

Thursday, 24 February 2022 | special comments

Sygnity: Financial Results for Q1 2021/22

Recommendation: buy | target price: PLN 11.70 | current price: PLN 9.20

SGN.PW; SGN.WA | IT, Poland

Analyst: Paweł Szpigiel +48 22 438 24 06 | +48 509 603 258

Sygnity reported 2021/22 first-quarter results in line with expectations, which means the adjusted figures came out 10% lower on average than the comparable year-ago results.

When it comes to future sales prospects, the order backlog accumulated to date is worth PLN 187 million, 5% less than this time last year. At the same time, Sygnity's profits in FY2021/22 remain under pressure as the Company continues its hiring push.

- Note that the comparability of Q1 2021/22 results with those of the same year-ago quarter is affected by last year's settlement with Fast Enterprises.
- Sygnity achieved revenue of PLN 54.4m in the first quarter of fiscal 2021/22, ended 31 December 2021 – an increase of 4% from the corresponding year-ago quarter.
- The gross margin came in at 28.6% after slipping 3.5pp y/y – this is a negative surprise vis-à-vis our 30.2% gross margin forecast.
- SG&A amounted to PLN 7.5m in Q1'21/22 vs. PLN 8.3m expected by us and PLN 7.9m posted the year before.
- Other operating activity generated a one-time gain of PLN 0.2m in the period (we had not expected any one-time impacts).
- EBIT came in at PLN 8.2m and EBITDA amounted to PLN 10.9m in Q1'21/22, representing declines of 8-12% from the corresponding adjusted year-ago figures.
- Net profit for the quarter was PLN 6.0m.
- Sygnity has built a revenue pipeline of PLN 187m.
- Aside from software development, recruitment of new staff is a top priority for the Company for the months ahead.

FY2021/22 Q1 results of Sygnity

(PLN m)	1Q'21/22	1Q'20/21	% y/y	1Q'21/22E	differ.
revenue	54.4	52.5	3.6%	55.0	-1.1%
EBITDA	10.9	26.6	-59.2%	11.1	-2.2%
margin	20.0%	50.7%	-	0.2	-
EBIT	8.2	23.2	-64.6%	8.3	-1.2%
pre-tax profit	7.2	29.5	-75.5%	7.3	-1.2%
net profit	6.0	26.1	-76.9%	5.9	2.1%

Source: Sygnity, E - mBank estimates



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

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/eacsp>) prepares analytical reports 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 the reports. 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 report expresses the knowledge as well as opinions of the authors on day the report 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 report 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 the report, in particular should sources on the basis of which the report 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 report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

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 report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

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 report.

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, and it is valid as of the date of the most recent *Monthly Report* published by Biuro maklerskie mBanku or as of the date of the most recent recommendation issued for an issuer, as applicable.

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, ATM, Bank Handlowy, Bank Millennium, Bank Pekao, BNP Paribas Bank Polska, Boryszew, BOŚ, Capital Park, Cavatina, 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, Lokum Deweloper, LW Bogdanka, Mennica Polska, Mostostal Warszawa, Netia, Neuca, NWA I Dom Maklerski, Oponeo.pl, OTP Bank, PA Nova, PBKM, PGNiG, PKO BP, Polimex-Mostostal, Polnord, Polwax, Poznańska Korporacja Budowlana PEKABEX, Primetech, Prochem, Projprzem, PZU, Raiffeisen Bank International, Rawlplug, Rubicon Partners NFI, Santander Bank Polska, Seco/Warwick, Shoper, Skarbiec Holding, Solar Company, STS Holding SA, Sygnity, Tarczyński, Ten Square Games, TIM, Unibep, Vercom, 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 report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report 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: http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

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 report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report 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 report 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 report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report 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 report 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 S.A.

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

Research Department

Kamil Kliszcz
director
+48 22 438 24 02 | +48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 22 438 24 09 | +48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Antoni Kania
+48 22 438 24 03 | +48 509 595 736
antoni.kania@mbank.pl
industrials, chemicals, metals

Michał Konarski
+48 22 438 24 05 | +48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk
+48 22 438 24 07 | +48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Paweł Szpigiel
+48 22 438 24 06 | +48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 22 438 24 08 | +48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Daniel Urbański
+48 22 697 47 44
daniel.urbanski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

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

Sales, Foreign Markets

Marzena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Piotr Brożyna
+48 22 697 48 47
piotr.brozyna@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl