

PGS Software

Buy

(previous: Buy, 14,9 PLN)

Target price: 14 PLN

Current price 12 PLN

Upside potential 17%

The Company has already reported preliminary **2Q20 sales of PLN ~30.6m (-15.1% y/y, -22.4% q/q)**, which were close to our expectations of PLN 30.98m.

In 2Q20, the Company **acquired 4 new customers**, and **the positive** impact of currency hedges amounted to around PLN 1.6m.

The gradual decline in sales through June was expected, due to the applicable termination dates for certain projects (revenues for June were around 27% lower than average monthly revenues for 1Q20). There are new projects emerging at present, but on a scale not comparable revenue loss. With new orders coming to an end, the holiday season, and continuing uncertainty about the global pandemic situation, 3Q20 could be even more difficult for the Company, but we expect a mild recovery by year-end, and we see a chance for returning to a higher number of large-scale contracts in 2021.

The cancellation of the announced wage reductions prompts us to raise our cost base forecast by ~13%, but the decision is symptomatic of a less pessimistic outlook for the Company than initially anticipated, and does not change our expectations for a positive operating profit in 2Q20.

The results will gain an additional boost from the liquidation of a significant part of write-offs on at-risk receivables created in March, due to there being no issues with payments.

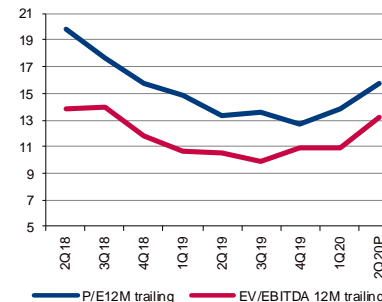
As we update our forecasts, we are lowering our target price slightly to PLN 14 per share, and standing by our *Buy* recommendation.

Quarterly report

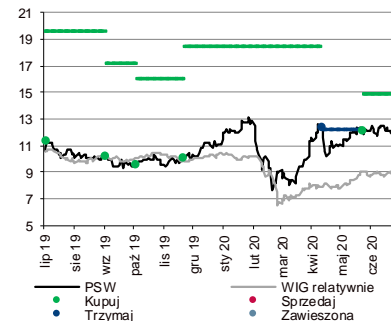
30.09.2020

Company data		Recommendation history		Date	Price
Ticker	PSW	Buy		08.06.2020	14,9
Sector	IT	Hold		27.04.2020	12,3
Price (PLN)	12,0	Buy		06.12.2019	18,5
52w min/max (PLN)	7,45 / 13,1	Buy		18.10.2019	16,1
Shares (m)	28,3	Buy		17.09.2019	17,2
MC (PLNm)	339	Buy		18.07.2019	19,6
Free-float	35,3%	Buy		16.07.2019	19,6
Avg. 3M turnover (PLNm)	0,14	Buy		18.04.2019	21,0
Zmiana kursu	1M	3M	1Y		
	1,6%	21,7%	18,8%		

P/E 12M vs EV/EBITDA 12M



Relative performance vs. WIG



m PLN	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20P	y/y	q/q
Sales	30,3	32,0	34,9	35,0	36,1	38,5	35,2	39,5	30,6	-15%	-22%
EBITDA	7,4	7,9	7,6	7,7	7,5	9,1	3,5	6,3	3,1	-59%	-51%
EBIT	6,9	7,5	7,1	7,2	7,0	8,6	3,0	5,8	2,6	-63%	-55%
Net profit	4,0	7,5	6,0	5,3	6,8	6,8	7,9	3,1	3,7	-45%	20%
P/E12M trailing	19,8	17,7	15,8	14,9	13,3	13,6	12,6	13,8	15,7		
EV/EBITDA 12M trailing	13,8	14,0	11,8	10,6	10,5	9,9	11,0	11,0	13,2		
sales grow th y/y	33%	19%	37%	30%	19%	20%	1%	13%	-15%		
EBITDA margin	24%	25%	22%	22%	21%	24%	10%	16%	10%		
EBIT margin	23%	23%	20%	21%	19%	22%	8%	15%	8%		
Net margin	13%	23%	17%	15%	19%	18%	22%	8%	12%		

m PLN	2017	2018	2019	2020P	2021P	2022P
Sales	99,1	124,0	144,7	134,8	151,6	168,3
EBITDA	23,0	27,7	27,7	19,4	27,1	30,9
EBIT	21,4	26,0	25,8	17,5	25,0	28,6
Net profit	20,1	21,5	26,8	17,3	24,2	27,2
EPS (PLN)	0,71	0,76	0,95	0,61	0,86	0,96
DPS (PLN)	0,54	0,62	0,00	0,00	0,55	0,77
P/E (x)	16,9	15,8	12,6	19,6	14,0	12,5
EV/EBITDA (x)	14,2	11,8	11,0	14,9	10,5	9,1
P/BV (x)	14,5	12,3	6,2	4,9	4,4	4,2
DY (%)	4,5%	5,2%	0,0%	0,0%	4,6%	6,4%

Valuation/weight	Current		Previous		Change
DCF valuation	14,0	100%	14,9	100%	-6,2%
Peer valuation	25,1	0%	26,5	0%	-5,3%

Estimates revision m PLN	2021E			2022E			2022E		
	New	Old	Change	New	Old	Change	New	Old	Change
Sales	135	135	0%	152	152	0%	168	169	0%
EBITDA	19	23	-16%	27	27	0%	31	31	0%
EBIT	18	21	-16%	25	25	0%	29	29	-1%
Net profit	17	20	-14%	24	24	1%	27	27	1%
P/E (x)									
EV/EBITDA (x)	14,9	12,6		10,5	10,5		9,1	9,1	
P/BV (x)	4,9			4,4			4,2		
DY (%)	0,0%			4,6%			6,4%		

MARKET RATIOS	2018	2019	2020P	2021P	2022P
P/E (x)	15,8	12,6	19,6	14,0	12,5
P/E adj. (x)	15,8	12,6	19,6	14,0	12,5
P/BV (x)	12,3	6,2	4,9	4,4	4,2
EV/EBITDA (x)	11,8	11,0	14,9	10,5	9,1
EV/EBITDA adj. (x)	11,8	11,0	14,9	10,5	9,1
EV/Sales (x)	2,6	2,1	2,1	1,9	1,7
FCF Yield (%)	4,7%	6,9%	5,1%	6,5%	7,3%
DY (%)	5,2%	0,0%	0,0%	4,6%	6,4%

RATIOS	2018	2019	2020P	2021P	2022P
EPS (PLN)	0,8	0,9	0,6	0,9	1,0
EPS adj. (PLN)	0,8	0,9	0,6	0,9	1,0
DPS (PLN)	0,6	0,0	0,0	0,6	0,8
BVPS (PLN)	1,0	1,9	2,5	2,7	2,9

OPERATING INDICATORS	2018	2019	2020P	2021P	2022P
Gross profit margin (%)	20,9%	17,9%	13,0%	15,5%	16,0%
EBITDA adj. margin (%)	22,4%	19,2%	14,4%	17,9%	18,4%
Operating profit margin (%)	21,0%	17,9%	13,0%	16,5%	17,0%
Net profit adj. margin (%)	17,4%	18,6%	12,8%	16,0%	16,1%

ROE (%)	84,5%	65,6%	27,8%	33,0%	34,5%
ROA (%)	57,9%	49,9%	23,1%	28,0%	29,1%
CAPEX/Sales (%)	2,0%	1,5%	1,3%	1,8%	1,8%
CAPEX/D&A (x)	1,5	1,1	0,9	1,3	1,3
Net debt /equity (x)	-0,4	-0,6	-0,7	-0,7	-0,7
Net debt /EBITDA (x)	-0,4	-1,3	-2,6	-2,0	-1,8

Cash conversion cycle (days)	39	34	32	32	36
Inventory turnover (days)	0	0	0	0	0
Receivables turnover ratio (days)	53	50	51	48	50
Accounts payable turnover ratio (days)	14	16	19	16	15

INCOME STATEMENT (PLNm)	2017	2018	2019	2020P	2021P	2022P
Sales	99,1	124,0	144,7	134,8	151,6	168,3
COGS	77,6	98,1	118,8	117,3	128,1	141,4
Gross profit from sales	21,5	25,9	25,9	17,5	23,5	26,9
Sales expenses						
G&A						
Profit from sales	21,5	25,9	25,9	17,5	23,5	26,9
Result on other operating activity	-0,1	0,1	0,0	0,0	1,5	1,7
EBITDA	23,0	27,7	27,7	19,4	27,1	30,9
EBITDA adj.	23,0	27,7	27,7	19,4	27,1	30,9
Amortization	1,5	1,7	1,9	1,9	2,1	2,4
EBIT	21,4	26,0	25,8	17,5	25,0	28,6
Financial net	3,5	0,4	3,3	1,9	2,2	1,9
Income before income taxes	24,9	26,3	29,0	19,4	27,2	30,5
Income tax	4,8	4,8	2,2	2,1	3,0	3,4
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0
Net profit	20,1	21,5	26,8	17,3	24,2	27,2
Net profit adj.	20,1	21,5	26,8	17,3	24,2	27,2

BALANCE SHEET (PLNm)	2017	2018	2019	2020P	2021P	2022P
Fixed assets	4,2	5,3	5,3	5,1	5,7	6,5
Current assets	30,1	34,7	60,7	77,2	85,0	89,5
Inventory	0,0	0,0	0,0	0,0	0,0	0,0
Trade receivables	15,4	20,3	19,2	18,6	21,6	24,8
Cash	14,1	11,5	35,2	50,7	55,4	56,6
ASSETS	34,3	40,1	67,6	82,2	90,8	96,0
Equity	23,5	27,5	54,3	69,8	76,9	80,6
Minority capital	0,0	0,0	0,0	0,0	0,0	0,0
Long-term liabilities	0,7	0,9	0,5	0,5	0,5	0,5
Interest-bearing liabilities	0,0	0,0	0,0	0,0	0,0	0,0
Short-term liabilities	8,9	10,5	11,4	10,6	11,9	13,2
Interest-bearing liabilities	0,5	0,7	0,3	0,3	0,3	0,3
Trade liabilities	4,2	5,3	7,3	6,8	6,8	6,8
Liabilities	34,3	40,1	67,6	82,2	90,8	96,0

CASH FLOW STATEMENT (PLNm)	2017	2018	2019	2020P	2021P	2022P
Cash flow from operations	18,7	18,4	25,4	19,0	24,7	27,7
Net profit (loss)	20,1	21,5	26,8	17,3	24,2	27,2
Amortization	1,5	1,7	1,9	1,9	2,1	2,4
Cash flow from investing	-1,8	-2,0	-2,4	-1,7	-2,8	-3,1
CAPEX	-2,5	-2,5	-2,1	-1,7	-2,8	-3,0
Cash flows from financial activities	-15,5	-17,9	-0,5	-1,8	-17,2	-23,4
Dividend	-15,2	-17,5	0,0	0,0	-15,6	-21,8
Net cash flow	1,4	-1,5	22,5	15,5	4,7	1,2
Cash opening balance	10,9	14,1	11,5	35,2	50,7	55,4
Closing balance of cash	14,1	11,5	35,2	50,7	55,4	56,6



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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

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 flow (DCF) and multiples methods (a comparison of a company's trading multiples with the metrics of comparable companies). Alternatively, a discounted dividend model may also be used. The key disadvantage of methods based on discounted cash flows is high sensitivity to adopted assumptions, whereas their advantage is a lack of relation to a company's current market price. On the other hand, the main disadvantage of the multiples method is a risk that at a given point in time the market prices of comparable companies might not reflect their true value, whereas its advantage lies in the fact that it shows a company's market value obtained based on the market values of comparable companies.

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