

April 5, 2021

ASBISC ENTERPRISES PLC (WSE: ASB)

Founded in 1990, Cyprus-based ASBISc Enterprises PLC specializes in the distribution of computer hardware and software, mobile solutions, and other IT products and digital equipment. The company's geographic focus is the former Soviet Union, Central and Eastern Europe, and the Middle East and Africa (EMEA).

COMPANY HIGHLIGHTS

- * ASB: A Leading Global Technology Product Distributor
- * ASBISc has grown revenues and earnings in recent years, and is well positioned for continued growth. The company has expanded its gross margin by more than 100 basis points over the past two years, supported by strong sales of private-label products, distribution efficiencies, and the increased use of e-commerce.
- * In 2020, revenue rose nearly 24% and EPS more than doubled from the prior year. Fourth-quarter results were especially impressive, with 30% revenue growth. For the full year of 2021, ASBISc has guided towards revenue growth of 14%-22% over 2020.
- * As of December 31, 2020, ASBISc had \$159 million in cash on its balance sheet, up from \$104 million at the end of 2019. Net cash inflows from operating activities for the year were \$49.3 million, up from \$29.5 million in 2019 and \$18.7 million in 2018.
- * In our view, ASBISc's current valuation is compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals. Its recent market capitalization of \$240 million -- 950 million Polish zloty (PLN) -- implies a multiple of approximately 0.1-times 2020 revenue, well below the average multiple of 0.4 for our group of global electronics-distribution peers. Despite a more than doubling in the stock price year-to-date, the trailing P/E ratio of 6.6-times is also well below the peer average of 16-times.
- * We believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 15 to 2020 EPS of 2.51, we arrive at a fair value estimate for ASB of approximately 39 PLN per share (\$10), well above current prices near 17.20 PLN (\$4.36).

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KEY STATISTICS

Key Stock Statistics

Recent price (4/1/21)	17.22
52 week high/low (PLN)	18.20- 2.80
Shares outstanding (M)	55.2
Market cap (M, PLN)	950.0
Dividend (\$)	0.2
Yield	4.3%

Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.4%

Financials (\$M)

Cash & Mkt Securities	158.9
Debt	218.1
Working Capital (\$M)	106.3
Current Ratio	1.2
Total Debt/Equity (%)	161.0
Payout ratio	0.3
Revenue (M) TTM	2366.0
Net Income (M) TTM	36.5
Net Margin	1.5%

Risk

Beta	0.79
Inst. ownership	18%

Valuation

P/E forward EPS	4.8
Price/Sales (TTM)	1.0
Price/Book (TTM)	1.8

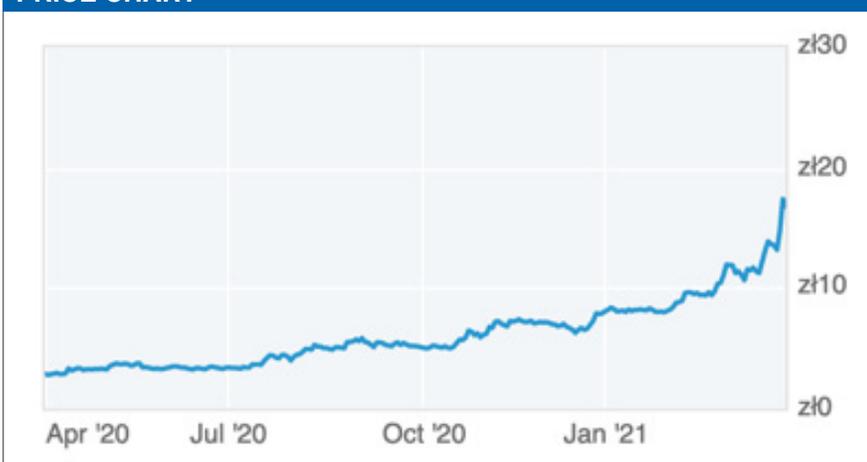
Top Holders

Allianz Asset Management AG
Nationale-Nederlanden Powszechna
Powszechna Towarzystwo Emerytalne PZU

Management

CEO	Mr. Siarhei Kostevitch
CFO	Mr. Marios Christou
COO	Mr. Yuri Ulasovich
Company website	www.asbis.com

PRICE CHART



COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

INVESTMENT THESIS

Founded in 1990, Cyprus-based ASBISc Enterprises PLC specializes in the distribution of computer hardware and software, mobile solutions, and other IT products and digital equipment. ASBISc currently sells products in 56 countries. It purchases most of these products from leading technology manufacturers, including Apple, Intel, AMD, Samsung, Microsoft, Acer, Lenovo, and many others. ASBISc also generates revenue from the sale of private-label products, including Prestigio (tablets, external storage, GPS devices, car-DVRs, multiboards, etc.), Canyon (power banks, networking products, and other peripheral devices), and Perenio (IoT products, and building control and security systems). ASBISc has subsidiaries in 27 countries and approximately 20,000 customers worldwide.

Russia and other former Soviet Union countries accounted for 54.5% of revenue in 2020, and have accounted for more than half of revenue in recent years. Central and Eastern Europe (24.3%), Middle East and Africa (11.8%), Western Europe (7.2%), and Other (2.2%) accounted for the balance of 2020 sales. In 2020, sales growth exceeded the company average in four of these geographic markets: Western Europe (34.2%), Other (32.9%), Middle East and Africa (28.3%), Russia/former Soviet Union (25.9%). Only Central and Eastern Europe saw more modest growth of 13.5%. In our view, ASBISc has established a strong presence in multiple fast-growing markets and is well positioned to source high-demand products thanks to its robust distribution network.

Although the pandemic caused widespread industry disruption in 2020, leading many businesses to close, ASBISc was able to meet customer needs for digital and remote connectivity technologies. We believe this is reflected in the company's positive revenue growth in all four quarters of 2020, including the difficult second quarter, when revenue rose 2%. In our view, the subsequent 34% growth in 3Q and 30% growth in 4Q highlight the resiliency and underlying strength of ASBISc's business.

We believe that ASBISc benefits from the strong relationships it has developed with key IT vendors over the past 30 years, and from its presence in many emerging global markets. We expect demand for computer products in these markets to continue to grow rapidly, and see opportunities for the company to expand further in Africa and Asia.

ASBISc has a centralized distribution platform that allows for greater efficiency and lower transport costs, thus boosting margins. The company's two distribution centers in the Czech Republic and the United Arab Emirates receives products from vendors, and then distribute these products to individual countries. The company is also expanding warehouse space in Poland.

Margins have also benefited from the increase in online transactions, and from an automated system that coordinates supply-chain management activities. In 2020, ASBISc reported a gross margin of 5.8%, up from 5.4% in 2019 and the highest full-year GM since 2016. The gross margin has also moved closer to an average of 8.5% for our global technology distributor peer group.

Management sees the potential for additional margin growth through the sale of private-label products, which have higher margins than those of international suppliers. The company's private-label business includes tablets and other products sold under the Prestigio and Canyon names, and Perenio smart-home and smart-security sensors.

ASBISc is also pursuing new growth opportunities. In February 2021, it announced the launch of a new subsidiary, Breezy, that will focus on the resale of Apple products. Breezy will purchase used Apple products in exchange for discounts on new purchases, and then resell the older products, which retain substantial value in secondary markets. ASBISc expects Breezy, which will be funded with an initial \$1 million investment, to reach profitability in the second half of 2021. Breezy will initially operate in Ukraine, Kazakhstan, and Belarus, and later expand to Georgia, Armenia, Azerbaijan, and Central European countries including Poland.

RECENT DEVELOPMENTS

ASBISc shares trade on the Warsaw Stock Exchange (WSE) under the ticker ABS. In 2020, the stock rose 147%, compared to an 8% decline for the WIG 20 Index, which consists of the 20 largest companies on the WSE. Year-to-date, the stock has increased 113%, versus a 2% decline for the WIG 20.

In February 2021, ASBISc reported 2020 EPS of \$0.66, up from \$0.28 in 2019, and a net profit of 36.5 million, up 140%. Revenue rose 23.7% to \$2.37 billion. The company generated the largest portion of this revenue (29%) from smartphones, with sales up 17% from the prior year. It also generated 16.5% of revenue from CPUs, up 38% from 2019; 12.9% from accessories and multimedia, up 48%; 7.9% from laptops, up 33%; and 6.4% from hard disk drives, up 23%.

In March 2021, ASBISc issued guidance for the full-year 2021, highlighted by revenues of \$2.7 billion-\$2.9 billion, which would represent 14%-22% growth, and net profit of \$47 million-\$51 million, which would represent growth of 29%-40%.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of \$2.89 billion in 2021 and \$3.32 billion in 2022, representing growth of 22% and 15%, respectively, and note that sales rose a strong 32% in January 2021. Looking ahead, we expect the company to continue to diversify its revenue beyond the former Soviet Union countries, which have accounted for more than 50% of revenue in recent years. We also expect it to generate additional sales from the new Breezy business.

The company is emphasizing margin expansion over revenue growth, and appears on track to further boost gross margins. It raised its gross margin by 40 basis points to 5.8% in 2020, and by nearly 90 basis points, to 6.33%, in the fourth quarter. We currently project gross margins of 6.2% in 2021 and 6.3% in 2022.

We also project SG&A expenses of \$102 million in 2021 and \$116 million in 2022. These estimates imply SG&A spending of approximately 3.5% of revenue in both years, consistent with recent periods.

We forecast EPS of \$0.90 in 2021 and \$1.15 in 2022. We note that ASBISc's business is seasonal, with higher revenue and earnings in the second half of the year due to back-to-school and holiday shopping.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for ASBISc is Medium. The company had \$159 million in cash as of December 31, 2020, up from \$104 million a year earlier. Net cash inflows from operating activities in 2020 were \$49.3 million, up from \$29.5 million in 2019.

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
ASBIS ENTERPRISES PLC*	ASB	17.22	18.20	2.80	950	515	24	136	6.6	0.79	4.3
ARROW ELECTRONICS INC	ARW	111.16	112.52	49.55	8293	117	-1	NM	14.5	1.58	NA
AVNET INC	AVT	41.91	42.49	24.3	4168	64	-4	NM	30.5	1.53	2.1
INSIGHT ENTERPRISES INC	NSIT	96.3	100.09	38.34	3380	135	8	10	19.3	1.83	NA

* Stock Statistics in PLN

As of December 31, 2020, ASBISc had a current ratio of 1.2. This ratio has been stable since 2015 and is below the average of 1.7 for Technology Distributor peers. The total debt/capital ratio at the end of the year was 62%, above the peer average of 28%. However, we view the company's liquidity position as strong and underappreciated, as most of its balance sheet liabilities relate to short-term borrowing to help finance the expansion of inventory and product distribution.

We believe that the company's cash conversion metrics underscore the efficiency of its selling infrastructure and strong relationships with suppliers. The average cash conversion cycle was approximately 30 days as of December 31, 2020, well below the average of 42 days for peers. Average days sales outstanding (DSO) was 37 days, less than half the peer average of 78. Days sales of inventory (DSI) was 44.6 days, roughly in line with the peer average of 41.7, which we view as important given that tech products can quickly become obsolete as new products reach the market. Lastly, average days payable outstanding (DPO) was roughly 54 days, compared to 63 days for the peer group.

The weighted-average cost of debt (cash lines and factoring lines) was 8.0% in 2020, up from 7.6% in 2019, which management attributed in part to sanctions imposed on Russia and tensions in Ukraine. However, we note that ASBISc has negotiated improved terms with lenders, and expect continued favorable lending terms as its financial position strengthens.

Net cash inflows from operating activities in 2020 were \$49.3 million, up from \$29.5 million in 2019. Net cash outflows from investing activities were \$4.8 million, up from \$3.4 million. Net cash outflows from financing activities were \$1.8 million, compared to outflows of \$5.6 million in 2019.

In addition to investing in growth initiatives, ASBISc has focused on shareholder returns, which we view as a strong positive. It currently distributes up to 50% of net profits as dividends. It paid a record interim dividend of \$0.10 per share in December 2020 and announced in March 2021 that its board recommended a final dividend of \$0.10, for a total dividend of \$0.20 for 2020, which would imply a current dividend yield of 4.3%. In 2019, ASBISc also began a share repurchase program and bought back more than 300,000 shares. With liquidity supported by growing revenue, cash flow, and earnings, and access to borrowed capital, we believe that ASBISc is well capitalized for the foreseeable future.

MANAGEMENT & RISKS

Siarhei Kostevitch is the founder, president and CEO of ASBISc. Mr. Kostevitch received a Master's degree in radio engineering design at the Radio Engineering University of Minsk in 1987. Between 1987 and 1992, he worked at the Research Centre at the Radio Engineering University.

Mr. Kostevitch, through KS Holdings, Ltd., holds approximately 37% of the company's shares and voting power.

ASBISc's board has six members. Although the board has only two independent directors, we note that these directors chair the company's audit and remuneration committees.

Risks for ASBISc include increased competition from both established companies and new entrants; economic and political developments that could impact business conditions in its major markets; periodic shortages of specific IT components, particularly semiconductors and microchips; and changes in foreign exchange rates. ASBISc's reporting currency is the U.S. dollar, which accounted for 45% of revenues in 2020, about 80% of trade payable balances, and approximately half of operating expenses. As such, a stronger U.S. dollar would lower revenue and gross profit, while a weaker U.S. dollar would have a positive impact on revenue and gross profit.

COMPANY DESCRIPTION

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VALUATION

In our view, ASBISc's current valuation is compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals. Its recent market capitalization of \$240 million (950 million PLN) implies a multiple of approximately 0.1-times 2020 revenue, well below the average multiple of 0.4 for our group of global electronics-distribution peers. The stock also trades at a trailing 2020 enterprise value/EBITDA multiple of approximately 5.0, below the peer average of 9.4, and at a trailing P/E of 6.6-times, well below the peer average of 16-times.

We view the company's overall liquidity position as strong, as nearly all of its debt relates to short-term borrowing to help finance inventory purchases and product distribution. As such, its leverage profile is mitigated by the company's supply-chain efficiency and strong revenue and cash flow.

Based on these factors, we believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 15 to 2020 EPS of PLN 2.51, we arrive at a fair value estimate for ASB of approximately 39 PLN per share (\$10), well above the current price of 17.22 PLN (\$4.36).

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2015	2016	2017	2018	2019	2020	Q1 2021E	Q2 2021E	Q3 2021E	Q4 2021E	2021E	2022E
Revenue	1181.6	1137.7	1484.9	2069.6	1914.9	2366.4	693.0	520.0	722.0	953.0	2888.0	3320.0
Gross Profit	46.6	65.4	76.7	98.1	104.1	138.3					180.5	209.1
SG&A	49.7	45.2	52.3	68.7	71.1	81.6					102.5	116.2
R&D	NA	NA	NA	NA	NA	NA					NA	NA
Operating Income	-3.1	20.2	24.4	29.4	33.1	56.7					77.9	92.9
Interest Expense	-11.8	-11.2	-12.8	-13.6	-12.7	-11.6					-13.0	-13.5
Pretax Income	-17.0	6.3	10.2	15.5	19.4	44.7					65.3	79.8
Tax Rate (%)	NM	23	23	21	19	18					20.0	20.0
Net Income	-17.2	4.6	6.9	12.0	15.2	36.5					49.7	63.9
Diluted Shares	55.5	55.5	55.5	55.5	55.4	55.2					55.5	55.5
EPS	-0.31	0.08	0.13	0.22	0.28	0.66	0.17	0.10	0.26	0.37	0.90	1.15
Dividend	NA	0.03	0.06	0.10	0.14	0.20						
Growth Rates (%)												
Revenue	NA	NA	31	39	-7	24					22	15
Operating Income	NA	NA	NA	20	13	71					37	19
Net Income	NA	NA	NA	74	27	140					36	29
EPS	NA	NA	NA	69	27	136					36	28
Valuation Analysis												
Price (PLN): High	NA	NA	3.39	3.64	3.56	8.08					NA	NA
Price (PLN): Low	NA	NA	2.24	2.34	2.05	1.77					NA	NA
PE: High	NA	NA	NA	NA	NA	NA					NA	NA
PE: Low	NA	NA	NA	NA	NA	NA					NA	NA
PS: High	NA	NA	NA	NA	NA	NA					NA	NA
PS: Low	NA	NA	NA	NA	NA	NA					NA	NA
Yield: High	NA	NA	NA	NA	NA	NA					NA	NA
Yield: Low	NA	NA	NA	NA	NA	NA					NA	NA
Financial & Risk Analysis (\$MIL)												
Cash	22.4	33.4	93.4	101.4	103.7	158.9					NA	NA
Working Capital	54.5	59.1	66.7	70.7	79.4	105.3					NA	NA
Current Ratio	1.2	1.2	1.2	1.2	1.2	1.2					NA	NA
LTDebt/Equity (%)	2	1	NM	NM	NM	NM					NA	NA
Total Debt/Equity (%)	109	116	145	148	129	161					NA	NA
Ratio Analysis												
Gross Profit Margin	NA	6%	5%	5%	5%	6%					6%	6%
Operating Margin	NA	2%	2%	1%	2%	2%					3%	3%
Net Margin	NA	NA	0%	1%	1%	2%					2%	2%
Return on Assets (%)	NA	NA	NA	NA	NA	NA					NA	NA
Return on Equity (%)	NA	NA	NA	NA	NA	NA					NA	NA
Op Inc/Int Exp	NA	-2	-2	-2	-3	-5					-6	-7
Div Payout	NA	0.38	0.46	0.45	0.50	0.30					NA	NA

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