

Tuesday, December 08, 2020 | Investment Strategy 2021, an excerpt

Sygnity buy (no change)

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Sygnity creates IT solutions across many different industries. Once the second-largest Polish IT company with annual turnover of PLN 1.2bn, after a period of turmoil between 2014 and 2017 Sygnity fell into financial distress and had to ask lenders and bondholders to agree to standstill deals after violating covenants in September 2017. In June 2018, Sygnity signed rescheduling agreements with financing providers and business partners, and soon after it conducted two equity raises and used the proceeds to partly pay off bondholders. Over the last few quarters, Sygnity undertook a number of initiatives to minimize costs, grow the role of in-house solutions as a revenue driver, diversify revenue sources, and discontinue loss-making projects and hardware deliveries. Today, with its sales stabilized at PLN 250m a year, Sygnity is able to generate high sales margins of about 30% after shifting the sales mix toward proprietary software. The Company also currently achieves high FCFE in the range of PLN 27-32m with potential to offer high yield of 14-16%. That is why, despite its checkered history, even with risks, we see upside potential in SGN, currently trading at 4.8x FY2019/20E EV/EBITDA and 7.6x P/E.

Current Price	8.46 PLN	Upside
9M Target Price	10.70 PLN	+26.5%

	rating	target price	issued
unchanged	buy	10.70 PLN	2020-09-01

Key Metrics			SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	+8.5%	-5.0%
ISIN	PLCMPLD00016	YTD Price Chng	+233.1%	+237.0%
Outst. Stock (m)	22.8	ADTV 1M		PLN 0.1m
MC (PLN m)	192.5	ADTV 6M		PLN 0.2m
EV (PLN m)	261.0	EV/EBITDA 12M fwd	4.1	+16.9%
Free Float	100.0%	EV/EBITDA 5Y avg	3.5	premium

Earnings Projections

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P
Revenue	288.3	234.6	235.0	243.4	255.1
EBITDA	0.7	37.4	54.4	54.5	54.9
EBITDA margin	0.3%	15.9%	23.2%	22.4%	21.5%
EBIT	-7.3	29.4	38.4	39.0	39.0
Net income	-11.3	15.9	25.5	28.2	28.7
P/E	-	12.1	7.6	6.8	6.7
P/B	5.8	2.9	2.1	1.6	1.3
EV/EBITDA		7.7	4.8	4.2	3.6
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)	19/20P	20/21P	21/22P
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)	17/18	18/19	19/20P	20/21P	21/22P
Revenue	288.3	234.6	235.0	243.4	255.1
COGS	249.4	164.3	162.6	169.9	180.1
Gross profit	38.9	70.3	72.4	73.5	75.0
margin	13.5%	30.0%	30.8%	30.2%	29.4%
Sales costs	12.1	7.4	9.5	9.6	10.1
G&A expenses	31.7	26.1	25.3	25.3	26.1
Other op. Activity	-2.4	-7.4	0.9	0.5	0.2
EBIT	-7.3	29.4	38.4	39.0	39.0
margin	-2.5%	12.5%	16.3%	16.0%	15.3%
D&A	8.1	8.0	16.0	15.5	15.9
EBITDA	0.7	37.4	54.4	54.5	54.9
Financials	-4.3	-10.6	-7.9	-5.2	-4.6
Profit before tax	-11.7	18.7	30.6	33.7	34.4
Tax	0.4	-0.2	-5.1	-5.6	-5.7
Net income	-11.3	15.9	25.5	28.2	28.7

Key Balance Sheet Figures

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P
Operating cash flow	-12	19	45	48	48
OCF/EBITDA	-	0.506529	0.828585	0.878687	0.875455
CAPEX	-1	-1	-2	-5	-6
Assets	341	294	299	313	327
Equity	33	66	91	119	148
Net debt	-	95	68	37	6
Net debt/EBITDA (x)	-	2.5	1.3	0.7	0.1

Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	14.7	11.0	9.2	4.6	3.6	2.7
Maximum	21.6	19.0	17.3	11.5	10.9	10.1
Median	18.1	15.8	14.6	7.4	6.3	5.9
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	19/20P	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	+
Revenue	235	243	255	265	275	286	296	306	317	327	
EBITDA	54	55	55	55	55	56	56	57	57	57	
EBITDA margin	23.2%	22.4%	21.5%	20.7%	20.1%	19.6%	19.0%	18.5%	17.9%	17.4%	
D&A	7	7	7	7	8	8	9	9	9	10	
EBIT	38	39	39	39	39	39	39	39	38	38	
Tax	7	7	7	7	7	7	7	7	7	7	
NOPLAT	31	32	32	31	32	32	31	31	31	31	
CAPEX	-2	-5	-6	-7	-7	-8	-8	-9	-9	-10	
Working capital	-6	-1	-1	-1	-1	-2	-2	-2	-2	-2	
FCF	30	33	31	31	31	30	30	30	29	29	29
PV FCF	30	29	26	23	21	19	17	16	14	13	
WACC	7.7%	8.4%	9.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
Net debt / EV	29.5%	18.4%	3.8%	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%	

DCF Summary

(PLN m)	
Beta	1.2
FCF perp. growth rate	0.0%
PV FCF	208
Adj. net debt	134
Other adjustments	3
Value per share (PLN)	9.21

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	14.42
DCF Val.	85%	9.21
Implied Price		9.99
Cost of equity (9M)		7.1%
9M Target Price		10.70

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

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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.

mBank issued the following investment recommendations for the Company in the 12 months prior to this publication
Sygnty

Rating	buy
Rating date	2020-09-01
Target price (PLN)	10.70
Price on rating day	7.20

Comparable Companies Used In Relative Valuation Models

Sygnty Aileron, Asseco Business Solutions, Asseco Poland, Asseco South Eastern Europe, Atende, Comarch

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