

Thursday, December 01, 2022 | An Investment Strategy, an excerpt

Sygnity sell (reiterated)

Paweł Szpigiel +48 509 603 258 pawel.szpigiel@mbank.pl

We maintain our negative outlook for Sygnity. Although sales revenues have followed an upward trend for several quarters with a clear acceleration in Q2 2022, the wage pressure in the IT sector remains strong (at least +10% y/y). Therefore, we still expect a slight deterioration of the profitability in results in the coming quarters. Our EBITDA forecast for the period 2022/23 is PLN 42.0 million (no change vs. the previous report of October 2022), and the net profit of PLN 25.4 million.

The expected level of results implies EV/EBITDA and P/E at 10.3x and 17.8x, respectively, showing substantial premiums to peers. The level of ratios is higher than valuations of Asseco Poland or Comarch. Both companies are (also due to the size and liquidity) interesting investment types at the current level of share prices.

In our valuation model, we assume the level of market risk in the DCF model = 6.00% and a new level of RFRs in the period 2022/30. We our new target price at PLN 13.70 (impact of updated peer multiples), which implies almost 39% downside potential and a reiterated sell recommendation.

Current Price

22.30 PLN

Downside

9M Target Price

13.70 PLN

-38.6%

	rating	target price	issued
new	sell	13.70 PLN	2022-12-01
old	sell	13.30 PLN	2022-10-18

Key Metrics		SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	+0.9%
ISIN	PLCMPLD00016	YTD Price Chng	+151.7%
Outst. Stock (m)	22.8	ADTV 1M	PLN 0.1m
MC (PLN m)	507.5	ADTV 6M	PLN 0.3m
EV (PLN m)	515.7	EV/EBITDA 12M fwd	9.5
Free Float	100.0%	EV/EBITDA 5Y avg	7.3

Earnings Projections

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	215.5	229.2	240.4
EBITDA	53.0	61.0	39.7	42.0	43.8
EBITDA margin	23.1%	29.9%	18.4%	18.3%	18.2%
EBIT	36.9	49.2	29.1	31.1	32.8
Net income	29.2	46.6	28.5	25.4	26.5
P/E	17.4	10.9	17.8	20.0	19.2
P/B	5.4	3.6	3.0	2.6	2.3
EV/EBITDA	10.6	9.0	13.0	11.8	10.8
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)	2021/22P	2022/23P	2023/24P
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)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	215.5	229.2	240.4
COGS	160.0	139.3	153.2	163.7	172.0
Gross profit	69.9	64.8	62.3	65.6	68.4
margin	30.4%	31.7%	28.9%	28.6%	28.5%
Sales costs	8.7	6.7	7.0	7.5	7.8
G&A expenses	24.7	23.9	27.0	27.0	27.8
Other op. Activity	0.3	14.9	0.8	0.0	0.0
EBIT	36.9	49.2	29.1	31.1	32.8
margin	16.0%	24.1%	13.5%	13.6%	13.6%
D&A	16.2	11.8	10.7	10.8	11.0
EBITDA	53.0	61.0	39.7	42.0	43.8
Financials	-7.1	3.2	-1.9	-0.5	-0.5
Profit before tax	29.8	52.3	27.2	30.6	32.3
Tax	-2.0	-5.8	1.3	-5.2	-5.8
Net income	29.2	46.6	28.5	25.4	26.5

Key Balance Sheet Figures

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Operating cash flow	52.0	20.2	55.4	35.5	36.5
OCF/EBITDA	98%	33%	140%	85%	83%
CAPEX	-1.7	-0.4	-5.7	-5.8	-5.7
Assets	296.4	279.1	309.5	337.3	365.7
Equity	94.3	141.6	170.1	195.5	222.0
Net debt	54.0	42.5	8.1	-13.5	-36.1
Net debt/EBITDA (x)	1.0	0.7	0.2	-0.3	-0.8

Relative Valuation Summary

	P/E			EV/EBITDA		
	22P	23P	24P	22P	23P	24P
Minimum	10.2	9.1	5.3	3.5	3.7	3.5
Maximum	14.4	13.8	-	5.9	5.8	-
Median	16.7	13.7	12.0	10.5	9.6	8.3
Weight	33%	33%	33%	33%	33%	33%

DCF Analysis

(PLN m)	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	30/31P	+
Revenue	216	229	240	252	264	276	288	301	314	327	334
EBITDA ex. IFRS16	32	34	36	38	39	41	43	44	46	48	49
EBITDA margin	14.9%	15.0%	15.1%	15.0%	15.0%	14.9%	14.9%	14.8%	14.7%	14.6%	14.6%
D&A ex. IFRS16	3	3	3	4	4	4	4	4	4	5	5
EBIT	29	31	33	34	36	37	39	40	42	43	44
Tax	6	6	6	7	7	7	7	8	8	8	8
NOPLAT	24	25	27	28	29	30	31	33	34	35	36
CAPEX	-6	-6	-6	-6	-6	-6	-6	-6	-4	-5	-5
Working capital	9	-1	-1	-2	-2	0	0	0	0	0	0
FCF	29	21	23	24	25	28	30	31	34	35	36
PV FCF	29	21	23	24	25	28	30	31	34	35	36
WACC	13.2%	14.3%	14.5%	14.2%	13.7%	13.4%	13.7%	13.9%	13.7%	13.7%	13.7%
Net debt / EV	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free rate	6.9%	7.9%	8.1%	7.9%	7.4%	7.1%	7.4%	7.5%	7.4%	7.4%	7.4%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	157
Adj. net debt ex. IFRS16	29
Other adjustments	0
Value per share (PLN)	10.94

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	13.98
DCF Val.	85%	10.94
Implied Price		12.46
Cost of equity (9M)		10.0%
9M Target Price		13.70

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) - Lease Payments

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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Sygnity (Paweł Szpigiel)

Rating	sell	sell	sell	accumulate	reduce	buy
Rating date	2022-12-01	2022-10-18	2022-07-08	2022-05-06	2022-04-07	2022-03-04
Target price	13.70	13.30	13.50	10.70	10.70	10.70
Price on rating	22.30	18.15	15.80	9.40	11.80	9.18

Comparable Companies Used In Relative Valuation Models

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

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.kluszcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Mateusz Krupa, CFA
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Paweł Wieprzowski, PhD
+48 789 443 768
pawel.wieprzowski@mbank.pl
industrials, mining

Sales and Trading**Traders**

Piotr Gawron
Director
+48 698 832 853
piotr.gawron@mbank.pl

Andrzej Kowalczyk
+48 601 053 470
andrzej.kowalczyk@mbank.pl

Karol Kułaj
+48 509 602 984
karol.kulaj@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl

Paweł Cyłkowski
+48 503 684 130
pawel.cylkowski@mbank.pl

Andrzej Sychowski
+48 605 848 003
andrzej.sychowski@mbank.pl

Piotr Brożyna
+48 512 756 702
piotr.brozyna@mbank.pl

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl