnity's revenues and costs are affected by changes in the 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. Sygnity's single biggest foreign-currency obligation is a payment to Microsoft covered by the restructuring agreement (PLN 41.8m as of 31 Dec. 2020).

Loss of Business Due to COVID-19

So far, Sygnity has not been significantly affected by the coronavirus pandemic. The Company complies with all government regulations and sanitary requirements, and it has arranged for remote work set-ups for most employees, as well as limiting contact between on-site employees. Sygnity also uses online platforms to connect with customers and business partners. The pandemic has not had an effect on financial results so far, however given uncertainty as to its future spread and long-term consequences for customers and partners alike, downside surprises cannot be ruled out.

Tax Rulings

After tax auditors found that Sygnity had owed back income tax for the years 2007 and 2008, the Company made payments to its local tax authorities in the amount of approx. PLN 1.7m for 2007 and PLN 2.4m in 2008. The value of interest accrued on these payments is estimated at PLN 3m. Sygnity is in the process of appealing the tax claims in court, but as of 31 December 2020 it had not received binding and final decisions on its appeals.

Corruption Claims against Former Employees

In 2019, Sygnity became involved in an investigation into allegations of corruption brought against its employees, including the CEO and the Supervisory Board Chairman, in connection with contracts from the Polish Post Office. The Company cooperated with the authorities and turned over all requested records and evidence. 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 9-month price target for Sygnity at 11.60 per share.

(PLN)	weight	price
Relative Valuation	15%	18.01
DCF Analysis	85%	9.65
	price	10.91
9M target price		11.60

DCF Valuation

Assumptions:

- The forecast period is FY2020/21 through FY2029/30.
- The risk-free rate in the forecast period is 3.50%.
- We assume FCF after the forecast period will grow at a rate of 0.0%.
- Net debt is as of end of fiscal 2019/2020, restated to IFRS 16, including obligations to Microsoft and excluding Fast claims in the amount of PLN 38.6m but with the settlement payment to Fast in the amount of PLN 14.0m, paid in February 2021, factored in. The adjusted net debt amount is PLN 68.0m.
- Accordingly, our future estimates take into account depreciation of the right-of-use assets but do not factor in lease payments.
- D&A expenses in the terminal period are equal to CAPEX and lease payments.
- Our model takes into account the NPV of the deferred tax asset arising from prior year losses.
- Beta = 1.0x, representing a reduction from 1.2x assumed previously thanks to minimized credit risk.

DCF Model

(PLN m)	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	29/30+
Revenue	218	226	235	244	254	263	273	282	292	302	
change	-5.0%	3.7%	3.9%	3.9%	3.8%	3.7%	3.6%	3.6%	3.5%	3.4%	
EBITDA	64.3	50.2	50.4	50.9	51.2	51.3	51.2	51.1	51.0	50.7	
EBITDA margin	29.4%	22.2%	21.4%	20.8%	20.2%	19.5%	18.8%	18.1%	17.4%	16.8%	
EBIT	48.3	34.2	34.1	34.2	34.3	34.0	33.7	33.3	32.8	32.2	
EBIT margin	22.1%	15.1%	14.5%	14.0%	13.5%	12.9%	12.4%	11.8%	11.2%	10.7%	
Tax on EBIT	9.2	6.5	6.5	6.5	6.5	6.5	6.4	6.3	6.2	6.1	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
NOPLAT	39.2	27.7	27.6	27.7	27.8	27.6	27.3	26.9	26.6	26.1	
CAPEX	-4.1	-5.6	-6.0	-6.4	-6.8	-7.7	-8.6	-8.9	-9.2	-9.5	
Working capital	-35.8	-0.8	-0.9	-1.0	-1.1	-1.4	-1.8	-2.0	-2.2	-2.4	
FCF	6.1	28.4	28.2	28.1	27.9	26.8	25.5	24.9	24.3	23.7	23.7
WACC	7.9%	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
discount factor	94.2%	87.0%	80.2%	73.9%	68.1%	62.7%	57.8%	53.2%	49.1%	45.2%	
PV FCF	5.8	24.7	22.6	20.7	19.0	16.8	14.7	13.3	11.9	10.7	

WACC	7.9%	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
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	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	13.7%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
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	0.0%
Terminal value	275.9
Present value of terminal value	124.7
Present value of FCF in the forecast period	160.2
Enterprise value	284.9
Net debt (adj.) (eop FY2019/20, IFRS16)	68.0
Other noncore assets	2.8
Minority interests	0.0
Million shares outstanding (adj.)	22.76
Equity value per share (PLN)	9.65
9M cost of equity	6.4%
Target price (PLN)	10.27

2021E EV/EBITDA (adj.) at target price	5.7
2021E P/E (adj.) at target price	7.9
TV / EV	44%

Sensitivity Analysis

	FCF growth in perpetuity				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC +1.0 p.p.	8.47	8.71	8.95	9.27	9.60
WACC +0.5 p.p.	9.03	9.30	9.57	9.95	10.33
WACC	9.64	9.96	10.27	10.70	11.15
WACC -0.5 p.p.	10.32	10.68	11.05	11.56	12.09
WACC -1.0 p.p.	11.07	11.50	11.93	12.54	13.18

Relative Valuation

We compared Sygnity with a peer group based on forward P/E and EV/EBITDA multiples. Expected earnings in FY2020/21 are adjusted for the effects of the settlement with Fast Enterprises. Each of the forecast years FY2021, 2022, and 2023, is assigned an equal weight. Earnings for forecasting purposes are as forecast for fiscal years 2020/21, 2021/22, and 2022/23. A 20% discount is applied

to reflect Sygnity's slower pace of earnings growth. Our model takes into account the NPV of the deferred tax asset arising from prior year losses. For consistency the peer group is the same as used in our models for Asseco Poland and Comarch.

Multiples Comparison

	EV/EBITDA			P/E		
	2021E	2022E	2023E	2021E	2022E	2023E
Sap	15.2	14.4	13.4	21.8	20.8	19.0
Oracle	11.1	10.8	10.3	14.8	13.8	12.8
Cap Gemini	11.5	10.7	10.1	18.8	16.5	15.0
Sage Group	15.7	14.5	13.4	24.9	22.9	20.5
Atos	5.5	5.1	4.9	8.9	8.2	7.5
Software AG	13.8	11.3	9.0	24.4	19.5	15.0
Indra Sistemas	6.8	6.1	5.6	11.7	9.8	8.1
Fiserv	16.0	14.5	13.7	22.9	19.4	17.0
Computacenter	8.5	8.3	8.1	17.5	16.9	15.8
Asseco Poland	4.6	4.5	-	14.2	14.0	-
Comarch	5.9	5.8	-	14.4	13.8	-
Minimum	4.6	4.5	4.9	8.9	8.2	7.5
Maximum	11.3	10.7	10.1	18.1	16.7	15.0
Median	15.2	14.4	13.4	21.8	20.8	19.0
Sygnity**	4.6***	5.3	4.7	5.4***	9.6	9.4
premium / discount	-57.4%	-48.9%	-51.3%	-69.1%	-39.9%	-35.0%
Implied valuation						
Value per share (PLN)	23.0	23.1	23.0	22.2	18.4	16.9
Multiple weight		50.0%			50.0%	
Year weight	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Equity value per share (PLN)*	18.01					

*after a 20% discount; ** FY2020/21, 2021/22, 2022/23, respectively; *** 5.9x EV/EBITDA and 9.1x P/E on adjusted figures

Business Update

Settlement with Fast Enterprises

In February 2021, Sygnity and Fast Enterprises ("Fast"), a former subcontractor in a 2013 "e-Taxes" project for the Polish government, agreed to settle a years-long contractual dispute so that Sygnity will pay Fast \$3.75 million (PLN 14m) and Fast will waive all claims. The settlement allowed Sygnity to reverse the reserves it had set aside for Fast's claims, which we had estimated at +PLN 38m, and the reversals provided a boost of PLN 18.8m to its net profit for the first quarter of fiscal FY2020/21 (three months ended 31 December 2020).

With the matter over and done with, Sygnity can move on and plan for a refinancing of existing debt. We have updated our view on Sygnity to reflect the Fast settlement and its positive effects on 2020 profits and on the Company's ability to improve financing terms.

Financial Results for Calendar Q4 of 2020

The settlement with Fast Enterprises gave rise to a number of one-time gains that Sygnity opted to recognize in the financial statements for the quarter ended 31 December 2020, which represents the first quarter of its FY2020/21 reporting year.

The one-time items, which had a material effect on the reported quarterly profits, included the following:

- (1) PLN 11.2m recognized under "Other Operating Income" as "Liquidation of provisions for disputes,"
- (2) PLN 3.0m under the same P&L item, as "Concluded court compromises" and
- (3) PLN 9.1m posted under Financial Income as "Liquidation of provisions on interest relating to disputes."

After stripping these items, the quarterly EBITDA amounted to PLN 12.4m, representing a decrease of 20.6% from the same period a year earlier. Recurring net profit for the quarter came in at PLN 7.2m.

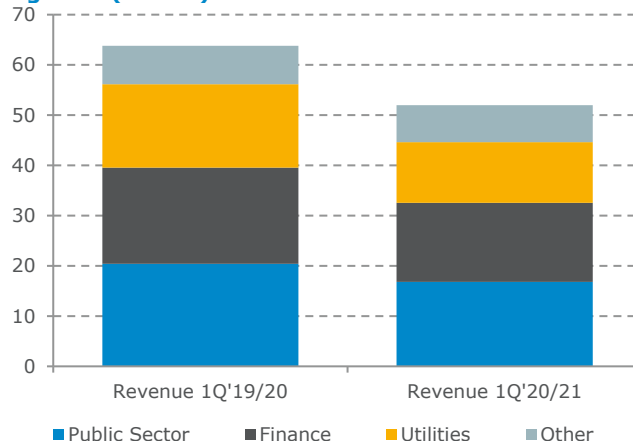
Financial Results for Calendar Q4 of 2020

(PLN m)	4Q'20*	4Q'19*	change
Revenue	52.5	63.8	-17.7%
Gross profit margin	16.9	19.9	-15.3%
	32.1%	31.2%	-
SG&A	-7.9	-8.5	-7.2%
Other operations	14.2	0.2	-
EBIT margin	23.2	11.5	100.6%
	44.1%	18.1%	-
EBITDA margin	26.6	15.6	70.9%
	50.7%	24.4%	-
EBITDA (adj.) margin	12.4	15.6	-20.7%
	23.5%	24.4%	-
Financing activity	6.4	-0.8	-
Tax	-3.5	-2.9	-
Other	0.0	1.4	-
Net profit	26.1	9.3	179.0%

Source: Sygnity, *Fourth calendar quarter

The main reason behind the year-over-year EBITDA contraction in Q4 2020 were lower sales, which decreased by more than PLN 11m from the same year-ago period, led among others by a >25% drop in revenues from the public sector that followed a reduction in orders in the first and second quarter. Business from government institutions remains sluggish, with many tenders for IT services canceled over the past year due to the coronavirus pandemic. Similar tendencies can be observed in the financial sector and in utilities.

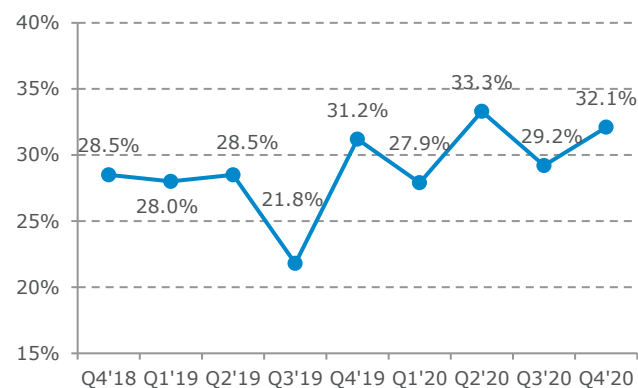
Fiscal First Quarter Revenues of Sygnity by Customer Segment (PLN m)



Source: Sygnity mBank

Sales margin in calendar Q4 2020 was 32.1% (+0.9pp Y/Y). SG&A expenses amounted to PLN 7.9m vs. PLN 8.5m in the corresponding year-ago period. Other operating activity generated a one-time gain of PLN 14.2m.

Quarterly Gross Margins of Sygnity



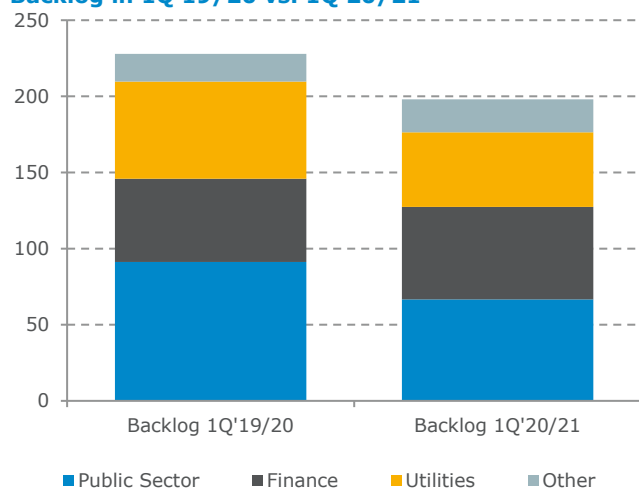
Source: Sygnity mBank

Sygnity achieved a profit of PLN 6.4m on financing activity in Q4 2020, and after tax at an effective rate of 11.7% (vs. 26.7% the year before) net profit came in at PLN 26.1m before adjusting for the one-time gains discussed above. Operating cash flow amounted to PLN 14.7m in Q4 2020, which means it exceeded adjusted EBITDA.

Outlook for FY2020/2021

In the current fiscal year, ending 30 September 2021, Sygnity says it is aiming for slightly higher revenues and similar profits as generated in FY2019/20, supported by cost cuts (e.g. HQ costs). The order backlog ex. framework contracts signed in October 2020 at PLN 196m is 14.0% lower than this time last year (the framework agreements are with the Polish Post and with the Finance Ministry). We assume conservatively that Sygnity will register 5% revenue contraction in FY2020/21.

Backlog in 1Q'19/20 vs. 1Q'20/21



Source: Sygnity mBank

Despite the improvement registered in the first quarter, we are anticipating a decline (-0.4pp) in the annual gross margin for FY2020/21. We expect SG&A expenses to total PLN 31.0m for the year (vs. PLN 33.4m) after the planned savings on office space. Based on these assumptions, we believe Sygnity will generate recurring IFRS 16 EBITDA of PLN 50.0m in FY2020/21 after a decrease of 5.8% Y/Y – an estimate which represents a downward revision to our previous forecast.

Update of our earnings forecasts for Sygnity

(PLN m)	Revenue '20/21	Revenue '21/22	EBITDA (adj.) '20/21	EBITDA (adj.) '21/22
Old Forecast	243.4	255.1	54.5	54.9
New Forecast	218.4	226.4	50.0	50.2
Change	-10.3%	-11.3%	-8.3%	-8.5%

Source: mBank

Income statement

(PLN m)	18/19	19/20	20/21P	21/22P	22/23P	23/24P	24/25P
Revenue	234.6	230.0	218.4	226.4	235.3	244.4	253.7
change	-18.6%	-2.0%	-5.0%	3.7%	3.9%	3.9%	3.8%
COGS	164.3	160.0	152.9	160.3	168.2	176.1	184.2
Gross profit from sales	70.3	69.9	65.5	66.1	67.1	68.3	69.4
Other operating income	1.6	1.3	14.3	0.0	0.0	0.0	0.0
Sales and marketing costs	7.4	8.7	8.3	8.6	8.9	9.2	9.6
Administrative expenses	26.1	24.7	22.7	23.4	24.1	24.8	25.6
Other operating charges	9.0	1.0	0.5	0.0	0.0	0.0	0.0
EBIT	29.4	36.9	48.3	34.2	34.1	34.2	34.3
margin	12.5%	16.0%	22.1%	15.1%	14.5%	14.0%	13.5%
D&A expenses	8.0	16.2	15.9	16.1	16.4	16.7	16.9
EBITDA	37.4	53.0	64.3	50.2	50.4	50.9	51.2
margin	15.9%	23.1%	29.4%	22.2%	21.4%	20.8%	20.2%
Financing activity	-10.6	-7.1	4.9	-3.2	-2.4	-2.0	-2.0
Share in result of joint venture	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	18.7	29.8	53.2	31.0	31.6	32.2	32.3
margin	8.0%	13.0%	24.4%	13.7%	13.4%	13.2%	12.7%
Tax	-0.2	-2.0	-6.4	-4.7	-4.8	-6.1	-6.1
Net profit from discontinued operations	-2.6	1.4	0.0	0.0	0.0	0.0	0.0
Net profit	15.9	29.2	46.8	26.3	26.8	26.1	26.1
margin	6.8%	12.7%	21.4%	11.6%	11.4%	10.7%	10.3%
Shares at eop (millions)	22.76	22.76	22.76	22.76	22.76	22.76	22.76
EPS	0.70	1.28	2.06	1.15	1.18	1.15	1.15
CEPS	1.05	1.99	2.76	1.86	1.90	1.88	1.89
ROAE	32.2%	36.5%	39.8%	17.0%	14.8%	12.6%	11.5%
ROAA	5.2%	10.3%	15.7%	8.6%	8.5%	7.9%	7.5%

Balance Sheet

(PLN m)	18/19	19/20	20/21P	21/22P	22/23P	23/24P	24/25P
ASSETS	272.9	296.4	301.3	312.2	315.5	343.3	358.1
Fixed assets	191.8	202.5	199.6	198.1	196.6	195.3	194.2
Tangible non-current assets and intangible assets	14.1	8.6	5.8	4.2	2.8	1.5	0.3
Goodwill	157.2	157.2	157.2	157.2	157.2	157.2	157.2
Right-of-use assets	0.0	16.0	16.0	16.0	16.0	16.0	16.0
Investment in joint venture	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Noncurrent receivables / Financial assets measured at amortized cost	6.4	7.2	7.2	7.2	7.2	7.2	7.2
Deferred income tax assets	12.7	12.1	12.1	12.1	12.1	12.1	12.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	81.1	93.9	101.7	114.1	118.9	148.0	163.9
Inventory	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Trade and other receivables	34.8	31.8	35.9	38.1	40.6	43.3	46.0
Assets on account of contracts with customers	21.1	19.0	19.0	19.0	19.0	19.0	19.0
Other	6.4	4.3	4.3	4.3	4.3	4.3	4.3
Cash	18.5	38.5	42.2	52.3	54.7	81.1	94.3

(PLN m)	18/19	19/20	20/21P	21/22P	22/23P	23/24P	24/25P
EQUITY & LIABILITIES	272.9	296.4	301.3	312.2	315.5	343.3	358.1
Equity	65.8	94.3	141.1	167.4	194.2	220.3	233.4
Non-current liabilities	77.6	93.2	58.2	33.1	33.1	33.1	33.1
Loans and borrowings	11.6	13.5	13.5	13.5	13.5	13.5	13.5
Bonds	0.0	2.1	0.0	0.0	0.0	0.0	0.0
Obligations under finance leases	0.0	10.4	10.4	10.4	10.4	10.4	10.4
Other liabilities	36.8	38.2	28.2	3.1	3.1	3.1	3.1
Misc. liabilities	29.3	29.0	6.1	6.1	6.1	6.1	6.1
Current liabilities	129.6	108.9	102.0	111.7	88.2	89.9	91.6
Loans and borrowings	18.2	9.5	9.5	9.5	9.5	9.5	9.5
Trade payables and other obligations	81.2	66.7	49.7	66.2	42.8	44.5	46.1
Bonds	13.1	6.6	6.9	0.0	0.0	0.0	0.0
Obligations under finance leases	0.0	6.9	7.0	7.0	7.0	7.0	7.0
Provisions	5.9	3.4	7.0	7.0	7.0	7.0	7.0
Accruals / Liabilities on account of contracts with customers	9.7	15.5	21.6	21.6	21.6	21.6	21.6
Other	1.4	0.3	0.3	0.3	0.3	0.3	0.3
IFRS 16 net debt	74.3	54.0	40.2	13.2	-14.2	-40.6	-53.8
Ex-IFRS16 Net Debt / Equity	1.4	0.8	0.5	0.3	0.1	0.1	0.1
Net Debt/ EBITDA	2.0	1.0	0.6	0.3	-0.3	-0.8	-1.1
BVPS	2.9	4.1	6.2	7.4	8.5	9.7	10.3

Cash Flow

(PLN m)	18/19	19/20	20/21P	21/22P	22/23P	23/24P	24/25P
Cash flow from operating activities	18.9	52.0	40.2	44.8	44.8	43.8	44.0
Pre-tax income	18.7	29.8	53.2	31.0	31.6	32.2	32.3
D&A expenses	8.0	16.2	15.9	16.1	16.4	16.7	16.9
Financing activity	5.6	3.8	13.3	3.2	2.4	2.0	2.0
Change in working capital and other	-25.4	3.5	-35.8	-0.8	-0.9	-1.0	-1.1
Other	12.0	-1.3	-6.4	-4.7	-4.8	-6.1	-6.1
Cash flow from investing activities	-1.8	-1.9	-4.1	-5.6	-6.0	-6.4	-6.8
CAPEX	-1.1	-1.7	-4.1	-5.6	-6.0	-6.4	-6.8
Other	-0.7	-0.2	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-33.0	-30.1	-32.5	-29.0	-36.4	-10.9	-24.0
Debt	-24.1	-11.5	-1.8	-6.9	0.0	0.0	0.0
Obligations paid under finance leases	0.0	-8.2	-8.9	-8.9	-8.9	-8.9	-8.9
Interest paid	-5.6	-3.5	-13.3	-3.2	-2.4	-2.0	-2.0
Other (incl. expenditures on the account of the Restructuring Agreement)	-3.4	-6.9	-8.5	-10.0	-25.1	0.0	-13.0
Change in cash	-16.2	19.9	3.7	10.1	2.3	26.4	13.2
Cash at eop	18.5	38.5	42.2	52.3	54.6	81.1	94.3
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFE	13.8	43.2	27.6	29.2	13.7	37.4	24.1
CAPEX/Sales	0.4%	0.7%	1.9%	2.5%	2.5%	2.6%	2.7%

Trading Multiples*

(PLN m)	18/19	19/20	20/21P	21/22P	22/23P	23/24P	24/25P
P/E	15.9	8.6	5.4*	9.6	9.4	9.7	9.7
P/CE	10.5	5.6	4.0	6.0	5.9	5.9	5.9
P/B	3.8	2.7	1.8	1.5	1.3	1.1	1.1
P/S	1.1	1.1	1.2	1.1	1.1	1.0	1.0
FCFE Yield	5.5%	17.1%	10.9%	11.5%	5.4%	14.8%	9.5%
EV/EBITDA	8.7	5.8	4.6*	5.3	4.7	4.2	3.9
EV/EBIT	11.1	8.3	6.1	7.8	7.0	6.2	5.8
EV/S	1.4	1.3	1.3	1.2	1.0	0.9	0.8
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	11.10	11.10	11.10	11.10	11.10	11.10	11.10
Shares outstanding at eop (millions)	22.8	22.8	22.8	22.8	22.8	22.8	22.8
MC (PLN m)	253	253	253	253	253	253	253
EV (PLN m)	327	307	293	266	238	212	199

* 5.9x EV/EBITDA and 9.1x P/E on adjusted figures

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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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mBank issued the following recommendations for Sygnty in the 12 months prior to this publication:

Sygnty

recommendation	buy
date issued	2020-09-01
target price (PLN)	10.70
price on rating day	7.20

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