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IT Recap: July 2019

IT, Poland

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IT (sector positioning: neutral)

- The **WIG-Info index has gained 5.8%** since the beginning of June, when we upgraded our view on the IT sector from neutral to overweight. This means Polish tech stocks outperformed the local broad market benchmark by 8.1%, as well as running slightly ahead of their MSCI IT EU counterparts. The **median 12M P/E** for IT at **13.0x** is currently 14.4% below the historical average for the last three years.
- Out top July pick, **ASE**, enjoyed a good run in July relative to the broad market, outperforming the WIG index by 6.8pp. On the other hand, **CMR** registered a 4.4% decline in price, but it has still outperformed on a year-to-date basis.
- With the **2019 Q2 reporting season** fast approaching, we expect to see **median EBITDA growth of approximately 10.9%** at rated companies, albeit owed in part to the adoption of IFRS 16. Four of the six companies we cover are set to deliver year-over-year improvement. At the same time the two largest firms, **Asseco Poland and Comarch**, will probably report contraction in profits (affecting the standalone bottom line in case of ACP and the EBITDA and net profit lines in case of CMR). After a period of healthy share price gains, the lackluster quarterly earnings will **curb upside potential**, hence we **downgrade our sector positioning to neutral**.
- We expect the best 2019 Q2 showing from **ASE**, driven by the segment of payment solutions based on 24% M1 backlog growth reported in May. Results from banking solutions and integration should improve as well. In total, we anticipate a 34% YoY rebound in EBITDA on 18% higher revenue. Even stripping out contributions from Macrologic (+PLN 2m) and IFRS16 effects (+PLN 3.3m), at roughly PLN 33.7m Q2 results will still show **impressive growth of 16%**. ASE is currently trading at **attractive multiples of 5.2x 2019E EV/EBITDA and 12.6x P/E**. We remain **bullish on ASE**.
- At **Asseco Poland**, we expect to see a 7.2% fall in standalone 2019 Q2 revenue versus the year-ago period, with EBIT down 32.5% to PLN 29.2m, due to the loss of a major banking account and a slump in public orders. On the other hand, the Israeli unit Formula Systems set to post a 46% EBIT rebound to PLN 102m, alongside general improvement in the international business (EBIT PLN 78.4m, + 13% Y/Y). All told, however, the bottom-line profit will probably show contraction at an annual rate of 11%.
- Comarch** generated high sales in Q2 2019, particularly in the segment of TMT solutions. However the margin on these sales will most likely have declined to 24.6% from 25.9% in the corresponding year-ago period. This alongside a 21% fall to an estimated PLN 43.1m in quarterly EBITDA ex. IFRS 16—a setback which we would advise analysts not to overplay considering an unusually high year-ago comparable base.
- Ailleron** is expected to report reduced quarterly profits again in Q2 2019, in line with a continuing slowdown in the FinTech business.

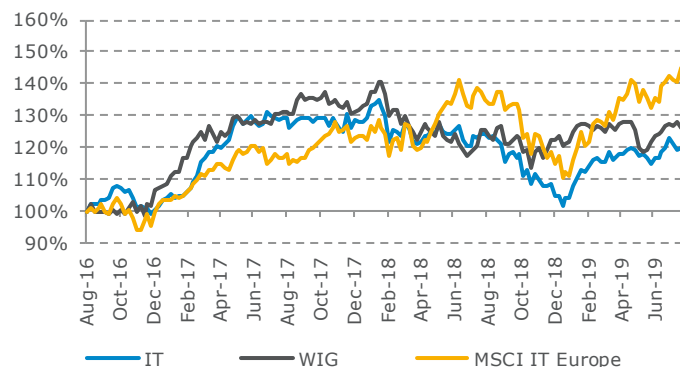
TOP PICKS – OVERWEIGHT: ASE, CMR

IT company 2019 Q2 earnings estimates

(PLN m)	ALL	Y/Y	ABS	Y/Y	ACP	Y/Y	ASE	Y/Y	ATD	Y/Y	CMR	Y/Y
Revenue	30.0	+6.7%	65.4	+2.8%	2585.0	+11.9%	187.3	+18.0%	83.0	+44.3%	344.1	+3.6%
EBITDA	3.7	-26.2%	23.9	+5.7%	366.9	+16.0%	39.0	+33.7%	4.3	+142%	47.7	-12.8%
EBIT	1.5	-50.0%	17.8	-0.7%	221.9	+8.9%	24.2	+34.7%	0.8	-	27.4	-20.6%
Net profit	1.2	-57.8%	14.3	-1.6%	79.0	-10.6%	19.0	+21.0%	0.3	-	18.7	-77.6%

Source: Dom Maklerski mBanku

IT Stocks vs. WIG & MSCI IT Europe Indices



Source: Bloomberg, Dom Maklerski mBanku

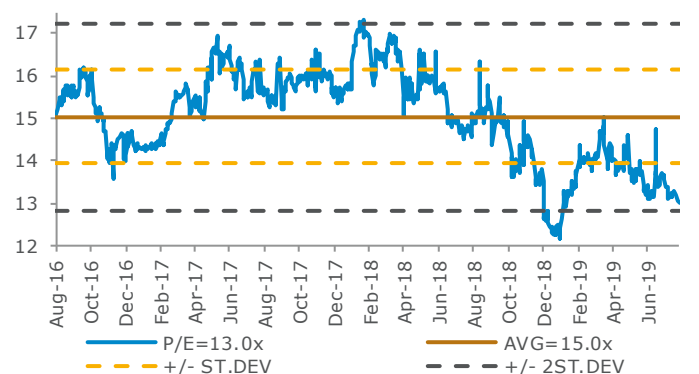
1M & YTD Performance

Poland	1M*	YTD
Asseco SEE	+6.8%	+57%
Atende	+4.5%	-3%
Asseco PL	+0.7%	+29%
Ailleron	+0.0%	-20%
Asseco BS	+0.0%	+4%
Comarch	-4.4%	+16%
WIG INFO	+1.4%	+24%
WIG	-1.4%	+3%
World	1M*	YTD
Fiserv	+14.4%	+41%
Capgemini	+6.3%	+36%
Atos	+2.9%	+40%
Computacentr	+2.6%	+38%
Oracle	+1.7%	+28%
SAP	-6.9%	+29%
Sage Group	-7.9%	+23%
Indra Sistem	-9.5%	-4%
Tieto	-10.3%	+3%
Software AG	-15.9%	-19%
Europe IT**	+2.2%	+26%
World IT**	+4.4%	+31%
World Ind	1M*	YTD
MSCI EU	+0.7%	+14%
EU Equity	-1.3%	+11%

*Jun. 27 - Jul. 30

**MSCI EU/World IT

Median 12M Forward P/E for IT Stocks



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

Asseco BS

Rating	Neutral	Overweight
Rating date	2019-03-29	2019-02-28
Target price (PLN)	-	-
Price on rating day	29.50	26.60

Asseco PL

Rating	Hold	Hold	Accumulate	Hold	Accumulate
Rating date	2019-06-03	2019-03-05	2019-02-04	2018-12-05	2018-09-03
Target price (PLN)	50.80	53.00	51.20	49.60	49.00
Price on rating day	51.10	54.30	48.00	48.30	45.90

Ailleron

Rating	Neutral	Underweight
Rating date	2019-06-28	2019-01-31
Target price (PLN)	-	-
Price on rating day	8.40	11.75

Asseco SEE

Rating	Overweight
Rating date	2019-04-11
Target price (PLN)	-
Price on rating day	14.20

Atende

Rating	Neutral
Rating date	2019-01-31
Target price (PLN)	-
Price on rating day	4.40

Comarch

Rating	Buy	Buy	Buy	Hold	Accumulate	Accumulate
Rating date	2019-07-25	2019-04-17	2019-03-05	2019-02-04	2018-12-05	2018-10-01
Target price (PLN)	231.00	230.00	195.00	160.80	173.30	180.50
Price on rating day	178.50	181.00	162.50	155.00	160.00	167.00

Wasko

Rating	Suspended
Rating date	2018-12-05
Target price (PLN)	-
Price on rating day	1.27

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