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## Sygnity: FY2019/20 Q4 Results

Rating: buy | target price: PLN 10.60 | current price: PLN 8.90

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- The financial results of Sygnity in the fourth quarter of fiscal 2020, ended September 30th, 2020, were a **disappointment** due mainly to lower-than-expected **revenue** which at PLN 51.5m missed our PLN 56.6m estimate and showed a 2.4% decrease from the same period a year earlier.
- A breakdown by operating segment revealed that, in the full fiscal FY2020, Sygnity registered sales declines at annual rates of 13.9% in solutions for the public sector and 5.8% in sales to the financial sector, while at the same time sales to utilities increased by 20.6% Y/Y. Average revenue per project amounted to PLN 390.1 thousand for the year – a big improvement on the year-ago average of PLN 328.2 thousand.
- The quarterly gross margin in Q4 FY'20 was 29.2% vs. our 31.0% forecast. At the same time, SG&A expenses came out lower than thought at PLN 7.9m vs. PLN 9.4m.
- Other operating activity in Q4 generated a one-time loss of PLN 0.5m vis-à-vis a neutral effect anticipated by us.
- EBITDA missed the mark by nearly 12% at PLN 10.5m, a figure which shows an increase of approximately PLN 4.0m or 61% year over year, albeit achieved with positive IFRS16 effects of ~PLN 2m combined with a low year-ago comparable base depressed by one-time charges.
- **On an adjusted basis, the FY2020 fourth-quarter EBITDA was lower than in the same year-ago period.**
- Financing activity in Q4 FY2020 generated a one-time loss of PLN 1.1m vs. PLN -1.9m forecast by us.
- The bottom-line profit came in at PLN 7.5m after an unexpected tax gain of PLN 2.1m (we were anticipating a PLN 3.2m charge given relatively low taxes paid in previous quarters).
- In the full FY2020 Sygnity generated **FCFE of PLN 38.3m vs. PLN 11.6m the year before.**
- **Summing up, Sygnity generated weaker-than-expected results in the fourth quarter of fiscal 2020 on lower revenues. The Company managed to keep its gross margin close to 30% in Q4, and it was able to reduce SG&A, but any EBITDA growth in the period was owed to non-recurring events. On the upside, annual FCFE for FY2020 was high at >PLN 38m, with current implied FCFE Yield at 20%. Strong cash flow generation is the main source of upside which we had flagged in our September report. It allowed Sygnity to reduce net debt (incl. ca. PLN 40m claims from Fast Enterprises) to less than 2.0x IAS17 EBITDA.**

### FY2019/20 Q4 actuals vs. expectations

(PLN m)	Q4'19/20	Q4'18/19	change	Q4'19/20E	differ.
Revenue	51.5	52.8	-2.4%	56.6	-8.9%
EBITDA	10.5	6.5	61.3%	11.9	-11.8%
EBITDA margin	20.4%	12.3%	-	18.0%	
EBIT	6.6	4.7	39.4%	8.1	-18.8%
Pre-tax profit	5.5	-4.7	-	6.2	-12.2%
Net profit	7.5	-3.9	-	3.1	146%

Source: Sygnity, E - estimates by mBank

**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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**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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**SELL** – we expect that an investment will bear a loss greater than 15%  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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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