

Friday, July 9, 2021 | initiating report

Vercom: accumulate (new)

VRC PW; VRC.WA | e-Commerce, Poland

Earnings and Cash Flow on a Cloud Platform

Grupa Vercom is a leading Polish and Czech provider of cloud-based multi-channel communications powered by CPaaS (Communications Platform as a Service), including SMS, e-mail, as well as push notifications and selected OTT services. To investors, Vercom offers positive exposure to the fast-growing e-Commerce sector via key customers, including names like Allegro, Poland's top online marketplace, InPost, owner of e-Commerce delivery parcel lockers, and DHL. Vercom is also building capabilities in Marketing Technology. Vercom has a diverse and fast-growing customer base with low churn. As a non-capital-intensive operation, Vercom generates high cash flow. Vercom wants to grow its business organically, by leveraging its position as a leading CPaaS provider to e-Commerce, but it is also on the lookout for acquisition targets in the region, having marked IPO proceeds for the future transactions. We believe Vercom can deliver recurring revenue growth at more than 21% CAGR in 2020-24 – only a few other WSE-listed companies with >PLN 100m sales can sustain an equally rapid pace of expansion. Using DCF analysis and relative valuation, we put the value of Vercom at PLN 59.30 per share.

Strong Cash Flow Potential

Vercom achieved revenue CAGR of 33% in the 2018-20 period (ex. ProfiSMS) on an expanding customer base and strong revenue momentum provided by existing customers. In 2020 Vercom's EBITDA margin wowed at 22.3%, and in 2018-20 its OCF/EBITDA ratio was high at 91%.

Diverse Customer Base with Low Churn and Rising ARPU

Vercom grew its customer base from 7.1 thousand to 11.4 thousand in the last two years, and its client mix currently ranges from SMEs to corporations and public institutions. The churn rate on the customer base is low (2.2% in 2020). In the years 2018-2020, average revenue per customer increased from PLN 8,300 to PLN 11,800 (before acquisitions).

Convenience for Cloud Business Users

With CPaaS, Vercom customers can minimize infrastructure costs while enjoying the benefits that come with greater flexibility and scalability of services. Businesses also appreciate the convenience of cloud billing on use-based charging cycles. According to IDC Worldwide, through 2024 the global CPaaS market will grow at an average annual rate of 33%.

M&A Strategy

Vercom is open to acquisition opportunities as a means to grow and expand its business. Value-enhancing targets in the future might be picked from among one-channel communications providers that are not able to compete with multi-channel players like Vercom; examples include Twilio and LinkMobility. Vercom can capture substantial synergies by gaining new customers through M&A transactions. In July 2021 Vercom agreed to acquire two companies, the FreshMail e-mail marketing and PushPushGo Web push notifications, with the PLN 170m IPO proceeds.

(PLN m)	2019	2020*	2021E	2022E	2023E
revenue	77.9	143.6	187.9	236.9	284.5
EBITDA	19.0	31.2	39.3	49.3	59.0
EBITDA margin	24.4%	21.7%	20.9%	20.8%	20.7%
EBIT	16.5	27.9	35.6	44.6	53.3
Net profit	14.5	23.0	31.0	40.0	49.4
P/E	69.2	43.6	32.3	25.0	20.2
P/CE	59.2	38.1	28.8	22.4	18.2
P/B	57.8	38.9	4.7	4.0	3.5
EV/EBITDA	53.5	33.3	22.4	17.1	13.8
DPS	0.55	0.71	1.04	0.00	1.11
DYield	0.8%	1.0%	1.5%	0.0%	1.6%

* Proforma figures

Current price	PLN 54.20
Target price	PLN 59.30
MCap	PLN 1.00bn
Free float	PLN 0.73bn
ADTV (20D)	PLN 0.3m

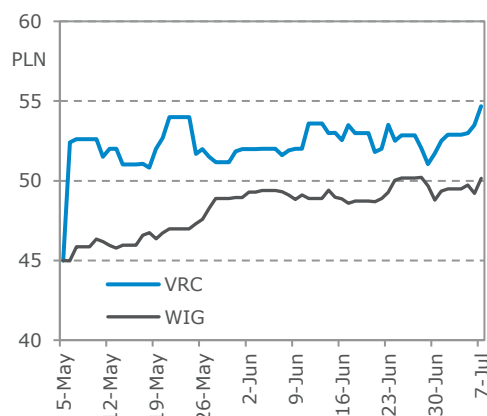
Ownership

R22	55.1%
Adam Lewkowicz	9.0%
Krzysztof Szyszka	7.9%
Tomasz Pakulski	0.8%
NN OFE	6.8%
Others	20.4%

About

Vercom uses the "Communication Platform as a Service" model to create cloud-based communications platforms supporting voice, video, and message. In 2020 Vercom generated revenue of PLN 144m including acquisitions. Going forward Vercom intends to grow its business organically and through acquisitions, using the IPO proceeds.

VRC vs. WIG



	Target Price		Recommendation	
	new	old	new	old
Vercom	59.30	-	accumulate	-

	Current Price	Target Price	Upside
	54.20	59.30	+9.4%

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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%

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

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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 did not issue any investment recommendations for Vercom S.A. in the 12 months prior to this publication.

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