

Thursday, April 07, 2022 | Monthly Market Outlook, an excerpt

Sygnity reduce (downgraded)

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Sygnity's share price has increased more than 30% over the last month. The main catalyst for the increase was the tender offer by TSS Europe. Our target price for SGN, set in a March report where we estimated low chances of Sygnity delivering earnings growth in FY2021/22, is PLN 10.70. The TSS takeover bid is 12% higher.

TSS Europe is a Dutch IT group with over 3,900 employees. The entity is well known on the Polish market for its investment in Simple.

After the recent gains we see downside potential of nearly 10% to our target, prompting a downgrade from buy to reduce.

Please also note that Sygnity's main shareholders (Cron and Value FIZ) have entered into an investment agreement with TSS Europe B.V., and have committed to sell all their shares in response to the tender offer.

Current Price	11.80 PLN	Downside
9M Target Price	10.70 PLN	-9.3%

	rating	target price	issued
new	reduce	10.70 PLN	2022-04-07
old	buy	10.70 PLN	2022-03-04

Key Metrics			SGN PW	vs. WIG
Ticker	SGN PW	1M Price Chng	+31.1%	+21.0%
ISIN	PLCMPLD00016	YTD Price Chng	+33.2%	+40.4%
Outst. Stock (m)	22.8	ADTV 1M		PLN 0.9m
MC (PLN m)	268.6	ADTV 6M		PLN 0.2m
EV (PLN m)	284.6	EV/EBITDA 12M fwd	6.4	-0.3%
Free Float	100.0%	EV/EBITDA 5Y avg	6.4	discount

Earnings Projections

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Revenue	230.0	204.1	212.1	218.4	225.1
EBITDA	53.0	61.0	43.8	42.7	42.6
EBITDA margin	23.1%	29.9%	20.7%	19.6%	18.9%
EBIT	36.9	49.2	31.7	30.3	29.9
Net income	29.2	46.6	23.4	22.7	22.1
P/E	9.2	5.8	11.5	11.8	12.2
P/B	2.8	1.9	1.6	1.4	1.3
EV/EBITDA	6.1	5.0	6.5	6.2	5.8
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)	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	212.1	218.4	225.1
COGS	160.0	139.3	149.0	155.6	161.7
Gross profit	69.9	64.8	63.1	62.8	63.4
margin	30.4%	31.7%	29.7%	28.7%	28.2%
Sales costs	8.7	6.7	6.9	7.1	7.3
G&A expenses	24.7	23.9	24.5	25.3	26.2
Other op. Activity	0.3	14.9	0.0	0.0	0.0
EBIT	36.9	49.2	31.7	30.3	29.9
margin	16.0%	24.1%	14.9%	13.9%	13.3%
D&A	16.2	11.8	12.1	12.4	12.7
EBITDA	53.0	61.0	43.8	42.7	42.6
Financials	-7.1	3.2	-3.3	-2.7	-2.6
Profit before tax	29.8	52.3	28.3	27.5	27.2
Tax	-2.0	-5.8	-5.0	-4.8	-5.2
Net income	29.2	46.6	23.4	22.7	22.1

Key Balance Sheet Figures

(PLN m)	19/20	20/21	21/22P	22/23P	23/24P
Operating cash flow	52.0	20.2	36.6	36.8	35.8
OCF/EBITDA	98%	33%	83%	86%	84%
CAPEX	-1.7	-1.3	-5.7	-6.7	-6.9
Assets	296.4	279.1	285.8	309.6	332.8
Equity	94.3	141.6	165.0	187.7	209.8
Net debt	54.0	34.9	16.1	-2.6	-20.4
Net debt/EBITDA (x)	1.0	0.6	0.4	-0.1	-0.5

Relative Valuation Summary

	P/E			EV/EBITDA		
	22P	23P	24P	22P	23P	24P
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)	21/22P	22/23P	23/24P	24/25P	25/26P	26/27P	27/28P	28/29P	29/30P	30/31P	+
Revenue	212	218	225	232	240	249	259	269	281	293	293
EBITDA	44	43	43	42	43	43	44	45	46	46	46
EBITDA margin	20.7%	19.6%	18.9%	18.3%	17.7%	17.2%	16.9%	16.6%	16.4%	15.8%	15.8%
D&A	3	4	4	4	5	5	6	7	9	9	9
EBIT	32	30	30	29	29	29	29	29	29	29	29
Tax	6	6	6	6	6	5	5	5	5	5	5
NOPLAT	26	25	24	24	24	23	23	23	23	23	23
CAPEX	-6	-7	-7	-7	-7	-8	-8	-8	-9	-9	-9
Working capital	-2	-1	-1	-2	-2	-2	-2	-2	-3	-3	-3
FCF	21	21	20	19	19	19	19	20	20	20	20
PV FCF	20	18	16	14	13	12	11	11	9	108	
WACC	8.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Net debt / EV	7.1%	0.0%	0.0%	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	135
Adj. net debt	29
Other adjustments	0
Value per share (PLN)	9.41

Valuation Summary

(PLN)	Weight	Price
Relative Val.	15%	13.73
DCF Val.	85%	9.41
Implied Price		10.06
Cost of equity (9M)		6.4%
9M Target Price		10.70

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

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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Sygnity (Paweł Szpigiel)

Rating	reduce	buy	buy
Rating date	2022-04-07	2022-03-04	2021-09-03
Target price	10.70	10.70	11.70
Price on rating	11.80	9.18	9.78

Comparable Companies Used In Relative Valuation Models

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

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