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Asseco SEE – Earnings Continue to Build Momentum

Rating: overweight | current price: PLN 19.40

ASE PW; ASE.WA | IT, Poland

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ASE stock has rallied more than 80% since last November, but still the Company remains our top pick among Polish small-to-mid-cap IT firms. Asseco SEE's earnings prospects for the next two years have improved relative to our original forecasts, and so we are prompted to raise our FY2019 EBITDA estimate to PLN 167.4m, and upgrade FY2020E EBITDA to PLN 181.3m, as well as hiking the yearly net profit forecasts to PLN 79.6m and PLN 87.6m, respectively. At the updated levels, our current EBITDA estimates are 10.6% and 11.7% higher, respectively, than the corresponding 2019 and 2020 consensus forecasts, with the differences in expected net profit now at 4.9% and 10.9%. On our updated estimates, ASE is trading at attractive-looking 5.8x 2019E EV/EBITDA (ex-IFRS 16) and 12.6x P/E (11.1x adjusted for net cash ex. leases). These are very low multiples considering that in Q3 2019 ASE is expected to grow recurring EBITDA at an annual rate of over 23% (before contributions from the recent acquisitions, Necomplus and Sonet, and before IFRS16 effects). Note also that ASE has no exposure to public sector procurement or labor cost pressures (including the minimum wage hikes planned in the next two years).

Forecast of 2019 Q3 results

Asseco SEE is expected to deliver strong 2019 Q3 results. Revenue is estimated at PLN 212.1m, including a boost of ca. PLN 27.9m from the two latest acquisitions, NecomPlus and Sonet. Topline growth on a recurring basis is set to reach 21.5%, with the euro's 3% increase versus the zloty also providing a small lift. We expect to see continued positive momentum in the segments of payment solutions, mobile solutions, and authentication solutions for banking. Stripped of IFRS 16 and acquisition effects, the quarterly sales margin is likely to be stable compared with last year at 25.8%. After SG&A expenses of an estimated PLN 22.4m, EBIT should come in at PLN 25.0m (+33.2% Y/Y), and EBITDA might approximate PLN 37.6m (+23.1% Y/Y). After counting in IFRS16 and acquisitions, EBITDA should be about PLN 5.8m higher. Net profit after net financing gains of PLN 1.2m and tax at an effective rate of 19.0% is estimated at PLN 20.8m, indicating a 13% rebound from Q3 2018, when the bottom line received a one-off boost from favorable FX movements.

2019 Q3 estimates

(PLN m)	Q3'18	Q3'19	YoY chng.
Revenue	151.5	212.1	+39.9%
EBITDA	30.5	43.4	+42.0%
margin	20.1%	20.4%	-
EBITDA ex. IFRS16	30.5	40.0	+31.0%
margin	20.1%	18.9%	-
EBIT	18.8	26.9	+42.9%
Net profit	18.3	20.8	+13.3%

Source: Asseco SEE, E - estimates by Dom Maklerski mBanku

Future outlook

We have raised our 2019-2020 earnings projections for Asseco SEE based on the Company's performance in the year to date. The updated forecasts for 2019 assume revenue of PLN 866.9m, EBITDA of PLN 167.4m (incl. IFRS16), and net profit of PLN 79.6m. Next year, we anticipate further topline growth to PLN 947.6m, with EBITDA rising to PLN 181.3m and the bottom line figure reaching PLN 87.6m. The new 2019 and 2020 net profit estimates are 4.9% and 10.9%, respectively, higher than the corresponding consensus forecasts.

Summary of 2019-2020 forecast revisions

(PLN m)	old estimate	new estimate	difference
EBITDA'19	149.2	167.4	+12.2%
EBITDA'20	154.7	181.3	+17.2%
Net profit'19	71.1	79.6	+12.0%
Net profit'20	74.3	87.6	+17.9%

Source: Dom Maklerski mBanku

Our estimates vs. market consensus

(PLN m)	mBank	Consensus	difference
EBITDA'19	167.4	151.4	+10.6%
EBITDA'20	181.3	162.3	+11.7%
Net profit'19	79.6	75.9	+4.9%
Net profit'20	87.6	79.0	+10.9%

Source: Dom Maklerski mBanku

Cash balance

We expect Asseco SEE to end 2019 with a net cash balance (ex. leases, after the price of the Sonet acquisition) of roughly PLN 127m. This would indicate adjusted P/E ratios of 11.1x and 9.3x, respectively, in 2019-2020 – attractive levels given the Company's growth potential. With its flexible credit options, Asseco SEE has the resources to pursue further acquisitions, as well as making a worthy acquisition target itself.

Income Statement*

(PLN m)	2016	2017	2018	2019E	2020E
Revenue	570.6	570.9	670.4	866.9	947.6
Y/Y		0.0%	17.4%	29.3%	9.3%
COGS	434.3	427.0	509.4	646.7	706.9
Gross profit margin	136.3	143.8	161.0	220.3	240.6
	23.9%	25.2%	24.0%	25.4%	25.4%
Selling expenses	38.1	35.1	46.6	60.3	65.9
G&A expenses	42.3	42.6	39.5	56.4	61.6
Other operating result	0.9	-0.3	-0.4	0.0	0.0
EBIT margin	56.8	65.9	74.5	103.6	113.1
	10.0%	11.5%	11.1%	12.0%	11.9%
EBITDA margin	94.0	106.5	120.1	154.6	168.5
	16.5%	18.7%	17.9%	17.8%	17.8%
Pre-tax profit	61.0	67.4	78.1	100.1	110.1
Net profit	51.5	54.6	65.2	79.6	87.6

Cash Flow

(PLN m)	2016	2017	2018	2019E	2020E
Operating cash flow	87.7	94.7	120.8	115.7	143.9
D&A	37.3	40.6	45.6	63.7	68.2
Other	50.4	54.1	75.2	52.0	75.7
Investing cash flow	-38.3	-64.8	-43.3	-84.7	-53.3
CAPEX	-35.5	-68.6	-39.1	-43.0	-48.4
Financing cash flow	-29.5	-23.9	-27.6	-21.1	-35.2
Debt	-2.7	4.2	0.0	9.4	0.0
Dividend/buyback	-21.8	-24.9	-27.0	-27.0	-32.2
Interest	4.2	-1.1	-1.0	-3.5	-3.0
Other	-9.3	-2.1	0.3	0.0	0.0
Change in cash	19.8	6.0	49.9	9.9	55.3
Cash at period-end	118.0	115.7	164.9	174.8	230.1
DPS (PLN)	0.42	0.48	0.52	0.52	0.62
FCF	52.2	26.0	81.7	72.7	95.5

Forecast Change

	2019E	2020E
Revenue	+12.6%	+15.6%
EBITDA	+3.6%	+8.9%
EBIT	+11.6%	+17.2%
Net profit	+12.0%	+17.8%
DPS	0.0%	+0.0%

EBITDA under IFRS16

(PLN m)	2019E	2020E
EBITDA under IFRS16	167.4	181.3
margin	19.3%	19.1%

Balance Sheet*

(PLN m)	2016	2017	2018	2019E	2020E
Assets	946.4	918.3	989.6	1,079	1,142
Fixed assets	642.9	630.6	627.6	665.1	650.2
Goodwill	505.6	475.4	481.1	481.1	481.1
Other	137.3	155.2	146.5	184.0	169.1
Current assets	303.5	287.8	362.0	414.2	491.7
Inventory	23.5	24.8	17.0	22.2	25.0
Receivables	126.5	110.7	132.1	169.2	188.6
Cash	118.0	115.7	164.9	174.8	230.1
Other	35.5	36.5	48.0	48.0	48.0
Equity	730.2	717.7	763.4	816.1	871.4
Minorities	2.2	1.6	1.7	18.1	18.1
Long-term liabilities	29.3	29.4	22.1	31.5	31.5
Loans	22.8	22.7	30.8	30.8	30.8
Other	6.5	6.7	-8.7	0.6	0.6
Current liabilities	184.8	169.6	202.4	213.6	220.9
Loans	22.8	22.7	30.8	30.8	30.8
Trade creditors	68.7	57.6	78.4	89.5	96.9
Other	93.3	89.3	93.2	93.2	93.2
Debt	43.1	45.0	48.1	48.1	48.1
Net debt	-75.0	-70.7	-116.8	-126.7	-182.0
(Net debt / Equity)	-10%	-10%	-15%	-16%	-21%
(Net debt / EBITDA)	-0.8	-0.7	-1.0	-0.8	-1.1

Trading Multiples*

	2016	2017	2018	2019E	2020E
P/E	19.5	18.4	15.4	12.6	11.5
(P-net cash)/E	18.1	17.1	13.7	11.1	9.4
P/S	1.8	1.8	1.5	1.2	1.1
P/(BV-goodwill)	4.5	4.2	3.6	3.0	2.6
FCF/EV	5.6%	2.8%	9.2%	8.1%	11.3%
EV/EBITDA	9.9	8.8	7.4	5.8	5.0
EV/EBIT	16.4	14.2	11.9	8.7	7.5
EV/S	1.6	1.6	1.3	1.0	0.9
CFO/EBITDA	93%	89%	101%	75%	85%
DYield	2.2%	2.5%	2.7%	2.7%	3.2%
Buy-back yield	0.0%	0.0%	0.0%	0.0%	0.0%
Price (PLN)	19.40	19.40	19.40	19.40	19.40
Shares eop (millions)	51.9	51.9	51.9	51.9	51.9
MC (PLN m)	1 007	1 007	1 007	1 007	1 007
EV (PLN m)	931.8	936.0	889.9	898.2	842.9

Source: Asseco SEE, E – estimates by Dom Maklerski mBanku; *2019-20 estimated are presented ex-IFRS16

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

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mBank issued the following investment recommendations for Asseco South Eastern Europe in the 12 months prior to this publication

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

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