

Comp

Cash in the cash register

TP: PLN 70,8

Upside: +4%

The Comp Group specialises in IT security, network security solutions and solutions for the retail and service markets. It is the leader on the Polish fiscal equipment market (Novitus and Elzab brands) which – in light of the legislative changes introducing on-line fiscalisation in Poland – opens up a prospect of significant increases in the *Retail* segment over the next 5–6 years (the largest impact in 2019–20). We see an additional long-term up upside in the development of the latest *M/platform* project, an innovative concept of a service platform for small- and medium-sized retailers and producers which allows them to directly cooperate with one another.

Changes on the cash register market in Poland are creating a good result momentum for the Company already from 2H19. ~345k taxpayers were covered by the obligation to replace cash registers in 2019–20, and additional 600k two-roller devices will have to be replaced within the next 5–6 years. A nearly 50% share of Comp in this market segment will send revenues and profits from the sale of fiscal devices soaring, which should be noticeable already in the 2H19 results. We project the cumulation of this increase to take place in 2020. We estimate the related profits in 2019–20 to total PLN 22m in EBITDA in 2019 and PLN ~60m in EBITDA in 2020.

The new *M/platform* segment. On the back of the mandatory introduction of cash registers with a module connected to the Internet, the ongoing on-line fiscalisation opens up additional growth prospects before the Company and paves the way for offering services to a new group of clients. Comp is currently entering the last phase of the new *M/platform* business project. It is a service platform form small- and medium-sized retailers and producers which, based on the cash registers data (receipts), may serve both as an analytical tool and as a platform connecting the business with the manufacturer. The Company has already completed the first pilot phase on nearly 1k stores and is currently working intensely on developing its base of recipients (currently ~3k points and growth dynamics of ~1,000 users m/m) and clients (the Company already cooperates e.g. the Żywiec Group). In our opinion, the market does not discount the possibility of developing this business segment in the Company, which we estimate at PLN 6–7m of potential EBITDA per year (assuming 15k connected users). At this point in time, the success of this idea is dependent upon the pace of client acquisition and the number of acquired clients, therefore we value the potential additional upside of the project separately and do not include it in the forecasts on P&L (include in DCF model).

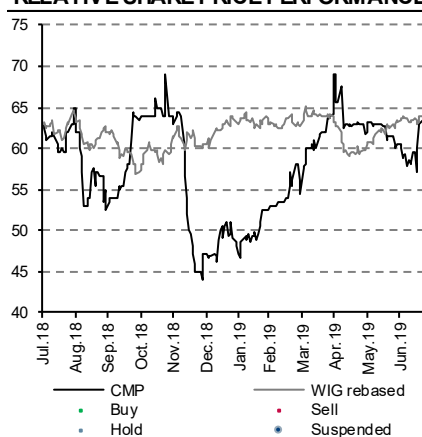
Aside from the *Retail* segment, IT solutions offered by the Group, related mainly to security, constitute a stable and recurring source of revenues (~50%) for the Company. In this segment, Comp cooperates mostly with state institutions and large corporations.

Our valuation is based on the DCF method – a target price of PLN 70,8 and an upside of +4%. Recommendation Hold.

FACT SHEET

Ticker	CMP		
Sector	TMT		
Price (PLN)	68,00		
52wk Range (PLN)	44 / 70		
Number of share (m)	5,9		
Market Cap (mPLN)	402		
Free-float	68,8%		
Avg Vol 3M (mPLN)	0,12		
Price performance	1M	3M	1Y
	12,6%	5,9%	8,8%

RELATIVE SHARE PRICE PERFORMANCE



Recommendation history

Date	Price
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Shareholders

Share %	
Comp S.A.	15,6%
MetLife OFE	14,0%
Rockbridge TFI	13,8%
NN OFE	9,8%

Important dates

2Q'19 Results	30.08.2019
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Analyst

Martyna Szymczykowska

m in PLN	2016	2017	2018	2019F	2020F	2021F
Sales	563,7	541,1	677,9	821,4	1 092,4	811,2
EBITDA	44,9	45,5	69,2	85,1	132,7	75,1
EBIT	18,2	22,9	42,4	51,4	94,8	34,2
Net profit	-6,5	0,2	56,8	37,4	72,9	39,7
EPS (PLN)	-1,1	0,0	9,6	6,3	12,3	6,7
P/E (x)	-	-	7,1	10,8	5,5	10,1
EV/EBITDA (x)	12,5	12,7	8,4	6,7	3,9	5,8
P/BV (x)	0,9	0,9	0,8	0,7	0,7	0,6
DY (%)	0,0%	0,0%	0,0%	0,0%	0,0%	5,2%

Source: data of the company, Trigon DM

Comp

 Bloomberg ticker CMP PW
Recommendation
Hold
Target Price (PLN)
70,8
Current Price (PLN)
68
Upside
4%

Previous Recommendation

-

Previous Upside (PLN)

-

Number of shares (m)

5,9

Market Cap (mPLN)

402

EV (m PLN)

610

MARKET RATIOS	2017	2018	2019F	2020F	2021F
P/E (x)	-	7,1	10,8	5,5	10,1
P/E adj. (x)	-	7,1	14,3	6,3	25,6
P/BV (x)	0,9	0,8	0,7	0,7	0,6
EV/EBITDA (x)	15,0	8,8	7,5	4,4	7,6
EV/EBITDA adj. (x)	15,0	8,8	7,5	4,4	7,6
EV/Sales (x)	1,3	0,9	0,8	0,5	0,7
FCF Yield (%)	-4,8%	-9,4%	7,8%	14,5%	31,4%
DY (%)	0,0%	0,0%	0,0%	0,0%	5,2%

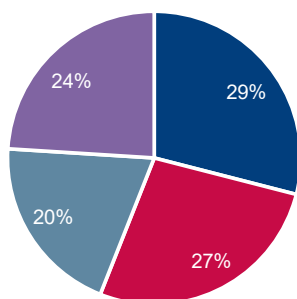
RATIOS	2017	2018	2019F	2020F	2021F
EPS (PLN)	0,0	9,6	6,3	12,3	6,7
EPS adj. (PLN)	0,0	9,6	4,8	10,8	2,7
DPS (PLN)	0,0	0,0	0,0	0,0	3,6
BVPS (PLN)	75,6	85,0	91,0	103,4	106,5
Number of shares (m)	5,9	5,9	5,9	5,9	5,9
Market Cap (mPLN)	402	402	402	402	402
EV (mPLN)	624	610	637	590	572

P&L (mPLN)	2017	2018	2019F	2020F	2021F
Sales	541,1	677,9	821,4	1 092,4	811,2
COGS	387,7	480,5	597,1	791,6	603,8
Gross profit	153,3	197,4	224,3	300,9	207,5
EBITDA	45,5	69,2	85,1	132,7	75,1
EBITDA adj.	45,5	69,2	85,1	132,7	75,1
D&A	22,6	26,9	33,8	37,9	40,9
EBIT	22,9	42,4	51,4	94,8	34,2
Gross profit	7,6	24,7	34,7	78,6	19,4
Minority interest	0,5	-1,1	0,0	0,0	0,0
Net profit	0,2	56,8	37,4	72,9	39,7
Net profit adj.	0,2	56,8	28,1	63,6	15,7

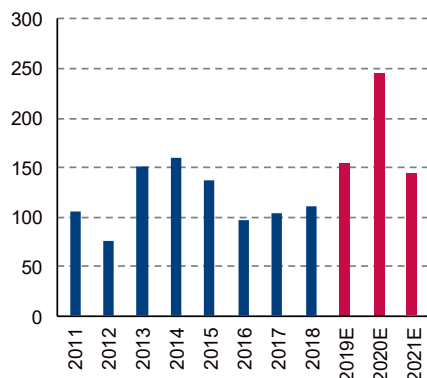
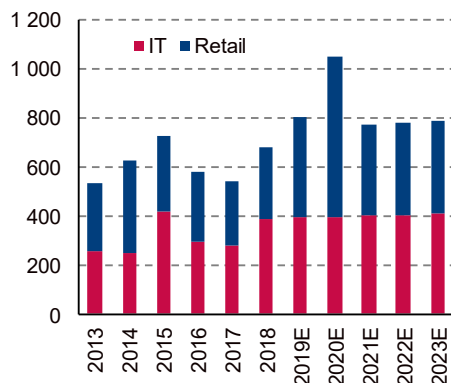
CASH FLOW STATEMENT (mPLN)	2017	2018	2019F	2020F	2021F
Cash flow from operations	15,6	2,0	85,3	102,6	160,7
Cash flow from investing	-27,9	11,4	-53,4	-43,4	-33,1
CAPEX	-34,9	-39,8	-54,0	-44,1	-34,3
Cash flow from financing	10,4	4,2	-26,5	-17,0	-87,1
Dividend	0,0	0,0	0,0	0,0	-21,1
FCF	-19,3	-37,8	31,3	58,4	126,4
Net cash flow	-1,8	17,6	5,3	42,2	40,5

BALANCE SHEET (mPLN)	2017	2018	2019F	2020F	2021F
ASSETS	846,7	934,9	1 009,2	1 163,5	1 052,9
PPE	69,9	68,8	70,5	71,9	73,1
Goodwill	272,8	272,8	272,8	272,8	272,8
Intangible assets	431,4	445,3	464,0	468,8	461,0
Cash and equivalents	35,0	53,8	57,1	99,4	139,9
EQUITY AND LIABILITIES	846,7	934,9	1 009,2	1 163,5	1 052,9
Equity	447,5	503,3	538,7	611,7	630,2
Minority shareholders capital	19,5	20,5	20,5	26,8	25,6
Interest-bearing liabilities	256,5	261,0	291,8	287,4	309,3
Net debt	221,5	207,2	234,7	188,0	169,5
Net working capital	112,7	157,7	237,6	353,9	187,2

OPERATING INDICATORS	2017	2018	2019F	2020F	2021F
Sales growth (%)	-4%	25%	21%	33%	-26%
EPS adj. growth (%)	-	32940%	-51%	126%	-75%
Gross profit margin (%)	28,3%	29,1%	27,3%	27,5%	25,6%
EBITDA adj. margin (%)	8,4%	10,2%	10,4%	12,1%	9,3%
Operating profit margin (%)	4,2%	6,2%	6,3%	8,7%	4,2%
Net profit adj. margin (%)	0,0%	8,4%	3,4%	5,8%	1,9%
ROE (%)	0,0%	12,0%	5,4%	11,1%	2,5%
ROA (%)	0,0%	6,4%	2,9%	5,9%	1,4%
CAPEX/Sales (%)	6,5%	5,9%	6,6%	4,0%	4,2%
CAPEX/D&A (x)	1,5	1,5	1,6	1,2	0,8
Net debt/Equity	0,5	0,4	0,4	0,3	0,3
Net debt/EBITDA (x)	4,9	3,0	2,8	1,4	2,3
Cash conversion cycle (days)	64	64	86	103	124
Inventory turnover (days)	51	56	62	62	73
Receivables turnover (days)	103	93	93	88	114
Liabilities turnover (days)	91	84	69	46	63

Polish fiscal equipment market share


■ Posnet ■ Novitus ■ Elzab ■ Pozostali

The number of devices sold, ths

Diversification of revenues


Risk factors

- **Risk of the M/platform project failing to reach the necessary scale**

M/platform is the latest business segment of the Company which is currently at its initial stage of development, though ultimately it is meant to become the strategic area of the Company's activity. A large part of the implementation-related expenditure has already been incurred. In order to be successful and continue to grow, the platform needs to acquire new clients and build its user base. If the Company fails to reach an appropriate number of businesses with its offer, the prospect of growth may become severely diminished in the long term.

- **M/platform monetisation**

Currently, the work on developing the platform focuses mainly on customer acquisition, with scale building as a priority. The Company wishes to establish cooperation with the largest FMCG producers from various product categories, and currently offers them cooperation on preferential terms. The first revenues generated from this project will depend on the rate of its development.

- **Legal risk**

The M/platform concept is based on receipt data which – thanks to the adopted model – are sent to the Central Cash Register Repository and to the producer of the device. Their collection or processing is legally regulated, and the data are not used without the user's consent. A potential risk for the M/platform operation may be related to the model being changed to one where data are encrypted and shared exclusively for the Ministry of Finance's purposes.

- **Competition risk**

The two main business segments of the Company (fiscal and IT) operate in a standard competitive environment, and the Company has developed strategic positions in these sectors. However, the opportunity to create the M/platform project, which is of a strategic importance for the Group, arrived only with the latest legislative changes, which allows us to conclude that competition in this segment may yet to appear.

- **Wage pressure on the IT specialist market**

The Comp Group's business profile requires employing qualified IT specialists. This market is highly competitive, and salaries in the sector grow systematically. We perceive the risk of this trend continuing, compounded by the shortage of staff on the market, which may result in a disproportionate increase in labour costs relative to revenues.

- **Decline in investments**

The IT segment, as a beneficiary of increasing public investments and subsidies granted from the EU budget, is the most exposed to the related shifts in the political and economic situation at a national and regional level.

- **Currency risk**

Even though currently more than 90% of the Company's revenue is generated on the domestic market, with the development of the M/platform we see the potential for the Company's foreign expansion and a successive shift in these proportions. As for contracts concluded in another currency, we see the risk of a negative impact of weakening PLN on the Company's results.

Valuation

- DCF model = PLN 70,8 per share
- Market multiples valuation: PLN 89 per share
- **Target price (100% DCF): PLN 70,8 per share**

Comp: DCF valuation

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
EBIT	51,4	94,8	34,2	31,8	26,0	24,6	25,8	27,8	31,8	35,7	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	41,6	76,8	27,7	25,8	21,0	19,9	20,9	22,5	25,8	28,9	30,0
Amortization	33,8	37,9	40,9	43,7	43,9	45,7	44,9	43,3	39,7	36,2	
Investments spendings	54,0	44,1	34,3	34,6	35,0	35,3	35,7	36,0	36,4	36,8	
Net WC investments	-7,9	-33,4	74,0	5,5	6,4	-0,7	-1,3	-1,5	-1,9	-1,9	
Adj.*	9,3	9,3	23,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCF	22,7	46,4	132,2	40,4	36,4	29,6	28,8	28,3	27,2	26,5	26,9
Debt / equity	55%										
RFR	2,5%										
Market premium	6,0%										
Unlevered beta	1										
Debt cost to tax (%)	3,5%										
Equity cost (%)	11,0%										
WACC (%)	8,3%										
M/platform NPV *	25										
PV FCF sum 2019-33	287										
FCF growth ratio after '31	1%										
Discounted TV	177										
	26										
Net debt	177										
Equity value (mln PLN)	287										
Number of shares (mln)	4,8										
1 share value (PLN, 1/1/2019)	60,1										
12m TP	70,8										

Source: Trigon DM

* payments from the settlement of the PayTel transaction

** additional potential NPV value of the M / platform project

*** number of shares excl. Comp's S.A. and subsidiaries shares

Source: Trigon DM

Comp: Peer valuation

	EV/EBITDA			P/E		
	2019E	2020E	2021E	2019E	2020E	2021E
Asseco Business Solutions	9,4	8,9	8,8	13,7	13,2	13,0
Asseco Poland	5,5	5,2	4,9	13,4	12,5	12,4
Asseco South Eastern Europe	5,9	5,5	5,1	11,8	11,7	10,7
Comarch	6,8	6,4	6,0	15,0	14,3	13,1
Atos	8,3	8,0	7,5	8,8	8,2	7,7
Computacenter Plc	9,2	8,9	8,7	17,0	16,4	15,7
Indra	7,1	6,6	6,2	10,8	9,4	8,5
Lectra	11,4	10,6	9,5	20,9	19,1	17,6
Neurones	7,1	6,9	6,6	18,3	19,7	19,1
Reply	12,8	11,7	10,6	21,9	19,8	17,6
Sopra	7,2	6,3	5,8	12,2	9,9	8,8
Cap Gemini	9,8	9,3	8,9	17,6	16,1	14,8
Median	7,8	7,5	7,1	14,3	13,8	13,1
Comp	7,0	4,6	7,7	15,5	6,9	25,6
Comp valuation	78,3	129,0	59,9	62,7	135,7	34,6

Source: Trigon DM

Income statement (PLNm)

	2016	2017	2018	2019F	2021F	2021F
Revenues	563,7	541,1	677,9	821,4	1 092,4	811,2
Operating expenses	426,7	387,7	480,5	597,1	791,6	603,8
Gross profit from sales	137,0	153,3	197,4	224,3	300,9	207,5
Sales expenses	55,2	53,7	77,8	94,3	125,4	93,1
Management costs	71,6	75,8	74,0	74,8	75,5	76,3
Profit from sales	10,2	23,8	45,6	55,2	99,9	38,0
Result on other operating activity	8,1	-1,0	-3,2	-3,9	-5,1	-3,8
EBITDA	44,9	45,5	69,2	85,1	132,7	75,1
EBITDA adj.	44,9	45,5	69,2	85,1	132,7	75,1
Amortization	26,7	22,6	26,9	33,8	37,9	40,9
EBIT	18,2	22,9	42,4	51,4	94,8	34,2
Financial net	-16,5	-15,3	-17,7	-16,6	-16,2	-14,8
Gross profit	1,7	7,6	24,7	34,7	78,6	19,4
Income tax	6,8	1,6	7,5	6,6	14,9	3,7
Minority interest	1,4	0,5	-1,1	0,0	0,0	0,0
Net profit	-6,5	0,2	56,8	37,4	72,9	39,7
Net profit adj.	-6,5	0,2	56,8	28,1	63,6	15,7

gross margin from sales	24,3%	28,3%	29,1%	27,3%	27,5%	25,6%
EBITDA adj. margin	8,0%	8,4%	10,2%	10,4%	12,1%	9,3%
EBIT margin	8,0%	8,4%	10,2%	10,4%	12,1%	9,3%
net profit adj. margin	3,2%	4,2%	6,2%	6,3%	8,7%	4,2%

sales grow th y/y	-	0,0%	8,4%	3,4%	5,8%	1,9%
gross profit from sales grow th y/y	-21%	-4%	25%	21%	33%	-26%
EBITDA adj. grow th y/y	-22%	12%	29%	14%	34%	-31%
EBIT grow th y/y	-28%	1%	52%	23%	56%	-43%
net profit adj. grow th y/y	-56%	25%	85%	21%	85%	-64%
net profit adj. grow th y/y	-	-	-	-51%	126%	-75%

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Revenues	183,8	119,8	158,4	153,0	246,6	121,3
Operating expenses	134,6	85,0	102,8	109,7	183,0	85,0
Gross profit from sales	49,3	34,8	55,6	43,3	63,7	36,3
Sales expenses	16,4	14,8	17,2	18,7	27,2	16,5
Management costs	22,6	15,4	16,6	15,1	27,0	16,5
Profit from sales	10,2	4,6	21,8	9,6	9,5	3,3
Result on other operating activity	-5,2	0,9	-0,5	0,7	-4,3	1,0
EBITDA	11,0	11,8	28,1	17,1	12,3	12,8
EBITDA adj.	11,0	11,8	28,1	17,1	12,3	12,8
Amortization	6,0	6,3	6,7	6,8	7,0	8,5
EBIT	5,0	5,5	21,4	10,2	5,3	4,4
Financial net	-5,6	-3,0	-2,4	-4,4	-7,9	-3,6
Gross profit	-0,6	2,4	19,0	5,9	-2,6	0,8
Income tax	-1,2	1,7	3,9	2,3	-0,4	1,4
Minority interest	0,8	-0,2	0,9	-0,4	-1,5	-1,0
Net profit	-1,9	1,2	52,9	3,5	-0,7	0,5
Net profit adj.	-1,9	1,2	52,9	3,5	-0,7	0,5

gross margin from sales	26,8%	29,1%	35,1%	28,3%	25,8%	29,9%
EBITDA adj. margin	6,0%	9,8%	17,7%	11,2%	5,0%	10,6%
EBIT margin	2,7%	4,6%	13,5%	6,7%	2,1%	3,6%
net profit adj. margin	-	1,0%	33,4%	2,3%	-	0,4%

sales grow th y/y	0	0	0	0	0	0
gross profit from sales grow th y/y	-24,6%	-15,7%	45,1%	44,5%	34,2%	1,2%
EBITDA adj. grow th y/y	-4,3%	-7,7%	55,7%	41,2%	29,3%	4,1%
EBIT grow th y/y	556,1%	9,7%	66,7%	149,6%	11,3%	8,7%
net profit adj. grow th y/y	-49,1%	21,5%	72,6%	985,6%	5,3%	-20,6%
net profit adj. grow th y/y	-	790,3%	2132,4%	-	-	-59,3%

Source: the company, Trigon Brokerage House

Balance (PLN m)

	2016	2017	2018	2019F	2021F	2021F
Fixed assets	509,2	513,3	546,3	565,2	565,2	552,3
Tangible fixed assets	71,6	69,9	68,8	70,5	71,9	73,1
Intangible assets	417,3	431,4	445,3	464,0	468,8	461,0
Company's value	275,1	272,8	272,8	272,8	272,8	272,8
Long-term receivables	5,5	2,1	4,2	4,1	0,0	0,0
Long-term investments	5,2	2,8	20,2	18,5	24,6	18,2
Other	6,2	7,1	7,7	8,2	0,0	0,0
Current assets	311,1	333,4	388,6	444,0	598,3	500,6
Inventory	50,5	58,8	87,4	115,0	152,9	89,2
Trade receivables	149,0	157,4	189,2	229,2	295,0	210,9
Other	73,7	82,2	58,3	42,7	51,1	60,6
Cash	37,9	35,0	53,8	57,1	99,4	139,9
Assets	820,3	846,7	934,9	1 009,2	1 163,5	1 052,9
Equity	443,4	447,5	503,3	538,7	611,7	630,2
Share capital	14,8	14,8	14,8	14,8	14,8	14,8
Other	435,1	432,6	431,7	486,6	524,0	575,8
Net profit (loss)	-6,5	0,2	56,8	37,4	72,9	39,7
Minority capital	16,4	19,5	20,5	20,5	26,8	25,6
Long-term liabilities	105,7	92,8	104,0	104,0	104,0	104,0
Interest-bearing liabilities	93,4	80,3	84,1	109,3	100,0	100,0
Other	0,0	0,0	0,0	0,0	0,0	0,0
Short-term liabilities	271,1	306,3	327,6	366,5	447,9	318,6
Interest-bearing liabilities	77,4	176,1	176,9	182,5	187,4	209,3
Trade liabilities	89,0	103,5	118,9	106,6	94,0	113,0
Other	104,8	26,7	31,9	77,4	166,5	-3,6
Liabilities	820,3	846,7	934,9	1 009,2	1 163,5	1 052,9
Net working capital	110,4	112,7	157,7	237,6	353,9	187,2
Net debt	132,8	221,5	207,2	234,7	188,0	169,5
Net debt corr.	132,8	221,5	207,2	234,7	188,0	169,5
Net debt /EBITDA (x)	3,0	4,9	3,0	2,8	1,4	2,3
Net debt /equity (x)	0,3	0,5	0,4	0,4	0,3	0,3
ROE (%)	-	0%	12%	5%	11%	3%
ROA (%)	-	0%	6%	3%	6%	1%
Cash conversion cycle (days)	80	64	64	86	103	124
Inventory turnover (days)	45	51	56	62	62	73
Receivables turnover ratio (days)	99	103	93	93	88	114
Accounts payable turnover ratio (days)	64	91	84	69	46	63

Cash Flow (PLNm)

	2016	2017	2018	2019F	2021F	2021F
Cash flows from operating activities	22,2	15,6	2,0	85,3	102,6	160,7
Net profit (loss)	-6,5	0,2	56,8	37,4	72,9	39,7
Amortization	22,7	22,6	26,9	33,8	37,9	40,9
Changes in working capital	-11,2	-22,6	-49,6	-7,9	-33,4	74,0
Inventory changes	4,0	-8,4	-28,6	3,8	-19,3	30,5
Trade receivables change	8,9	-1,2	-33,0	-41,5	-69,8	88,3
Trade liabilities change	-31,1	-16,7	34,2	36,2	60,3	-58,3
Other	17,2	15,4	-32,1	22,0	25,2	6,2
Cash flows from investment activities	-43,2	-27,9	11,4	-53,4	-43,4	-33,1
CAPEX	-49,4	-34,9	-39,8	-54,0	-44,1	-34,3
Other	6,1	7,1	51,2	0,6	0,8	1,2
Cash flows from financial activities	-11,9	10,4	4,2	-26,5	-17,0	-87,1
Interest-bearing liabilities change	5,6	4,9	21,9	-9,3	0,0	-50,0
Revenues from shares emission	0,0	0,0	0,0	0,0	0,0	0,0
Dividend	0,0	0,0	0,0	0,0	0,0	-21,1
Other	-17,6	5,6	-17,7	-17,2	-17,0	-16,0
Net cash flow s	0,0	0,0	0,0	0,0	0,0	0,0
Cash opening balance	65,1	32,3	30,4	48,1	53,4	95,6
Closing balance of cash	32,3	30,4	48,1	53,4	95,6	136,1

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Definitions

capitalisation – market price multiplied by the number of a company's shares

free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company

min/max 52 wks – minimum/maximum share price within the last 52 weeks

average turnover – average volume of share trading within the last month

EBIT – operating profit

EBITDA – operating profit increased by depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
capex – sum of investment expenditures on fixed assets

ROA – rate of return on assets
ROE – rate of return on equity
gross profit margin – a ratio of gross profit to net revenue
EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – a ratio of operating profit to net revenue
net margin – a ratio of net profit to net revenue

EPS – earnings per share
DPS – dividends per share
P/E – a ratio of market price to earnings per share
P/BV – a ratio of market price to book value per share
EV/EBITDA – a company's EV to EBITDA ratio
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, dividend paid to share price ratio
ISSUER – Comp S.A.

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BUY – we expect that the rate of return on an investment will be at least 10%
NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
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Recommendation prepared by: Martyna Szymczykowska

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