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IT Recap for October 2018

IT, Poland

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- The **WIG-Info index edged 0.3% lower in October**, but **year to date it is up 1.6%**, showing **substantial outperformance vis-à-vis the WIG broad market benchmark**, itself down 8.7% in October and 14.8% ytd. WIG-Info also beat the MSCI IT EU index by nearly 12 points in October, narrowing the valuation gap significantly to less than 6.0pp.
- At **13.7x**, the **median 12M fwd P/E ratio** for Polish IT stocks is currently **10.6% below its historical 3-year average**.
- Last month's top picks, **CMR, ACP, ASE**, and **ATD**, performed way better than the broad market over the past month, with **ATD & ASE** registering gains while **ACP** held steady.
- As the **third-quarter earnings season** gets underway, we have already heard from two of our rated companies, **Asseco Business Solutions (ABS)** and **Asseco South Eastern Europe (ASE)**, both reporting **stellar growth** of 23% and 29%, respectively, in their respective **EBITDA**. With the other four firms in our coverage also expected to improve on last year's figures, hopefully, this will **boost sentiment for Polish tech stocks in November**, though the **gains might be muted** after October's outperformance.
- ASE** enjoyed a solid rebound in Q3 2018, with a stable margin (25.8% vs. 25.4% in Q3'17) generated on record-high sales, and SG&A expenses reduced versus the previous quarter. ASE has reiterated a positive view through FY2019, with the **backlog lined up for Q4 2018 expected to generate 21% higher revenue and an 8% higher sales margin** than in the same period last year. We remain bullish on ASE, which looks well on track to beating our FY EBITDA and net profit forecasts this year. **ASE stock** is currently trading at 10.3x **2018E P/E** and a **dividend yield of 4.9%**.
- ABS** delivered a positive surprise with Q3 2018 results, owed to improved business in high-margin international markets. At **14.1x 2018E P/E**, ABS might be considered to be overvalued given the current market momentum.
- We have an overweight call for **Atende (ATD)**, trading at **7.7x 2018E P/E**, expected to bounce back from a relatively slow Q2 thanks to better results from subsidiary companies alongside consistent sales growth at the parent company (+11% in Q3E). Our Q3 prediction for **Comarch (CMR)** is that it will deliver a year-over-year **EBITDA boost close to 80%** in Q3, fueled by a lucrative government contract and solid demand for ERP solutions. The strong showing should buoy sentiment in November. **CMR** recently informed that taking over the maintenance of the IT system in the Polish Social Insurance Institution (ZUS) **is going according to plan**, contrary to press reports.
- Asseco Poland (ACP)** is forecast to report 8% growth in recurring net profit in Q3, but after 11% outperformance vs the WIG index in the last 3M its upside potential is limited.
- TOP PICKS: OVERWEIGHT ASE, ATD, CMR**

Performance

Poland	1M*	YTD
Atende	+2.5%	-15%
Asseco SEE	+0.9%	-9%
Asseco BS	+0.4%	-5%
Asseco PL	+0.0%	+13%
Comarch	-3.0%	-13%
Wasko	-8.2%	-39%
Ailleron	-14.5%	-38%
WIG INFO	-0.3%	-2%
WIG	-8.1%	-14%
World	1M*	YTD
Tieto	+1.6%	+11%
Software AG	-2.0%	-15%
Computacentr	-2.6%	+10%
Capgemini	-4.5%	+10%
Fiserv	-4.5%	+19%
Oracle	-5.6%	+3%
Sage Group	-8.2%	-32%
Indra Sistem	-13.1%	-25%
SAP	-13.3%	+1%
Atos	-31.6%	-38%
Europe IT**	-11.7%	-2%
World IT**	-10.6%	+4%
World Ind	1M*	YTD
MSCI EU	-7.4%	-9%
EU Equity	-10.6%	-13%

*Sep. 26 - Oct. 30

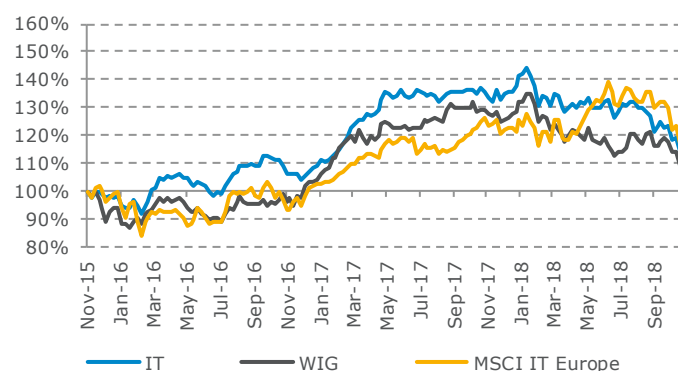
**MSCI EU/World IT

2018 Q3 earnings estimates for rated IT companies

(PLN m)	ALL	y/y	ABS*	y/y	ACP	y/y	ASE*	y/y	ATD	y/y	CMR	y/y
Revenue	24.9	+17.1%	59.4	+9.0%	2263.9	+82.1%	151.5	+18.6%	61.8	+14.2%	329.6	+27.1%
EBITDA	3.0	+23.6%	21.8	+23.9%	292.9	+70.0%	30.5	+29.0%	4.8	+53.9%	39.2	+79.2%
EBIT	1.1	+89.4%	17.3	+29.6%	180.9	+54.1%	18.8	+41.1%	2.9	+84.9%	18.9	+163.9%
Net profit	0.9	+60.3%	14.2	+39.4%	68.5	-76.2%	18.3	+66.0%	2.5	+164.4%	16.4	-

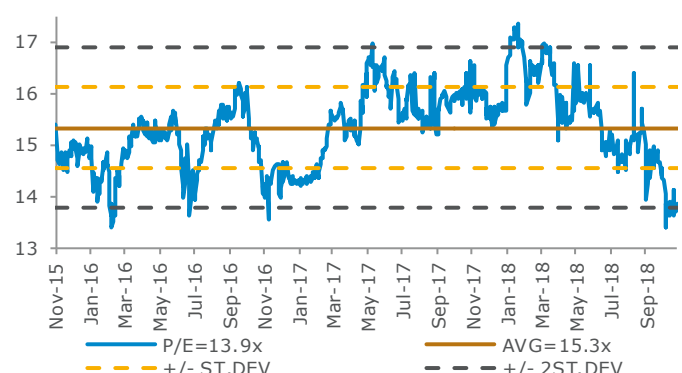
Source: Companies, estimates by Dom Maklerski mBanku. *actual figures

IT Stocks vs. WIG & MSCI IT Europe Indices



Source: Bloomberg, Dom Maklerski mBanku

Median 12M Forward P/E for IT Stocks



EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
EBIT/EV – operating profit to economic value
EBITDA/EV – EBIT + Depreciation and Amortisation to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
MCap – current market capitalization
Monthly price change (MoM price change) – change in the price of a stock since the date of the previous publication or in the course of the past month

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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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 companies in the 12 months prior to this publication

Asseco BS

Rating	Neutral	Neutral	Neutral
Rating date	2018-03-28	2018-01-30	2017-11-28
Target price (PLN)	-	-	-
Price on rating day	28.00	28.90	26.29

Asseco PL

Rating	Accumulate	Hold	Reduce	Reduce	Hold	Reduce
Rating date	2018-09-03	2018-06-06	2018-03-27	2018-02-02	2017-12-01	2017-11-03
Target price (PLN)	49.00	41.20	41.20	44.00	44.80	44.80
Price on rating day	45.90	44.00	45.20	45.62	44.47	47.00

Ailleron

Rating	Neutral	Neutral	Neutral
Rating date	2018-03-28	2018-01-30	2017-11-28
Target price (PLN)	-	-	-
Price on rating day	16.20	17.60	18.73

Asseco SEE

Rating	Overweight	Overweight	Overweight	Overweight
Rating date	2018-04-26	2018-03-28	2018-01-30	2017-11-28
Target price (PLN)	-	-	-	-
Price on rating day	11.70	12.95	13.25	11.45

Atende

Rating	Overweight	Overweight	Overweight
Rating date	2018-03-28	2018-01-30	2017-11-28
Target price (PLN)	-	-	-
Price on rating day	4.25	4.85	4.46

Comarch

Rating	Accumulate	Accumulate	Buy	Hold	Hold	Buy	Accumulate	Accumulate
Rating date	2018-10-01	2018-05-09	2018-04-06	2018-03-05	2018-02-02	2017-11-27	2017-11-03	2017-10-02
Target price (PLN)	180.50	166.50	166.50	166.50	180.00	205.00	185.00	195.00
Price on rating day	167.00	145.00	131.50	155.00	177.00	178.30	163.50	178.50

Wasko

Rating	Neutral	Overweight	Overweight	Overweight
Rating date	2018-05-30	2018-03-28	2018-01-30	2017-11-28
Target price (PLN)	-	-	-	-
Price on rating day	1.68	2.25	2.24	1.98

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