

Ailleron

Above-average margins, prospects for double-digit earnings growth

Financial outlook. After a very good second quarter in which we were surprised by the level of Software Mind's margins despite global sector weakness, we are raising our operating profit forecasts by 12% this year and 7% next year. 2024 will be the first year without the burden of project costs for Pekao in Fintech and development costs for LiveBank, which is already a product so innovative that no further investment expenditure is required, only a greater focus on sales. The full impact of the valorisation of customer tariffs, which was not fully implemented in all contracts at the beginning of the year, will then be visible in the results. We forecast net profit for the parent company's shareholders to rise to PLN 25m in 2024 and PLN 31m in 2025, implying a P/E of 7-8x, which we consider very attractive for a growth company in this sector.

Valuation and recommendation. Despite the dividend cut by PLN 1, we raise our target price from PLN 26 to PLN 28 and reiterate our BUY recommendation. A comparative valuation based on a group of global software houses yields PLN 36.3 per share. A comparison with Spyrosoft based on adjusted net profit for the last four quarters implies a valuation of PLN 36.0, but we note a rather temporary bottom in SPR's profitability and believe a certain premium, albeit not a large one, is justified.

Q3'23 Forecasts. We expect revenues of PLN 16m in FinTech and PLN 99m in Software Mind, where Q2 saw slightly higher revenues in the telecom sector, but we do not expect this effect in the current period, and furthermore, exchange rates have been the most unfavourable for the company's revenues in many quarters (average USD/PLN down 12% y/y and average EUR/PLN down 5% y/y). We forecast an operating profit of PLN 15m, the best quarter so far this year and comparable to the excellent Q3'22. Part of the FX exposure is still hedged. We expect a slight decline in net profit due to the absence of Pekao contract revenues, with some drag from team costs. This effect is expected to fade by the last quarter of 2023, with virtually no impact on the P&L from next year onwards. Traditionally, we expect the strongest results in the Ailleron group in Q4.

PLNm	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	y/y	q/q
Revenues	60,2	71,4	76,7	101,7	111,7	123,3	110,6	115,7	115,7	4%	0%
EBITDA	7,9	14,4	12,2	10,2	18,8	20,0	15,6	13,7	18,7	-1%	37%
EBIT	6,5	12,3	9,4	7,0	15,5	16,2	11,9	9,8	14,8	-5%	51%
Net profit	1,0	4,5	-0,7	3,0	5,6	5,3	2,8	1,8	5,0	-11%	175%
P/E 12M trailing	82,2	32,2	48,2	30,5	19,2	18,0	14,3	15,3	15,9		
EV/EBITDA 12M trailing	28,6	14,5	14,8	13,8	11,2	10,1	9,4	9,4	9,2		
revenues growth y./y.	-	-	97%	120%	86%	73%	44%	14%	4%		
EBITDA margin	13,1%	20,2%	15,9%	10,0%	16,8%	16,2%	14,1%	11,8%	16,1%		
EBIT margin	10,8%	17,2%	12,3%	6,9%	13,9%	13,1%	10,8%	8,5%	12,8%		
Net profit margin	1,7%	6,3%	-	2,9%	5,0%	4,3%	2,6%	1,6%	4,3%		

Dominik Niszczyński

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Buy

(Previous: Buy, 26 PLN)

Target Price: 28 PLN

Current Price: 19,3 PLN

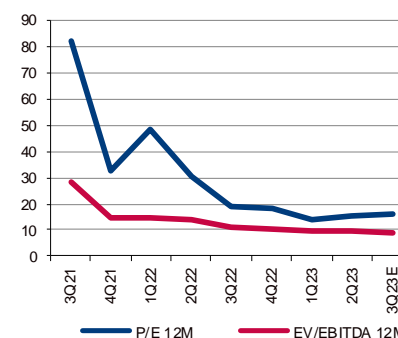
Upside: 45%

3Q23 Earnings

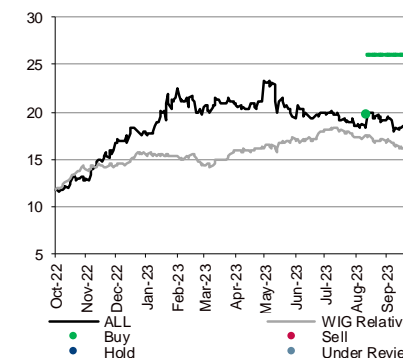
29.11.2023

FACT SHEET	RECOMMENDATIONS	Date	Valuation
Ticker	ALL	Buy	30.08.2023
Sector	TMT		26
Price (PLN)	19,3		
52W range (PLN)	11,4 / 24,2		
Shares outstanding (m)	12,4		
Market Cap (PLNm)	238		
S&P Global ESG Scores	1		
3M Avg. Vol. (PLNm)	0,17		
Price perf.	1M 3M 1Y		
	-2,3% -4,0% 61,7%		

P/E 12M vs EV/EBITDA 12M



ALL RELATIVE SHARE PRICE vs WIG



PLNm	2020	2021	2022	2023E	2024E	2025E
Revenues	156	212,4	410,1	467,3	523,1	613,9
EBITDA	24	35,7	61,1	70,6	88,6	106,5
EBIT	16	27,4	48,2	55,4	70,7	87,1
Net profit	9	7,4	13,2	17,5	25,2	31,3
EPS (PLN)	0,76	0,6	1,1	1,4	2,0	2,5
DPS (PLN)	0,0	0,3	0,3	1,0	0,5	0,5
P/E (x)	25,3	32,2	18,0	13,6	9,5	7,6
EV/EBITDA (x)	10,4	14,7	10,1	8,7	6,7	5,3
P/BV (x)	2,5	1,8	1,7	1,6	1,4	1,2
DY (%)	0,0%	1,7%	1,7%	5,2%	2,6%	2,6%

Quarterly update 3Q'23

Poland | Equity Research

Valuation / Weight	Current		Previous		Change
DCF	27,6	100%	26,0	100%	6%
Multiples	36,3	0%	32,4	0%	12%

PLNm	2023E			2024E			2025E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	467,3	463,3	1%	523,1	512,3	2%	613,9	601	2%
EBITDA	70,6	64,0	10%	88,6	82,9	7%	106,5	100	6%
EBIT	55,4	49,3	12%	70,7	66,0	7%	87,1	82	6%
Net profit	17,5	14,6	20%	25,2	22,7	11%	31,3	29	9%
P/E (x)	13,6	16,3		9,5	10,5		7,6	8,3	
EV/EBITDA (x)	8,7	9,5		6,7	6,9		5,3	5,3	
P/BV (x)	1,6			1,4			1,2		
DY (%)	5,2%			2,6%			2,6%		

Multiples	2021	2022	2023E	2024E	2025E
P/E (x)	32,2	18,0	13,6	9,5	7,6
adj. P/E (x)	32,2	13,5	10,6	9,5	7,6
P/BV (x)	1,8	1,7	1,6	1,4	1,2
EV/EBITDA (x)		14,7	10,1	8,7	6,7
adj. EV/EBITDA (x)		14,7	10,1	8,7	6,7
EV/Sales (x)		0,9	0,6	0,5	0,4
FCFF Yield (%)		2,0%	2,0%	3,9%	6,9%
DY (%)		1,7%	1,7%	5,2%	2,6%

KPIs	2021	2022	2023E	2024E	2025E
EPS (PLN)	0,6	1,1	1,4	2,0	2,5
adj. EPS (PLN)	0,6	1,4	1,8	2,0	2,5
DPS (PLN)	0,3	0,3	1,0	0,5	0,5
BVPS (PLN)	10,8	11,5	11,9	13,4	15,5

Operational ratios	2021	2022	2023E	2024E	2025E
adj. EBITDA margin (%)	16,8%	14,9%	15,1%	16,9%	17,3%
EBIT margin (%)	12,9%	11,7%	11,9%	13,5%	14,2%
Net profit adj. margin (%)	3,5%	3,2%	3,8%	4,8%	5,1%
ROE (%)	6,5%	12,9%	15,5%	16,1%	17,5%
ROA (%)	3,3%	3,8%	4,0%	5,2%	5,7%
CAPEX/Sales (%)	5,8%	6,6%	3,7%	3,0%	2,7%
CAPEX/D&A (x)	1,5	2,1	1,1	0,9	0,9
Net debt/Equity (x)	-0,4	0,0	0,0	-0,1	-0,2
Net debt/EBITDA (x)	-1,5	0,1	0,0	-0,2	-0,4

Cash conversion cycle (days)	78	49	55	56	54
Inventory turnover (days)	6	1	1	1	1
Receivables turnover (days)	101	72	82	83	81
Payables turnover (days)	29	23	28	28	27

Income Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Revenues	156,2	212,4	410,1	467,3	523,1	613,9
Revenues FinTech	48,8	56,4	64,0	68,5	76,8	87,5
Revenues Software Mind	101,7	153,4	344,4	396,6	444,2	524,2
Revenues other	5,7	7,0	5,1	2,1	2,2	2,2
EBIT FinTech	0,1	2,7	-1,5	0,3	8,4	10,1
EBIT Software Mind	17,0	24,6	55,6	58,3	63,5	78,6
EBIT other	-1,3	0,1	-2,4	0,1	0,1	0,1
EBITDA	23,8	35,7	61,1	70,6	88,6	106,5
adj. EBITDA	23,8	35,7	61,1	70,6	88,6	106,5
D&A	-8,3	-8,3	-13,0	-15,3	-17,8	-19,4
EBIT	15,5	27,4	48,2	55,4	70,7	87,1
Net financial costs	0,0	-0,2	-0,3	-1,4	-1,7	-1,6
EBT	13,5	25,5	47,9	53,9	69,1	85,6
Income tax	-4,1	-8,5	-9,3	-11,8	-14,5	-18,0
Minority interest	0,0	-9,6	-25,3	-24,6	-29,3	-36,3
Net profit	9,4	7,4	13,2	17,5	25,2	31,3
adj. Net profit	9,4	7,4	17,7	22,5	25,2	31,3

Balance Sheet (PLNm)	2020	2021	2022	2023E	2024E	2025E
Non-current Assets	74,1	98,1	209,6	218,6	223,4	227,7
Current Assets	88,7	180,6	209,5	238,6	288,6	354,7
Inventories	5,4	1,0	0,7	0,8	0,9	1,0
Receivables	55,1	62,9	98,6	112,4	125,8	147,6
Cash and cash equivalents	23,7	111,3	89,4	104,6	141,1	185,3
Assets	162,9	278,7	419,1	457,1	512,0	582,4
Equity	95,1	133,0	141,9	147,1	166,1	191,2
Minority Interests	0,0	82,5	115,8	140,4	169,7	206,0
Non-current Liabilities	23,6	18,5	84,6	88,1	90,1	91,8
Long-term borrowings	21,1	17,6	83,8	87,3	89,3	91,0
Current Liabilities	44,1	44,7	76,9	81,5	86,0	93,4
Short-term borrowings	14,1	1,7	14,8	14,8	14,8	14,8
Payables	14,8	49,3	33,2	37,8	42,3	49,7
Equity and Liabilities	162,9	278,7	419,1	457,1	512,0	582,4
Net debt	10	-89	9	-3	-37	-80

Cash Flow Statement (PLNm)	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	25,7	26,1	45,6	48,2	63,4	72,3
Changes in working capital	-45,7	1,0	-21,4	-9,2	-9,0	-14,6
D&A	8,3	8,3	13,0	15,3	17,8	19,4
Cash flow from investing activities	-2,6	-28,0	-126,7	-17,2	-15,6	-16,5
CAPEX	-2,0	-12,3	-27,2	-17,2	-15,6	-16,5
Cash flow from financing activities	-3,7	89,5	59,1	-15,8	-11,3	-11,6
Dividend/Buy-back	0,0	-4,0	-4,0	-12,4	-6,2	-6,2
Net change in cash	19,3	87,6	-21,9	15,2	36,5	44,2
Cash opening balance	4,4	23,7	111,3	89,4	104,6	141,1
Cash closing balance	23,7	111,3	89,4	104,6	141,1	185,3

ALL: DCF valuation

	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	TV
Sales	467,3	523,1	613,9	673,3	725,1	766,5	801,0	833,1	858,1	
EBITDA	70,6	88,6	106,5	115,8	123,8	130,1	135,9	141,3	145,6	
EBIT	55,4	70,7	87,1	95,0	101,6	106,6	111,4	115,9	119,3	
Tax rate	22%	21%	21%	21%	21%	21%	21%	20%	20%	
NOPAT	43,3	55,9	68,8	75,0	80,3	84,2	88,5	92,2	95,2	
Amortization	15,3	17,8	19,4	20,8	22,2	23,4	24,5	25,5	26,2	
Capex	-17,2	-15,6	-16,5	-17,5	-18,4	-19,3	-20,2	-21,0	-21,6	
Lease payments	-7,0	-7,1	-7,2	-7,2	-7,3	-7,4	-7,7	-8,0	-8,3	
Net WC investments	-9,2	-9,0	-14,6	-9,6	-8,4	-6,7	-6,9	-7,1	-7,2	
M&A, other adjustments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCF	25,2	42,0	49,9	61,5	68,4	74,3	78,2	81,7	84,4	87,4
Debt / (Debt + Equity)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RFR	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	5,0%
Market premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Unlevered beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Levered beta	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Debt cost to tax (%)	5,9%	5,9%	5,9%	5,9%	5,9%	5,9%	6,0%	6,0%	6,0%	5,2%
Equity cost (%)	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	11,5%
WACC (%)	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	12,5%	11,5%

PV FCF sum 2023-31	328
FCF growth ratio in TV	2,5%
Discounted TV	366
Net debt, other adj.	379
Equity value (mln PLN)*	315
Dividend paid out	12,4
Number of shares (mln)	12,4
1 share value (PLN)	24,51
12m TP	27,6

Source: Trigon DM

*thereof

share of ALL in Softw are Mind (+)	272
EV Fintech, other (+)	52
Net debt of ALL, eof 22 (-)	9

	9,5%	10,5%	11,5%	12,5%	13,5%	
	1,5%	29,4	27,4	25,8	24,5	23,4
	2,0%	30,7	28,4	26,6	25,2	24,0
g	2,5%	32,2	29,6	27,6	25,9	24,6
	3,0%	34,0	30,9	28,6	26,8	25,3
	3,5%	36,0	32,4	29,8	27,7	26,1

ALL: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2023E	2024E	2025E	2023E	2024E	2025E
GLOBANT SA	7 689	18,5	15,7	12,7	33,2	27,9	22,0
ENDAVA PLC- SPON ADR	3 145	15,0	18,5	12,8	21,9	29,5	20,2
EPAM SYSTEMS INC	13 159	15,0	13,8	11,5	23,8	21,7	18,2
GRID DYNAMICS HOLDINGS INC	846	14,6	12,0	8,6	35,6	28,7	21,1
THOUGHTWORKS HOLDING INC	1 170						
CAPGEMINI SE	28 763	9,6	8,9	8,3	14,3	13,3	12,2
COGNIZANT TECH SOLUTIONS-A	31 613	9,6	8,9	8,1	15,0	14,0	12,7
PERFICIENT INC	1 894	12,0	10,9	10,1	14,4	13,6	12,8
KAINOS GROUP PLC	1 623	18,6	16,6	14,3	26,2	24,4	21,2
NAGARRO SE	932	10,1	8,3	7,0	17,5	13,9	11,2
INNOFACTOR OYJ	40	5,9	5,1	4,7	10,9	8,1	7,0
IT LINK SA	47	6,4	5,7	5,4	12,3	10,4	9,9
Median: foreign peers		11,8	9,9	8,4	19,7	14,4	12,8
AILLERON		8,7	6,7	5,3	10,6	9,5	7,6
Valuation per share		37,1	40,8	42,3	35,8	29,4	32,3
Average valuation for multipliers		40,1			32,5		

Source: Bloomberg, Trigon DM

average valuation **36,3**

Valuation vs. Spyrosoft

Spyrosoft P/E trailing	18,3
Ailleron net profit LTM (PLN mn)	24,3
Ailleron valuation (PLN mn)	445
Valuation per share	36,0

Risk factors

- 1) Risk of increased competition in the software house market,
- 2) Risk of losing customers,
- 3) Risk of losing key employees,
- 4) Risk of unsuccessful acquisitions,
- 5) Risk of customers' failure to meet payment deadlines,
- 6) Risk of claims from Pekao in connection with contract termination,
- 7) Currency risk

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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

ISSUER – Ailleron 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: Dominik Niszcz

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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, peer group 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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