Asbis

Valuation range: PLN 1,382-1,614 mn

Eastern risks

We are lowering our net profit forecasts for 2022-24 on average by 21%, due to changes in the consumer sector environment (inflation, consumer weakness) as well as the economic and political situation in Asbis's key operating region (former Soviet Union countries). Our valuation assumes maintaining positive revenue growth dynamics (2021-2025 CAGR at 12%), however with lower projected margin and higher cost of capital. Our forecasts imply P/E at 4.3x in 2022 and 4.7x in 2023.

Margin under pressure

In light of growing electronics prices on the one hand (rising production costs, continuing shortages of components or certain products) and consumer weakening on the other (December 2021 inflation alone was Ukraine approx. 13%, Russia 8.4%, Kazakhstan 8.4%, Slovakia 5.8%; those countries account for more than half of Asbis's sales), we expect it may be increasingly difficult for the company to transfer rising costs to customers. Accordingly, our model assumes a decline in this year's margin to around 6% (-1pp y/y).

Recurring, attractive dividend yield

The company's cash position should allow it to pay a record dividend from 2021 profits (we assume USD 0.6 per share, of which the company has already paid USD 0.2/share in advance dividends; approx. USD 0.5/share is expected in 2022-23). In addition, this year the company has decided to buy back up to 300k of own shares at PLN 17-30 (PLN 5-9m in total).

Growing key market business risk

Due to the heightened risk of conducting business in Russia and Ukraine and the hard-to-predict development of the conflict situation as well as tensions in Kazakhstan, we assume a higher beta (from 2.0x to 2.1x) in the valuation, which translates into an increase in the cost of equity and therefore a lower valuation.

We estimate the company's 12M valuation range at PLN 1,382-1,614m based on the DCF model (16% lower, compared to our previous report).

	2019	2020	2021F	2022F	2023F
Revenues	1,914.9	2,366.4	3,079.0	3,448.0	3,654.9
EBITDA	37.2	61.4	114.8	95.4	93.9
EBIT	33.2	57.1	109.8	90.2	87.4
Net profit	15.3	36.5	74.3	56.9	51.9
P/E	15.9	6.7	3.3	4.3	4.7
EV/EBITDA	9.5	6.7	4.0	5.1	5.2
FCF	0.0	0.0	-0.4	17.2	40.6
CAPEX	2.9	4.4	14.8	11.5	8.2

Source: Company, PKO Securities

Key data

Stock price (PLN)	17.88
Number of shares	55.5
Market Cap (PLN mn)	992
Free float	63%
Free float (PLN mn)	625
EV 2020 (USD mn)	455
Net debt 2020 (USD mn)	211
Bloomberg	ASB PW Equity
ISIN	CY1000031710

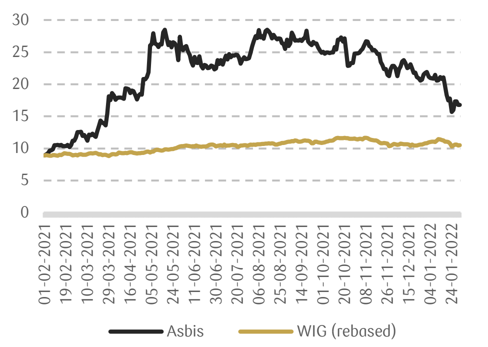
ESG Rating

ESG	7.0

Major shareholders

KS Holdings Ltd	37%
-	-
-	-
-	-

Price chart



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Asbis

Risk factors

- **Risk of macroeconomic slowdown:** There are a number of global economic uncertainties arising from the pandemic, inflationary pressures, uncertainties concerning the future demand situation and political and economic turmoil in certain countries, all of which may adversely affect the company's operations.
- **Political risk:** there is a possibility that a country's economic situation may deteriorate as a result of armed conflict, political instability or other events that may result in obstacles to economic activity (such as sanctions, reduced demand, etc.). On the other hand, higher risk associated with operating in markets like this also permits generating higher margins than regional competitors.
- **Risk of margin erosion:** The IT distribution market is characterised by low margins and intense competition. Competition and price pressures from rival players and new entrants may result in a significant decline in sales prices, which may then materially weaken the company's results.
- **Credit risk:** The company purchases the products in its offer from suppliers on its own account and resells them to its customers. Some customers are granted consumer credit for periods ranging from 21 up to 120 days. Asbis is obliged to pay its suppliers regardless of whether it receives payment from its customers. If the company is unable to obtain payments, it may be at risk of losing liquidity.
- **High cost of debt:** The distribution business is cash intensive as a necessary growth requirement. A country's political and economic situation may elevate the local cost of financing.
- **Private label risk:** The company has been selling private label products for many years, allowing it to generate much higher (double-digit) margins compared to the distribution of other IT products. However, selling private label products involves additional costs and risks like write-offs, provisions for defective products, repair and support services and R&D expenses.
- **Technological obsolescence and price erosion:** The market for IT products and components is characterised by rapid technological changes and short product life cycles, which means that the product range can quickly become obsolete.
- **F/X risk:** The company's reporting currency is the United States dollar (USD). Over 9 months of 2021, approximately 45% of the company's revenue was denominated in its reporting currency, with the remainder denominated in euros, rubles (RUB), hryvnias (UAH), tenge (KZT) and other currencies including some linked to the euro. The majority of Asbis' trade payables (approximately 80%) are denominated in USD. In addition, approximately a half of the company's operating expenses are denominated in USD. As a result, the reported results are affected by F/X fluctuations in particular in terms of USD versus EUR and other operating country currencies.

Asbis

DCF model

Our valuation is based on the DCF model. Additionally, we have presented a comparative valuation, taking into consideration companies from the retail sector. The DCF model consists of two phases. In the first phase, for the years 2022-2026F, we forecast in detail all the key parameters required for company valuation, in particular the value of revenue, capital expenditure, cost level and balance sheet items. The second stage will begin after 2026F. In it, we have assumed a constant free cash flow growth rate at a level of 1.0% per year. We have applied a WACC-based discount rate. The risk-free rate has been adopted at 1.5%. Beta has been assumed at 2.1x (risk related to presence in certain countries, substantial sensitivity to declining margins, uncertain outlook for demand, F/X exposure). We have adopted an equity risk premium of 5.5%. We have discounted all free cash flows for the company as at 31 December 2021 and deducted net debt.

DCF model

mUSD	2021F	2022F	2023F	2024F	2025F	2026F
EBIT	**109.8**	**90.2**	**87.4**	**82.8**	**77.2**	**70.0**
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
NOPLAT	**88.9**	**73.1**	**70.8**	**67.1**	**62.5**	**56.7**
CAPEX	-14.8	-11.5	-8.2	-8.3	-8.5	-8.7
D&A	5.1	6.0	6.5	6.8	7.0	7.3
Changes in WC	79.7	50.4	28.6	15.0	10.3	-0.2
FCF	**-0.4**	**17.2**	**40.6**	**50.5**	**50.7**	**55.4**
WACC		9.7%	9.6%	9.6%	9.7%	9.8%
Discount ratio		0.91	0.83	0.76	0.69	0.63
DFCF		15.7	14.3	30.8	34.9	32.0

Revenues dynamics in 2026		-5.0%	0.0%	5.0%	10.0%
	5.30%	1,171	1,173	1,174	1,175
	5.50%	1,369	**1,382**	**1,394**	1,406
Gross margin in 2026	5.70%	1,568	**1,591**	**1,614**	1,637
	5.90%	1,766	1,800	1,834	1,868

Valuation range (mn PLN)	**1382-1614**

Souce: PKO BP Securities

Our DCF valuation indicates 12-month forward valuation range between PLN 1,382-1,614.

Asbis

Peer comparison

The comparative valuation indicates that in the case of assuming the forecasts of PKO BP Securities, Asbis is traded at a discount in terms of P/E and EV/EBITDA.

In our view, AB is the best peer for Asbis, due to the direct competition in the CEE region (Poland, Czech Republic, and Slovakia).

Peers: multiples

	P/E			EV/EBITDA			Dividend yield
Company	2021F	2022F	2023F	2021F	2022F	2023F	(%)
AB SA	6.7	6.0	6.1	5.5	4.9	4.9	-
AVNET INC	17.1	7.4	7.4	11.3	5.9	5.8	-
ARROW ELECTRONICS INC	8.8	8.0	8.1	6.6	6.2	6.4	-
ELECTROCOMPONENTS PLC	36.9	24.4	21.8	23.0	15.5	14.1	1.5
WPG HOLDINGS LTD	8.5	9.9	10.1	13.8	14.9	15.0	-
REDINGTON INDIA LTD	18.9	11.0	10.1	7.8	5.8	5.2	-
DIGITAL CHINA GROUP CO LTD-A	12.5	9.7	7.4	13.5	11.1	9.1	-
ALSO HOLDING AG-REG	19.7	17.8	16.1	12.7	11.7	10.7	-
INSIGHT ENTERPRISES INC	13.3	12.2	10.8	9.5	8.7	-	-
DATATEC LTD	24.8	14.6	9.9	5.5	4.5	3.9	-
MEDIAN	**15.2**	**10.5**	**10.0**	**10.4**	**7.4**	**6.4**	**1.5**
Asbis (PKO BP Securities)	**3.3**	**4.3**	**4.7**	**4.0**	**5.1**	**5.2**	**8.7**
Premium/discount to PKO BP Securities forecast	**-78%**	**-59%**	**-53%**	**-62%**	**-31%**	**-19%**	**491%**

Source: based on Bloomberg consensus, PKO BP Securities

Asbis: Summary of comparative valuation

	2021F	2022F	2023F	Average 2021-2023F
Asbis net profit forecast (USDm)	74.3	56.9	51.9	
Asbis EBITDA forecast (USDm)	114.8	95.4	93.9	
Peer companies: P/E median	15.2	10.5	10.0	
Asbis Valuation (PLNm)	**4,601.8**	**2,420.1**	**2,116.2**	**3,046.0**
Peer companies: EV/EBITDA median	10.4	7.4	6.4	
Asbis Valuation (PLNm)	**4,006.2**	**1,894.2**	**1,449.5**	**2,449.9**

Source: Bloomberg, PKO Securities

Asbis

Profit and loss account	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Sales of products, goods and materials	1,484.9	2,069.6	1,914.9	2,366.4	3,079.0	3,448.0	3,654.9	3,764.5
Costs of sold products, goods and materials	-1,408.2	-1,971.5	-1,810.7	-2,228.2	-2,863.5	-3,237.7	-3,437.5	-3,546.2
Gross profit on sales	76.7	98.1	104.1	138.3	215.5	210.3	217.4	218.3
EBITDA	25.7	31.9	37.2	61.4	114.8	95.4	93.9	89.6
Selling costs	-34.7	-46.0	-42.9	-48.5	-63.8	-71.3	-78.6	-82.1
General administrative expenses	-17.6	-22.7	-28.1	-33.1	-42.3	-48.8	-52.0	-54.0
Other operating income	-1.0	-0.1	0.1	0.4	0.3	0.0	0.6	0.6
Operating profit	23.4	29.3	33.2	57.1	109.8	90.2	87.4	82.8
Financial expenses net	-14.4	-14.2	-14.2	-12.4	-18.4	-20.0	-23.3	-25.8
Pre-tax profit	9.0	15.1	19.0	44.7	91.4	70.2	64.0	57.0
Income tax	-2.1	-3.1	-3.7	-8.2	-17.1	-13.3	-12.2	-10.8
Net profit (loss) attributable to non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit (loss)	7.0	12.0	15.3	36.5	74.3	56.9	51.9	46.2

Balance Sheet	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Fixed assets	28.4	29.2	33.3	37.1	47.3	53.1	54.9	56.6
Intangible assets	3.2	3.1	2.6	2.4	2.4	2.4	2.4	2.4
Tangible assets	24.5	25.3	29.7	32.7	42.4	47.8	49.5	51.1
Other long-term assets	0.7	0.9	1.0	1.9	2.5	2.8	3.0	3.1
Current assets	495.6	474.6	599.5	751.8	903.9	1,015.6	1,077.2	1,110.1
Inventories	145.0	180.2	266.0	277.6	315.0	356.2	378.1	390.1
Receivables	238.2	174.6	212.2	295.8	369.5	413.8	438.6	451.7
Other long-term assets	19.0	18.4	17.6	19.5	25.4	28.5	30.2	31.1
Cash and cash equivalents	93.4	101.4	103.7	158.9	194.0	217.2	230.3	237.2
Total Assets	523.9	503.8	632.8	788.9	951.2	1,068.7	1,132.0	1,166.6
Equity capital	94.5	99.2	108.2	135.6	188.8	214.6	241.6	265.2
Liabilities	429.5	404.6	524.6	653.3	762.4	854.1	890.5	901.4
Long-term liabilities	0.6	0.7	4.5	6.8	8.1	9.3	9.6	9.5
Loans and borrowings	0.2	0.1	3.3	5.7	6.8	7.8	8.0	7.8
Trade liabilities and other	0.4	0.6	1.1	1.0	1.4	1.5	1.6	1.7
Short-term liabilities	428.9	403.9	520.1	646.5	754.3	844.8	880.9	891.9
Loans and borrowings	136.5	146.6	136.3	212.4	253.5	290.8	298.4	293.9
Trade liabilities and other	253.0	208.1	321.3	336.0	400.9	453.3	481.2	496.5
Other	39.3	49.2	62.6	98.1	99.9	100.8	101.3	101.5
Total Equity & Liabilities	523.9	503.8	632.8	788.9	951.2	1,068.7	1,132.0	1,166.6

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Cash flow	2017	2018	2019	2020	2021F	2022F	2023F	2024F
Operating cash flow	42.1	18.7	33.6	41.9	51.5	51.6	65.8	72.6
Investment cash flow	-2.1	-3.1	-3.6	-4.8	-14.8	-11.5	-8.2	-8.3
Financial cash flow	-0.6	-3.4	-9.7	-1.8	-101.1	-34.2	-54.4	-62.5

Other	2017	2018	2019	2020	2021F	2022F	2023F	2024F
DPS	0.03	0.11	0.11	0.17	0.38	0.56	0.45	0.41
Net debt	108.6	116.2	108.5	170.4	211.0	243.4	247.9	241.5

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Explanation of the specialist terminology used
min (max) 52 weeks: minimum (maximum) of the market share price during the previous 52 weeks
Capitalisation: product of the share market price and the number of shares
EV: sum of the company's capitalisation and net debt

free float (%): share of the total number of shares decreased by 5% stakes held by one shareholder and own shares held by the company in the total number of shares
Average trading/month: average trading per month calculated as total trading value over previous 12 months divided by 12
ROE: rate of return on equity
ROA: rate of return on assets
EBIT: operating profit
EBITDA: operating profit + depreciation and amortization
EPS: earnings per share
ESG: a non-financial measure used for evaluating companies on how advanced they are with sustainability. It consists of environmental, social, and governance factors. The more sustainable business, the higher the PKO Securities ranking (score scale: 1-10).
DPS: dividend per 1 share
CEPS: sum of net profit and depreciation and amortization per 1 share
P/E: quotient of share market price and EPS
P/BV: quotient of share market price and book value of one share
EV/EBITDA: quotient of capitalisation increased by the company's net debt and EBITDA
Gross sales margin: relation of gross sales profit to net sales proceeds
EBITDA margin: relation of the sum of operating profit and depreciation to net sales proceeds
EBIT margin: relation of operating profit to net sales proceeds
Net profitability: relation of net profit to net sales proceeds

Valuation methods applied

A PKO BP Securities valuation is based on at least two out of four valuation methods: DCF (discounted cash flow model), ratio analysis method (comparing the values of basic market ratios with similar ratios of other companies representing a given sector), sum of the parts of assets method (SOTP) and discounted dividends model. A disadvantage of the DCF and the discounted dividends model is their high sensitivity to adopted assumptions, including, in particular, those pertaining to determining the residual value. Furthermore, the discounted dividends model cannot be applied to the valuation of companies without a determined dividend policy. The advantages of both these methods include their independence from current market valuations of peer companies. On the other hand, the advantage of the ratio analysis is the fact that it is based on a measurable market valuation of a given sector. Its disadvantage lies in the risk that at any given time, the market might not value peer companies correctly. The sum of the parts method (SOTP) consists in summing up the values of various assets of the company, calculated using one of the above methods.

Analysis issued by PKO BP Securities are binding for a period of 12 months from their issue, unless they are updated in the meantime. PKO BP Securities updates analysis depending on the market situation and the analysts' subjective opinion.

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PKO BP Securities has the following connections with the Issuer:

Issuer:	Reservation
Asbis	3, 4, 5

Explanations:

1. During the previous 12 months, PKO BP Securities was party to agreements on offering financial instruments issued by the Issuer or connected with assessing financial instruments issued by the Issuer. During the previous 12 months, PKO BP Securities was a member of a consortium offering financial instruments issued by the Issuer.
2. PKO BP Securities purchases and sells financial instruments issued by the Issuer in its own name, in order to perform service or investment underwriting agreements.
3. PKO BP Securities has the role of market animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
4. PKO BP Securities has the role of the Issuer's animator for the Issuer's financial instruments under the terms stipulated in the Regulations of the Warsaw Stock Exchange.
5. PKO BP Securities and PKO Bank Polski, whose organisational unit is PKO BP Securities, are parties to an agreement on drafting analysis with the Issuer.
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