

Fabrity Holding

Slowdown from a high base, market conditions remain challenging

3Q24 forecast. Revenue and operating profit growth y/y will again be influenced by the consolidation of the Panda Group (51% stake), acquired in February, which generates nearly PLN 1.5m in quarterly revenues and over PLN 100k in operating profit. According to management's announcements, Fabrity is entering a transitional period concerning contracts with Frontex, and a process is currently underway to select IT service providers for the next four years. Our forecast for operating profit and EBITDA assumes a y/y decline of several percent, but it's important to note that the second half of 2023 was exceptionally strong for the group..

Dividend, cash flow, tax refund. In September, Fabrity announced plans to pay an advance dividend for 2024 of PLN 1.30 per share, with payment scheduled for November 28. After the first half of the year, net cash, including leasing, dropped from PLN 23m in 4Q23 to PLN 5m (after dividend, buyback, and changes in working capital). We estimate that by the end of the year, the cash position will increase to approximately PLN 12m (net cash over PLN 10m). In June, Fabrity received a tax refund of PLN 1.8m related to an overpayment in 2023, stemming from the sale of the marketing segment. A dispute regarding the potential refund of tax on the sale of Oktawave is still ongoing. In 1H24, Fabrity recognized a gain from the probable cash refund (overpayment of PLN 2.5m plus potential interest). In September, the Director of the Tax Office in Warsaw filed a cassation appeal to the Supreme Administrative Court (NSA) against a favorable ruling for Fabrity from the Provincial Administrative Court (WSA). Our estimates include the assumption that Fabrity will receive this payment..

Forecasts and valuation. We update our 12-month target price, slightly lowering it from PLN 38 to PLN 37, partly due to more conservative assumptions regarding the EBITDA margin. In the coming weeks, key information for investors will include updates on the collaboration with Frontex. If Fabrity remains among the service providers for Frontex, it could result in a significant increase in the value of work compared to the previous cooperation period. In our forecasts for the coming years, we have accounted for the merger with Fabrity sp. z o.o., leading to a higher number of shares and an increase in the net profit of the parent company (with former minority shareholders becoming shareholders of the company).

PLNm	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	y/y	q/q
Revenues	13.3	15.2	16.1	15.4	17.8	19.4	18.9	18.9	19.0	7%	1%
EBITDA	1.2	2.2	2.2	1.5	2.4	2.5	2.4	2.0	2.1	-16%	5%
EBIT	0.5	1.5	1.6	0.9	1.9	2.0	1.8	1.6	1.5	-19%	-7%
Net profit	1.3	1.4	1.5	0.8	9.4	1.2	1.0	5.3	1.0	-90%	-82%
P/E 12M trailing	3.1	3.0	3.0	14.8	5.6	5.7	6.0	4.4	8.7		
EV/EBITDA 12M trailing	8.3	9.9	9.8	11.1	7.1	7.7	8.1	9.0	9.7		
revenues growth y/y	-51%	-58%	37%	17%	33%	28%	17%	22%	7%		
EBITDA margin	9.1%	14.5%	13.9%	9.5%	13.8%	12.9%	12.5%	10.4%	10.9%		
EBIT margin	4.1%	10.0%	10.0%	5.9%	10.7%	10.2%	9.5%	8.7%	8.1%		
Net profit margin	9.9%	9.2%	9.2%	5.2%	53.1%	6.2%	5.2%	28.1%	5.1%		

3Q24 Earnings
28.11.2024

FACT SHEET	RECOMMENDATIONS	Date	Valuation	
Ticker	FAB	Hold	19.07.2024	38
Sector	TMT	Hold	19.04.2024	39
Price (PLN)	32.7	Hold	11.12.2023	38
52W range (PLN)	28 / 40	Hold	23.10.2023	37
Shares outstanding (m)	2.3	Hold	24.07.2023	37
Market Cap (PLNm)	74	Hold	05.06.2023	38
S&P Global ESG Scores	-	Hold	24.04.2023	35
3M Avg. Vol. (PLNm)	0.04	Buy	12.12.2022	30
Price perf.	1M -0.3%	3M 2.2%	1Y -9.7%	

Hold

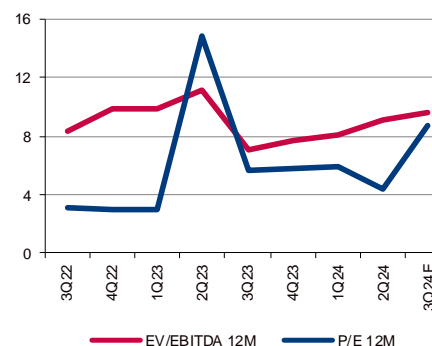
(Previous: Hold, 38 PLN)

Target Price: 37 PLN

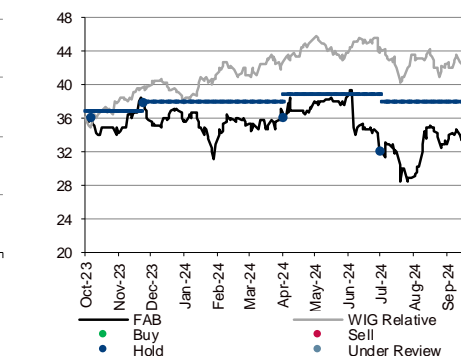
Current Price: 32.7 PLN

Upside: 13%

P/E 12M vs EV/EBITDA 12M



FAB RELATIVE SHARE PRICE vs WIG



PLNm	2021	2022	2023	2024E	2025E	2026E
Revenues	41	53.4	68.7	77.1	86.3	98.2
EBITDA	7	7.6	8.7	9.0	11.0	12.4
EBIT	5	5.0	6.4	7.1	9.0	10.2
Net profit	4	25.1	12.9	8.5	6.7	7.9
EPS (PLN)	1.62	10.2	5.3	3.8	2.4	2.8
DPS (PLN)	1.1	7.9	4.0	7.9	2.2	2.5
P/E (x)	20.2	3.2	6.2	9.4	12.0	10.2
EV/EBITDA (x)	9.7	9.9	7.7	8.6	5.8	5.0
P/BV (x)	2.6	2.4	2.2	2.7	3.2	3.1
DY (%)	3.2%	24.1%	12.2%	24.3%	6.7%	7.6%

Quarterly update 3Q'24

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Valuation / Weight	Current		Previous		Change
DCF	37.2	100%	38.3	100%	-3%
Multiples	40.2	0%	40.3	0%	0%

PLNm	2024E			2025E			2026E		
	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.	Curr.	Prev.	Chg.
Revenues	77.1	76.1	1%	86.3	87.3	-1%	98.2	96	2%
EBITDA	9.0	9.7	-7%	11.0	11.5	-4%	12.4	13	-1%
EBIT	7.1	7.3	-3%	9.0	8.9	1%	10.2	10	5%
Net profit	8.5	8.7	-2%	6.7	5.4	25%	7.9	6	23%
P/E (x)	8.7	8.5		11.0	13.8		9.4	11.5	
EV/EBITDA (x)	8.6	7.4		5.8	5.0		5.0	4.5	
P/BV (x)	2.7			2.6			2.6		
DY (%)	24.3%			6.7%			7.6%		

Multiples	2022	2023	2024E	2025E	2026E
P/E (x)	3.2	6.2	9.4	12.0	10.2
adj. P/E (x)	14.4	14.7	17.3	13.5	11.5
P/BV (x)	2.4	2.2	2.7	3.2	3.1
EV/EBITDA (x)	9.9	7.7	8.6	5.8	5.0
adj. EV/EBITDA (x)	12.2	9.3	9.6	6.3	5.5
EV/Sales (x)	1.4	1.0	0.9	0.9	0.7
FCFF Yield (%)	-1.9%	3.9%	8.6%	9.3%	10.6%
DY (%)	24.1%	12.2%	24.3%	6.7%	7.6%

KPIs	2022	2023	2024E	2025E	2026E
EPS (PLN)	10.2	5.3	3.8	2.4	2.8
adj. EPS (PLN)	2.3	2.2	1.9	2.4	2.8
DPS (PLN)	7.9	4.0	7.9	2.2	2.5
BVPS (PLN)	13.7	15.0	12.1	10.1	10.4

Operational ratios	2022	2023	2024E	2025E	2026E
marża ZBnS (%)	18.1%	18.7%	9.4%	10.2%	10.2%
adj. EBITDA margin (%)	11.5%	10.3%	10.5%	11.7%	11.7%
EBIT margin (%)	9.3%	9.3%	9.2%	10.4%	10.4%
Net profit adj. margin (%)	46.9%	18.8%	11.1%	7.8%	8.1%

ROE (%)	17.9%	15.4%	13.3%	24.2%	27.7%
ROA (%)	41.6%	22.2%	16.8%	14.6%	17.1%
CAPEX/Sales (%)	5.1%	1.7%	1.6%	1.7%	1.8%
CAPEX/D&A (x)	1.0	0.5	0.6	0.8	0.8
Net debt/Equity (x)	-0.4	-0.6	-0.4	-0.4	-0.5
Net debt/EBITDA (x)	-1.8	-2.6	-1.2	-1.1	-1.1

Cash conversion cycle (days)	99	75	81	79	73
Inventory turnover (days)	0	0	0	0	0
Receivables turnover (days)	144	103	110	108	101
Payables turnover (days)	45	27	29	29	29

Income Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Revenues	40.7	53.4	68.7	77.1	86.3	98.2
COGS	-33.3	-43.8	-55.8	-69.9	-77.5	-88.2
Gross Profit	7.5	9.6	12.9	7.3	8.8	10.0
Selling costs	0.0	0.0	0.0	0.0	0.0	0.0
G&A costs	-2.5	-4.7	-6.3	0.0	0.0	0.0
Profit on sales	4.9	5.0	6.6	7.3	8.8	10.0
Other operating items, net	0.0	0.0	-0.2	-0.2	0.2	0.2
EBITDA	7.4	7.6	8.7	9.0	11.0	12.4
adj. EBITDA	9.2	6.2	7.1	8.1	10.1	11.5
D&A	-6.6	-2.6	-2.3	-1.9	-1.9	-2.2
EBIT	5.0	5.0	6.4	7.1	9.0	10.2
Net financial costs	-0.3	22.1	9.2	-0.1	-0.3	-0.2
EBT	4.6	27.1	15.6	7.0	8.7	10.0
Income tax	-1.0	-3.0	-3.0	2.8	-1.7	-1.9
Minority interest	0.7	0.8	1.1	1.3	0.4	0.2
Net profit	3.7	25.1	12.9	8.5	6.7	7.9
adj. net profit	3.7	5.6	5.5	4.3	6.7	7.9

Balance Sheet (PLNm)	2021	2022	2023	2024E	2025E	2026E
Non-current Assets	8.7	9.3	6.2	6.6	4.8	3.0
Current Assets	51.0	51.6	49.3	39.8	41.2	43.4
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	25.2	17.0	21.6	24.8	26.2	28.3
Cash and cash equivalents	10.1	17.8	25.1	12.5	12.4	12.5
Assets	59.6	60.9	55.5	46.4	45.9	46.4
Equity	28.6	33.8	36.9	27.4	28.1	29.0
Minority Interests	3.2	3.9	5.0	5.7	5.4	5.4
Non-current Liabilities	2.7	3.8	2.9	2.4	0.9	-0.6
Long-term borrowings	1.0	2.8	1.6	1.1	-0.4	-1.9
Current Liabilities	25.0	19.4	10.7	10.8	11.5	12.5
Short-term borrowings	5.3	1.6	0.9	0.3	0.3	0.3
Payables	8.6	4.6	5.7	6.4	7.2	8.2
Equity and Liabilities	59.6	60.9	55.5	46.4	45.9	46.4
Net Debt	-4	-13	-23	-11	-12	-14

Cash Flow Statement (PLNm)	2021	2022	2023	2024E	2025E	2026E
Cash flow from operating activities	9.5	5.4	5.2	8.5	8.0	8.8
Changes in working capital	-2.4	-6.3	-4.8	-2.4	-0.7	-1.1
D&A	6.6	4.8	2.3	1.9	1.9	2.2
Cash flow from investing activities	-2.9	28.5	13.8	-3.2	-1.5	-1.8
CAPEX	-3.1	-2.7	-1.2	-1.2	-1.5	-1.8
Cash flow from financing activities	-6.0	-24.8	-11.6	-17.9	-6.5	-6.9
Dividend/Buy-back	-2.4	-19.5	-9.8	-18.0	-6.1	-7.0
Net change in cash	0.6	9.1	7.3	-12.6	0.0	0.1
Cash opening balance	9.6	10.1	17.8	25.1	12.5	12.4
Cash closing balance	10.1	17.8	25.1	12.5	12.4	12.5

Quarterly update 3Q'24

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FAB: DCF valuation

	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	TV
Sales	77.1	86.3	98.2	107.9	114.3	120.1	125.5	130.5	134.4	
EBITDA	9.0	11.0	12.4	13.6	14.5	15.3	16.0	16.6	17.1	
EBIT	7.1	9.0	10.2	11.1	11.7	12.3	12.8	13.3	13.7	
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	5.7	7.3	8.2	9.0	9.5	9.9	10.4	10.8	11.1	
Amortization	1.9	1.9	2.2	2.5	2.8	3.0	3.1	3.2	3.3	
Capex	-1.2	-1.5	-1.8	-2.0	-2.3	-2.5	-2.6	-2.7	-2.8	
Leased assets capex	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	
Net WC investments	-2.4	-0.7	-1.1	-0.5	0.3	-0.7	-0.6	-0.6	-0.5	
M&A, other adjustments	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	5.1	5.9	6.4	7.7	9.0	8.5	9.0	9.5	9.9	10.4
Debt / (Debt + Equity)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
RFR	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.0%
Market premium	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
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 (%)	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.3%
Equity cost (%)	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	12.5%
WACC (%)	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	12.5%

		10.5%	11.5%	WACC TV	12.5%	13.5%	14.5%
PV FCF sum	45						
FCF growth ratio in TV	3.0%						
Discounted TV	37						
Net debt, other adj.	-23	2.0%	39.1	37.2	35.6	34.3	33.3
Equity value (PLNm)	105	2.5%	40.3	38.1	36.4	35.0	33.8
Number of shares (m)	2.8	g 3.0%	41.6	39.1	37.2	35.6	34.3
1 share value PLN	37.7	3.5%	43.0	40.3	38.1	36.4	35.0
Dividend/buyback (PLNm)	15.1	4.0%	44.7	41.6	39.1	37.2	35.6
12m TP	37.2						

Source: Trigon DM

FAB: Peer group valuation

Company	MC [m EUR]	EV/EBITDA			P/E		
		2024E	2025E	2026E	2024E	2025E	2026E
GLOBANT SA	7,488	17.7	15.4	13.0	30.0	25.9	21.4
ENDAVA PLC- SPON ADR	1,527	11.0	8.9	6.8	19.6	17.7	11.9
GRID DYNAMICS HOLDINGS INC	953	17.2	13.7	10.9	43.6	33.5	28.2
EPAM SYSTEMS INC	10,262	12.1	11.6	10.4	19.5	18.1	16.0
Median: IT foreign (weight 50%)		14.6	12.7	10.6	24.8	22.0	18.7
ASSECO POLAND		5.9	5.3	4.8	12.5	11.5	10.5
COMARCH		9.7	7.8	6.9	26.6	19.7	17.1
AILLERON		8.1	6.5	5.5	11.6	9.8	8.2
ASSECO BUSINESS SOLUTIONS		11.3	9.6	8.7	16.9	14.5	13.1
Median: IT domestic (weight 50%)		8.9	7.1	6.2	14.7	13.0	11.8
average weighted		11.8	9.9	8.4	19.8	17.5	15.3
Valuation per share		43	37	36	37	42	43
average weighted for multiples			39			41	
average weighted valuation			40				

Source: Bloomberg, Trigon DM

Risk factors

1) Risk related to increased competition on the software houses market, 2) General economic situation, 3) Risk of losing customers, 4) Risk of losing key employees, 5) Risk of failure of the PerfectBot project, 6) Risk of customers failing to meet payment deadlines, 7) Currency risk (Fabrity generates revenues in Western Europe)

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**NAGRŃDY
PSIK**
2023

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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. In the first place, the Document is addressed to selected clients of the Brokerage House who use its services in the area of research and recommendations. It may, however, be distributed to a wider public from the date specified therein (by posting it on the Brokerage House website, providing it to entities that may quote it in media, in whole or in parts as they see fit, or otherwise) as a recommendation within the meaning of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC Text with EEA recommendation ("Regulation").

Glossary of professional terms:

capitalisation – market price multiplied by the number of a company's shares
 free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
 min/max 52 wks – lowest/highest share price over the previous 52 weeks
 average turnover – average volume of share trading over the previous month

EBIT – operating profit
 EBITDA – operating profit before 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 a company's operating activities
 FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
 ROA – rate of return on assets
 ROE – rate of return on equity
 ROIC – rate of return on invested capital
 NWC – net working capital
 cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
 gross profit margin – ratio of gross profit to net revenue
 EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
 EBIT margin – ratio of operating profit to net revenue
 net margin – ratio of net profit to net revenue
 EPS – earnings per share
 DPS – dividend per share
 P/E – ratio of market price to earnings per share
 P/BV – ratio of market price to book value per share
 EV/EBITDA – ratio of a company's EV to EBITDA
 EV – sum of a company's current capitalisation and net debt
 DY – dividend yield, ratio of dividends paid to share price
 RFR – risk free rate
 WACC – weighted average cost of capital

Recommendations of the Brokerage House

Issuer – FABRITY HOLDING S.A.
 BUY – we expect the total return on an investment to reach at least 15%
 HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
 SELL – we expect negative total return on an investment of more than -0%

Recommendations of the Brokerage House are valid for a period of 12 months from their issuance or until the price target of the financial instrument is achieved.
 The Brokerage House may update its recommendations at any time, depending on the prevailing market conditions or the judgement of persons who produced a given recommendation.
 Short-term recommendations (particularly those designated as speculative) may be valid for shorter periods of time. Short-term recommendations designated as speculative involve a higher investment risk.
 Document prepared by: Dominik Niszcz

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
 - Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
 - Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
 The comparable valuation method values a company by comparing it to similar publicly traded companies.
 - Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
 - Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
 SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
 - Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
 - Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
 Risk-adjusted net present value method (rNPV)
 - Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
 - Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
 Discounted residual income method (DRI)
 - Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
 - Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
 Discounted dividend model (DDM)
 - Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
 - Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
 Net asset value method (NAV)
 - Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
 - Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
 Target multiple method
 - Advantages: the method can be applied to any company.
 - Disadvantages: it involves a high degree of subjectivity.
 Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
 - Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
 - Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
 Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
 - Advantages: the method can capture the lowest threshold of a company's value.
 - Disadvantages: it may be hard to capture the value of a company's intangibles.

Basis of the valuation or methodology and the underlying assumptions used to evaluate the financial instrument or the issuer, or to set a price target for the financial instrument: DCF valuation

The valuation, methodology or underlying assumptions have not changed since the date when this Document was completed and first disseminated.

This Document was not disclosed to the issuer and subsequently amended. This Document has remained unchanged since the day it was completed and first disseminated.

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For detailed information on the valuation or methodology and underlying assumptions, as well as any previous recommendations concerning the Issuer's financial instruments disseminated during the preceding 12 months, go to the Brokerage House's website at www.trigon.pl.

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