EQUITY RESEARCH REPORT

December 4, 2024

ASBISC ENTERPRISES PLC
(WSE: ASB)

Founded in 1990, Cyprus-based ASBISc Enterprises PLC is a leading value-added distributor, developer, and provider of information technology (IT) and internet of things (IoT) products, solutions and services to markets in Europe and the Middle East and Africa (EMEA). It has local operations in the Commonwealth of Independent States (CIS, former countries of the Soviet Union), Central and Eastern Europe, the Baltic Republics, the Middle East, and North and South Africa.

COMPANY HIGHLIGHTS

* **Diversified Geographic Footprint**: ASBISc operates in 34 countries and sells to customers in 60 countries. In our view, this has helped the company to navigate disruptions that began in early 2022, with the onset of the Russia/Ukraine war. ASBISc decisively shifted to expand sales in unaffected regions and exited from Russia entirely. Amid more recent challenges in leading market Kazakhstan and escalations in the Middle East, we see the company continuing to diversify by increasing sales in Central Europe, Africa, and other markets.

* **Investing in High-Growth and Innovative Products:** Over the past few years, ASBISc has reshaped its product development pipeline to focus on innovative, private label products, ranging from home appliances, gaming products and accessories, industrial robotic solutions, and, most recently, green energy solutions. We think such innovations are likely to drive long-term growth and to support more attractive profit margins. Despite near-term challenges from less favorable supply and demand trends and pricing leverage for some of its current markets, we expect a continued focus on reselling premium brands like Apple products to drive sales growth until these new internal products enter the market broadly.

* **Margin Expansion Potential**: ASBISc is in the midst of a reset of gross margins, as product shortages over the past few years have normalized. We expect its long-term margin profile to benefit from its premium product focus, as well

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PRICE CHART

KEY STATISTICS

Key Stock Statistics	
Recent price (12/3/24), (PLN)	17.35
Fair Value Estimate (PLN)	47.00
52 week high/low (PLN)	30.16/17.01
Shares oustanding (M)	55.5
Market cap (M, PLN)	962.9
Dividend ($)	0.50
Yield	11.8%

Sector Overview	
Sector	Information Technology
Sector % of S&P 500	31.7%

Financials ($M, as of 9/30/24)	
Cash & Mkt Securities	106.2
Debt	229.0
Working Capital	234.1
Current Ratio	1.4
Total Debt/Equity (%)	79%
Payout ratio (TTM)	87.3%
Revenue, TTM	2974.9
Net Income, TTM	31.8
Net Margin, TTM	1.1%

Risk	
Beta	0.53
Inst. ownership	3%

Valuation	
P/E forward EPS	3.3
Price/Sales (TTM)	0.1
Price/Book (TTM)	0.8

Top Holders

Dimensional Fund Advisors LP
BNPP Asset Management Holding
AgioFunds Towarzystwo Funduszy Inwestycyjnych S.A.

Management	
CEO	Mr. Siarhei Kostevitch
Deputy CEO	Mr. Constantinos Tziamalis
CFO	Mr. Marios Christou
Company website	https://www.asbis.com

COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

as from providing value-added distribution services, increasing warehouse capacity, leveraging distribution efficiencies, and increasing its use of e-commerce. We expect costs that have been elevated over the past few years due to investments in new growth initiatives to begin to moderate and see its growing smartphone segment and Apple product sales and category reselling unit, Breezy, supporting an attractive organic growth outlook.

* **Healthy Balance Sheet**: As of September 30, 2024, ASBISc had $106.2 million in cash and equivalents on its balance sheet, compared with $143.6 million at the end of 2023. We note that first half cash flows are typically lower due to seasonality and inventory building patterns. Despite a challenging first nine months of 2024, ASBISc has reiterated its target for generating positive operational cash flow for the full year. We view ASBISc as sufficiently capitalized to support a continuing dividend program that returned a record $0.50 per share to investors from 2023 profits, and currently yields close to 12%.

* **Fair Value:** ASBISc's valuation gap to global technology distributor peers had narrowed somewhat over the past few years but has again widened across 2024. Still, we think its strong fundamentals, shareholder returns, and attractive growth prospects remain underappreciated by investors. Based on our forward P/E analysis, we arrive at a fair value estimate of 47 Polish zloty (PLN) per share, well above the current share price above 17 PLN.

COMPANY/INDUSTRY BACKGROUND

Founded in 1990, Cyprus-based ASBISc Enterprises specializes in the distribution of computer hardware and software, mobile solutions, and other IT products and digital equipment. ASBISc currently sells products to customers in 60 countries, including those purchased from leading global technology manufacturers such as Apple, Intel, AMD, Samsung, Microsoft, Dell, Logitech, and Lenovo.

As of November 2024, ASBISc had subsidiaries in 34 countries. In 2023, the company opened new subsidiaries in multiple, new high-growth markets, including Armenia, Georgia, Azerbaijan, Moldova, Morocco, and South Africa. We see these new local operating entities improving the company's business-to-business (B2B) sales efforts. ASBISc is also an official distributor of Apple products in 11 countries of the former Soviet Union, excluding Russia and Belarus.

By the end of 2023, the company's footprint had expanded to include distribution among 16,000 resellers, IoT solutions to more than 19,000 enterprises, consumer distribution across 7,400 points of sale, and a retail presence with more than 40 internally operated locations of brands, including Apple and premium audio brand, Bang & Olufsen.

The company also generates revenue from the sale of legacy private-label products, including Prestigio (tablets, external storage, GPS devices, car DVRs, multiboards, etc.) and Canyon (power banks, networking products, and other peripheral devices), with several new brands recently launched.

The company's centralized distribution platform leads to greater efficiency and lower transportation costs, thus boosting its margins. Its two main distribution centers in Prague and Dubai receive products from vendors and then distribute these products in individual countries. In 2022, the company opened regional distribution centers in Tbilisi, Georgia, and Johannesburg, 5South Africa.

In late 2023, the company expanded existing warehouse capacity and commenced the construction of a new distribution center in Kazakhstan, which it expects will be online by early 2025. In total, we foresee warehouse space of around 80,000 square meters at that time, up 30% from previous levels. We think this infrastructure is pivotal to helping its distribution mix to mitigate disruptions.

Its top four markets remained consistent between 2022 and 2023, led by Kazakhstan (22% in both periods), Ukraine (12%, 13%), United Arab Emirates (10%, 9%), and Slovakia (9% in both periods). Prior to 2022, Russia (19%) was ASBISc's largest market, but that country's subsidiary was divested and closed in 2023. The exit from Russia resulted in a one-time, $25 million impact on ASBISc's net profit in 2023 ($11.5 million settlement of an exchange rate loss and an impairment loss of $13.5 million).

Regionally, in 2023, CIS countries accounted for approximately 51% of revenue, down from 52% in 2022, and well below 58% in 2020, as the company has diversified its geographic sales footprint. This has declined further to 41.5% in the first nine months of 2024.

Central and Eastern Europe and Western Europe expanded to 25.8% and 8.4% of total revenues in 2023, from 24.3% and 6.8% in 2022, respectively. These trends continued as well in the first nine months of 2024, as Central and Eastern Europe accounted for 28.3% of revenues and Western Europe accounted for 11% of revenues. Middle East and Africa accounted for 17.4% of first-half 2024 revenues, modestly above 2023 levels.

In recent years, a majority of the company's sales have come from three product categories: smartphones (43.6% in the first nine months of 2024, 40.6% in 2023, 35% in 2022, and 29% in 2021),

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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 (%)
ASBISC ENTERPRISES PLC	**WSE: ASB**	**17.35***	**30.16***	**17.01***	**963***	**-38**	**14**	**NM**	**4.4**	**0.53**	**11.8**
ARROW ELECTRONICS INC	NYSE: ARW	121.29	137.8	108.51	6378	1	NM	NM	7.7	1.27	NA
AVNET INC	NASDAQ: AVT	55.66	59.24	43.62	4839	17	NM	NM	10.3	1.17	2.3
INSIGHT ENTERPRISES INC	NASDAQ: NSIT	160.01	228.07	146.56	5082	-4	NM	NM	21.2	1.48	NA

** Stock Statistics in PLN*

central processing units (10.4% in 9M24, 10.1% in 2023, 9.25% in 2022, and 14.4% in 2021), and laptops (7.4% in 9M24, 8.2% in 2023, 9.4% in 2022, and 10% in 2021). We view positively ASBISc's participation in higher-growth categories and operating market geographies.

We see the smartphone category being boosted by ASBISc's status as an authorized distributor of Apple products in 11 countries and as an operator of 34 iSpace stores in high-growth markets led by Kazakhstan, Georgia, and Uzbekistan. In 4Q23, ASBISc signed a distribution agreement with Apple that authorized the company to become a distributor in South Africa.

In 2021, ASBISc launched its Breezy subsidiary to support electronics retailers and telecom operators that seek to implement a sustainable approach to electronics. The unit purchases used electronic devices that have retained value, in exchange for discounts on new purchases through its partner network. It then resells these products in secondary markets. Breezy works with over 40 local and global partners, including nationally recognized electronics retailers with more than 4,500 stores, including Apple, Samsung, Vodafone, and Kcell and retail chains Rozetka.ua, Sulpak, Mechta, and Technodom. Breezy currently operates in seven markets including Kazakhstan, Ukraine, Georgia, Cyprus, Poland, Moldova, and Azerbaijan. In 3Q24, Breezy signed a new cooperation agreement with the RTV EURO AGD network chain of retail electronics and household appliances to accelerate its penetration in Poland.
In 2023, Breezy refurbished 160,000 phones, reducing CO2 equivalent emissions by 12,640 tons, while saving customers around $20 million, according to the company. Throughout 2023, Breezy opened several retail stores called Breezy Island, and the company plans additional retail openings in 2024. ASBISc aims to ultimately support the reuse of up to 30,000 devices monthly, and we think that expansion of this operating footprint positions the company to secure authorized distributor status and enhanced commercial terms with leading international suppliers.

INVESTMENT THESIS

In our view, ASBISc is well positioned for long-term growth, supported by its expanding geographic footprint and entry into high-growth countries. We expect ASBISc to benefit from the strong relationships it has developed with key IT vendors over more than 30 years and continue to source high-demand products thanks to its robust distribution network. In our view, this established history is important, as many technology leaders have recently undertaken cost-cutting measures by limiting their own distribution networks, and we see ASBISc maintaining its preferred status amid such macroeconomic challenges.

While 2024 revenues to date (-4% revenue growth) have been impacted by declines in CIS countries (-24%), largely attributable to gray market activity for Apple products, new consumer laws in Kazakhstan, and continued challenges in Ukraine, we view positively its year-to-date growth in all other primary operating regions, including Central and Eastern Europe (+11.2%), Middle East and Africa (13.9%), and Western Europe (21.6%), which we think is a testament to the diversification strategy for long-term growth.

In our view, ASBISc is well-positioned to increase its gross margin profile over the long-term, despite a near-term reset to the growth trend of the previous few years. In 2022, gross margin peaked at an all-time high of 8.5%, which was up significantly from 7.1% in 2021 and 5.8% in 2020. That growth in gross margin was attributable to changes in the geographic sales mix, product shortages in the market, and the smartphone category, among other factors. Margins have also benefited from an increase in online transactions and from an automated system that coordinates supply-chain management activities.

That said, gross margins pulled back to 8.2% in 2023, and ASBISc has signaled margins around 8% over the next few years, amid industry supply dynamics impacting product prices as well as higher investments in growth initiatives. We believe that ASBISc has also made great strides to expand its gross margin profile by investing in value-added distributor capabilities. For example, its servers are certified to support cloud-based services through the Microsoft Azure platform, which enables customers to transfer data centers to the cloud. The company is focused on expanding its product portfolio to support customers that are upgrading their digitization and remote capabilities, which we view as a high-growth priority across many areas of operation at many companies in numerous countries.

Longer term, we see the company's strategy shifting to focus on the development and commercialization of new internally developed private label brands, thus complementing its legacy Prestigio and Canyon brands and driving enhanced margins over the long term. Supporting this commitment to new product growth and innovation, ASBISc has opened a technology hub in Cyprus.

In 2021, ASBISc launched a new brand called AENO in the small household appliances segment, contributing to a low-power-consuming "smart home" concept. Initial products have included eco-friendly smart heaters with energy-saving infrared and convection heating methods and robotic vacuum cleaners. Most recently, AENO launched its flagship product, the CR1S GastroLab, smart body scales, and expanded into new markets including Kazakhstan, Kenia and Africa, Bulgaria, and Montenegro. We see these products as positioned for solid commercial uptake, given the company's strong existing distribution channels and vendor relationships. At the end of 2023, AENO's global footprint included 32 countries and prominent retailers.

In 2021, the company also launched gaming brand Lorgar, featuring a new line of gaming accessories, including mice, keyboards, chairs, microphones, web cameras, headsets, and other peripherals, which are planned to be marketed as a comprehensive gaming product suite. In 3Q24, Lorgar completed its brand refresh, and doubled the number of product lines in the brand to capitalize on favorable long-term gaming industry growth trends globally. The line now features over 30 new products across 9 different categories, and ASBISc expects the resumption of growth in 2025, after clearing old stock in late 2024.

In late 2022, ASBISc launched a new internal business division: ASBIS Robotic Solutions (AROS), which subsequently changed its name to AROS Engineering to reflect a new strategy focused on developing custom, integrated solutions to its business end–user–customers (BEU's) instead of distributing products through VARs (value-added resellers). Under this model, we expect AROS to execute on orders received from original design manufacturers (ODMs), in order to maintain efficient operations and enhance its profit margins.

AROS is initially targeting commercial applications, including industrial, cleaning, service, delivery, logistics/warehouse solutions, and security surveillance patrolling applications. In our view, the robotics market is poised for expansion beyond its current portfolio of brands and represents a compelling opportunity for further sales and market expansion over the coming years. We are encouraged by the company maintaining profitability despite the capital investments required to launch AROS. Recent investments include developing 3D modelling design and simulation software, project planning software, and custom robotic palletizing demo applications. ASBISc expects these projects, as well as the construction of a new engineering hub in Greece, to be completed by early 2025.

As of the end of 2023, ASBISc had approximately 15 corporate venture investments in various high-growth markets, including medical devices, regenerative medicine, and clean energy. Most recently, in July 2024, ASBISc launched a Green Energy Solutions segment and expanded its product portfolio to include products such as photovoltaic modules, photovoltaic inverters, and BESS energy storage systems and electric vehicle (EV) chargers. The initial market for these products is Hungary, which has among the highest level of installation of solar energy products in Central Europe. We expect additional regions, including the United Arab Emirates, South Africa, and the Caucasus, to launch by the end of 2024.

In December 2021, ASBISc invested 1 million euros to take a 20% stake in privately-held EMBIO Diagnostics Ltd., which develops and commercializes medical devices for professional (B2B) and individual (B2C) settings. EMBIO recently entered commercialization for its CE mark–issued, innovative, biosensor-based breakthrough device B.EL.D. for rapid diagnostics in the fields of food safety, air quality testing, and environmental research. In 2022, the company invested 800,000 euros for a 16% stake in Cyprus-based Promed Bioscience Ltd., which is developing advanced collagen biomaterials for research and clinical applications. The funds are expected to be used to expand production capacity, and ASBISc has cited a strong commercial backlog emerging for the products.

We also view positively ASBISc's recognition as a socially responsible company, which we think can lead to its inclusion in global ESG investor portfolios over time. To that end, in September 2021, the company entered the WIG-ESG index, which includes Warsaw Stock Exchange–listed (WSE-listed) companies cited as being socially responsible, specifically in regard to environmental, social, economic, and corporate governance issues. We note that Breezy is already being recognized for its sustainability, as it aims to ensure that electronic devices get extended life cycles, thus delaying their being discarded in landfills.

Since 2020, ASBISc has been selected three times among a select group of WSE-listed companies with the highest ratings and cited as a "Climate Aware Company" in the exchange's annual Companies Climate Awareness Survey. Lastly, we view positively its commitment to humanitarian efforts, with its launch of an aid fund called UkraineHelpFund, which has supplied needed medical, industrial, and food products to Ukraine. In 2023, ASBISc donated $2 million to help efforts in Ukraine.

RECENT DEVELOPMENTS

ASBISc shares trade on the WSE under the ticker ASB. In 2023, the shares increased by 20%, compared with a 31% increase for the WIG 20. Year-to-date in 2024, the shares have declined 39%, compared with a 3% decline for the WIG 20.

In November 2024, ASBISc reported a 6.4% revenue decline for 3Q24 (4% for the first nine months of 2024) and a net profit of $9.7 million (EPS of $0.17), compared with net profit of $22.4 million in 3Q23 (EPS of $0.40).

In November 2024, ASBISc stated that it still saw potential to achieve its 2024 official financial forecast of revenue of $3.1 billion-$3.4 billion and after-tax net profit of $60.0 million-$64.0 million, with positive cash flow from operations.

In October 2024, ASBIS announced that it had doubled the number of product lines of its own gaming brand Lorgar and entered the rapidly developing segment of racing games market, which is projected to increase by an estimated USD 15.84 billion till 2028

During 3Q24, ASBIS finalized a distribution partnership with China-based manufacturer Blackview, through which ASBIS will distribute Blackview products including PC Tablets, Keyboards, Smart Watches, Smartphones, and TWS Bluetooth Headsets across 60 countries, spanning the CIS, East Europe and Adriatic region, as well as the Middle East and Africa.

In 3Q24, ASBIS signed a distribution agreement with Buydeem, a maker of small kitchen appliances, with a leading market position in several categories in Asian markets, spanning 31 countries across Western Europe, Central and Eastern Europe, Asia, and South Africa.

In July 2024, ASBISc announced the launch of a Green Energy Solutions segment, which will see green energy products, including photovoltaic modules, photovoltaic inverters, and BESS energy storage systems and EV chargers, to its product portfolio, initially in Hungary, which has among the highest level of installation of solar energy products in the Central and Eastern European region.

In June 2024, ASBISc entered into a distribution agreement with Jabra, a global leader in the audio and video communication industry.

In the second quarter of 2024, ASBISc signed a distribution agreement and became a partner of Pure Storage for the Greek market, an IT pioneer providing the most advanced technology and data storage services in the world.

In February 2024, ASBISc announced that it had commenced the construction of a 20,000-square-meter distribution center in Kazakhstan, which is expected to be operational by early 2025.

In December 2023, ASBISc announced that it had increased warehouse space in its Prague and Johannesburg distribution centers by 5,500 square meters.

In October 2023, ASBISc announced that it had disposed of its subsidiary in Russia, thus ending operations in that country.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of $3.03 billion in 2024 and $3.30 billion in 2025, representing a 1% decline in 2024, and 9% growth in 2025. Our 2024 revenue estimate is below the management's guidance range, which we view as prudent amid a challenging operating environment in its largest markets. However, we note that Q4 is typically the strongest of the year for the company, during the holiday shopping season. On the product front, we expect smartphones to continue to drive revenue growth, especially by new Apple product releases. We expect the category to maintain a primary revenue contributor, since this category continues to show higher growth potential compared with other product categories. Longer term, we expect product portfolio expansion to include new, private-label brands, including new offerings from Lorgar, and the robotics unit ramping up to support an attractive long-term growth profile.

As mentioned earlier, ASBISc has been successful in expanding its gross and operating margins. The company generated gross margins at or above 8% since 2022, and we expect near-term margins to stabilize around 8%, as ASBISc continues to invest in new growth initiatives, including robotics. In addition, we see investments previously undertaken to develop new private-label brands to begin to realize economies of scale over the coming years.

We also see ASBISc benefiting from an optimized geographic sales mix over time. Thus, we project gross margins of 7.9% in 2024 and 8.1% in 2025. We see SG&A expenses as a percentage of sales around 4.9% in 2024 and 4.7% in 2025, at the high end of the recent range, as the company invests in new products while navigating higher administrative costs. We view positively ASBISc's disclosure of having started optimization processes for its divisions that have underperformed expectations, which we expect to continue into 2025.

We forecast EPS of $0.90 in 2024 and $1.30 in 2025, which would represent a 6% decline and 44% growth, respectively. Similar to revenues, our 2024 EPS estimate is below the company's guidance range. For 2024, we see ASBISc's weighted average cost of debt beginning to decline from the 11.9% seen in 2023 before easing modestly toward 10% in 2025.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for ASBISc is High. As of September 30, 2024, the company had $106.2 million in cash and equivalents on its balance sheet, down from $143.6 million at the end of 2023, which we largely attribute to seasonality and investments in growth initiatives. We expect ASBISc to achieve positive operating cash flow for the full year of 2024, as management recently reiterated its full-year outlook.

As of September 30, 2024, ASBISc had positive working capital of $234.1 million, and a current ratio of 1.4. This ratio is above its recent trend around 1.3, which had been stable since 2015, but remains below the peer average of 1.7. At year-end 2023, the total debt/capitalization ratio was 47.4%, well below its recent peak above 60% at the end of 2020.

We view the company's liquidity position as strong and underappreciated by investors, as more than 90% of its debt relates to short-term borrowing to help finance the expansion of inventory and product distribution. With liquidity supported by positive operating cash flow generation, and access to borrowed capital, we believe that ASBISc is well capitalized for the foreseeable future.

Prior to 2022, ASBISc's cash conversion metrics were positive compared with its peer group, underscoring the efficiency of its selling infrastructure and strong relationships with suppliers. In 2022, however, ASBISc increased its inventory, which raised the average cash conversion cycle to 55.8 days, compared with 33-34 days over the prior three years. In 2023, this figure was reduced to 50 days, which still compares favorably to 57 days for its global peer group. Average days sales outstanding was 40.2 days for 2023, down from 46.2 days in 2022 and closer to its prior four-year average around 38 days but well below the peer average of 81.3 days.

Days sales of inventory was 60.3 days in 2023, down from 62.2 days in 2022 but above 38.4 days at the end of 2021 and above the peer average of 54.3 days. We view this metric as important given that tech products can quickly become obsolete as new products reach the market. Lastly, average days payable outstanding was 50.5 days, down from 52.6 days in 2022. While this metric is up from 42.5 days at the end of 2021, it remains well below the peer average of 79 days.

Net cash generated by operating activities in 2023 was $45.4 million, compared with $56.0 million in cash used during 2022. As mentioned earlier, inventories declined 20% at the end of 2023 to approximately $414 million, from $515 million as of December 31, 2022, which had increased by 59% over the end of 2021. In 2023, net cash outflows from investing activities were $11.7 million, compared with $11.1 million in cash used in 2022. Net cash used by financing activities in 2023 was $17.7 million, compared with net cash generated of $8.6 million in 2022, which we attribute to higher dividend payments and lower borrowing levels in 2023.

In addition to investing in growth initiatives, ASBISc has focused on shareholder returns, which we view as a significant positive. The company currently distributes up to 50% of net profits as dividends. It paid total dividends of $0.50 per share for 2023, an interim dividend during the fiscal year ($0.20) and a final dividend ($0.30) upon the completion of the year's financial review, which was paid in June 2024. The $0.50 total for 2023 was the largest in company history and represents a yield of about 11.8% at the current valuation. In November 2024, ASBISc declared an interim dividend for $0.20 per share.

In 2022, ASBISc conducted a new share-repurchase program and bought back more than 300,000 shares. In July and August 2023, the company sold all its Treasury stock of these previously repurchased shares to selected employees and the Provident Fund of ASBIS Group for an average price of 13.32 PLN. The transactions represented 0.59% of ASBISc's share capital and added 328,800 company votes.

MANAGEMENT

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.

The company's board has eight directors. In June 2023, the board was expanded by two members, including Constantinos Petrides, who has served in multiple ministry positions for the Republic of Cyprus, where he helped the country successfully navigate the COVID-19 pandemic period compared with other EU countries. The board has three independent directors, two of whom chair the company's audit and compensation committees.

RISKS

Risks for ASBISc include increased competition from both established companies and new entrants, including nonofficial "gray market" products that can impact ASBISc's pricing power; the potential for economic and political developments that are currently impacting business conditions in major markets such as Kazakhstan and Ukraine and, thus, possibly limiting the ability to expand to new countries; the potential for unfavorable changes to its product selections and quality, inventory, prices, customer services, and credit availability; and changes in foreign exchange rates and fluctuations in the weighted average cost of debt due to variable borrowing costs in various operating markets. To mitigate the latter, ASBISc has been negotiating improved terms with some of its lenders and working to limit financing costs.

ASBISc's reporting currency is the U.S. dollar, which typically account for around 90% of its trade payables and half of its operating expenses (the other half in Euros/others). As such, a stronger U.S. dollar in recent years has pressured both revenues and gross profits. We see potential for customer concentration risk in this industry but view ASBISc positively in this regard as well, given its expanding network and diversification strategies.

VALUATION

In our view, ASBISc's current valuation remains compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals, near-term uncertainties notwithstanding.

Its recent market capitalization of approximately $235 million (963 million PLN) implies an enterprise value multiple less than 0.1-times our 2024 revenue estimate of $3.03 billion. That is below the average multiple of 0.4 for a group of global electronics distribution peers. The stock also trades at a trailing-12-month enterprise value/EBITDA below four-times, below the peer average of over nine times. Lastly, ASBISc is trading at a forward P/E less than four-times our 2025 EPS estimate of $1.30, which is well below the peer group's recent average above 16-times.

We think that recent initiatives (including reselling Apple products and focusing on marketing innovative, private-label products) are likely to leverage ASBISc's robust infrastructure network across Europe and should enhance the company's reputation among investors over time.

Further, we view the company's overall liquidity position as strong, as most of its debt relates to short-term borrowing to help finance inventory purchases and product distribution. We believe that as its inventory is sold through and reduced, and as ASBISc weathers higher borrowing costs over the near term, its results will benefit from its strong revenue growth and supply-chain efficiency, thus improving cash flow. Lastly, we see the solid dividend, which recently yielded 11.8% using the total dividend from 2023 profits of $0.50, as underappreciated.

Given the ongoing difficult geopolitical climate across the company's European footprint, some challenges in navigating industry supply dynamics, and our view of reliance on establishing a presence for its newer products, we believe that ASBISc warrants a discount to the industry average, albeit a narrower one. Applying a multiple of nine-times to our 2025 EPS estimate of $1.30 (5.20 PLN, using a six-month average PLN-to-USD exchange rate around 4:1), we arrive at what we view as a fair value estimate for ASB of 47 PLN per share, well above the current price above 17 PLN.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis ($MIL)	**2021**	**2022**	**2023**	**Q1 2024**	**Q2 2024**	**Q3 2024**	**Q4 2024E**	**2024E**	**Q1 2025E**	**Q2 2025E**	**Q3 2025E**	**Q4 2025E**	**2025E**
Revenue	3078.0	2690.0	3061.2	713.2	645.9	722.5	948.7	3030.3	780.3	700.8	780.3	1038.8	3300.2
Gross Profit	218.5	227.8	252.3					240.7					268.5
SG&A	104.8	116.8	139.8					149.2					152.6
R&D	NA	NA	NA					NA					NA
Operating Income	113.7	111.00	112.5					91.5					116
Interest Expense	-17.0	-22.2	-32.2					-31.5					-30.0
Pretax Income	94.3	91.1	65.0					62.0					88.0
Tax Rate (%)	18	17	18					19					18
Net Income	77.1	75.9	53.0					50.7					72.1
Diluted Shares	55.5	55.3	55.5					55.5					55.5
EPS	1.39	1.37	0.96	0.25	0.11	0.17	0.37	0.90	0.30	0.23	0.29	0.48	1.30
Dividend	0.30	0.45	0.50					0.50					0.50
Growth Rates (%)													
Revenue	30	-13	14					-1					9
Operating Income	101	NM	1					NM					27
Net Income	111	NM	NM					NM					42
EPS	111	NM	NM					NM					44
Valuation Analysis													
Price (PLN): High	28.2	25.96	32.50					NA					NA
Price (PLN):Low	6.10	8.60	20.78					NA					NA
PE: High	NA	NA	NA					NA					NA
PE: Low	NA	NA	NA					NA					NA
PS: High	NA	NA	NA					NA					NA
PS: Low	NA	NA	NA					NA					NA
Yield: High	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA					NA					NA
Financial & Risk Analysis ($MIL)													
Cash	184.6	134.6	143.6					NA					NA
Working Capital	147.5	194.7	253.5					NA					NA
Current Ratio	1.2	1.2	1.3					NA					NA
LTDebt/Equity (%)	2.7	3.8	5.2					NA					NA
Total Debt/Equity (%)	112	95.2	90.1					NA					NA
Ratio Analysis													
Gross Profit Margin	7.1%	8.5%	8.2%					7.9%					8.1%
Operating Margin	3.7%	4.1%	3.7%					3.0%					3.5%
Net Margin	2.5%	2.8%	1.7%					1.7%					2.2%
Return on Assets (%)	8.3	9.7	6.8					NA					NA
Return on Equity (%)	47.4	48.5	20.2					NA					NA
Op Inc/Int Exp	6.7	5.0	3.5					2.9					3.9
Div Payout	22%	33%	52%					NA					NA

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