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IT Recap: October 2019

IT, Poland

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IT (neutral)

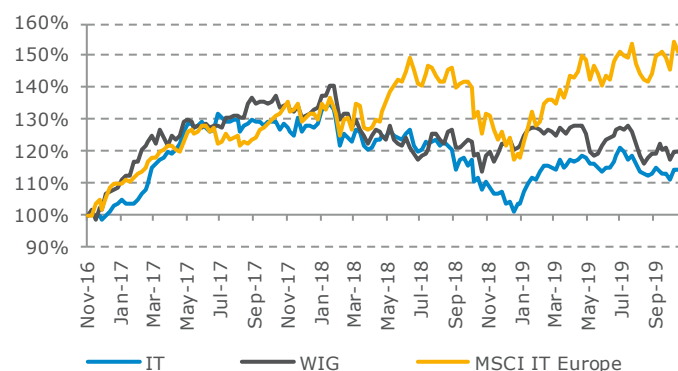
- The **WIG-Info index gained 1.1% in October**, narrowly underperforming the WIG broad market benchmark by 0.2pp. Polish tech stocks also trailed their MSCI IT EU counterparts by 1.2pp. The median 12M P/E for IT companies at 13.3x is currently 11.1% below the historical average for the last three years.
- Across our coverage universe, our top October pick, **Asseco SEE (ASE)**, posted a healthy, 6.1% gain for the month, while **Comarch (CMR)**, despite moving mostly sideways through the month, nevertheless still shows strong outperformance on a YTD basis with a 16% return vis-à-vis 15% produced by the WIG index.
- The 2019 Q3 **earnings season** has kicked off with a solid report by **Asseco BS (ABS)**, the first out of our rated six, delivering an over-10% y/y rebound in net profit. Coming up, we also expect increasing results from **ASE, CMR, and Ailleron (ALL)**, against likely **declines at Asseco Poland (ACP) and Atende (ATD)**. With the IT sector as a whole still struggling with low government orders and persistent pay pressures, however, we would not expect sentiment to improve dramatically this earnings season.
- We have **downgraded our FY2019 estimates for Atende and Ailleron** to reflect weak second-quarter results and sustained downward trends anticipated in the third quarter.
- At **Atende**, the slump this year stems mainly from reduced government orders in an election year, causing standalone revenue shrinkage at a projected annual rate of 21% in Q3, accompanied by lower EBITDA (PLN 1.3m ex. IFRS 16 impacts). On our new FY2019 net profit estimate of PLN 11.6m, ATD is currently trading at **9.8x P/E**.
- The 2019 Q3 results of **Ailleron** will probably improve on the year-ago period, owing mainly to the segment of Enterprise Services, where the company recognizes outsourcing revenues. At the same time, the Fintech segment most likely continued its losing streak in Q3, and with no major orders for the Livebank solution secured so far a repeat of the strong 2017 results is clearly not happening this year. On our reduced FY2019 net profit estimate of PLN 6.9m, ALL is currently trading at **12.9x P/E**.
- We peg **ASE** as the star of the 2019 Q3 earnings season, with **EBITDA growth** likely to exceed 42%, thanks in part to positive IFRS 16 effects and acquisitions. On a recurring basis, EBITDA will show a still-impressive rebound of >23%, indicating a **ytd surge of 89%** compared to the same period in 2018.
- At **CMR**, after stripping a one-time reversal of a provision for liquidated damages, adj. Q3 EBITDA ex. IFRS 16 effects will approximate PLN 39.4m, implying a YoY rise of 3%. At **ACP**, the third-quarter results will be weighed down by the parent company's weak performance in the domestic market, coupled with a back VAT repayment by Asseco Data Systems, resulting in an PLN 8.8m charge against net profit. Adjusted for this ACP's net profit for Q3 will most likely show a 1.6% y/y decline at PLN 76.8m.
- TOP PICKS – OVERWEIGHT:** ASE, CMR

Overview of IT company 2019 Q3 estimates

(PLN m)	ALL	y/y	ABS*	y/y	ACP	y/y	ASE	y/y	ATD	y/y	CMR	y/y
Revenue	34.3	42.8%	65.3	10.0%	2298.3	3.6%	212.1	39.9%	65.2	-16.6%	343.4	-0.6%
EBITDA	5.0	122.1%	25.7	17.0%	385.7	28.0%	43.4	42.0%	2.4	-68.7%	62.6	63.8%
EBIT	2.9	-	19.6	13.3%	226.9	20.9%	26.9	42.9%	-0.7	-	42.3	56.2%
Net profit	2.4	-	15.7	10.3%	68.0	-12.9%	20.8	13.3%	-0.8	-	28.3	55.9%

Source: Companies, Dom Maklerski mBanku *actual results

IT Stocks vs. WIG & MSCI IT Europe Indices



Source: Bloomberg, Dom Maklerski mBanku

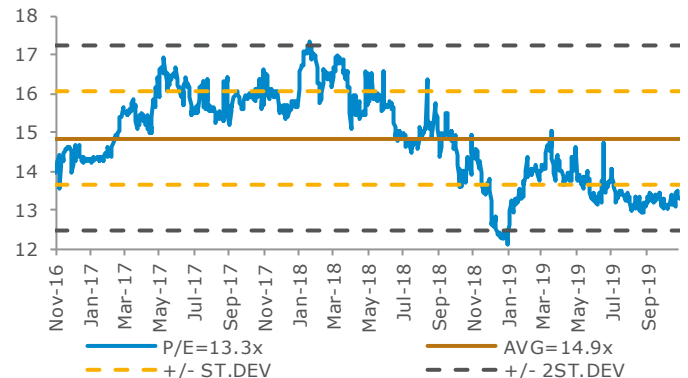
1M & YTD Performance

Poland	1M*	YTD
Asseco SEE	+6.1%	+89%
Asseco PL	+1.9%	+21%
Comarch	+0.3%	+16%
Ailleron	-3.2%	-32%
Asseco BS	-5.5%	+5%
Atende	-8.2%	-17%
WIG INFO	+1.1%	+22%
WIG	+1.3%	+1%
World	1M*	YTD
Software AG	+12.7%	-7%
SAP	+11.6%	+40%
Tieto	+9.1%	+14%
Indra Sistem	+7.2%	+4%
Computacentr	+6.2%	+38%
Atos	+5.6%	+32%
Sage Group	+4.2%	+21%
Fiserv	+3.6%	+45%
Oracle	+1.9%	+22%
Capgemini	-7.5%	+19%
Europe IT**	+2.3%	+28%
World IT**	+4.8%	+33%
World Ind	1M*	YTD
MSCI EU	+1.6%	+18%
EU Equity	+3.4%	+14%

*Sep. 29 - Oct. 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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

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

Ailleron

Rating	Neutral	Neutral	Underweight
Rating date	2019-10-31	2019-06-28	2019-01-31
Target price (PLN)	-	-	-
Price on rating day	7.16	8.40	11.75

Asseco SEE

Rating	Overweight	Overweight
Rating date	2019-10-10	2019-04-11
Target price (PLN)	-	-
Price on rating day	19.40	14.20

Atende

Rating	Neutral	Neutral
Rating date	2019-10-31	2019-01-31
Target price (PLN)	-	-
Price on rating day	3.14	4.40

Comarch

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

Wasko

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

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