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Sygnity buy (no change)

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We remain positive on Sygnity.

In calendar 3Q'21, the company generated stable revenue y/y, which represents a big change after decreases of 15% and 10% y/y in the two preceding quarters. On higher sales margins, the quarterly gross profit increased nearly 7% y/y.

Sygnity revealed that its order book for fiscal 2021/22 is PLN 149m at the moment, equivalent to approximately 73% of the total sales generated in FY2020/21.

Sygnity still has a lot of work to do before it can report revenue growth in FY'21/22. However, with public sector contracts announced by the company, our base case scenario assumes slight revenue growth (+4% y/y) which should improve investor sentiment.

Sygnity is trading at 5.3x EV/EBITDA'22 and 8.2x P/E'22, it has completed a difficult restructuring and refinancing, and reports relatively low debt ratios. Additionally, we see the strategic review as a potential opportunity for investors.

Current Price	9.16 PLN	Upside
9M Target Price	11.70 PLN	+27.7%

	rating	target price	issued
unchanged	buy	11.70 PLN	2021-09-03

Key Metrics			SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	-0.7%	-7.4%
ISIN	PLCMPLD00016	YTD Price Chng	+3.4%	-1.3%
Outst. Stock (m)	22.8	ADTV 1M		PLN 0.1m
MC (PLN m)	208.5	ADTV 6M		PLN 0.1m
EV (PLN m)	263.0	EV/EBITDA 12M fwd	5.3	-27.5%
Free Float	100.0%	EV/EBITDA 5Y avg	7.4	discount

Earnings Projections					
(PLN m)	18/19	19/20P	20/21P	21/22P	22/23P
Revenue	234.6	230.0	206.4	213.8	222.1
EBITDA	37.4	53.0	59.2	45.3	45.6
EBITDA margin	15.9%	23.1%	28.7%	21.2%	20.5%
EBIT	29.4	36.9	47.2	33.0	33.0
Net income	15.9	29.2	43.1	25.4	25.5
P/E	13.1	7.1	4.8	8.2	8.2
P/B	3.2	2.2	1.5	1.3	1.1
EV/EBITDA	7.6	4.9	4.4	5.3	4.8
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)			20/21P	21/22P	22/23P
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)	18/19	19/20P	20/21P	21/22P	22/23P
Revenue	234.6	230.0	206.4	213.8	222.1
COGS	164.3	160.0	141.6	147.5	154.6
Gross profit	70.3	69.9	64.8	66.3	67.5
margin	30.0%	30.4%	31.4%	31.0%	30.4%
Sales costs	7.4	8.7	7.6	7.9	8.2
G&A expenses	26.1	24.7	24.7	25.4	26.3
Other op. Activity	-7.4	0.3	14.7	0.0	0.0
EBIT	29.4	36.9	47.2	33.0	33.0
margin	12.5%	16.0%	22.9%	15.4%	14.9%
D&A	8.0	16.2	12.0	12.3	12.6
EBITDA	37.4	53.0	59.2	45.3	45.6
Financials	-10.6	-7.1	2.9	-3.1	-3.0
Profit before tax	18.7	29.8	50.1	29.9	30.0
Tax	-0.2	-2.0	-7.0	-4.5	-4.5
Net income	15.9	29.2	43.1	25.4	25.5

Key Balance Sheet Figures

(PLN m)	18/19	19/20P	20/21P	21/22P	22/23P
Operating cash flow	18.9	52.0	13.6	39.2	39.7
OCF/EBITDA	51%	98%	23%	87%	87%
CAPEX	-1.1	-1.7	-3.9	-5.3	-6.3
Assets	272.9	296.4	283.6	302.6	329.7
Equity	65.8	94.3	137.4	162.8	188.3
Net debt	74.3	54.0	54.6	32.7	11.3
Net debt/EBITDA (x)	2.0	1.0	0.9	0.7	0.2

Relative Valuation Summary

	P/E			EV/EBITDA		
	2021P	2022P	2023P	2021P	2022P	2023P
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)	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	+
Revenue	206	214	222	231	239	248	257	266	275	285	285
EBITDA	59	45	46	46	46	46	47	47	49	50	50
EBITDA margin	28.7%	21.2%	20.5%	19.9%	19.3%	18.7%	18.2%	17.8%	17.7%	17.6%	17.6%
D&A	1	3	4	4	4	5	5	6	8	10	10
EBIT	47	33	33	33	33	33	32	32	32	31	31
Tax	1	6	6	6	6	6	6	6	6	6	6
NOPLAT	6	27	27	27	27	26	26	26	26	25	25
CAPEX	-4	-5	-6	-8	-8	-9	-9	-9	-10	-10	-10
Working capital	-1	-2	-1	-2	-2	-2	-2	-3	-3	-3	-3
FCF	4	23	23	21	21	20	20	21	21	22	22
PV FCF	4	21	19	16	15	13	12	11	11	10	
WACC	7.6%	7.9%	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	19.7%	12.8%	4.8%	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	133
Adj. net debt	39
Other adjustments	3
Value per share (PLN)	9.60

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	18.96
DCF Val.	85%	9.60
Implied Price		11.00
Cost of equity (9M)		6.4%
9M Target Price		11.70

List of abbreviations and ratios contained in the report:

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%

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

Sygnity

Rating	buy	hold
Rating date	2021-09-03	2021-03-18
Target price	11.70	11.60
Price on rating	9.78	11.10

Comparable Companies Used In Relative Valuation Models

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

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