

Tuesday, September 1, 2020 | research report

Sygnity: buy (new)

SGN PW; SGN.WA | IT, Poland

Attractively Valued on FCFE Yield & Stable Earnings

Sygnity S.A. ("Sygnity" or "the Company") 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 its creditors, 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 ventures and hardware sales. Today, on sales stabilized at PLN 235m per year, Sygnity is able to generate high 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 16-19%. That is why, despite its checkered history, even with risks, we see upside potential in Sygnity, currently trading at 4.3x FY2019/20E EV/EBITDA and 6.4x P/E, and we initiate coverage of the Company with a buy recommendation.

Stabilized Sales

Sygnity is expected to generate sales revenue of PLN 235m in fiscal 2019/20, a similar amount to that posted the year before. Thanks to various streamlining measures, including job cuts and discontinuation of loss-making ventures, EBITDA for the year is likely to come in at PLN 54.4m. On a comparable ex-IFRS 16 basis, at PLN 45.6m EBITDA might show a 22% rebound from the year before. Sygnity will most likely keep earnings stable moving forward, but future growth in bottom-line profits will depend on the rate of debt reduction.

Improved Balance Sheet

Sygnity's debt stood at PLN 81.8m as of 30 June 2020 (that is debt before the application of IFRS16: loans, bonds, and overdue payments). With cash at PLN 33.6m this would make for net debt of PLN 48.8m, equivalent to about 1.1x 2019/20E EBITDA. The Company's balance sheet does not contain any anomalies in terms of current asset levels. The biggest risk factor is Sygnity's dispute with Fast Enterprises, a former subcontractor, concerning liquidated damages giving rise to claims of PLN 30.1m principal claim plus PLN 8.5m interest recognized on the Company's balance sheet. With this added, net debt comes out at PLN 87.4m or 1.9x EBITDA.

Strong Cash Flow and a Chance for Dividends

Sygnity could apply to refinance with the current debt levels, and by doing so it would lower its financing costs, gain more flexibility in making investment choices, and regain the ability to pay dividends. The Company has stated that it would like to share profits with its shareholders depending on current business needs, and with FCFE being as high as it is the potential dividend yields look attractive.

(PLN m)	17/18	18/19	19/20E	20/21E	21/22E
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	-	29.4	38.4	39.0	39.0
Net Profit	-	15.9	25.5	28.2	28.7
P/E	-	10.3	6.4	5.8	5.7
P/CE	-	6.8	3.9	3.7	3.7
P/BV	5.0	2.5	1.8	1.4	1.1
EV/EBITDA	-	6.9	4.3	3.7	3.1
DPS	0.00	0.00	0.00	0.00	0.00
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Current Price	PLN 7.20
Target Price	PLN 10.70
MCap	PLN 164m
Free Float	PLN 164m
ADTV (3M)	PLN 0.61m

Ownership

Value FIZ	28.39%
Cron sp. z o.o.	24.20%
NN PTE	11.48%
Others	35.93%

Business Profile

Sygnity creates IT solutions and offers advisory services to customers across many different industries. The Company generates consistent annual turnover in the vicinity of PLN 250m. Headquartered in Warsaw, Sygnity generates more than 95% of annual revenues in Poland.

SGN vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Sygnity	10.70	-	buy	-

Company	Current Price	Target Price	Upside
Sygnity	7.20	10.70	+48.6%

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Key Investment Risks

Failure of Debt Restructuring

Sygnity violated debt covenants in 2017, but its lenders and bondholders agreed not to exercise remedies and accepted a restructuring offer. As of 30 June 2020, the amount still outstanding under the restructuring plan totaled PLN 81.8m, of which PLN 25.3m due within 12 months. Sygnity will most likely be able to generate enough cash in the period to fulfill these obligations. However cash generation may come under pressure if market conditions worsen or if contract fulfilment is disrupted. Note that Sygnity has already successfully asked creditors for a rescheduling of payments in March 2020.

Goodwill Impairment

Sygnity recorded goodwill in the amount of PLN 157.2m as of 30 June 2020, representing more than half of the balance sheet total. A deterioration in the Company's financial standing could cause impairment of that goodwill, which, in turn, could lead to a +violation of debt covenants.

Dispute with Fast Enterprises

As of 30 June 2020 Sygnity was fighting two claims for contractual compensation brought by Fast Enterprises, one for the amount of PLN 30.0m and another for PLN 13.0m. At the same time, the Company was pursuing a counterclaim against Fast enterprises for liquidated damages in the amount of PLN 21.1m for failure to meet performance requirements. The balance of the claims recognized on Sygnity's balance sheet was PLN 30.1m principal, equivalent to >15% of the Company's market capitalization (of which PLN 18.6m reported as owed to trade creditors and PLN 11.5m set aside as a provision for potential claims under ongoing lawsuits), plus statutory interest. If Sygnity loses the case against Fast Enterprises, the resulting payout will be a material expense.

No Dividends

We predict that Sygnity will end FY2019/20 with IFRS16 net debt of approximately PLN 69m, equivalent to 1.3x EBITDA. However the actual debt levels might not match this prediction considering that the Company is currently in the process of financial restructuring, and that its priority at the moment is to pay off debts, and taking into account the dispute with Fast Enterprises. In addition, we want to point out Sygnity's relatively small asset base after a period of very limited investment (with CAPEX between July 2019 and June 2020 totaling only PLN 1.7m or 0.7% of revenues), with a much lower value than D&A expenses. Once the Company increases investment and expenses on customer acquisition following successful restructuring, this could result in negative changes to working capital, leading to curbed medium-term dividend payments despite good cash flow generation.

Supplier Risk

Sygnity serves as a local partner to global technology companies, integrating their solutions into customer systems and providing a range of services from training, to maintenance, upgrades, and extensions. If global software providers were to change the terms of their partner policies, for example by limiting the number of local partners or by bringing implementation services in-house, this could have a negative effect on revenues.

Increase in Labor Costs

Payroll accounts for a major part of Sygnity's operating expenses. In the first half of 2020, despite the spread of the coronavirus pandemic, according to No Fluff Jobs the median salary across top technology jobs increased by 10% compared to the same period a year earlier – an ongoing trend which aside from risk of increasing labor costs puts Sygnity at risk of a shortage of skilled specialists if it is unable to offer competitive pay.

Liquidated Damages

Sygnity faces risk of claims under liquidated damages- and warranty clauses contained in its many contracts with customers and business partners. As of 30 June 2020 the Company reported having conditional off-balance-sheet obligations under performance and warranty clauses in the amount of PLN 24.4m, equivalent to nearly 90% of the net profit expected in FY2019/2020. On top of that, there were PLN 8.5m provisions for warranty repairs.

Public Contracts

Sygnity competes in government tenders for IT services which are typically awarded to the lowest bidder. Meanwhile the biggest contracts usually require the onboarding of subcontractors, which heightens the risk of nonperformance. Another risk are cost overruns on underestimated projects (Sygnity's 2013 e-Taxes contract is one example of an underrated budget).

Long-Term Contracts

The valuation and successful delivery a long-term contract hinges on many factors, some of which are beyond the control of the supplier. As a result, the actual revenues and costs involved in a long-term contracts might not match the initial forecasts, giving rise to a need to set aside reserves and make adjustments during the contract term. In the event of cost overruns, in the worst-case scenario there is a risk of not delivering the required financial ratios.

Exchange Rate Risk

Sygnity's revenues and costs are affected by changes in the zloty's exchange rates relative to the euro and the US dollar. On the balance sheet, assets and liabilities denominated in foreign currencies consist exclusively of trade receivables and trade payables. Sygnity's single biggest foreign-currency obligation is a payment to Microsoft covered by the restructuring agreement (PLN 45.9m as of 30 June 2020).

Loss of Business Due to COVID-19

So far, Sygnity has not been significantly affected by the coronavirus pandemic. The Company complies with all government regulations and sanitary requirements, and it has arranged remote work set-ups for most employees, as well as limiting contact between on-site employees. Sygnity also uses online platforms to connect with customers and business partners. The pandemic has not had an effect on financial results so far, however given uncertainty as to its future spread and long-term consequences for customers and partners alike, downside surprises cannot be ruled out.

Tax Rulings

After tax auditors found that Sygnity had owed back income tax for the years 2007 and 2008, the Company made payments to local tax authorities in the amount of approx. PLN 1.7m for 2007 and PLN 2.4m in 2008. The value of interest accrued on these payments as of 30 June 2020 was estimated at PLN 3m. Sygnity is in the process of appealing the tax claims in court, but as of 30 June it had not yet received binding and final decisions on its appeals.

Corruption Claims against Former Employees

In 2019, Sygnity became involved in an investigation into allegations of corruption brought against its employees, including the CEO and the Supervisory Board Chairman, in connection with contracts from the Polish Post Office. The Company cooperated with the authorities and turned over all requested records and evidence. Since we do not have insight into the current status of the case, we cannot tell whether or not it might affect the Company's business in the future.

Valuation

Using DCF analysis and relative valuation, we set our 9-month price target for Sygnity at 10.70 per share.

(PLN)	weight	price
Relative Valuation	15%	14.42
DCF Analysis	85%	9.21
	price	9.99
9M target price		10.70

DCF Valuation

Assumptions:

- The forecast period is FY2019/20 to FY2028/29.
- The risk-free rate in the forecast period is 3.50%.
- We assume FCF after the forecast period will grow at a rate of 0.0%.
- Net debt is as of end of fiscal 2018/2019, restated to IFRS 16, i.e. PLN 133.9m including obligations to Microsoft and claims by Fast Enterprises in the amount of PLN 38.6m including interest..

- Accordingly, our future estimates take into account depreciation of the right-of-use assets but do not factor in lease payments.
- D&A expenses in the terminal period are equal to CAPEX and lease payments.
- The model takes into account the NPV of the deferred tax asset arising from prior year losses.
- Beta = 1.2x to reflect historical credit risks.

DCF Model

(PLN m)	19/20P	20/21P	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	28/29+
Revenue	235	243	255	265	275	286	296	306	317	327	
change	0.2%	3.6%	4.8%	4.0%	3.8%	3.7%	3.6%	3.5%	3.4%	3.3%	
EBITDA	54.4	54.5	54.9	55.0	55.5	55.9	56.2	56.5	56.7	56.8	
EBITDA margin	23.2%	22.4%	21.5%	20.7%	20.1%	19.6%	19.0%	18.5%	17.9%	17.4%	
EBIT	38.4	39.0	39.0	38.8	38.9	38.9	38.9	38.7	38.5	38.1	
EBIT margin	16.3%	16.0%	15.3%	14.6%	14.1%	13.6%	13.1%	12.6%	12.1%	11.7%	
Tax on EBIT	7.3	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.3	7.2	
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	
NOPLAT	31.1	31.6	31.6	31.5	31.5	31.5	31.5	31.4	31.2	30.9	
CAPEX	-1.8	-4.6	-6.3	-6.7	-7.2	-7.7	-8.2	-8.7	-9.3	-9.9	
Working capital	-6.2	-1.0	-1.1	-1.3	-1.4	-1.6	-1.8	-1.9	-2.1	-2.3	
FCF	30.3	32.7	31.3	30.8	30.7	30.4	30.1	29.7	29.2	28.6	28.6
WACC	7.8%	8.4%	9.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	
discount factor	97.5%	90.0%	82.4%	75.3%	68.8%	62.8%	57.4%	52.4%	47.9%	43.8%	
PV FCF	29.6	29.4	25.8	23.2	21.1	19.1	17.3	15.6	14.0	12.5	
WACC	7.8%	8.4%	9.2%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
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%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	28.9%	18.0%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2

FCF growth after the forecast period	0.0%
Terminal value	303.0
Present value of terminal value	132.6
Present value of FCF in the forecast period	207.6
Enterprise value	340.2
Net debt (eop FY2018/19, IFRS16)	133.9
Other noncore assets	3.2
Minority interests	0.0
Million shares outstanding (adj.)	22.76
Equity value per share (PLN)	9.21
9M cost of equity	7.1%
9M target price (PLN)	9.86
EV/EBITDA (FY19/'20) at target price	6.2
P/E('FY19/20) at target price	8.2
TV / EV	22.76

Sensitivity Analysis

	FCF growth in perpetuity				
	-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC +1.0 p.p.	8.01	8.25	8.51	8.80	9.12
WACC +0.5 p.p.	8.58	8.85	9.15	9.48	9.85
WACC	9.20	9.51	9.86	10.24	10.66
WACC -0.5 p.p.	9.89	10.24	10.64	11.08	11.57
WACC -1.0 p.p.	10.64	11.05	11.51	12.02	12.60

Relative Valuation

We compared Sygnity with a group of comparable companies based on forward P/E and EV/EBITDA multiples, each with an equal weight. Each of the forecast years FY2020, 2021, and 2022, is assigned an equal weight (for Sygnity we take corresponding estimates for the reporting years FY2019/20, 2020/21, and 2021/22). A 20% discount is applied to reflect Sygnity's slower pace of earnings growth and historical credit risk. Our model takes into account the NPV of the deferred tax asset arising from prior year losses.

Multiples Comparison

	EV/EBITDA			P/E		
	2020E	2021E	2022E	2020E	2021E	2022E
Ailleron**	4.4	3.5	2.6	14.2	11.1	8.9
Asseco BS**	10.5	10.0	9.2	16.5	15.7	14.7
Asseco Poland	5.4	5.2	5.0	16.7	15.2	13.9
Asseco SEE**	11.0	9.8	8.7	21.8	19.1	17.5
Atende**	3.7	3.4	3.2	17.7	10.7	9.2
Comarch	7.3	7.2	6.9	20.4	16.9	15.9
Maximum	11.0	10.0	9.2	21.8	19.1	17.5
Minimum	3.7	3.4	2.6	14.2	10.7	8.9
Median	6.4	6.2	6.0	17.2	15.5	14.3
Sygnity***	4.4	3.8	3.2	6.6	6.0	5.9
premium / discount	-31.8%	-38.9%	-46.5%	-61.5%	-61.3%	-59.0%

Implied Valuation						
Value per share (PLN)	14.7	13.4	13.8	19.7	19.0	17.9
Multiple weight		50.0%			50.0%	
Year weight	33%	33%	33%	33%	33%	33%
Equity value per share (PLN)*	14.42					

*after a 20% discount; *** Reporting years of FY2019/20, 2020/21, 2021/22, **Multiples calculated based on our own forecasts

Earnings History and Future Projections*

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P	22/23P	23/24P
Revenue	288.3	234.6	235.0	243.4	255.1	265.2	275.4
change	-10.5%	-18.6%	0.2%	3.6%	4.8%	4.0%	3.8%
COGS	249.4	164.3	162.6	169.9	180.1	189.1	197.9
Gross profit	38.9	70.3	72.4	73.5	75.0	76.1	77.4
Other operating income	2.7	1.6	1.7	0.9	0.4	0.2	0.1
Sales and marketing costs	12.1	7.4	9.5	9.6	10.1	10.5	10.9
Administrative expenses	31.7	26.1	25.3	25.3	26.1	26.9	27.7
Other operating charges	5.1	9.0	0.8	0.4	0.2	0.1	0.1
EBIT	-7.3	29.4	38.4	39.0	39.0	38.8	38.9
margin	-2.5%	12.5%	16.3%	16.0%	15.3%	14.6%	14.1%
D&A expenses	8.1	8.0	16.0	15.5	15.9	16.1	16.5
EBITDA	0.7	37.4	54.4	54.5	54.9	55.0	55.5
margin	0.3%	15.9%	23.2%	22.4%	21.5%	20.7%	20.1%
Financing activity	-4.3	-10.6	-7.9	-5.2	-4.6	-4.1	-3.9
Share in result of joint venture	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-11.7	18.7	30.6	33.7	34.4	34.8	35.0
margin	-4.1%	8.0%	13.0%	13.9%	13.5%	13.1%	12.7%
Tax	0.4	-0.2	-5.1	-5.6	-5.7	-5.8	-6.7
Net profit from discontinued operations	0.0	-2.6	0.0	0.0	0.0	0.0	0.0
Net profit	-11.3	15.9	25.5	28.2	28.7	29.0	28.4
margin	-3.9%	6.8%	10.8%	11.6%	11.3%	10.9%	10.3%
Shares at eop (millions)	22.76	22.76	22.76	22.76	22.76	22.76	22.76
EPS	-0.49	0.70	1.12	1.24	1.26	1.27	1.25
CEPS	-0.14	1.05	1.82	1.92	1.96	1.98	1.97
ROAE	-34.0%	32.2%	32.4%	26.7%	21.5%	17.8%	14.8%
ROAA	-3.3%	5.0%	8.6%	9.2%	9.0%	8.6%	7.8%

*IFRS16 from FY2019/20

Balance Sheet*

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P	22/23P	23/24P
ASSETS	341.0	294.0	299.3	313.2	327.2	349.5	381.9
Fixed assets	197.0	212.9	207.4	205.2	204.4	203.8	203.2
Tangible non-current assets and intangible assets	21.2	14.1	8.7	6.5	5.7	5.1	4.5
Goodwill	157.9	157.2	157.2	157.2	157.2	157.2	157.2
Right-of-use assets	0.0	21.0	21.0	21.0	21.0	21.0	21.0
Investment in joint venture	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Noncurrent receivables / Financial assets measured at amortized cost	3.7	6.4	6.4	6.4	6.4	6.4	6.4
Deferred income tax assets	12.8	12.7	12.7	12.7	12.7	12.7	12.7
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	144.0	81.1	91.9	108.0	122.7	145.7	178.7
Inventory	43.3	0.3	0.3	0.3	0.3	0.3	0.3
Trade and other receivables	64.8	34.8	38.4	41.0	44.2	47.3	50.6
Assets on account of contracts with customers	0.0	21.1	21.1	21.1	21.1	21.1	21.1
Other	1.1	6.4	6.4	6.4	6.4	6.4	6.4
Cash	34.8	18.5	25.8	39.3	50.8	70.6	100.3
(PLN m)	17/18	18/19	19/20P	20/21P	21/22P	22/23P	23/24P
EQUITY & LIABILITIES	341.0	294.0	299.3	313.2	327.2	349.5	381.9
Equity	33.1	65.8	91.2	119.4	148.1	177.1	205.4
Non-current liabilities	123.8	90.3	89.6	76.8	68.3	70.5	72.7
Loans and borrowings	26.2	11.6	15.7	15.7	15.7	15.7	15.7
Bonds	33.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations under finance leases	0.0	12.7	12.7	12.7	12.7	12.7	12.7
Other liabilities	53.3	36.8	29.7	14.7	4.0	4.0	4.0
Misc. liabilities	11.3	29.3	31.5	33.7	35.9	38.1	40.3
Current liabilities	184.1	137.9	118.5	117.1	110.8	101.9	103.8
Loans and borrowings	7.7	18.2	9.7	9.7	9.7	9.7	9.7
Trade payables and other obligations	113.1	81.2	76.4	77.9	75.7	66.9	68.7
Bonds	5.8	13.1	7.1	4.1	0.0	0.0	0.0
Obligations under finance leases	0.0	8.3	8.3	8.3	8.3	8.3	8.3
Provisions	5.1	5.9	5.9	5.9	5.9	5.9	5.9
Accruals / Liabilities on account of contracts with customers	52.4	9.7	9.7	9.7	9.7	9.7	9.7
Other	0.1	1.4	1.4	1.4	1.4	1.4	1.4
IFRS 16 debt (incl. payments to Microsoft)	-	113.9	94.3	76.3	57.2	46.4	46.4
IFRS 16 net debt	-	95.3	68.5	37.0	6.4	-24.1	-53.9
Debt ex. IFRS 16 (incl. payments to Microsoft)	126.0	92.8	73.2	55.2	36.1	25.4	25.4
Ex-IFRS16 Net Debt / Equity	3.8	1.4	0.8	0.5	0.2	0.1	0.1
Net Debt/ EBITDA	-	2.5	1.3	0.7	0.1	-0.4	-1.0
BVPS	1.5	2.9	4.0	5.2	6.5	7.8	9.0

*IFRS16 from FY2018/19

Cash Flow*

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P	22/23P	23/24P
Cash flow from operating activities	-11.6	18.9	45.1	47.9	48.1	47.9	47.4
Pre-tax income	-11.7	18.7	30.6	33.7	34.4	34.8	35.0
D&A expenses	8.1	8.0	16.0	15.5	15.9	16.1	16.5
Financing activity	4.6	5.6	9.9	5.2	4.6	4.1	3.9
Change in working capital and other	30.5	-25.4	-6.2	-1.0	-1.1	-1.3	-1.4
Other	-43.0	12.0	-5.1	-5.6	-5.7	-5.8	-6.7
Cash flow from investing activities	-1.7	-1.8	-1.8	-4.6	-6.3	-6.7	-7.2
CAPEX	-1.2	-1.1	-1.8	-4.6	-6.3	-6.7	-7.2
Other	-0.5	-0.7	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	8.3	-33.0	-36.1	-29.8	-30.3	-21.4	-10.5
Debt	3.3	-24.1	-10.4	-3.0	-4.1	0.0	0.0
Share issue	0.0	0.0	-8.8	-8.8	-8.8	-8.8	-8.8
Dividends/Buyback	-4.6	-5.6	-7.7	-3.0	-2.4	-1.9	-1.7
Other (incl. expenditures on the account of the Restructuring Agreement)	9.6	-3.4	-9.3	-15.0	-15.0	-10.7	0.0
Change in cash	-8.3	-16.2	7.3	13.5	11.5	19.8	29.7
Cash at eop	34.8	18.5	25.8	39.3	50.8	70.6	100.3
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFE	-17.9	-8.7	17.6	16.5	15.6	30.5	40.2
CAPEX/Sales	0.4%	0.4%	0.8%	1.9%	2.5%	2.5%	2.6%

*IFRS16 from FY2019/20

Trading Multiples*

(PLN m)	17/18	18/19	19/20P	20/21P	21/22P	22/23P	23/24P
P/E	-	10.3	6.4	5.8	5.7	5.7	5.8
P/CE	-	6.8	3.9	3.7	3.7	3.6	3.6
P/B	5.0	2.5	1.8	1.4	1.1	0.9	0.8
P/S	0.6	0.7	0.7	0.7	0.6	0.6	0.6
FCFE Yield	-2.3%	8.4%	20.8%	17.3%	16.4%	18.6%	24.5%
EV/EBITDA	-	6.9	4.3	3.7	3.1	2.5	2.0
EV/EBIT	-	8.8	6.0	5.2	4.4	3.6	2.8
EV/S	1.0	1.1	1.0	0.8	0.7	0.5	0.4
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	7.20	7.20	7.20	7.20	7.20	7.20	7.20
Shares outstanding at eop (millions)	22.8	22.8	22.8	22.8	22.8	22.8	22.8
MC (PLN m)	164	164	164	164	164	164	164
EV (PLN m)	290	259	232	201	170	140	110

*IFRS16 from FY2019/20

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
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%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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mBank did not issue any investment recommendations for Sygnity in the 12 months prior to this publication

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