

PGS Software

Buy

2Q19 results slightly below expectations

TP: PLN 17.2
Upside: +70%

2Q19 results were slightly below our expectations. Consequently, we update our annual forecasts and valuation while maintaining the 'Buy' recommendation. We lower our TP to PLN 17.20.

PGS Software: 2Q19 results

PLN m	2Q18	3Q18	4Q18	1Q19	2Q19	y/y	q/q	2Q19E
Sales	30,3	32,0	34,9	35,0	36,1	19%	3%	36,4
EBITDA	7,4	7,9	7,6	7,7	7,5	2%	-2%	7,9
EBIT	6,9	7,5	7,1	7,2	7,0	1%	-3%	7,5
Net profit	4,0	7,5	6,0	5,3	6,8	67%	27%	7,4
P/E 12M trailing	16,7	14,9	13,3	12,5	11,2			
EV/EBITDA 12M trailing	11,5	11,7	9,9	8,9	8,8			

Source: company data, Trigon DM

Evaluation and information from the 2Q19 report

- EBITDA is 5% below our estimates due to slight differences in reported data vs estimates.
- The differences vs estimates indicated in early July: revenues lower by PLN 0.3m; positive impact of exchange differences lower by 0.3m.
- Revenues from Aviva UK may drop in Q4 vs 2Q19.
- 13 new customers were acquired over the whole half-year.
- The Company points to uncertainty related to Brexit.
- Currently, there are 11 persons working in the Company's foreign sales department vs 4 at year end.
- Net cash PLN -16m.

Comment: The results do not change our view on the Company. We remind that we expect single-digit EBITDA dynamics in 2H19. PGS may return to a double-digit growth only in 2020. Currently, the Company is incurring extra costs with no significant revenues. This situation may change in 2020.

Changes: We have lowered our forecasts for 2019 and subsequent years mainly due to the increased risk of further reduction in orders from Aviva UK.

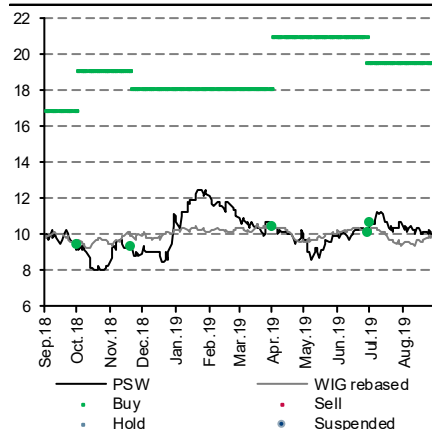
m PLN	2016	2017	2018	2019F	2021F	2021F
Sales	76,2	99,1	124,0	151,1	172,2	192,2
EBITDA	21,0	23,0	27,7	31,5	36,0	38,2
EBIT	19,9	21,4	26,0	29,4	33,6	35,6
Net profit	16,1	20,1	21,5	24,6	27,2	28,8
EPS (PLN)	0,56	0,71	0,76	0,87	0,96	1,01
P/E (x)	17,8	14,2	13,3	11,6	10,5	9,9
EV/EBITDA (x)	13,1	11,9	9,9	8,1	7,0	6,6
P/BV (x)	15,4	12,2	10,4	5,8	5,4	5,2
DY (%)	4,2%	5,3%	6,1%	0,4%	7,8%	8,6%

Source: data of the company, Trigon DM

FACT SHEET

Ticker	PSW
Sector	TMT
Price (PLN)	10,06
52wk Range (PLN)	8 / 12,5
Number of share (m)	28,4
Market Cap (mPLN)	286
Free-float	36,0%
Avg Vol 3M (mPLN)	0,05
Price performance	1M 3M 1Y
	-5,8% 1,8% 2,0%

RELATIVE SHARE PRICE PERFORMANCE



Recommendation history

	Date	Price
Buy	18.07.2019	19,6
Buy	16.07.2019	19,6
Buy	18.04.2019	21,0
Buy	07.12.2018	18,1
Buy	18.10.2018	19,2
Buy	19.07.2018	16,9
Buy	11.07.2018	14,8
Buy	19.04.2018	15,4

Shareholders

	Share %
Presto FIZ AN	31,9%
Infinitas FIZ AN	31,9%
NN OFE	7,4%

Important dates

3Q'19 Results	19.11.2019
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Analyst

Zbigniew Porczyk, CFA

PGSSOFT

Bloomberg ticker

PSW PW

Recommendation
Target Price (PLN)
Buy
17,2
Current Price (PLN)
Upside
10,1
71%

Previous Recommendation

Previous Upside (PLN)

Buy

19,6

Number of shares (m)

Market Cap (mPLN)

EV (m PLN)

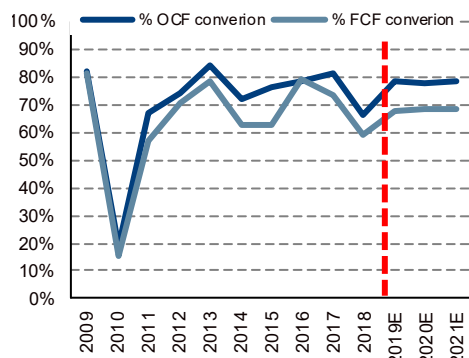
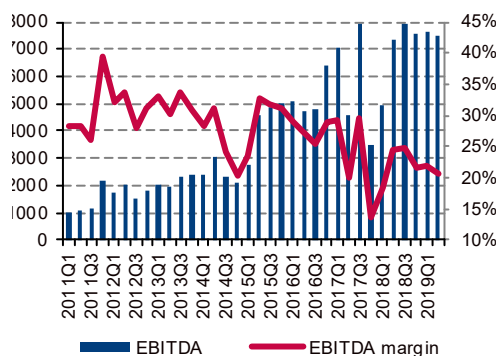
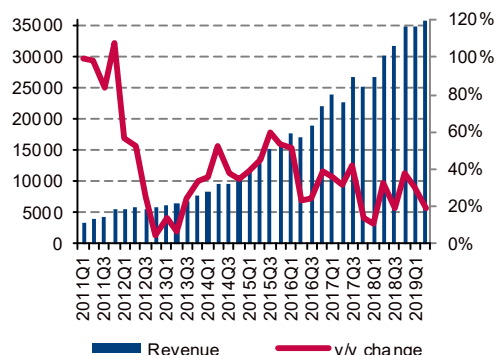
28,4

286

275

Zbigniew Porczyk, CFA

MARKET RATIOS	2017	2018	2019E	2020E	2021E
P/E (x)	14,2	13,3	11,6	10,5	9,9
P/E adj. (x)	14,2	13,3	11,6	10,5	9,9
P/BV (x)	12,2	10,4	5,8	5,4	5,2
EV/EBITDA (x)	11,9	9,9	8,1	7,0	6,6
EV/EBITDA adj. (x)	11,9	9,9	8,1	7,0	6,6
EV/Sales (x)	2,7	2,2	1,7	1,5	1,3
FCF Yield (%)	5,6%	5,6%	7,5%	8,7%	9,2%
DY (%)	5,3%	6,1%	0,4%	7,8%	8,6%
RATIOS	2017	2018	2019E	2020E	2021E
EPS (PLN)	0,7	0,8	0,9	1,0	1,0
EPS adj. (PLN)	0,7	0,8	0,9	1,0	1,0
DPS (PLN)	0,5	0,6	0,0	0,8	0,9
BVPS (PLN)	0,8	1,0	1,7	1,9	1,9
Number of shares (m)	28,4	28,4	28,4	28,4	28,4
Market Cap (mPLN)	286	286	286	286	286
EV (mPLN)	272	275	254	253	253

EBITDA conversion into cash

EBITDA and EBITDA margin

Revenues


P&L (mPLN)	2017	2018	2019E	2020E	2021E
Sales	99	124	151	172	192
COGS	78	98	121	138	156
Gross profit	22	26	30	34	37
EBITDA	23	28	31	36	38
EBITDA adj.	23	28	31	36	38
D&A	2	2	2	2	3
EBIT	21	26	29	34	36
Gross profit	25	26	30	34	36
Minority interest	0	0	0	0	0
Net profit	20	22	25	27	29
Net profit adj.	20	22	25	27	29

CASH FLOW STATEMENT (mPLN)	2017	2018	2019E	2020E	2021E
Cash flow from operations	19	18	25	28	30
Cash flow from investing	-2	-2	-3	-3	-4
CAPEX	-3	-2	-3	-3	-3
Cash flow from financing	-15	-18	-1	-24	-26
Dividend	-15	-18	-1	-22	-25
FCF	16	16	22	25	26
Net cash flow	1	-2	21	1	0

BALANCE SHEET (mPLN)	2017	2018	2019E	2020E	2021E
ASSETS	4	5	6	7	8
PPE	3	4	5	6	6
Goodwill	0	0	0	0	0
Intangible assets	0	0	0	0	0
Cash and equivalents	14	11	32	33	33
EQUITY AND LIABILITIES	34	40	64	70	74
Equity	23	27	49	53	55
Minority shareholders capital	0	0	0	0	0
Interest-bearing liabilities	0	0	0	0	0
Net debt	-14	-11	-32	-33	-33
Net working capital	11	15	25	28	32

OPERATING INDICATORS	2017	2018	2019E	2020E	2021E
Sales growth (%)	30%	25%	22%	14%	12%
EPS adj. growth (%)	25%	7%	14%	11%	6%
Gross profit margin (%)	21,7%	20,9%	19,6%	20,0%	19,0%
EBITDA adj. margin (%)	23,2%	22,4%	20,8%	20,9%	19,9%
Operating profit margin (%)	21,6%	21,0%	19,5%	19,5%	18,5%
Net profit adj. margin (%)	20,3%	17,4%	16,3%	15,8%	15,0%
ROE (%)	95,7%	84,5%	64,3%	53,5%	53,4%
ROA (%)	65,3%	57,9%	47,2%	40,6%	40,0%
CAPEX/Sales (%)	2,6%	2,0%	2,0%	1,9%	1,8%
CAPEX/D&A (x)	1,6	1,5	1,5	1,4	1,3
Net debt/Equity	-0,6	-0,4	-0,7	-0,6	-0,6
Net debt/EBITDA (x)	-0,6	-0,4	-1,0	-0,9	-0,9
Cash conversion cycle (days)	36	35	47	56	57
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	53	53	54	56	57
Liabilities turnover (days)	17	18	8	0	0

Source: Company, Trigon DM

Valuation

Summary:

- DCF valuation: PLN 17.20
- Market multiples valuation: PLN 30
- Target Price (100% DCF): PLN 17.20

DCF valuation

PGS Software: DCF valuation

	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	Terminal
EBIT	29	34	36	37	38	39	39	39	39	37	
ETR	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPLAT	24	27	29	30	31	32	32	32	31	30	29
D&A	2,1	2,3	2,6	2,9	3,2	3,4	3,7	4,0	4,2	4,4	
CAPEX	3,1	3,2	3,5	3,8	4,1	4,4	4,7	5,0	5,3	5,5	
WC	-2,2	-1,7	-1,6	-1,6	-1,6	-1,6	-1,5	-1,5	-1,4	-1,4	
FCF	21	25	26	28	29	29	29	29	29	28	28
ND / Equity	0%										
RFR	2,3%										
MRP	6,0%										
Beta unlevered	1,0										
Debt costs after tax (%)	3,5%										
CoE (%)	8,3%										
WACC (%)	8,3%										
Sum PV FCF 2019-28	177										
Terminal growth rate > '28	3,0%										
Discounted TV	236										
Net debt	-11										
Minorities	0										
Nonoperating assets	0										
Equity (PLN, m)	425										
# of shares (m)	28,4										
Value per share (PLN, 1/1/2019)	14,9										
Target Price (12m)	17,2										

Source: Trigon DM

Market multiples valuation

For the peer group, we take into account three companies with their business model analogous to the one of PGS Software.

PGS Software: Market multiples valuation

	M Cap (m EUR)	2019P	P/E 2020P	2021P	EV/EBITDA 2019P	2020P	2021P	EV/EBIT 2019P	2020P	2021P	FCF Y 2019P	2020P	2021P
GLOBANT	2880	50,8	38,7	30,9	32,3	24,7	19,9	36,5	28,4	22,6	1,5	2,1	2,8
ENDAVA	1918	42,2	37,6	30,8	32,3	26,4	21,1	59,9	33,5	28,5	1,9	2,5	-
EPAM SYSTEMS	8886	41,6	33,8	27,7	26,7	21,7	17,5	29,4	23,2	18,0	2,4	3,7	4,5
Mediana		42,2	37,6	30,8	32,3	24,7	19,9	36,5	28,4	22,6	1,9	2,5	3,6
PGS Software	66	11,6	10,4	9,9	8,7	7,6	7,2	10,5	9,3	8,1	7,6	8,8	10,0
PGS Software wycena wynikowa		32,2	32,8	29,7	32,1	27,9	25,8	33,3	29,2	26,5	40,8	30,7	21,1
Wycena ze składnika (średnia roczna)			31,6			28,6			29,7			30,9	

Source: Bloomberg, Trigon DM

Changes in forecasts and valuations

PGS Software: Forecast changes

Estimates revision	2019E			2020E			2021E		
mIn PLN	New	Old	Chng.	New	Old	Chng.	New	Old	Chng.
Revenues	151	153	-1%	172	187	-8%	192	215	-11%
EBITDA	31	33	-5%	36	39	-7%	38	42	-9%
EBIT	29	31	-5%	34	36	-7%	36	39	-9%
Net profit	25	25	-2%	27	29	-7%	29	32	-9%

Source: Trigon DM

PGS Software: Changes in valuations

Wycena/waga	Obecna		Poprzednia		Zmiana
Wycena DCF	17,2	100%	19,6	100%	-12%
Wycena porów naw cza	30,3	0%	33,2	0%	-9%

Source: Trigon DM

Income statement (PLNm)

	2016	2017	2018	2019E	2021E	2021E
Revenues	76	99	124	151	172	192
COGS	56	78	98	121	138	156
Profit from sales	20	22	26	30	34	37
Other, net	0	0	0	0	-1	-1
EBITDA	21	23	28	31	36	38
EBITDA adj.	21	23	28	31	36	38
Amortization	1	2	2	2	2	3
EBIT	20	21	26	29	34	36
Financial net	0	3	0	1	0	0
Gross profit	20	25	26	30	34	36
Income tax	4	5	5	6	6	7
Minority interest	0	0	0	0	0	0
Net profit	16	20	22	25	27	29
Net profit adj.	16	20	22	25	27	29

profit on sales margin	26,6%	21,7%	20,9%	19,6%	20,0%	19,0%
EBITDA adj. margin	27,6%	23,2%	22,4%	20,8%	20,9%	19,9%
EBIT margin	26,1%	21,6%	21,0%	19,5%	19,5%	18,5%
net profit adj. margin	21,1%	20,3%	17,4%	16,3%	15,8%	15,0%

sales grow th y/y	33%	30%	25%	22%	14%	12%
profit on sales grow th y/y	24%	6%	21%	14%	16%	6%
EBITDA adj. grow th y/y	22%	9%	21%	14%	14%	6%
EBIT grow th y/y	22%	8%	21%	13%	14%	6%
net profit adj. grow th y/y	17%	25%	7%	14%	11%	6%

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Revenues	25,4	26,8	30,3	32,0	34,9	35,0
COGS	22,3	22,4	23,4	24,5	27,8	27,7
Profit from sales	3,1	4,5	6,9	7,4	7,1	7,2
Other, net	0,0	0,0	0,0	0,0	0,0	0,0
EBITDA	3,5	4,9	7,4	7,9	7,6	7,7
EBITDA adj.	3,5	4,9	7,4	7,9	7,6	7,7
Amortization	0,4	0,4	0,4	0,4	0,4	0,5
EBIT	3,0	4,5	6,9	7,5	7,1	7,2
Financial net	1,4	0,1	-1,9	1,8	0,3	-0,2
Gross profit	4,5	4,6	5,0	9,3	7,5	7,0
Income tax	0,9	0,5	1,0	1,8	1,5	1,7
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0
Net profit	3,6	4,0	4,0	7,5	6,0	5,3
Net profit adj.	3,6	4,0	4,0	7,5	6,0	5,3

profit on sales margin	12,4%	16,6%	22,8%	23,3%	20,4%	20,6%
EBITDA adj. margin	13,6%	18,3%	24,3%	24,7%	21,7%	21,9%
EBIT margin	12,0%	16,8%	22,9%	23,3%	20,4%	20,6%
net profit adj. margin	14,1%	15,1%	13,4%	23,4%	17,0%	15,3%

	0	0	0	0	0	0
sales grow th y/y	11,2%	33,1%	19,1%	37,4%	30,4%	19,1%
profit on sales grow th y/y	-34,0%	64,6%	0,5%	126,4%	61,9%	3,9%
EBITDA adj. grow th y/y	-30,4%	61,2%	-0,2%	119,0%	56,2%	1,8%
EBIT grow th y/y	-32,8%	64,7%	-0,3%	134,7%	60,4%	1,4%
net profit adj. grow th y/y	-44,1%	6,0%	36,7%	65,9%	32,0%	67,4%

Source: the company, Trigon DM

Balance (PLN m)

	2016	2017	2018	2019E	2021E	2021E
Fixed assets	3	4	5	6	7	8
Tangible fixed assets	2	3	4	5	6	6
Intangible assets	0	0	0	0	0	0
Company's value	0	0	0	0	0	0
Long-term receivables	0	0	0	0	0	0
Long-term investments	0	0	0	0	0	0
Other	0	1	1	1	1	1
Current assets	25	30	35	58	62	66
Inventory	0	0	0	0	0	0
Trade receivables	13	15	20	25	28	32
Other	0	1	3	1	1	1
Cash	11	14	11	32	33	33
Assets	27	34	40	64	70	74
Equity	19	23	27	49	53	55
Share capital	1	1	1	1	1	1
Other	2	3	5	24	25	26
Net profit (loss)	16	20	22	25	27	29
Minority capital	0	0	0	0	0	0
Long-term liabilities	0	1	1	1	1	1
Interest-bearing liabilities	0	0	0	0	0	0
Other	0	1	1	1	1	1
Short-term liabilities	8	9	10	13	15	16
Interest-bearing liabilities	1	0	1	0	0	0
Trade liabilities	3	4	5	0	0	0
Other	4	4	5	13	15	16
Liabilities	27	34	40	64	70	74
Net working capital	11	11	15	25	28	32
Net debt	-10	-14	-11	-32	-33	-33
Net debt corr.	-10	-14	-11	-32	-33	-33
Net debt /EBITDA (x)	-0,5	-0,6	-0,4	-1,0	-0,9	-0,9
Net debt /equity (x)	-0,5	-0,6	-0,4	-0,7	-0,6	-0,6
ROE (%)	96%	96%	84%	64%	54%	53%
ROA (%)	67%	65%	58%	47%	41%	40%
Cash conversion cycle (days)	42	36	35	47	56	57
Inventory turnover (days)	0	0	0	0	0	0
Receivables turnover ratio (days)	57	53	53	54	56	57
Accounts payable turnover ratio (days)	16	17	18	8	0	0

Cash Flow (PLNm)

	2016	2017	2018	2019E	2021E	2021E
Cash flows from operating activities	17	19	18	25	28	30
Net profit (loss)	16	20	22	25	27	29
Amortization	1	2	2	2	2	3
Changes in working capital	0	-1	-3	-2	-2	-2
Inventory changes	0	0	0	0	0	0
Trade receivables change	-3	-2	-5	-4	-3	-3
Trade liabilities change	3	1	2	2	2	2
Other	-1	-2	-1	0	0	0
Cash flows from investment activities	0	-2	-2	-3	-3	-4
CAPEX	-2	-3	-2	-3	-3	-3
Other	2	1	0	0	0	0
Cash flows from financial activities	-12	-15	-18	-1	-24	-26
Interest-bearing liabilities change	0	0	0	0	0	0
Revenues from shares emission	0	0	0	0	0	0
Dividend	-12	-15	-18	-1	-22	-25
Other	0	-1	-1	0	-2	-2
Net cash flows	4	1	-2	21	1	0
Cash opening balance	8	11	14	11	32	33
Closing balance of cash	11	14	11	32	33	33

Source: the company, Trigon DM

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Disclaimer

General information

The Document has been prepared by Trigon Dom Maklerski S.A. (the "Brokerage House"), for remuneration, on behalf of Warsaw Stock Exchange S.A. (the "WSE"), based on agreement for the provision of services for the preparation of analytical reports (the "Agreement"), which is supervised by the Polish Financial Supervision Authority.

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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 – PGS Software S.A.

Recommendations of the Brokerage House

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%
SELL – we expect that an investment will make a loss greater than 0%
Recommendation prepared by: [Zbigniew Porczyk]

Recommendations are valid for a period of 12 months from the date of issuance (the date specified at the beginning of the document) or until the price target of the financial instrument is achieved.

The Brokerage House may update its recommendation at any time, depending on current market conditions or assessment of persons preparing the recommendation.

Short-term recommendations (particularly those designated as speculative) may be valid for a shorter period of time. Short-term recommendations designated as speculative involve a higher investment risk.

Valuation methods used

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As basis valuation methodology and the adopted assumptions used to assess the financial instrument or issuer or to determine the target price of the financial instrument was adopted DCF valuation.

The valuation, valuation methodology or adopted assumptions did not change from the date of preparation and the first dissemination of the Document.

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