

Friday, May 06, 2022 | Monthly Market Outlook, an excerpt

## Sygnity accumulate (upgraded)

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On May 4th, 2022, TSS Europe reduced its takeover bid on Sygnity from the initial 12 to 9.50 zloty a share, effective from that same date; anyone who had tendered their shares at the initial 12zł price will get that price.

Sygnity stock took a plunge on the news, falling from 11.80zł on Monday, May 2nd, to 9.40zł as of market close on Thursday, May 5th, and with the upside potential to our target increased to 14% we are prompted to upgrade our call from reduce to accumulate.

<b>Current Price</b>	9.40 PLN	<b>Upside</b>
<b>9M Target Price</b>	10.70 PLN	<b>+13.8%</b>

	rating	target price	issued
<b>new</b>	<b>accumulate</b>	<b>10.70 PLN</b>	<b>2022-05-06</b>
<b>old</b>	<b>reduce</b>	10.70 PLN	2022-04-07

Key Metrics		SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	-20.3%
ISIN	PLCMPLD00016	YTD Price Chng	+6.1%
Outst. Stock (m)	22.8	ADTV 1M	PLN 0.4m
MC (PLN m)	213.9	ADTV 6M	PLN 0.3m
EV (PLN m)	230.0	EV/EBITDA 12M fwd	6.5 +0.9%
Free Float	100.0%	EV/EBITDA 5Y avg	6.4 premium

### Earnings Projections

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	212.1	218.4	225.1
EBITDA	53.0	61.0	43.8	42.7	42.6
EBITDA margin	23.1%	29.9%	20.7%	19.6%	18.9%
EBIT	36.9	49.2	31.7	30.3	29.9
Net income	29.2	46.6	23.4	22.7	22.1
P/E	7.3	4.6	9.2	9.4	9.7
P/B	2.3	1.5	1.3	1.1	1.0
EV/EBITDA	5.1	4.1	5.2	4.9	4.5
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
<b>Revenue</b>	<b>230.0</b>	<b>204.1</b>	<b>212.1</b>	<b>218.4</b>	<b>225.1</b>
COGS	160.0	139.3	149.0	155.6	161.7
<b>Gross profit</b>	<b>69.9</b>	<b>64.8</b>	<b>63.1</b>	<b>62.8</b>	<b>63.4</b>
margin	30.4%	31.7%	29.7%	28.7%	28.2%
Sales costs	8.7	6.7	6.9	7.1	7.3
G&A expenses	24.7	23.9	24.5	25.3	26.2
Other op. Activity	0.3	14.9	0.0	0.0	0.0
<b>EBIT</b>	<b>36.9</b>	<b>49.2</b>	<b>31.7</b>	<b>30.3</b>	<b>29.9</b>
margin	16.0%	24.1%	14.9%	13.9%	13.3%
D&A	16.2	11.8	12.1	12.4	12.7
<b>EBITDA</b>	<b>53.0</b>	<b>61.0</b>	<b>43.8</b>	<b>42.7</b>	<b>42.6</b>
Financials	-7.1	3.2	-3.3	-2.7	-2.6
<b>Profit before tax</b>	<b>29.8</b>	<b>52.3</b>	<b>28.3</b>	<b>27.5</b>	<b>27.2</b>
Tax	-2.0	-5.8	-5.0	-4.8	-5.2
<b>Net income</b>	<b>29.2</b>	<b>46.6</b>	<b>23.4</b>	<b>22.7</b>	<b>22.1</b>

### Key Balance Sheet Figures

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
<b>Operating cash flow</b>	<b>52.0</b>	<b>20.2</b>	<b>36.6</b>	<b>36.8</b>	<b>35.8</b>
OCF/EBITDA	98%	33%	83%	86%	84%
<b>CAPEX</b>	<b>-1.7</b>	<b>-1.3</b>	<b>-5.7</b>	<b>-6.7</b>	<b>-6.9</b>
Assets	296.4	279.1	285.8	309.6	332.8
Equity	94.3	141.6	165.0	187.7	209.8
<b>Net debt</b>	<b>54.0</b>	<b>34.9</b>	<b>16.1</b>	<b>-2.6</b>	<b>-20.4</b>
Net debt/EBITDA (x)	1.0	0.6	0.4	-0.1	-0.5

### Relative Valuation Summary

	P/E			EV/EBITDA		
	22P	23P	24P	22P	23P	24P
Minimum	11.6	9.1	7.7	5.4	5.1	4.9
Maximum	32.8	29.5	26.4	19.2	17.9	16.3
Median	20.8	19.5	17.6	13.8	12.9	11.6
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	212	218	225	232	240	249	259	269	281	293	293
EBITDA	44	43	43	42	43	43	44	45	46	46	46
EBITDA margin	20.7%	19.6%	18.9%	18.3%	17.7%	17.2%	16.9%	16.6%	16.4%	15.8%	15.8%
D&A	3	4	4	4	5	5	6	7	9	9	9
EBIT	32	30	30	29	29	29	29	29	29	29	29
Tax	6	6	6	6	6	5	5	5	5	5	5
NOPLAT	26	25	24	24	24	23	23	23	23	23	23
CAPEX	-6	-7	-7	-7	-7	-8	-8	-8	-9	-9	-9
Working capital	-2	-1	-1	-2	-2	-2	-2	-2	-3	-3	-3
FCF	21	21	20	19	19	19	19	20	20	20	20
PV FCF	20	18	16	14	13	12	11	11	9	108	
WACC	8.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	7.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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%

### DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	0.0%
PV FCF	135
Adj. net debt	29
Other adjustments	0
<b>Value per share (PLN)</b>	<b>9.41</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	13.73
DCF Val.	85%	9.41
Implied Price		10.06
Cost of equity (9M)		6.4%
<b>9M Target Price</b>		<b>10.70</b>

**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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**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%

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**mBank issued the following investment recommendations for the Company in the 12 months prior to this publication**
**Sygnity (Pawel Szpigiel)**

Rating	accumulate	reduce	buy	buy
Rating date	2022-05-06	2022-04-07	2022-03-04	2021-09-03
Target price	10.70	10.70	10.70	11.70
Price on rating	94,000.00	11.80	9.18	9.78

**Comparable Companies Used In Relative Valuation Models**

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

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