

R22

Good operating performance with high debt costs

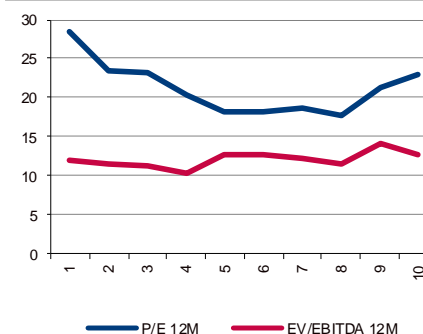
- Q3 2022 results.** We expect an adjusted EBITDA of PLN 27.8m. We estimate that the Hosting segment will generate PLN 12.2m EBITDA (+19% YoY), CPaaS PLN 16.4m (+64% YoY). In the quarter, the CPaaS segment will consolidate the former Telco segment Oxyllion (quarterly EBITDA c. PLN 1m). We expect higher financial expenses and foreign exchange differences on the value of the EUR-denominated loan: PLN -9 million. We expect a slightly positive market reaction to the results.
- Outlook.** A key issue for valuation and earnings trajectory will be the impact and integration of MailerLite into the CPaaS segment. Through the acquisition, the company has scaled its VRC customer base by 200%. Strategically, the acquisition of MailLite creates, in our view, a strong potential for cross-selling of services (e.g. Push, Voice, OTT), although the integration of processes may take the company several months. The market's valuation of R22 may gradually give more weight to the fast-growing Profitroom business (valued MPW ; expected buyout >50% stake in 2024). High debt (headline ND/EBITDA '23 3x, and including minority interests ND/EBITDA 5.1x) may be a threat to earnings on the net profit side. Due to high debt servicing costs, we expect R22 to forego M&A and dividends at the expense of a faster descent with debt below ND/EBITDA 2x.
- Changes to forecasts / Recommendation.** We are raising forecasts on revenue/EBITDA due to the expected increased growth rates at MailerLite. On the other hand, we are lowering our net profit forecast due to increased debt servicing costs. We reiterate our BUY recommendation with a target price to PLN 53.4/share. We believe the company is more attractively valued than Vercom.

mPLN	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	y/y	q/q
Sales	49	71	67	68	74	87	84	87	108	46%	24%
EBITDA adj.	15	18	18	19	19	21	21	23	28	44%	22%
EBIT	11	11	13	14	12	10	15	15	22	75%	43%
Net profit	7	4	7	8	7	3	8	4	6	-21%	50%
P/E 12M trailing	23,5	23,3	20,3	18,2	18,1	18,7	17,6	21,4	22,9		
EV/EBITDA 12M trailing	11,5	11,2	10,4	12,6	12,8	12,2	11,4	14,0	12,6		
sales growth y/y	11%	48%	36%	29%	49%	23%	25%	28%	46%		
EBITDA margin	30,4%	25,6%	26,3%	27,9%	26,2%	23,9%	25,4%	26,2%	25,9%		
EBIT margin	21,6%	15,0%	18,8%	20,1%	16,7%	11,2%	17,3%	17,3%	20,0%		
Net margin	13,8%	5,6%	10,3%	12,3%	9,5%	3,5%	10,1%	4,3%	5,2%		

Financial report
16.11.2022

Company data		Recommendation history	Date	Price
Ticker	_R22	Buy	25.07.2022	51
Sector	TMT	Buy	22.04.2022	54
Price (PLN)	33,6	Buy	09.12.2021	66
52w min/max (PLN)	32,75 / 49,6	Buy	20.07.2021	66
Shares (m)	14,2	Buy	28.05.2021	65
MC (PLNm)	476,4	Buy	26.04.2021	62
Free-float	0,3	Buy	07.12.2020	44
Avg. 3M turnover (PLNm)	0,4	Buy	22.10.2020	40
Price chng.	1M 4,8%	3M 39,8%	1Y 7,0%	

P/E 12M vs EV/EBITDA 12M



WIG vs. R22 chart



mPLN	2019	2020	2021	2022E	2023E	2024E
Sales	169	223	297	403	481	538
EBITDA	46	61	72	100	121	137
EBIT	32	45	49	75	94	108
Net profit	14	20	25	26	38	45
EPS (PLN)	0,98	1,5	1,8	1,8	2,7	3,2
DPS (PLN)	0,5	0,4	0,6	0,7	0,0	0,0
P/E (x)	34,2	23,1	18,6	18,2	12,6	10,6
EV/EBITDA (x)	14,1	17,2	12,9	11,6	9,0	7,4
P/BV (x)	5,6	7,0	2,6	2,1	1,8	1,5
DY (%)	1,4%	1,2%	1,7%	2,1%	0,0%	0,0%

Buy

(Previous: Buy; PLN 51,3)

TP: 53,5 PLN

Cur. price: 33,6 PLN

Upside: 59%

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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

OCF – cash generated through the operational activities of the company

FCF – cash generated by the company after taking into account outflows to support operations and retained capital

ROA – rate of return on assets

ROE – rate of return on equity

NWC – net working capital

Cash conversion cycle – period from the moment of expenditure of cash for the purchase of production factors until the moment of receipt of cash revenues from the sale of manufactured goods or services.

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

RFR - risk-free rate

WACC - weighted average cost of capital

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: Grzegorz Kujawski, Maciej Marcinowski, David Sharma, Dominik Niszcz, Michał Kozak, Kacper Koproń, Katarzyna Kosiorek, Łukasz Rudnik, Piotr Rychlicki, Piotr Chodyra

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