

Friday, November 27, 2020 | special comment

Sygnity: Forecast of FY2019/20 Q4 Results

Rating: buy | target price: PLN 10.70 | current price: PLN 8.28

SGN PW; SNG.WA | IT, Poland

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We expect that, in the fourth quarter of fiscal FDY2019/2020, ended September 30th, 2020, Sygnity grew EBITDA by 83% year over year to PLN 11.9m. After IFRS16 adjustments, and after factoring in positive base effects, the recurring EBITDA figure will most likely be comparable to that posted in Q3 2019. More than quarterly numbers, we believe the market is looking out for Sygnity's guidance for the next reporting year and whether the Company is expecting to grow its profits. We maintain a bullish outlook for SGN.

- The positive base effects which gave a boost to FY2019/20 fourth-quarter EBITDA consisted of one-time charges booked in the same period the year before, on top the IAS 17 accounting standard still used back then for financial statements.
- Sygnity upgraded to IFRS 16 in the last quarter of calendar 2019, and the positive effects since this year have come out to about PLN 2m per quarter.
- Revenue in Q4'19/20 is expected to total PLN 56.6m after an increase driven by strong sales of services (mainly maintenance) to utilities.

- We expect to see a quarterly gross profit margin of 31.0% after a 4pp decrease from the same period a year earlier.
- We assume other operating activity will not produce any charges against the bottom line, but we anticipate a PLN 1.9m net charge from financing activity.
- The effective tax rate in 4Q'19/20 will be 51% after three quarters of low taxes.
- More than the fourth quarter results we are looking forward to hearing Sygnity's guidance for FY2020/21. If it is upbeat the market's sentiment will remain positive.

FY2019/20 Q4 estimates

(PLN m)	Q4'19/20E	Q4'18/19	YoY
Revenue	56.6	52.8	7.2%
EBITDA	11.9	6.5	82.9%
EBITDA margin	18.0%	12.3%	-
EBIT	8.1	4.7	71.5%
Pre-tax profit	6.2	-4.7	-
Net profit	3.1	-3.9	-

Source: Sygnity, E – mBank estimates

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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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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