



Strong backlog for uncertain times

We are upgrading our forecast following the release of strong 2019 results (revenue up by over 9% and EBIT by 38% y/y, excluding acquisitions) and a robust 2020 backlog (higher by approx. 20% y/y, excluding acquisitions). The fastest-growing segments should be e-commerce in Turkey and banking solutions. Meanwhile, the expected decline in tourist traffic may have a negative impact on the results generated by the independent ATM network MoneyGet. We expect the group to continue its acquisition strategy, but a strong balance sheet and solid FCF mean that the company will be able to at least maintain its dividends at an unchanged level. We are maintaining our HOLD recommendation and upgrading our TP to PLN 27.2 per share.

Strong 2019 results and a robust 2020 backlog

Following the release of very strong 2019 results and a good backlog (+20% y/y, excluding acquisitions), we are upgrading our expectations going forward. We expect the revenue to increase by 12% y/y (approx. 9% without acquisitions) and the operating profit by almost 11% in 2020. While the contracted revenue should be very strong, we see some risk of a shift/decline in new contracting this year. Furthermore, a potential decline in tourist traffic in the Balkans during the holiday season may have a negative impact on the results generated by the independent ATM network MoneyGet.

Consolidation strategy

Asseco SEE made numerous acquisitions in 2019, including Necomplus (in Spain, Portugal and Latin America), Sonet (in the Czech Republic and Slovakia), and Mobven (Turkey). Following these acquisitions, we expect the company to expand in new markets (i.e. CEE and Latin America). According to our estimates, the newly acquired companies should generate approx. EUR 2.3m in operating profit in 2020.

A strong balance sheet and FCF = acquisitions + dividends

The company intends to continue its strategy of consolidating the markets it operates on, especially in the payments sector. According to our estimates, it will be generating a relatively high FCF (approx. 6-10% of marketcap). On the back of a strong balance sheet (approx. PLN 26m in net cash at the end of 2019), we think the company will be able to continue the acquisition process as well as pay out dividends (DY is estimated at 3-5%).

PLN mn	2018	2019	2020F	2021F	2022F
Revenues	670	881	987	1,028	1,067
EBITDA	120	176	188	197	205
EBIT	74	110	122	130	137
Net profit	65	90	99	105	112
P/E	9.5	10.0	13.2	12.3	11.6
P/BV	0.8	1.1	1.5	1.4	1.3
EV/EBITDA	4.0	7.3	6.8	6.2	5.7
EPS	1.26	1.73	1.90	2.03	2.15
DPS	0.52	0.74	0.86	0.91	1.07
FCF	-	88	100	107	113
CAPEX	-40	-56	-52	-52	-52

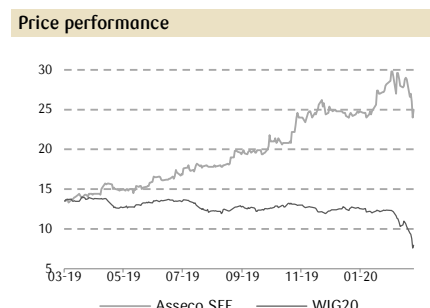
F - forecast by PKO BP Securities

Key data	
Market price (PLN)	25.00
Upside	9%
No. of shares (mn)	51.89
Market Cap (PLNmn)	1,297.36
Free float	49%
Free float (PLNmn)	634
Free float (USDmn)	160
EV (PLNmn)	1,273.08
Net debt (PLNmn)	-54.84

Dividend	
Div yield	2.9%
Ex-div	-

Major Shareholders	% of shares
Asseco International	51.10
Aviva OFE	18.20
Aviva TFI	5.00
ASEE managers	4.30

Previous recomm.	Date & target price	
Hold	20-11-19	25.00
Buy	19-07-19	20.50



	WIG20	Company
1 month	-35.4%	-10.7%
3 months	-33.3%	2.5%
6 months	-37.9%	26.9%
12 months	-40.6%	92.3%
Min 52 weeks PLN		13.00
Max 52 weeks PLN		29.80
Av. turnover/day PLN mn		0.31

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Risk factors

- Negative impact of the coronavirus outbreak on signing new contracts
- Macroeconomic and political situation in the South-Eastern Europe
- Decline in IT investments in the financial sector
- Increased competition in the IT market in South- Eastern Europe
- Pressure on wages in the IT expert market
- Increase in the share of cashless payments and a decline in demand for ATMs
- F/X risk related to operations in many markets (mainly South Eastern Europe, Turkey)

Main valuation assumptions:

- The dynamics of e-commerce revenue growth is estimated in double digits. We are also expecting a middle single-digit increase in revenue from solutions for the banking sector and POS terminals. A low single-digit increase is anticipated for the ATM line.
- The increase in labour costs in the coming years is assumed at 6-8% per year due to a relatively high increase in the wages of IT specialists.
- We are assuming an effective tax rate at 18%.
- We are assuming EUR/PLN at 4.3
- Due to company's exposure to developing countries in the South Eastern Europe we assume equity risk premium at 8%.
- Our valuation is pre-IFRS 16: it means the costs of leases decrease FCFF, while net debt does not include lease liability.

Valuation

WACC						
	2020F	2021F	2022F	2023F	2024F	2024F<
Risk-free rate	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Equity premium	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Debt risk premium	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Tax rate	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Equity cost	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
Debt cost	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
Weight of equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Weight of debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
WACC	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%

Source: forecasts of PKO BP Securities



DCF model						
PLN mn	2020F	2021F	2022F	2023F	2024F	2024F<
EBIT	121.8	130.0	137.0	143.4	150.0	151.5
Tax rate	18%	18%	18%	18%	18%	18%
NOPLAT	99.9	106.6	112.3	117.6	123.0	124.3
CAPEX	-51.9	-52.1	-52.3	-52.4	-52.5	-53.0
Depreciation (excl. Right-of-use)	49.4	50.0	50.6	51.1	51.5	53.0
Changes in working capital	-8.8	-4.1	-4.0	-3.1	-2.7	-2.1
FCFF	88.5	100.4	106.7	113.3	119.3	122.2
WACC	10.7%	10.7%	10.7%	10.7%	10.7%	
Discount ratio	0.90	0.82	0.74	0.67	0.60	
DFCF	79.9	81.9	78.7	75.4	71.7	
Growth in Phase II	1.5%					
DFCF Sum - Phase I	387.7					
DFCF Sum - Phase II	798.9					
Enterprise Value (EV)	1,186.6					
Net debt (excl. Leases)	-91.4					
Minority share	30.6					
Fair value	1,247.4					
Number of shares (million)	51.9					
Fair value per share as at 31.12.2019	24.0					
Target price in 12 mths (PLN)	27.2					
Current price	25.00					
Expected rate of return	8.6%					

Source: forecasts of PKO BP Securities

Sensitivity						
		Growth in Phase II				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	9.7%	27.2	28.2	29.3	30.5	32.0
	10.2%	26.3	27.2	28.2	29.3	30.5
	10.7%	25.5	26.3	27.2	28.2	29.3
	11.2%	24.7	25.5	26.3	27.2	28.2
	11.7%	24.1	24.7	25.5	26.3	27.2

Source: PKO BP Securities

Peers

ASEE is traded with 20-40% discount to peers, from both software and payment sectors. In our opinion, some discount is justified due to higher level of risk in countries (mainly the Balkans region).

Peers: multiples

Company		Dividend yield			P/E			EV/EBITDA		
		2019F	2020F	2021F	2019F	2020F	2021F	2019F	2020F	2021F
Software:										
Asseco Poland	Poland	5.3%	5.4%	5.6%	15.0	13.3	12.7	9.6	8.9	8.4
Comarch	Poland	0.9%	0.9%	3.8%	14.1	12.8	12.3	6.3	5.6	5.2
Asseco Business Solutions	Poland	6.4%	7.7%	8.5%	13.2	12.3	11.8	8.6	8.1	7.8
Microsoft	USA	1.3%	1.4%	1.5%	30.3	24.6	22.1	18.7	15.4	13.9
SAP	Germany	1.6%	1.8%	2.0%	19.3	17.4	15.6	13.2	13.2	11.8
Oracle	USA	2.1%	2.4%	2.5%	11.6	10.3	9.5	8.4	8.3	8.1
Capgemini	France	2.4%	0.0%	0.0%	11.9	10.8	9.7	6.5	6.1	5.7
Adobe Systems	USA	0.0%	0.0%	0.0%	36.5	29.0	25.1	27.3	22.7	19.2
Atos	France	3.0%	3.2%	3.4%	6.5	6.3	5.9	5.8	5.7	5.4
Guidewire Software	USA	0.0%	0.0%	0.0%	55.5	89.8	70.7	43.9	58.2	37.4
Infosys	India	3.8%	3.6%	4.2%	17.6	16.5	14.9	12.2	11.4	10.2
PTC	USA	0.0%	0.0%	0.0%	31.9	23.3	18.6	19.7	17.3	14.9
Constellation Software	Canada	2.7%	0.4%	0.4%	31.0	24.9	20.9	21.3	17.5	14.8
Sage Group	UK	2.9%	2.9%	3.0%	20.1	20.2	18.6	13.8	13.8	12.9
Intuit	USA	0.8%	0.9%	0.9%	35.6	31.4	27.9	24.2	21.7	19.1
Reply	Italy	0.9%	1.0%	1.0%	18.3	16.6	15.3	10.6	9.7	9.0
Sopra Steria Group	France	1.9%	2.4%	2.9%	11.5	9.8	8.4	6.7	6.4	5.5
NNIT	Denmark	4.4%	3.2%	3.6%	10.7	12.3	11.4	5.1	5.6	5.2
Softcat	UK	2.3%	2.9%	3.1%	28.7	26.3	24.2	21.9	20.1	18.6
Fiserv	USA	0.0%	0.0%	0.0%	23.7	19.1	16.2	20.5	14.3	13.0
MEDIAN (software)		2.0%	1.8%	2.7%	18.8	17.0	15.5	12.7	12.3	11.0
Payment:										
Euronet Worldwide	USA	0.0%	0.0%	0.0%	12.2	11.1	9.5	7.0	6.3	5.5
FIS	UK	1.2%	1.2%	1.4%	21.4	18.8	16.1	21.9	15.3	14.2
Ingenico	France	1.3%	1.4%	1.6%	21.3	19.4	17.6	14.2	13.1	12.0
Wirecard	Germany	0.3%	0.3%	0.5%	22.2	16.6	12.7	12.7	9.5	7.4
MEDIAN (payment)		0.7%	0.8%	0.9%	21.4	17.7	14.4	13.5	11.3	9.7
Asseco South Eastern Europe		2.9%	3.4%	3.7%	14.4	13.2	12.3	7.4	6.8	6.2
<i>discount to software companies</i>					23%	22%	20%	42%	45%	44%
<i>discount to payment companies</i>					33%	26%	14%	45%	40%	36%

Source: Bloomberg, PKO BP Securities



Financial Forecasts

Profit and loss account	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Sales of products, goods and materials	487	571	571	670	881	987	1,028	1,067	1,101
Costs of sold products, goods and materials	-362	-434	-427	-509	-667	-729	-763	-796	-827
Gross profit on sales	125	136	144	161	215	257	264	271	275
EBITDA	83	94	106	120	176	188	197	205	212
Selling costs	-37	-38	-35	-47	-53	-59	-62	-64	-66
General administrative expenses	-36	-42	-43	-39	-54	-60	-63	-65	-67
Other operating income	3	2	1	2	4	0	0	0	0
Other operating costs	-2	-1	-2	-2	-2	0	0	0	0
Operating profit	53	57	66	74	110	122	130	137	143
Share in profit of associates	0	0	0	0	0	0	0	0	0
Pre-tax profit	54	61	67	78	110	122	131	138	145
Income tax	-10	-9	-12	-13	-19	-22	-23	-25	-26
Net profit (loss) attributable to non-controlling interest	0	0	0	0	1	1	2	2	2
Net Profit (loss)	44	52	55	65	90	99	105	112	117
Balance Sheet	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Fixed assets	614	643	631	628	781	784	786	788	789
Intangible assets	522	536	493	492	554	556	557	558	559
Tangible assets	86	102	132	129	212	213	213	214	214
Investments	0	0	0	1	5	5	5	5	5
Other long-term assets	5	5	5	6	11	11	11	11	11
Current assets	235	304	288	362	468	426	494	555	622
Inventories	16	23	25	17	37	41	43	44	46
Receivables	104	143	136	161	199	214	222	230	236
Cash and cash equivalents	104	123	117	169	200	139	197	248	308
Other short-term assets	12	14	10	15	32	32	32	32	32
Total Assets	849	946	918	990	1,250	1,211	1,280	1,342	1,411
Equity capital	688	732	719	765	800	861	922	986	1,047
Non-controlling interests	0	2	2	2	2	2	2	2	2
Liabilities	161	214	199	224	450	350	358	357	364
Long-term liabilities	29	29	29	22	124	57	58	54	55
Loans and borrowings	27	25	24	18	91	44	46	42	43
Other provisions	3	5	6	4	33	13	12	12	12
Short-term liabilities	131	185	170	202	326	293	301	303	309
Loans and borrowings	21	24	24	32	83	40	42	38	39
Other provisions	45	62	32	36	50	50	50	50	50
Trade liabilities and other	65	95	82	102	138	149	154	160	165
Total Liabilities	849	946	918	990	1,250	1,211	1,280	1,342	1,411
Cash flow statement	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Cash flow on operating activity	75	88	94	121	159	156	169	175	183
Cash flow on investment activity	-42	-38	-65	-43	-103	-72	-53	-52	-52
Cash flow on financial activity	-20	-30	-24	-28	-25	-145	-58	-72	-70
Indicators (%)	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F
ROE	6.4%	7.3%	7.6%	8.8%	11.5%	11.9%	11.8%	11.7%	11.5%
Net Debt	-53.0	-71.0	-68.2	-114.9	-26.4	-54.8	-109.2	-167.7	-224.9

Source: forecasts of PKO BP Securities

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Explanation of the specialist terminology used

min (max) 52 weeks: minimum (maximum) of the market share price during the previous 52 weeks

Capitalisation: product of the share market price and the number of shares

EV: sum of the company's capitalisation and net debt

free float (%): share of the total number of shares decreased by 5% stakes held by one shareholder and own shares held by the company in the total number of shares

Average trading/month: average trading per month calculated as total trading value over previous 12 months divided by 12

ROE: rate of return on equity

ROA: rate of return on assets

EBIT: operating profit

EBITDA: operating profit + depreciation and amortization

EPS: earnings per share
DPS: dividend per 1 share
CEPS: sum of net profit and depreciation and amortization per 1 share
P/E: quotient of share market price and EPS
P/BV: quotient of share market price and book value of one share
EV/EBITDA: quotient of capitalisation increased by the company's net debt and EBITDA
Gross sales margin: relation of gross sales profit to net sales proceeds
EBITDA margin: relation of the sum of operating profit and depreciation to net sales proceeds
EBIT margin: relation of operating profit to net sales proceeds
Net profitability: relation of net profit to net sales proceeds

Valuation methods applied

A PKO BP Securities recommendation is based on at least two out of four valuation methods: DCF (discounted cash flow model), ratio analysis method (comparing the values of basic market ratios with similar ratios of other companies representing a given sector), sum of the parts of assets method (SOTP) and discounted dividends model. A disadvantage of the DCF and the discounted dividends model is their high sensitivity to adopted assumptions, including, in particular, those pertaining to determining the residual value. Furthermore, the discounted dividends model cannot be applied to the valuation of companies without a determined dividend policy. The advantages of both these methods include their independence from current market valuations of peer companies. On the other hand, the advantage of the ratio analysis is the fact that it is based on a measurable market valuation of a given sector. Its disadvantage lies in the risk that at any given time, the market might not value peer companies correctly. The sum of the parts method (SOTP) consists in summing up the values of various assets of the company, calculated using one of the above methods.

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A BUY recommendation means that the recommendation author thinks that company shares have the potential for at least a 10% price growth.

A HOLD recommendation means that the recommendation author thinks that company shares have the potential for growth between 0 and a 10%.

A SELL recommendation means that the recommendation author thinks that company shares have the potential for a price decline.

A recommendation may be assigned an "UNDER REVIEW" rating, which means that the recommendation ceases to be binding for an unexpected reason and that PKO BP Securities is conducting investment research aimed at its update. Said investment research will result in issuing a new recommendation.

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Asseco SEE	-

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6. PKO BP Securities and PKO Bank Polski, whose organisational unit is PKO BP Securities, hold shares of the Issuer, which are the object of this recommendation, in a total number constituting at least 5% of share capital.

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Excluding the above, no other contractual relations exist between the Issuer and DM PKO BP that could influence the objectivity of this Recommendation.

Disclosures

The recommendation has not been disclosed to the Issuer.

Other disclosures

No person involved in preparing the report or any of their next of kin hold any functions on the governing bodies of the Issuer or a managerial position in the Issuer's organisation and no such person or their next of kin are party to any agreement with the Issuer concluded under the terms different from other agreements concluded between the Issuer and consumers. There are no people holding shares in the Issuer or financial instruments whose value is connected in any significant manner with the value of financial instruments issued by the Issuer among persons involved in drafting the recommendation or persons who were not involved in drafting it, but who had or could have access to it.

PKO Bank Polski, its subsidiaries, representatives or employees may occasionally conclude transactions or be interested in purchasing financial instruments of companies which are indirectly or directly connected with the analysed company.

PKO BP Securities is bound by internal regulations managing conflicts of interests; in particular, these regulations determine internal organisational solutions and limitations regarding information flow to prevent uncontrolled information flow between respective organisational entities or PKO BP Securities' employees in order to prevent and avoid conflicts of interests regarding recommendations; in particular, the Chinese wall procedure has been implemented. The internal organisational structure of PKO BP Securities ensures that respective kinds of brokering operations are executed separately.

This Recommendation has been drafted subject to due diligence to the best knowledge of the Recommending Entity; there exist no other connections between PKO BP Securities and the analyst drafting this Recommendation on one part and the Issuer on the other.

The time and date stipulated on the front page of the report are the time and date of completing the process of drafting the Recommendation.

The time and date of the first distribution of the Recommendation are identical with the time and date of delivering this Recommendation in electronic form to customers.



Whenever this Recommendation quotes a price for the financial instrument, it will be understood as the closing price from the last trading day.

The list below sets out all the recommendations drafted by PKO BP Securities in the last 12 months, within the scope of the "Analytic Coverage Support Pilot Programme".

Company	Recommendation	Date of reco.	Target price	Relevant Market Price*	Market cap. (PLN mn)	P/E			EV/EBITDA			Analyst
						2018	2019F	2020F	2018	2019F	2020F	
Asseco SEE	Buy	2019-07-19	20,50	16,8	1297,36	9,5	10,0	13,2	4,0	7,3	6,8	Małgorzata Żelazko
Apator	Hold	2019-07-22	24,30	24,3	439,0	10,7	6,6	6,7	7,0	4,7	4,63	Piotr Łopaciuk
Mabion	Buy	2019-07-26	105,00	85,5	285,30	nm	nm	nm	0,00	0,00	0,00	Dawid Górzyski
ZE PAK	Hold	2019-07-26	7,50	7,0	314,96	nm	3,3	3,5	5,1	0,7	0,6	Andrzej Rembelski
Asseco SEE	Hold	2019-11-19	25,00	23,8	1297,36	9,5	10,0	13,2	4,0	7,3	6,8	Małgorzata Żelazko
ZE PAK	Hold	2019-12-04	7,80	7,4	314,96	nm	3,3	3,5	5,1	0,7	0,6	Andrzej Rembelski
Apator	Hold	2019-12-05	22,5	21,10	439,0	10,7	6,6	6,7	7,0	4,7	4,63	Piotr Łopaciuk
Mabion	Buy	2019-12-16	100,00	60,2	285,30	nm	nm	nm	0,00	0,00	0,00	Dawid Górzyski
Asseco SEE	Hold	2020-03-16	27,20	25	1297,36	9,5	10,0	13,2	4,0	7,3	6,8	Małgorzata Żelazko

*at the time of publication