

Outstanding year already priced in

Asseco SEE reported very good 3Q19 results (organically, the revenue increased by 25% and EBIT by 51% y/y). As a result, we are upgrading our forecasts for FY2019 and the following years. Growth should be primarily driven by e-commerce in Turkey, an improvement in the payment terminals segment, and better results in the banking solutions segment. Despite numerous acquisitions this year (Necomplus, Sonet Mobven etc.), the company will at least be able to maintain the dividend level in 2020 (PLN 0.52/share) and increase it going forward due to good results and a strong balance sheet. We are raising our TP to PLN 25/share. As we believe the growth is already priced in, we are downgrading our recommendation to Hold.

Outstanding 2019 results

Asseco SEE will considerably boost both its revenue and margins in 2019. Given very good 1Q-3Q19 results, we are now expecting FY2019 revenue to grow by 26% y/y and EBIT by 40% y/y (organically, 20% y/y and 34% y/y, respectively). We are anticipating the biggest improvement in the Banking segment (higher margins) and in Payments (primarily on the back of fast-growing and high-margin e-commerce).

Organic growth supported by acquisitions

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 its new markets (i.e. CEE, Latin America). The new acquisitions are estimated to generate approx. EUR 2.7m in operating profit in 2020.

A solid balance sheet + strong FCF

The company is planning to continue its dynamic growth, both organically and through acquisitions. We also assume it will be generating a relatively high FCF (approx. 6-10% of capitalisation). Because of the strong balance sheet (approx. PLN 20m at the end of 3Q19, excluding IFRS 16) and the high FCF, we expect it will be possible for Asseco SEE to consolidate the market while continuing dividend payouts (dividend yield estimated at 3-5%).

PLN mn	2017	2018	2019F	2020F	2021F
Revenues	571	670	848	943	991
EBITDA	106	120	170	185	192
EBIT	66	74	105	116	123
Net profit	55	65	86	94	100
P/E	11.2	9.5	14.3	13.1	12.3
P/BV	0.9	0.8	1.5	1.4	1.3
EV/EBITDA	5.7	4.0	7.3	6.5	6.0
EPS	1.06	1.26	1.66	1.82	1.93
DPS	0.52	0.52	0.58	0.73	0.87
FCF	-	-	87	98	104
CAPEX	-69	-40	-60	-50	-50

F - forecast by PKO BP Securities

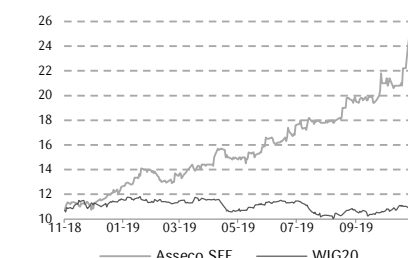
Key data	
Market price (PLN)	23.80
Upside	5%
No. of shares (mn)	51.89
Market Cap (PLNm)	1,235.08
Free float	49%
Free float (PLNm)	604
Free float (USDmn)	156
EV (PLNm)	1,240.84
Net debt (PLNm)	5.76

Dividend	
Div yield	2.2%
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	
Buy	19-07-19	20.50

Price performance



	WIG20	Company
1 month	2.0%	13.3%
3 months	4.6%	33.7%
6 months	1.5%	58.7%
12 months	1.9%	118.3%
Min 52 weeks PLN		10.70
Max 52 weeks PLN		24.60
Av. turnover/day PLN mn		0.20

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Financial forecasts by segment (mEUR)

mEUR	2017	2018	2019F	2020F	2021F	2022F	2023F
Banking solutions							
Revenue	35.9	38.3	43.2	45.3	46.7	48.1	49.0
EBIT	4.7	6.3	7.3	7.5	7.5	7.7	7.8
EBIT margin	13.1%	16.5%	16.9%	16.5%	16.0%	16.0%	16.0%
Payment							
Revenue	49.9	57.3	59.4	63.8	67.8	71.5	75.0
EBIT	7.0	8.0	12.0	12.5	13.4	14.4	15.3
EBIT margin	14.0%	14.0%	20.2%	19.6%	19.7%	20.1%	20.5%
System integration							
Revenue	48.7	61.5	63.4	66.5	68.5	69.9	71.3
EBIT	3.8	3.1	4.0	4.3	4.5	4.5	4.6
EBIT margin	7.8%	5.0%	6.3%	6.5%	6.5%	6.5%	6.5%
M&A (Necomplus. Sonet. Mobven)							
Revenue			31.0	43.6	47.5	51.3	54.9
EBIT			1.0	2.7	3.3	3.8	4.2
EBIT margin			3.2%	6.2%	6.9%	7.4%	7.6%

Source: Asseco SEE. PKO BP Securities

Note: Segmental results are excluding M&As as they are shown separately

We are increasing our forecasts for 2019-2023F for revenue by 5-7% and EBIT by 15-25%%, due to new acquisitions (Sonet, Mobven, Monri) and better than expected results in 3Q19.

Risk factors

- 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)

Valuation

Our valuation is based on the DCF model. The DCF model consists of two phases. In the first stage (2019F-2023F), we have forecast all the key parameters that influence the company's value. In the second stage, we have assumed a 2% growth rate.

We have applied a WACC-based discount rate. The risk-free rate for PLN has been assumed at 3.0%, which reflects the yield level of 10-year Treasury bonds. Beta has been assumed at 1x, taking into account the company's strong equity structure. Equity risk premium has been assumed at 8% due to a relatively higher risk of the countries where the company operates (primarily SEE and Turkey). We have discounted all free cash flows as at 31 December 2019, added net cash (excl. leases) and deducted liabilities related to acquisitions (put options and conditional payments).

DCF model						
PLN mn	2019F	2020F	2021F	2022F	2023F	2023F<
EBIT	104.6	116.1	123.0	130.8	137.7	142.7
Tax rate	18%	18%	18%	18%	18%	18%
NOPLAT	85.8	95.2	100.8	107.2	112.9	117.0
CAPEX	-59.8	-50.0	-50.1	-50.2	-50.2	-50.0
Depreciation (excl. Right-of-use)	48.8	51.8	52.1	51.7	51.3	50.0
Changes in working capital	-23.3	-9.9	-4.9	-4.4	-4.0	-2.8
FCFF	51.5	87.2	98.0	104.3	110.0	114.3
WACC	10.4%	11.0%	11.0%	11.0%	11.0%	11.0%
Discount ratio		0.91	0.82	0.74	0.66	0.60
DFCF		79.0	80.0	76.7	72.9	
Growth in Phase II	2.0%					
DFCF Sum - Phase I	308.6					
DFCF Sum - Phase II	841.3					
Enterprise Value (EV)	1,149.8					
Net debt (excl. Leases)	-69.2					
Minority share	34.4					
Fair value	1,184.7					
Number of shares (million)	51.9					
Fair value per share as at 31.12.2019	22.8					
Target price in 12 mths (PLN)	25.0					
Current price	23.80					
Expected rate of return	5.2%					

Source: forecasts of PKO BP Securities

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.

WACC						
	2019F	2020F	2021F	2022F	2023F	2023F<
Risk-free rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
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	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Debt cost	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Weight of equity	90.8%	100.0%	100.0%	100.0%	100.0%	100.0%
Weight of debt	9.2%	0.0%	0.0%	0.0%	0.0%	0.0%
WACC	10.4%	11.0%	11.0%	11.0%	11.0%	11.0%

Source: forecasts of PKO BP Securities

Sensitivity						
		Growth in Phase II				
WACC	10.0%	1.0%	1.5%	2.0%	2.5%	3.0%
	10.0%	25.0	26.1	27.3	28.6	30.1
	10.5%	24.1	25.0	26.1	27.3	28.6
	11.0%	23.3	24.1	25.0	26.1	27.3
	11.5%	22.5	23.3	24.1	25.0	26.1
	12.0%	21.8	22.5	23.3	24.1	25.0

Source: PKO BP Securities

Peers

ASEE is traded with 30-50% 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	5.4%	5.5%	5.7%	14.5	14.0	13.3	9.6	9.0	8.3
Comarch	Poland	0.9%	0.9%	3.5%	14.8	13.3	12.6	6.3	6.0	5.5
Asseco Business Solutions	Poland	6.2%	6.7%	7.3%	14.6	14.2	13.7	9.3	9.1	8.8
Microsoft	USA	1.2%	1.3%	1.4%	32.8	27.9	24.8	20.5	17.6	15.7
SAP	Germany	1.3%	1.4%	1.6%	24.8	22.3	20.0	18.9	16.4	14.7
Oracle	USA	1.5%	1.7%	1.7%	16.3	14.5	13.3	11.2	10.7	10.4
Capgemini	France	1.7%	0.0%	0.0%	17.0	15.3	14.1	9.6	9.1	8.6
Adobe Systems	USA	0.0%	0.0%	0.0%	37.9	30.5	25.8	28.6	23.9	20.9
Atos	France	2.8%	2.4%	2.6%	8.8	8.1	7.6	7.3	7.0	6.5
Guidewire Software	USA	0.0%	0.0%	0.0%	84.9	101.8	77.9	69.2	69.6	52.5
Infosys	India	3.4%	3.3%	3.9%	19.6	18.5	16.5	13.6	12.7	11.4
PTC	USA	0.0%	0.0%	0.0%	42.8	33.7	24.4	24.4	19.1	16.2
Constellation Software	Canada	2.3%	0.4%	0.4%	35.7	28.3	28.2	23.9	20.5	16.8
Sage Group	UK	2.3%	2.3%	2.4%	25.3	23.6	21.7	17.2	16.1	14.9
Intuit	USA	0.7%	0.8%	0.8%	40.1	35.4	31.5	27.1	24.3	21.8
Reply	Italy	0.7%	0.8%	0.9%	24.1	21.5	19.6	14.2	12.8	11.8
Sopra Steria Group	France	1.7%	2.1%	2.4%	13.6	11.2	9.9	7.8	7.1	6.5
NNIT	Denmark	3.6%	3.2%	3.3%	12.6	14.0	13.2	6.5	6.8	6.7
Softcat	UK	1.9%	2.3%	2.4%	34.9	32.4	30.2	26.7	24.9	23.4
Fiserv	USA	0.0%	0.0%	0.0%	28.7	23.3	19.7	26.1	18.6	15.8
MEDIAN (software)		1.6%	1.4%	2.0%	24.5	21.9	19.6	15.7	14.5	13.2
Payment:										
Euronet Worldwide	USA	0.0%	0.0%	0.0%	22.1	19.1	16.8	13.3	11.5	10.1
FIS	UK	1.0%	1.1%	1.2%	24.8	21.6	18.5	25.2	18.2	16.4
Ingenico	France	1.3%	1.6%	1.7%	19.7	17.6	16.0	13.7	12.4	11.4
Wirecard	Germany	0.2%	0.3%	0.4%	27.6	20.8	15.8	16.5	12.4	9.6
MEDIAN (payment)		0.6%	0.7%	0.8%	23.5	19.9	16.4	15.1	12.4	10.8
Asseco South Eastern Europe		3.0%	3.8%	4.5%	14.2	13.0	12.2	7.5	6.5	5.9
<i>discount to software companies</i>					42%	41%	38%	52%	55%	55%
<i>discount to payment companies</i>					39%	35%	26%	50%	48%	45%

Source: Bloomberg, PKO BP Securities



Financial Forecasts

Profit and loss account	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F
Sales of products, goods and materials	501	487	571	571	670	848	943	991	1,035
Costs of sold products, goods and materials	-383	-362	-434	-427	-509	-643	-709	-744	-777
Gross profit on sales	118	125	136	144	161	205	233	247	259
EBITDA	69	83	94	106	120	170	185	192	199
Selling costs	-36	-37	-38	-35	-47	-54	-60	-63	-66
General administrative expenses	-35	-36	-42	-43	-39	-50	-56	-58	-61
Other operating income	2	3	2	1	2	0	0	0	0
Other operating costs	-2	-2	-1	-2	-2	0	0	0	0
Operating profit	46	53	57	66	74	105	116	123	131
Share in profit of associates	0	0	0	0	0	0	0	0	0
Pre-tax profit	46	54	61	67	78	106	116	123	132
Income tax	-7	-10	-9	-12	-13	-19	-21	-22	-24
Net profit (loss) attributable to non-controlling interest	0	0	0	0	0	1	1	1	1
Net Profit (loss)	39	44	52	55	65	86	94	100	107
Balance Sheet	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F
Fixed assets	613	614	643	631	628	787	785	783	781
Intangible assets	536	522	536	493	492	544	544	544	544
Tangible assets	70	86	102	132	129	236	234	232	230
Investments	0	0	0	0	1	1	1	1	1
Other long-term assets	7	5	5	5	6	6	6	6	6
Current assets	235	235	304	288	362	378	354	426	487
Inventories	16	16	23	25	17	23	25	26	27
Receivables	115	104	143	136	161	184	200	208	216
Cash and cash equivalents	92	104	123	117	169	156	113	176	228
Other short-term assets	12	12	14	10	15	15	15	15	15
Total Assets	848	849	946	918	990	1,165	1,138	1,208	1,268
Equity capital	679	688	732	719	765	824	889	951	1,013
Non-controlling interests	0	0	2	2	2	2	2	2	2
Liabilities	169	161	214	199	224	341	250	257	255
Long-term liabilities	27	29	29	29	22	64	14	15	12
Loans and borrowings	22	27	25	24	18	58	29	31	28
Other provisions	5	3	5	6	4	6	-15	-16	-16
Short-term liabilities	143	131	185	170	202	276	235	243	243
Loans and borrowings	24	21	24	24	32	100	51	53	49
Other provisions	38	45	62	32	36	36	36	36	36
Trade liabilities and other	80	65	95	82	102	107	116	120	124
Total Liabilities	848	849	946	918	990	1,165	1,138	1,208	1,268
Cash flow statement	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F
Cash flow on operating activity	73	75	88	94	121	136	153	164	171
Cash flow on investment activity	-59	-42	-38	-65	-43	-111	-71	-51	-50
Cash flow on financial activity	15	-20	-30	-24	-28	-37	-125	-50	-69
Indicators (%)	2014	2015	2016	2017	2018	2019F	2020F	2021F	2022F
ROE	-	6.4%	7.3%	7.6%	8.8%	10.8%	11.0%	10.9%	10.9%
Net Debt	-42.7	-53.0	-71.0	-68.2	-114.9	5.8	-29.4	-87.9	-147.1

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.

Recommendations applied by PKO BP Securities

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.

A recommendation may be assigned a "SUSPENDED" rating, which means that PKO BP Securities stopped conducting investment research. After investment research is recommenced, the latest issued Recommendation will become binding.

Recommendations issued by PKO BP Securities are binding for a period of 12 months from their issue, unless they are updated in the meantime. PKO BP Securities updates issue recommendations depending on the market situation and the analysts' subjective opinion. The frequency of such updates is not specified.

Connections which could influence the objectivity of recommendations

Entities associated with PKO BP Securities may, insofar as is legally permissible, participate or invest in financial transactions in relations with the Issuer, render services to or assist in rendering services to the Issuer or have the option to or conclude transactions on financial instruments issued by the Issuer ("financial instruments"). PKO BP Securities may, insofar as permissible under Polish law, conclude transactions on financial instruments before this instrument is presented to recipients.

PKO BP Securities has the following connections with the Issuer:

Issuer:	Reservation
Asseco SEE	-

Explanations:

- During the previous 12 months, PKO BP Securities was party to agreements on offering financial instruments issued by the Issuer or connected with assessing financial instruments issued by the Issuer. During the previous 12 months, PKO BP Securities was a member of a consortium offering financial instruments issued by the Issuer.
- PKO BP Securities purchases and sells financial instruments issued by the Issuer in its own name, in order to perform service or investment underwriting agreements.
- PKO BP Securities has the role of market animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
- PKO BP Securities has the role of the Issuer's animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
- PKO BP Securities and PKO Bank Polski, whose organisational unit is PKO BP Securities, are parties to an agreement on drafting recommendations with the Issuer.
- 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.

It is possible that PKO BP Securities or PKO Bank Polski or persons involved in drafting a report have a long or short position on the Issuer's shares or other instruments whose value is connected with the value of the financial instruments issued by the Issuer in an amount not lower than 0.5% of the Issuer's share capital.

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	1245.46	9.5	14.5	13.2	4.0	7.4	6.6	Małgorzata Żelazko
Apator	Hold	2019-07-22	24.30	24.3	620.46	10.56	8.16	8.30	6.88	5.75	5.53	Piotr Łopaciuk
Mabion	Buy	2019-07-26	105.00	85.5	1325.43	nm	nm	17.94	0.00	0.00	0.00	Dawid Górzyński
ZE PAK	Hold	2019-07-26	7.00	7.0	372.87	nm	3.68	4.47	5.12	1.16	1.16	Andrzej Rembelski
Asseco SEE	Hold	2019-11-19	25.00	23.8	1245.46	9.5	14.5	13.2	4.0	7.4	6.6	Małgorzata Żelazko

*at the time of publication