

Monday, October 03, 2022 | Monthly Market Outlook, an excerpt

Sygnity sell (no change)

Paweł Szpigiel +48 509 603 258 pawel.szpigiel@mbank.pl

Sygnity's stock price has skyrocketed >60% in the last three months versus a 14% loss on the WIG index.

We do not find sufficient justification for such huge outperformance and we maintain our bearish view on SGN.

We will soon update our financial forecasts for the company to reflect new assumptions for the risk-free rate and the equity risk premium, with the changes to valuation expected to be negligible.

Current Price	22.10 PLN	Downside
9M Target Price	13.50 PLN	-38.9%

	rating	target price	issued
unchanged	sell	13.50 PLN	2022-07-08

Key Metrics			SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	-0.5%	+7.0%
ISIN	PLCMPLD00016	YTD Price Chng	+149.4%	+183.1%
Outst. Stock (m)	22.8	ADTV 1M		PLN 0.2m
MC (PLN m)	503.0	ADTV 6M		PLN 0.4m
EV (PLN m)	522.5	EV/EBITDA 12M fwd	6.4	+14.4%
Free Float	100.0%	EV/EBITDA 5Y avg	5.6	premium

Earnings Projections

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	213.3	224.1	234.4
EBITDA	53.0	61.0	44.3	45.1	45.9
EBITDA margin	23.1%	29.9%	20.8%	20.1%	19.6%
EBIT	36.9	49.2	32.3	33.0	33.6
Net income	29.2	46.6	24.4	26.5	27.0
P/E	17.2	10.8	20.6	19.0	18.7
P/B	5.3	3.6	3.0	2.6	2.3
EV/EBITDA	10.5	8.9	11.8	11.0	10.3
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)	2021/22P	2022/23P	2023/24P
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)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	213.3	224.1	234.4
COGS	160.0	139.3	150.0	158.9	167.4
Gross profit	69.9	64.8	63.4	65.2	67.0
margin	30.4%	31.7%	29.7%	29.1%	28.6%
Sales costs	8.7	6.7	7.2	7.5	7.9
G&A expenses	24.7	23.9	23.9	24.7	25.6
Other op. Activity	0.3	14.9	0.0	0.0	0.0
EBIT	36.9	49.2	32.3	33.0	33.6
margin	16.0%	24.1%	15.2%	14.7%	14.3%
D&A	16.2	11.8	12.0	12.1	12.3
EBITDA	53.0	61.0	44.3	45.1	45.9
Financials	-7.1	3.2	-3.3	-1.5	-1.5
Profit before tax	29.8	52.3	29.0	31.5	32.1
Tax	-2.0	-5.8	-4.6	-5.0	-5.1
Net income	29.2	46.6	24.4	26.5	27.0

Key Balance Sheet Figures

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Operating cash flow	52.0	20.2	39.5	39.8	40.5
OCF/EBITDA	98%	33%	89%	88%	88%
CAPEX	-1.7	-0.4	-4.3	-4.3	-4.2
Assets	296.4	279.1	305.1	333.4	362.2
Equity	94.3	141.6	166.1	192.5	219.5
Net debt	54.0	42.5	19.6	-5.6	-31.4
Net debt/EBITDA (x)	1.0	0.7	0.4	-0.1	-0.7

Relative Valuation Summary

	P/E			EV/EBITDA		
	22P	23P	24P	22P	23P	24P
Minimum	5.2	4.3	3.6	4.0	3.7	3.3
Maximum	14.4	13.8	-	5.9	5.8	-
Median	14.3	13.5	12.1	9.6	8.2	6.9
Weight	17%	17%	17%	17%	17%	17%

DCF Analysis

(PLN m)	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	30/31P	+
Revenue	213	224	234	245	256	267	278	290	302	314	320
EBITDA	44	45	46	47	48	50	51	52	54	55	56
EBITDA margin	20.8%	20.1%	19.6%	19.2%	18.9%	18.6%	18.4%	18.1%	17.8%	17.5%	17.5%
D&A	3	3	3	3	4	4	4	4	4	4	5
EBIT	32	33	34	35	36	37	38	39	40	42	42
Tax	6	6	6	7	7	7	7	7	8	8	8
NOPLAT	26	27	27	28	29	30	31	32	33	34	34
CAPEX	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-5
Working capital	0	0	0	0	0	0	0	0	0	0	0
FCF	25	25	26	27	28	29	31	32	33	33	34
PV FCF	23	21	19	18	16	15	14	13	12	11	
WACC	11.5%	13.8%	12.5%	13.1%	12.7%	11.3%	12.0%	12.0%	12.6%	13.0%	9.5%
Net debt / EV	5.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free rate	6.8%	8.8%	7.5%	8.1%	7.7%	6.3%	7.0%	7.0%	7.6%	8.0%	4.5%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	164
Adj. net debt	43
Other adjustments	0
Value per share (PLN)	11.89

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	12.95
DCF Val.	85%	11.89
Implied Price		12.42
Cost of equity (9M)		8.7%
9M Target Price		13.50

List of abbreviations and ratios used by mBank:

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

Recommendations of Biuro maklerskie mBanku:

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
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%

Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eachsp>) prepares analytical publications for the following companies: Cognor Holding, Compreum, Sygnity. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of this publications. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. The present publication expresses the knowledge as well as opinions of the authors on day this publication was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present publication was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of this publication, in particular should sources on the basis of which this publication was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present publication or for any damages incurred as a result of investment decisions taken on the basis of the present publication.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Compreum, Sygnity, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

mBank S.A. bears no responsibility for investment decisions taken on the basis of the present publication or for any damages incurred as a result of investment decisions taken on the basis of the present publication.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present publication.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information about any conflicts of interest that may arise in connection with the issuance of recommendations (should such a conflict exist) is provided below.

This document was not transferred to the issuers prior to its publication.

mBank S.A. may have received compensation from the following companies in the last 12 months: Alchemia, Alior Bank, Ambra, Amica, Asseco Poland, Bank Handlowy, Bank Millennium, Bank Pekao, BNP Paribas Bank Polska, Boryszew, BOS, Capital Park, CD Projekt, Ceramika Nowa Gala, Cognor, Echo Investment, Elemental Holding, Elzab, Enea, Energoaparatura, Erbud, Ergis, Ferrum, GetBack, Getin Holding, Getin Noble Bank, GPW, Groclin, Grupa Pracuj, I2 Development, ING BSK, Kruk, LW Bogdanka, Mennica Polska, Netia, Neuca, NWA/ Dom Maklerski, Oponeo.pl, OTP Bank, PA Nova, PBKM, PCNIG, PKO BP, Polenergia, Polimex-Mostostal, Polnord, Polwax, Poznańska Korporacja Budowlana PEKABEX, Prochem, Projrzem, PZU, Raiffeisen Bank International, Rawiplan, Rubicon Partners NFI, Santander Bank Polska, Seco/Warwick, Skarbiec Holding, Solar Company, STS Holding SA, Sygnity, Tarczyński, Ten Square Games, TIM, Unibep, Vistal Gdynia, Wittchen, Work Service, YOLO, Zastal, ZUE.

Asseco Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

mBank S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. mBank, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this publication or related investments before the recipient has received this publication.

Copying or publishing the present publication, in full or in part, or disseminating in any way information contained in the present publication requires the prior written agreement of mBank S.A. Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: <https://mdm.pl/bm/analizy>

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research publication is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research publication. The research analyst(s) preparing the research publication is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This publication is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this publication is not a Major Institutional Investor as specified above, then it should not act upon this publication and return the same to the sender. Further, this publication may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets, ("Cabrera"). Transactions in securities discussed in this research publication should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

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.

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

Sygnity (Paweł Szpigel)

Rating	sell	accumulate	reduce	buy
Rating date	2022-07-08	2022-05-06	2022-04-07	2022-03-04
Target price	13.50	10.70	10.70	10.70
Price on rating	15.80	9.40	11.80	9.18

Comparable Companies Used In Relative Valuation Models

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

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 667 770 837
kamil.kluszcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Mateusz Krupa, CFA
+48 571 608 973
mateusz.krupa@mbank.pl
strategy

Michał Konarski
+48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk, CFA
+48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Beata Szparaga-Waśniewska, CFA
+48 510 929 021
beata.szparaga-wasniewska@mbank.pl
biotechnology, healthcare

Paweł Szpigiel
+48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Paweł Wieprzowski, PhD
+48 789 443 768
pawel.wieprzowski@mbank.pl
industrials, mining

Sales and Trading**Traders**

Piotr Gawron
Director
+48 698 832 853
piotr.gawron@mbank.pl

Piotr Brożyna
+48 512 756 702
piotr.brozyna@mbank.pl

Jędrzej Łukomski
+48 509 602 984
jedrzej.lukomski@mbank.pl

Andrzej Sychowski
+48 605 848 003
andrzej.sychowski@mbank.pl

Paweł Cyłkowski
+48 503 684 130
pawel.cylkowski@mbank.pl

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 696 427 249
marzena.lempicka-wilim@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl