

Asbis

Valuation range: PLN 422-507 mn

On the wave of digitalization

Asbis is one of the leading distributors of IT products and solutions in the EMEA region. The company mainly operates in the former Soviet Union Countries (54% of total sales) and CEE (26%) regions. Rising sales in 2020 (est. +15% y/y) is due to a better product mix, new contracts and high demand related to the COVID-19 pandemic (partially one-offs), which is reflected in the upgraded guidance (net profit of USD 23-25m, 2020 P/E at 4.1x based on PKO est.). We expect Asbis to keep its strong profitability (relative to local competitors) with estimated net margin of 0.9-1.0% in 2021-25F. Positive FCFs gives the company room to increase dividends (est. DPS of USD 0.15 from 2020 net profit, div yield at 8%). The main risks involve FX volatility (USD, EUR), and economic situation of individual countries (Russia, Belarus, Ukraine and Kazakhstan).

Strong 2020 results boosted by high demand and improvement of profitability

We expect Asbis to meet its upgraded financial guidance for 2020 (PKO est. net profit of USD 24.1m, +57% y/y), on the back of (i) an extraordinary increase of sales (incl. higher-margin products), (ii) lower operating costs, and (iii) lower financial expenses. In our view, the company is benefiting from robust demand for home office, home-schooling and related to video-gaming products, as well as its private labels. It was reflected in strong 3Q20 results delivery (EBIT +82% y/y, EBITDA +73% y/y).

Slowdown in 2021

In 2021, we expect the post COVID-19 business environment to be tough, which may be reflected in declining demand for IT solutions (after an extraordinary 2020). Thus we expect Asbis's revenue to decline by 5% y/y in 2021, then to rebound in 2022 (+4% y/y) and gradually improve in the next few years (sales +2.5% CAGR 2021-2025), maintaining its high profitability within the distribution industry.

Positive FCFs and rising dividends on the horizon

Asbis's business model needs a high cash position to operate (cash as WC). Nevertheless, the company has low net debt and generates positive FCFs (43% of EBITDA in 2019), which gives Asbis room for deleveraging and increasing dividends in the future.

We are initiating a financial analysis of Asbis, prepared within the corporate research service. Our DCF valuation indicates valuation range between PLN 422-507mn.

	2018	2019	2020F	2021F	2022F
Revenues	2,069.6	1,914.9	2,202.9	2,092.8	2,168.1
EBITDA	31.9	37.2	48.0	37.4	38.2
EBIT	29.3	33.2	43.7	33.2	33.9
Net profit	12.0	15.3	24.1	19.5	20.2
P/E	8.3	6.5	4.1	5.1	4.9
EV/EBITDA	3.1	5.6	4.7	5.4	5.2
FCF	0.8	15.9	4.6	38.6	16.7
CAPEX	3.0	2.9	4.5	5.1	5.9

Source: Company, PKO Securities

Key data

Stock price (PLN)	6.83
Number of shares	55.5
Market Cap (PLN mn)	379
Free float	63%
Free float (PLN mn)	239
EV 2020 (USD mn)	224
Net debt 2020 (USD mn)	124.6
Bloomberg	ASB PW Equity
ISIN	CY1000031710

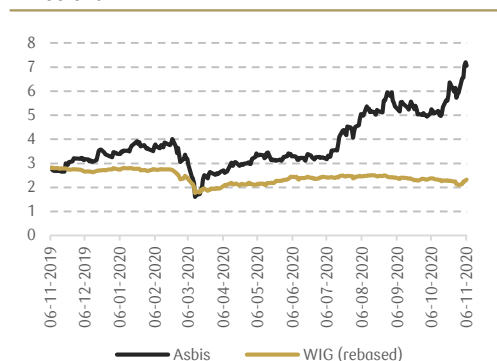
ESG Rating

ESG	7.0
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Major shareholders

KS Holdings Ltd	37%
-	-
-	-
-	-

Price chart



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Asbis

Executive summary Asbis is one of the leading wholesale distributors of ICT (Information and Communications Technology) products and solutions. The company also sales products under its own brands (5-7% of total sales). Asbis operates in EMEA, especially in former Soviet Union Countries, and the CEE regions (approx. 54% and 26% of total sales, respectively). High exposure for former SUC allows it to generate higher margins than its competitors which operate only in the CEE region.

The company's sales is growing in 2020 (we expect revenues to be up by 15% y/y), due to a better product mix, new contracts and high demand related to the COVID-19 pandemic (partially one-offs). As a result, we expect the company to be on the right track to report all time high results (net profit at USD 24.1m, up by 57% y/y).

In our opinion, Asbis's 2020 results are being supported by higher demand for home office & home-schooling products (partially funded by governmental support). We also assume that this year's sales will be additionally boosted by video gaming. The current environment of lower mobility and the increasing number of people on sick leave or quarantined may have translated into higher demand for IT products (desktop PC's, laptops, and peripherals).

Bearing in mind the very strong environment in 2020, in the base case scenario for 2021, we conservatively assume sales will fall by 5%, due to a potentially more difficult economic environment and lack of extraordinary demand compared to what we've been seeing in 2020.

Going forward, we expect that slow, yet ongoing, 5G implementation in the CEE region could boost sales of devices using 5G technology, especially smartphones – the group's biggest segment in terms of generated revenues (31% of 2019 sales). As a result, we assume revenues CAGR at 2.5% in 2021-2025.

In terms of profitability, we expect EBIT margin to reach a record high level of 2.0% in 2020 (up by 0.25 p.p. y/y). In coming years, we conservatively assume a normalisation towards 1.50%. As a result, we expect 2021 EBIT to fall by 24% y/y. Going forward, we estimate EBIT CAGR in 2021-2025 at 1.2%.

The business model requires high working capital (an estimated 12% of revenues in 2020). We still expect the company to generate positive FCFs in the coming years. As a result, we expect decent dividend payouts. The company has announced an advanced dividend payout from 2020's profits at USD 0.10 per share (to be paid already in 2020; record date on Dec 7). We expect the full DPS from 2020's profits to reach USD 0.15, which translates into 8% yield.

Based on our forecast, the company trades at 4.7x EV/EBITDA and 4.1x P/E based on 2020 results and 5.4 EV/EBITDA and 5.1 P/E for 2021.

Our DCF valuation indicates valuation range between PLN 422-507mn.

Asbis

Macro

Recession scenario after COVID-19 crisis

The COVID-19 pandemic has caused a significant deceleration in world economic growth. The global GDP is expected to shrink 4.4% this year (down from the 2.8% growth registered in 2019) and the developed economies are expected to underperform. The IMF is expecting the GDP of developed economies to drop by 5.8% this year, while the European Commission is forecasting that the euro area economy will contract by 8.7% in 2020. The GDP in 2021, particularly of the developed economies, will not be able to fully recover the pandemic related losses. The euro area is expected to grow by 5.8% in 2021 and the world's GDP should increase by 5.2%. Efficient management of the epidemiological situation will be essential for the GDP to return to its long-term growth potential.

Real GDP (%)	2016	2017	2018	2019	2020F	2021F	2022F
Russia	0.2	1.8	2.5	1.3	-4.1	2.8	2.3
Ukraine	2.4	2.5	3.4	3.2	-7.2	3.0	3.2
Slovakia	2.1	3.0	3.9	2.4	-7.1	6.9	4.8
Kazakhstan	1.1	4.1	4.1	4.5	-2.7	3.0	4.3
Belarus	-2.5	2.5	3.1	1.2	-3.0	2.2	2
Poland	3.1	4.9	5.3	4.1	-2.9	4.3	4
Czech Republic	2.5	5.2	3.2	2.3	-7.8	4.5	2.6
Romania	4.8	7.1	4.4	4.1	-6.0	4.0	2.7
Netherlands	2.2	2.9	2.4	1.7	-5.4	4.0	2
Bulgaria	3.8	3.5	3.1	3.4	-4.0	4.1	3.7

Source: IMF World Economic Outlook Oct 2020, European Commission Summer Forecast, PKO BP Securities

Asbis

Business description

ASBIS Group is one of the leading distributors of ICT (Information and Communications Technology) products and solutions in EMEA Emerging Markets.

The group operates in a low-margin business, but thanks to its regional reach, and the status of “distributor of first choice” for many worldwide suppliers, the group benefits from commercial terms and is able to obtain contracts for distribution of higher margin products.

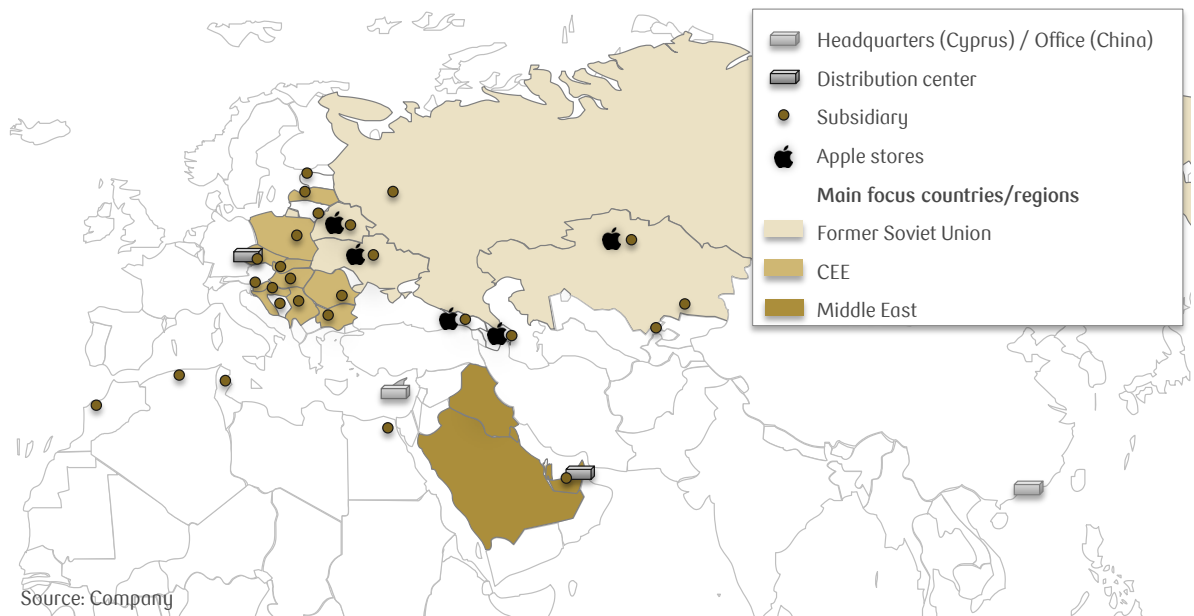
The group’s primary business lines are:

- Sales and distribution of IT components and blocks,
- Value-added distribution of Apple products in certain former Soviet Union countries,
- Sales of accessories and gaming products,
- Sales of finished products and software,
- Sales of private labels.

Geographic expansion

Asbis operates in approximately 56 countries and has facilities in 26 of them. It focuses, however, on the following countries:

- **CEE:** Slovakia, Poland, Czech Republic, Romania, Croatia, Slovenia, Bulgaria, Serbia, Hungary, Latvia,
- **Middle East:** United Arab Emirates, Iraq, Qatar and other Gulf states,
- **Former Soviet Union Countries:** Russia, Belarus, Kazakhstan, and Ukraine.

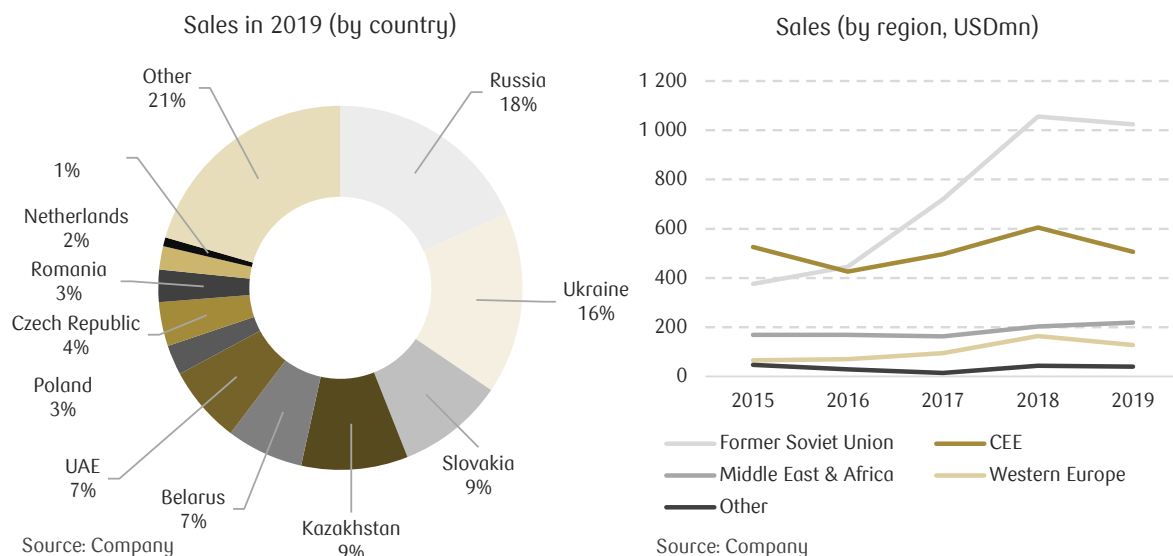


It's noteworthy, that Asbis is Apple's authorized distributor for Ukraine, Belarus, Kazakhstan, Georgia, Armenia, Azerbaijan, Kirgistan, Uzbekistan, Tajikistan, Turkmenistan and Moldova. As an Apple Premium Reseller, Asbis operates 18 Apple stores in 5 of those countries (4 in Belarus, 2 in Ukraine, 3 in Georgia, 3 in Azerbaijan and 6 in Kazakhstan).

Asbis

Business description

Unlike most of Asbis's international competitors, the company operates with an active local presence (via subsidiaries) across EMEA. Since many competitors target the same countries from locations in Western Europe, Asbis benefits from lower logistics costs (reduced shipping costs and lower revenue collection expenses).



Asbis's sales is pretty concentrated. The top four countries generate over 52% of revenues – Russia (18% in 2019), Ukraine (16% in 2019), Slovakia (9% in 2019) and Kazakhstan (9% in 2019). In terms of regions, over 53% of revenues came from former Soviet Union Countries.

Product portfolio

Asbis is a partner for leading international suppliers of IT finished products and components, including: Apple, Samsung, Hitachi, Dell, Toshiba, Intel, AMD, Seagate, Western Digital, Microsoft, Logitech and others (240 suppliers in total, approx. 23,000 products in offer).

Along with products and components from well-known manufacturers, the company also distributes products and solutions under its private labels: Prestigio, Canyon, Perenio and Atlantech.

Asbis is also developing its competences in electronic software distribution (ESD). This is not significant in terms of generated revenues, nevertheless the company wants to strengthen its position in it. A promotional agreement with Rakuten TV, signed this year, is a step on the way to achieve this goal.

Products distributed by Asbis are divided into various categories. The graph on the next page shows the proportion of each category in 2019's revenues.

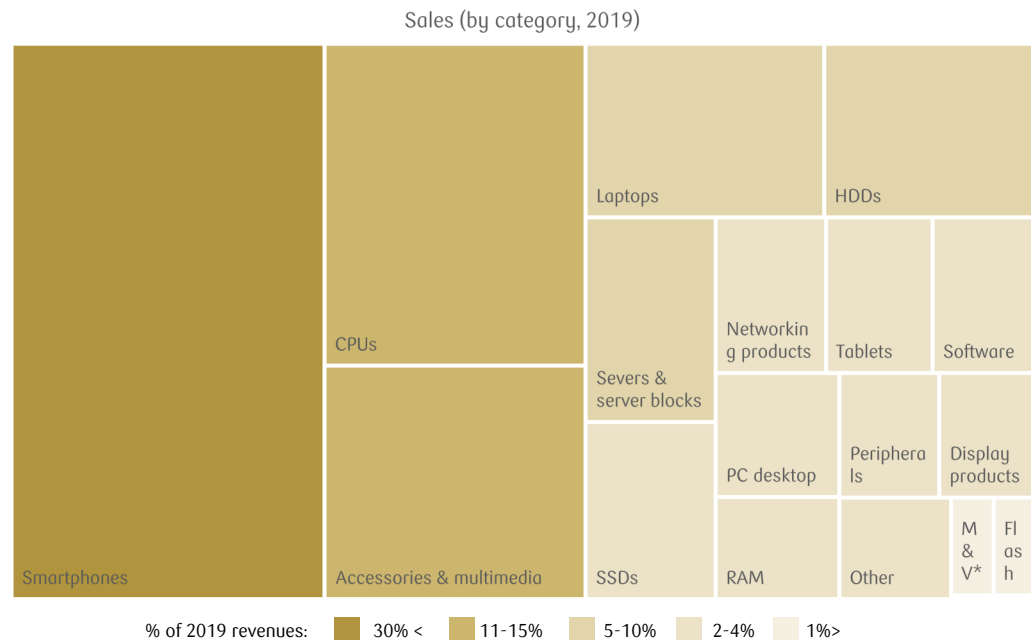
In 2019, nearly 56% of revenues was generated by sales of Smartphones, CPUs and Accessories & multimedia.

A significant part of Asbis's revenues is generated from group's ten biggest suppliers. Such concentration may look high, however as Asbis offers a wide range of brands in every product category, therefore the company is not dependent on any of them.

As an authorised distributor for a number of leading suppliers, the company can benefit from certain contract terms that provide protection from declining prices or slow-rotating inventories.

Asbis

Business description



Source: Company; *M&V - Mainboards & VGA cards

Private labels

Compared to the distribution business, private labels have a much greater need for cash due to manufacturing, sales and RMA processes. Apart from cash, the private label business requires a balance between satisfying consumer demand and managing the risk of inventory obsolescence or price erosion. This risk materialised in Q1 and Q2 2015 when the company had to sell their excess stock from Q4 2014, in order not to be left with obsolete inventories. Since then, Asbis has been continuing its private label business with a more balanced approach. The company considers this segment to be a valuable reinforcement to the group's profitability and aims to achieve 5-7% of total revenues from it. The development of this segment will be continued.

Asbis purchases products from a number of OEM (Original Equipment Manufacturer) and ODM (Original Design Manufacturer) suppliers, mainly from China. Those products are then resold on the markets in which the group operates, under own brands and at more competitive prices than similar products sold by competitors.

Canyon

- **PRODUCT CATEGORIES:** RAM, flash memory modules, web cams, mice, networking products, external HDD, MP3 players, handbags, phone accessories and speakers.
- **POS:** retail chains with IT and consumer electronic peripherals and accessories.
- **TARGET:** younger customers who want good quality products at affordable prices.

Prestigio

- **PRODUCT CATEGORIES:** multiboards, smartbooks, smartphones, charging stations, graphene power-banks, smart keyboards (with a touchpad on keys), Bluetooth speakers, GPS, ePrice Labels, digital hand sanitizers, business solutions.
- **TARGET:** retail customer, business clients.

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Business description

Perenio

- **PRODUCT CATEGORIES:** under this brand, Asbis offers control & security systems for buildings, and a software platform that allows it to manage them. This year, the company introduced new smart devices (smart video surveillance, smart security, smart energy saving and smart control) to the market. Perenio is also developing new products/services for the telecommunications sector. It has started to cooperate with the largest Belarusian telecom on Smart Home solutions.
- **TARGET:** retail customer, business clients.

Atlantech

- **PRODUCT CATEGORIES:** in development. This brand was launched with the aim of building an alternative servers offering.
- **TARGET:** business clients.

In 2019, the Group spent USD 1.34mn (USD 0.48mn in 2018) on Research and Development, focusing on development of tablets, GPS and other product lines. The Group will continue to have R&D expenditures to support the design and development of own brand products in order to maintain and enhance its competitive position.

In the current market environment, Asbis has decided to change its strategy and to focus more on profitability and quality than volume. Asbis has decided to decrease its product lines and number of models to achieve better margins. This strategy is expected to allow it to benefit from higher profitability, while reducing the risk of inventory obsolescence.

Logistics & distribution model

Asbis's distribution model is based on a system of centralised purchasing operations at the headquarters (Cyprus). Based on HQ's stock orders, suppliers ship their products to the group's warehouses (weekly or several times a week). Most of the products are delivered directly to master distribution centres (one in Prague, one in Dubai). These in turn distribute them to local in-country operations. The whole process is operated by the IT4profit platform.

The IT4profit platform is online supply chain management software that was developed internally and is owned by Asbis. The system is used for managing the flow of goods within the group's distribution network. The platform allows business data to be exchanged with Asbis's main suppliers, master distribution centres, subsidiaries and customers. It also allows orders to be placed and, finally, helps to control the whole shipment process.

Approximately 60% of the 2019 sales total was generated on-line, via the IT4profit platform.

Products of small size, high price dynamics and high value (such as memory modules and private label products) are supplied directly from the suppliers' factories to in-country operations. The company doesn't plan to invest in warehouse capacity in the next 3 years.

Facility location	Office area (m ²)	Warehouse area (m ²)	Total area (m ²)	Ownership
Prague	575	4,473	5,048	Leased
Dubai	1086	6,475	7,025	Owned

Source: Company

Asbis

Business description

Main clients

The Group distributes to assemblers, system integrators, local brands, small business and retail customers.

In 2019, Asbis served 20,000 customers in approx. 56 countries. The group doesn't rely on any single, large client - the biggest customer was responsible for less than 3% of total revenues in 2019.

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Market overview

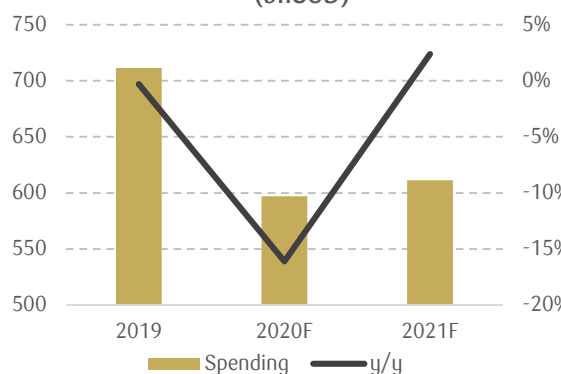
IT distribution is a highly competitive market, hence it is open to margin pressure from competitors and new entrants. Asbis competes at the international level with many distributors of varying sizes, covering different product categories and geographic markets.

Distributors are considered to be a basic component of the ICT industry, since the major suppliers are not especially interested in developing their own, in-country operational investments. On the European market, diversified in national business practices, as well as cultural and language differences, it's difficult to pursue efficient hardware distribution models without having a strong local presence. On the CEE and FSU markets, different currencies, varying levels of economic development, import regulations and periodic episodes of political and economic instability create additional barriers to IT distribution not found in Western Europe.

According to Gartner, a market researcher, worldwide IT spending is projected to total USD 3.5 tr in 2020 (-7.3% y/y), with all segments experiencing a decline in 2020. Gartner assumes, though, that overall IT spending will recover in a faster and smoother manner than the economy, and that is reflected in Gartner's 2021 forecasts.

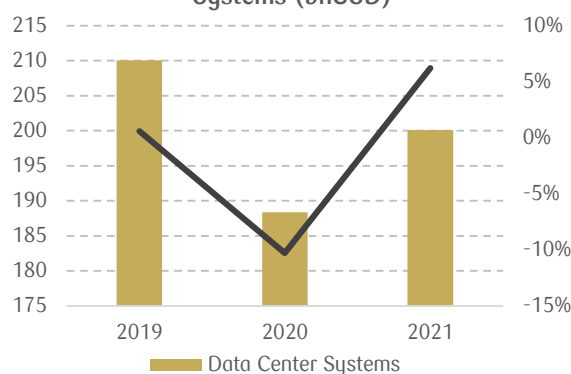
Due to cost containment, the hardest hit segment will, in Gartner's opinion, be 'Devices', which accounts for the majority of Asbis's revenues.

Global spending on IT devices
(bnUSD)



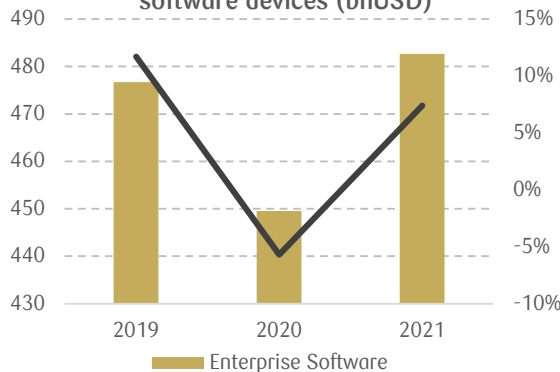
Source: Gartner 2020

Global spending on Data Center
Systems (bnUSD)



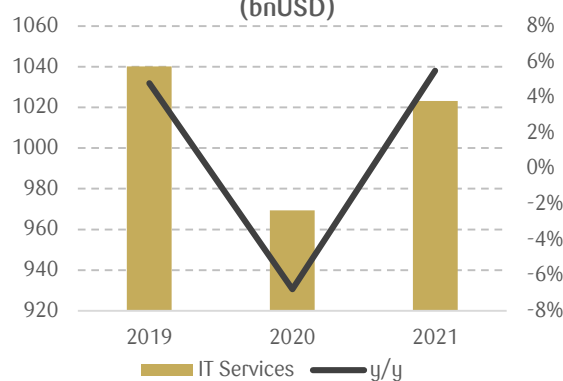
Source: Gartner 2020

Global spending on Enterprise
software devices (bnUSD)



Source: Gartner 2020

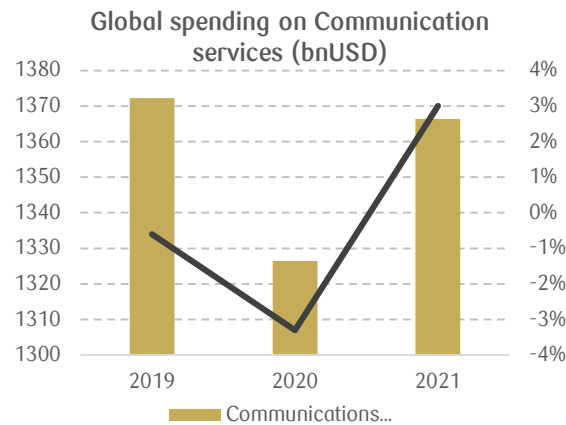
Global spending on IT services
(bnUSD)



Source: Gartner 2020

Asbis

Market overview

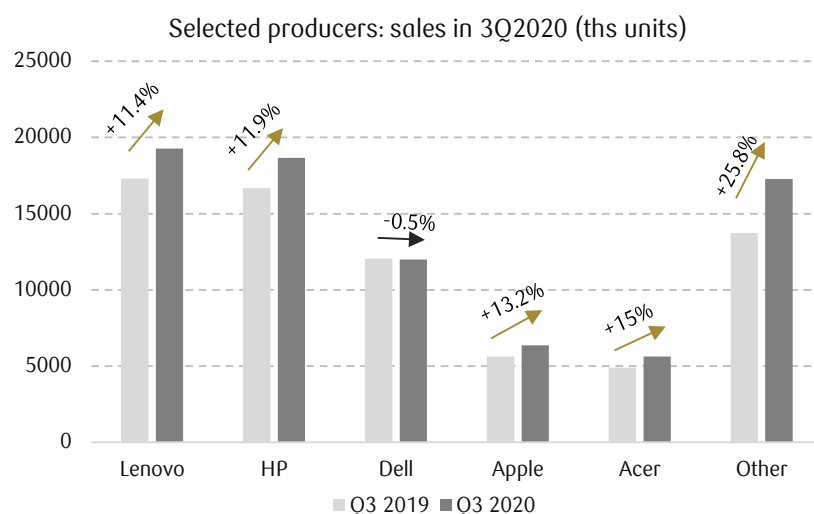


Source: Gartner 2020

We expect that in the EMEA region, where working from home and homeschooling were not popular before the pandemic and people therefore paid less attention to owned hardware, this drop will be noticeable no sooner than in 2021. The necessity of working/learning from home has, in our opinion, prompted customers to buy, either for themselves (and/or for their children) or for their employees, a needed device (or to change an owned device to one that is newer/more efficient). The second wave of the pandemic has, in our opinion, fueled further growth of this group of products.

IDC, another market researcher, says that sales in the whole PC segment on the EMEA markets grew by almost 12% in 3Q20. That gives nearly 21m of units sold in this period. This increase was vastly supported by individual clients that increased their PC purchases by nearly 30%. Business clients, on the other hand, decreased their orders by approx. 2%. Sales of PCs in the CEE region alone grew by 20% in 3Q20, IDC says.

According to Canalys, the global IT technology market analyst firm, PC sales of most worldwide producers significantly grew in 3Q20 y/y. Canalys points out that producers have indicated that they are hardly keeping up with the demand and are warning of possible supply problems, which could be caused by lack of Intel processors due to production interruptions caused by the pandemic.



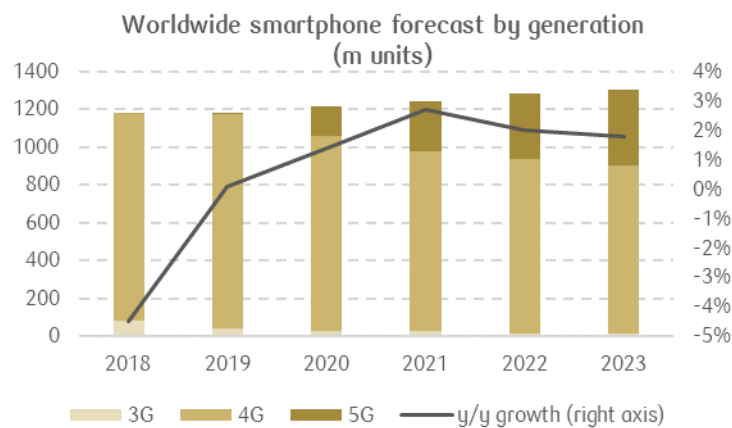
Source: Canalys, October

Asbis

Market overview

Still, the biggest contributor to Asbis's revenues are smartphones (they exceeded 30% of total sales in 2019). According to an IDC survey, smartphones global sales will grow at a low, single-digit pace in coming years. Since Asbis operates mostly on emerging markets, we expect it may even face faster growth of the group's biggest segment.

Going forward, we expect that slow, yet ongoing 5G implementation in the CEE region, may boost sales of devices using 5G technology, especially smartphones.



Source: IDC 2019

Asbis

Strategy

The group's strategy is focused on business growth and improving profitability, as well as higher operating efficiency in all of the countries the company operates in, upgrading the product portfolio and increasing private label sales.

Focus on the current markets

Asbis intends to increase, or keep at current levels, sales and market share in countries of the former Soviet Union, Central & Eastern Europe and the Middle East and Africa and to take advantage of its competition weaknesses. As for advantages, Asbis benefits from logistics cost efficiencies - reduced shipping costs and lower revenue collection expenses.

Development of product portfolio and improvement in profitability

Although the traditional IT components segment is the backbone of group's business, it typically has low gross margins. The company has therefore decided to change its product portfolio and bend towards more profitable products. Asbis plans to achieve this goal by adding more finished goods (networking, accessories and others) and addressing the market with more Apple products, more solutions to data centres and cloud-related products.

The company wants to keep expanding the range of private label products (Canyon, Prestigio, Perenio and Atlantech) where Asbis is already present and strengthen its market position. Products from this segment deliver a higher-margin profit compared to international suppliers' products. As long as it comes with higher margins and healthy cash flows, the goal is to keep a share of private label business in the group's total revenues.

Lowering financial expenses

The distribution business has a greater need for cash in order to support growth. The Group has managed to raise cash from various financial institutions, yet in certain cases, the cost of this financing is expensive. In order to achieve this goal, Asbis has already negotiated better terms with some of its supply-chain financiers and bankers and is currently undertaking additional steps to further lower the cost of financing. The cost of financing in Russia, Ukraine, Belarus and Kazakhstan is nevertheless quite high (yet necessary for hedging purposes), which may limit the company's efforts to further decrease its average cost of debt.

In FY2019, the group used credit lines, renewable credit lines, loans and factoring. Weighted average cost of debt stood at 7.6% (8.1% in 2018). This drop has been achieved due to decreasing US Libor rates and an overall decrease in the margin paid to financial institutions.

Controlling of the cost structure

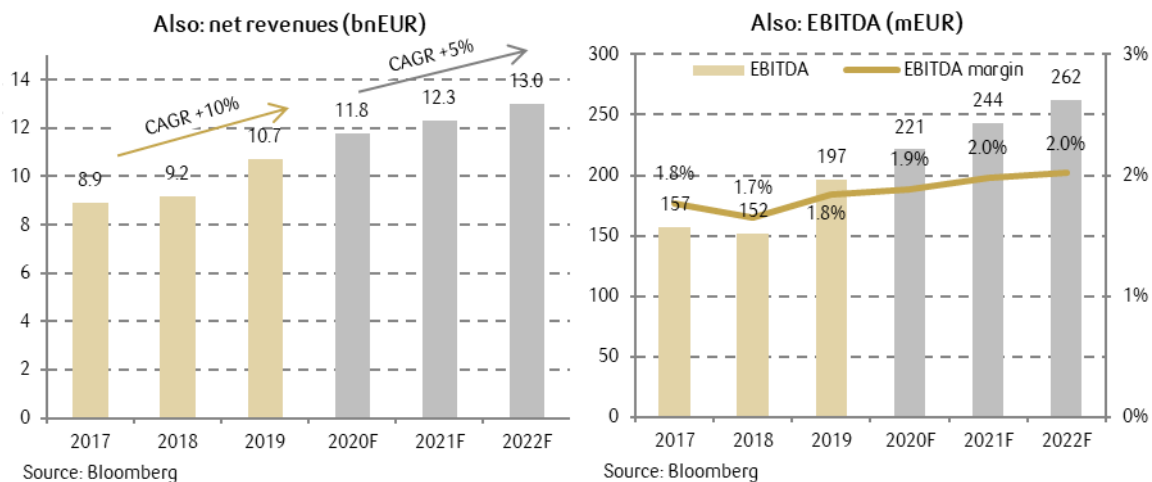
Asbis continues to focus on improving operating efficiency and enhancing automated processes, aimed at reducing operating expenses and increasing its margins. In 2019, it grew due to investments in human capital in all regions of the group's operations. The cost structure will, however, remain under strict control in the coming years.

While we acknowledge the company's strategy, we are more conservative in our assumptions and we expect that profitability will be decreasing in coming years (due to a potential macroeconomic slowdown in the EMEA region).

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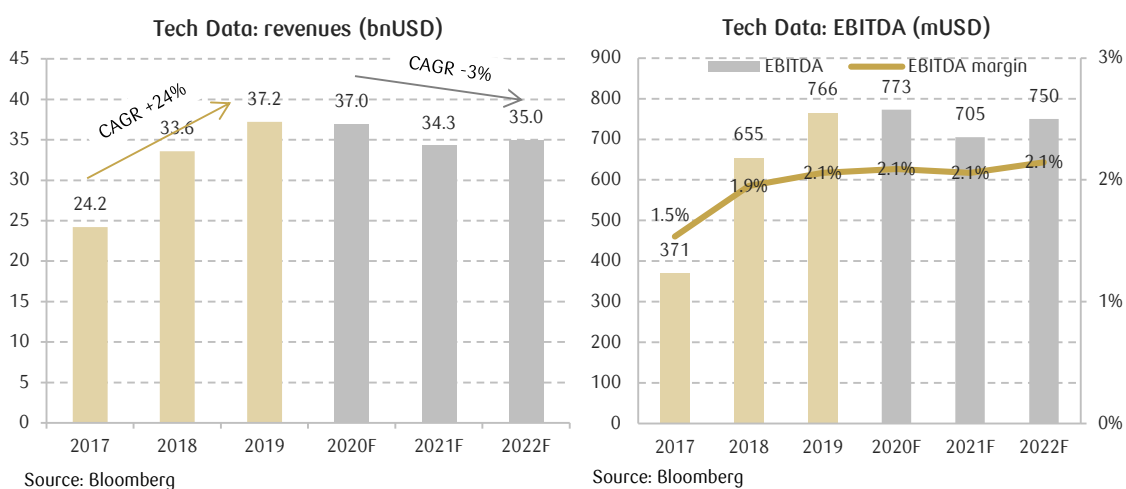
Global comparison Also [ALSN SW]:

ALSO Holding AG wholesales information technology and consumer electronics products. The Company's products include computer hardware and software. ALSO has a digital platform that serves clients from 87 countries.



Tech Data [TECD US]:

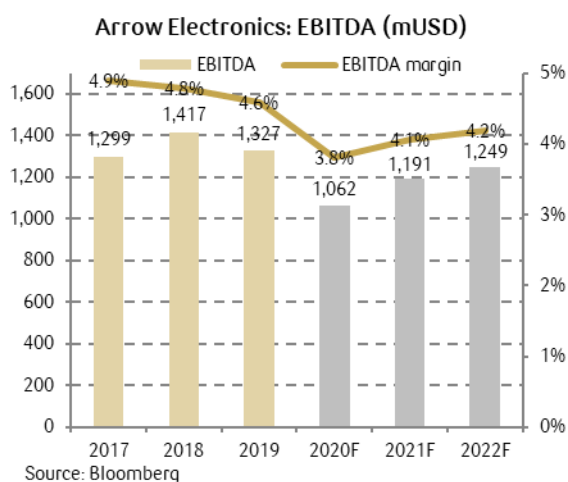
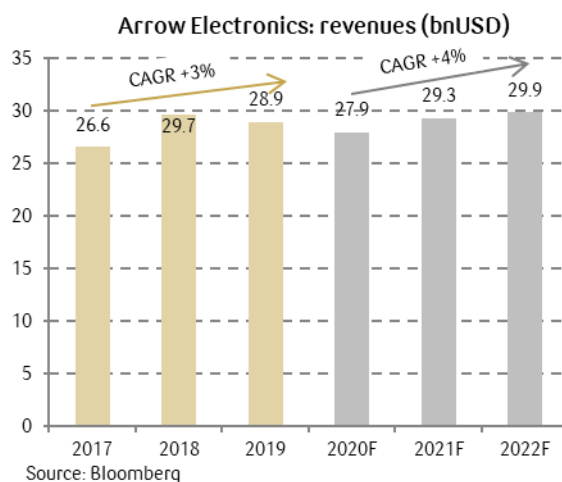
Tech Data is one of the world's largest technology distributors. With 27 logistics centres worldwide, the company serves above 125,000 customers in more than 100 countries throughout North America, South America, Europe, the Middle East and Africa. Tech Data offers a wide range of services for resellers e.g. education & training, credit, marketing and technical services.



Asbis

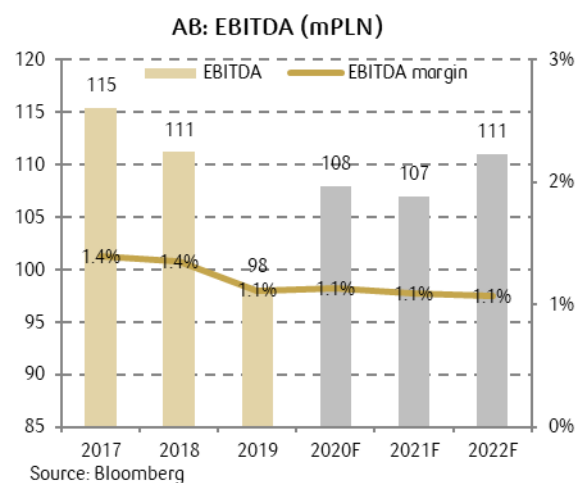
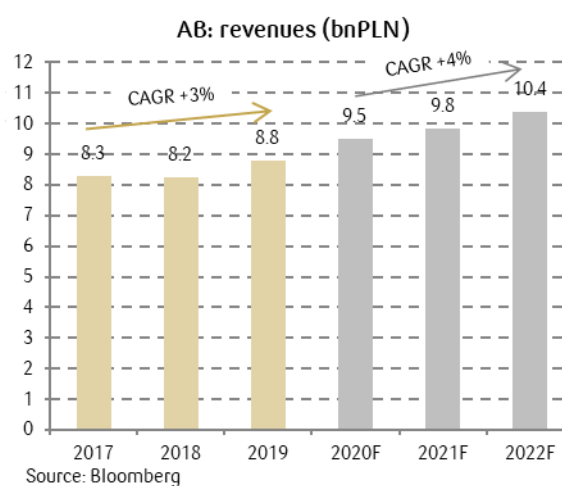
Global comparison Arrow Electronics [ARW US]

Arrow Electronics distributes electronic components and computer products to industrial and commercial customers. The Company offers a variety of products including computer systems, peripherals, software, and mass storage products to original equipment manufacturers and commercial customers worldwide.



AB [ABE PW]:

The AB Group is one of the largest distributors in Europe. The company operates in Poland, the Czech Republic and Slovakia, selling products of the world's largest producers to over 16,000 trading partners across Europe.



Asbis

2020's guidance

Asbis increased its previously announced financial guidance for 2020 in October.

The company expects sales in 2020 of between USD 2.0 and 2.2bn (unchanged) and net profit of between USD 23 and 25m. That means that Asbis is aiming to achieve net profit for 2020 of about 25% higher than initial forecast (previously, Asbis guided net profit between USD 18 and 20m).

The company has updated the guidance on the back of:

- an increase in sales of higher-margin products and IT solutions
- lower than anticipated financial expenses
- lower than anticipated operating costs.

Asbis's guidance vs PKO BP Securities estimates:

	Asbis FY2020 (August 2020)	Asbis FY2020 (October 2020)	PKO BP 2020F
Revenue	USD 2.0-2.2bn	USD 2.0-2.2bn	USD 2.2bn
Net profit	USD 18-20m	USD 23-25m	USD 24.1m

Source: company, PKO BP Securities

Asbis

Financials and forecasts

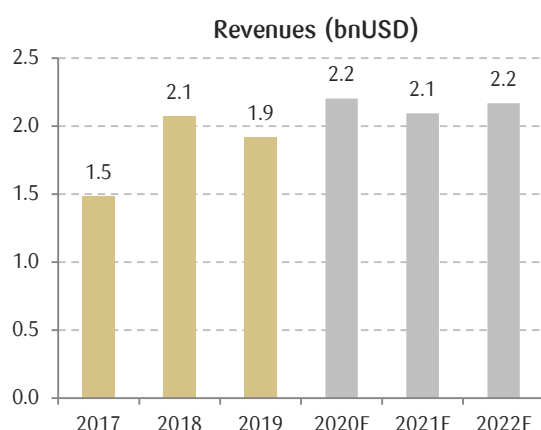
Revenues: COVID-19 pandemic accelerates growth in 2020

In 2019, the countries of the former Soviet Union (54% share) and Central and Eastern Europe (almost 26% share) had the largest share in the Group's revenues. Russia was the largest country in terms of revenues generated in 2019. We assume the sales by region to be stable in our forecasts.

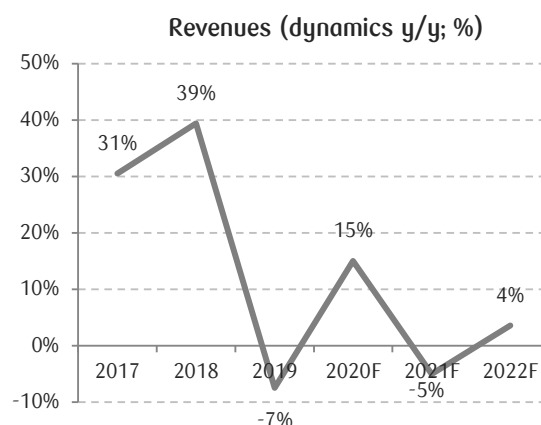
In our view, Asbis has benefitted from the COVID-19 pandemic in 2020 (estimated sales +15% y/y), mainly on the back of high demand related to the pandemic and strong orders from SMB, ecommerce players and retail chains. The company continued to experience greater demand for home office solutions, laptops, and hardware for firms and enterprises (the one-off impact of COVID-19), a trend that seems to have been maintained this year.

We also assume that this year's sales will be additionally boosted by video gaming. The current environment of lower mobility and the increasing number of people on sick leave or quarantined may have translated into higher demand for IT products (desktop PC's, laptops, and peripherals).

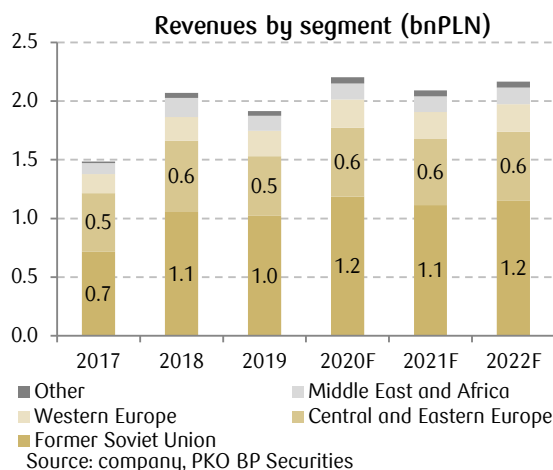
In 2021, the economic environment may still suffer from the COVID-19 pandemic, which may be reflected in declining demand for IT solutions (after an extraordinary 2020). On top of that, we expect Asbis revenues to decline by 5% in 2021, rebound in 2022 (+4% y/y) and gradually improve in the next few years (sales +2.5% CAGR 2021-2025).



Source: company, PKO BP Securities



Source: company, PKO BP Securities

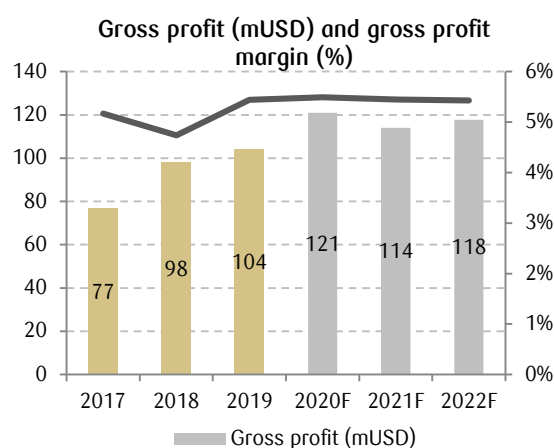


Asbis

Financials and forecasts

Gross profit margin: improvement due to better product mix

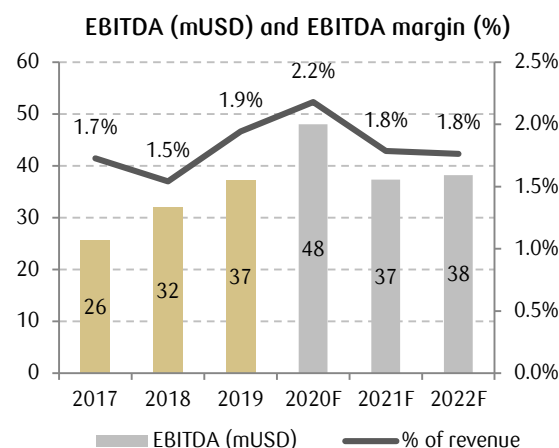
Asbis is focusing on gross profit margin improvement (better product mix), which was already visible in 2019 (gross profit margin up by 0.7pp to 5.4%). In 2020, we expect that the high demand related to the COVID-19 pandemic will boost profitability within the Group, and we see it as a one-off. That is why we assume the gross profit margin will decline to 5.4% (as seen in 2019), which we see as a healthy level for Asbis.



Source: company, PKO BP Securities

EBITDA

We estimate that most of the operating costs (2/3) are relatively constant and the rest depends on the value of the products sold. As we assume the costs base will grow slightly faster, we expect EBITDA margin to decline in the coming years from 2021F and stabilise at 1.7-1.8%. We estimate 2021-2025F EBITDA CAGR at 1.4%.



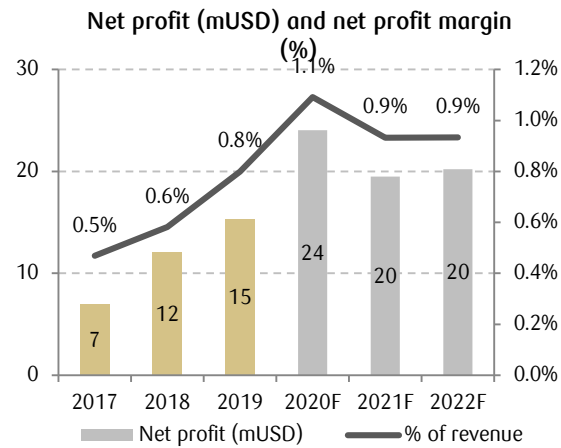
Source: company, PKO BP Securities

Asbis

Financials and forecasts

Net profit

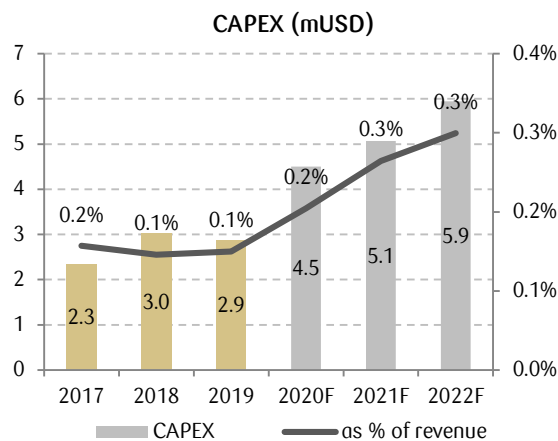
We assume a net profit margin of 0.9% in 2021F, higher compared to the 0.8% in the reference year of 2019, mainly due to lower financial costs and the expected deleveraging process.



Source: company, PKO BP Securities

Capex

In 2018–2019, CAPEX amounted to approx. 0.1% of revenues. DC's current capacity is enough up to 2023, which is why we estimate that Asbis will invest in the expansion of logistics capacity in the coming years. The company both leases and uses its own infrastructure.



Source: company, PKO BP Securities

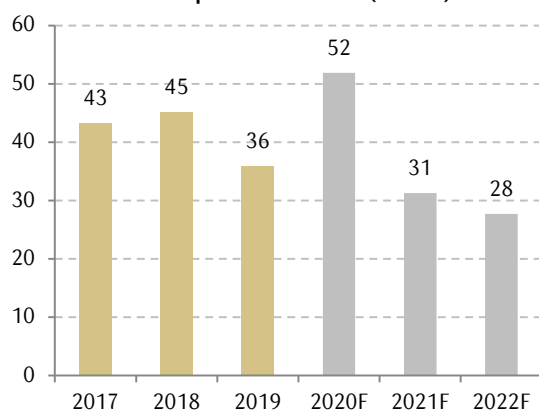
Asbis

Financials and forecasts

Strong FCF triggers deleveraging

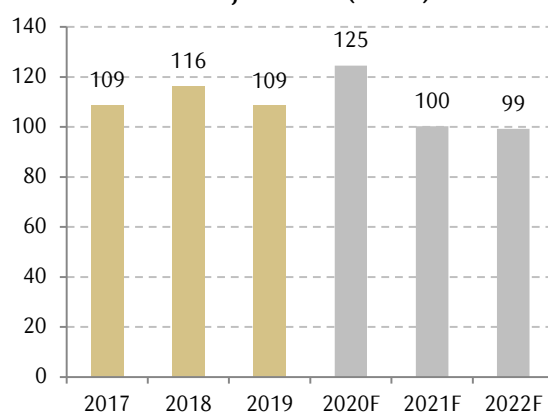
In our opinion, Asbis's business model needs a high cash position to operate (seasonal fluctuations), which is why we assume special cash for WC (around 3% of total revenue), reflected in adj. net debt. As Asbis generates rather positive FCF (in 2019, it was ~43% of EBITDA), it provides deleveraging potential.

Reported net debt (mUSD)



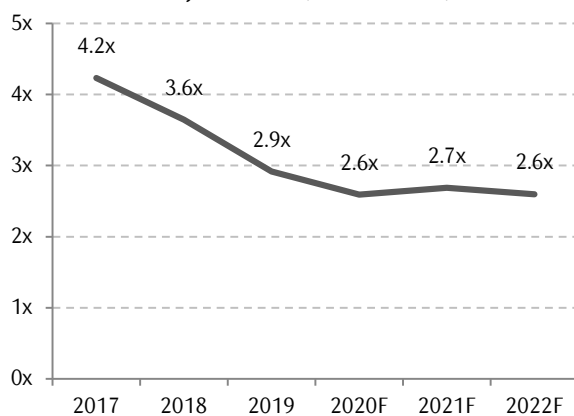
Source: company, PKO BP Securities

Adj. net debt (mUSD)



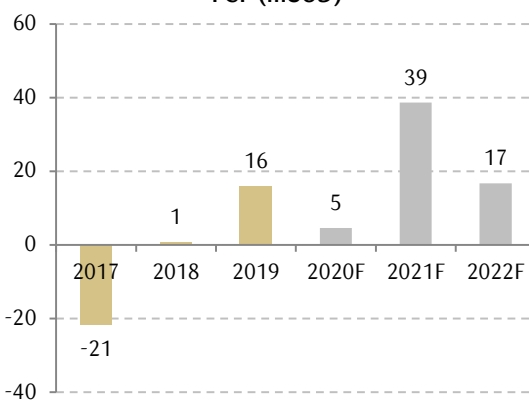
Source: company, PKO BP Securities

Adj. net debt (% of EBITDA)



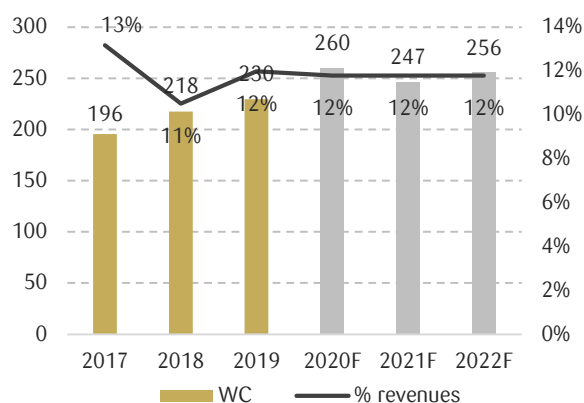
Source: company, PKO BP Securities

FCF (mUSD)



Source: company, PKO BP Securities

Working capital (mUSD)



Source: company, PKO BP Securities

Asbis

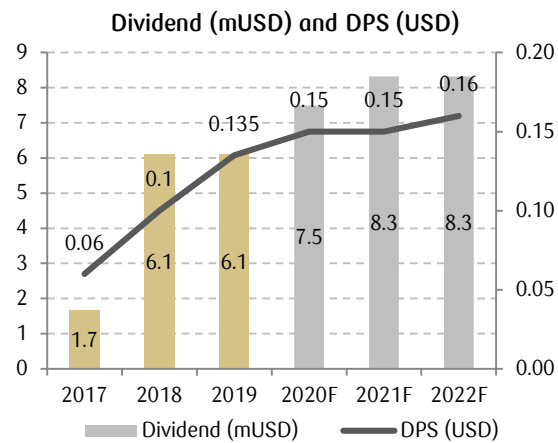
Financials and forecasts

Dividend policy

Asbis's dividend policy assumes paying dividends at levels consistent with the company's growth and development plans, while maintaining a reasonable level of liquidity. Pursuant to this policy, the Board of Directors intends to recommend to the GM that up to 50% of audited net profits be distributed as dividend going forward.

The Board of Directors decided to pay the interim dividend of USD 0.10 per share from the Company's profit for 2020. We expect Asbis to pay a total dividend of USD 0.15 per share (8% yield) from 2020's net profit.

Below we present our forecast with regard to dividend payment:



Source: company, PKO BP Securities

Asbis

3Q20 results

Strong 3Q20, significantly above our expectations; ND/EBITDA of 0.1x; increased 2020 outlook

PLN mn	3Q 2019	3Q 2020	y/y	PKO BP Securities 3Q 2019	Diff.
Revenue	462.7	619.7	34%	605.1	2%
EBITDA	10.2	17.7	73%	11.9	49%
EBIT	9.1	16.5	82%	10.9	51%
Net profit	4.6	10.4	126%	6.2	68%
EBITDA margin	2.2%	2.9%		2.0%	
EBIT margin	2.0%	2.7%		1.8%	
Net margin	1.0%	1.7%		1.0%	

Source: PKO BP Securities

- 3Q20 revenues were slightly above our expectations and in line with what was reported on a monthly basis, and increased by 34% y/y in US dollars: the former Soviet Union +41% y/y; Central and Eastern Europe +17% y/y; Middle East and Africa +37% y/y; Western Europe +54% y/y.
- Gross profit margin reached 5.8% (flattish y/y). Gross profit in 3Q20 increased by 33% y/y to USD 36.1m from USD 27.2m a year ago.
- Selling expenses in 3Q20 increased by 8.7% y/y to USD 11.4m, while administrative expenses increased by 12% y/y, to USD 8.2m.
- EBITDA in 3Q20 was significantly higher y/y of USD 17.7m.
- Net financials expenses increased in the quarter to USD 3.6m (vs USD 2.9m in 3Q19), due to higher y/y average factoring uses in 3Q20 related to strong sales development.
- The company reported neutral operating cash flow in the quarter of USD 74m; the Cash Conversion Cycle in the whole group is 39 days (worse y/y); working capital consumed USD 29m cash in the quarter.
- As a result, the company has reached net debt of USD 5.3m (including factoring), net debt/12LTM EBITDA of 0.1x (including factoring).

The company has reported strong 3Q20 results, significantly above our expectations. Asbis posted significantly better EBITDA due to lower SG&A costs in the quarter, while the outlook for 4Q20 seems to be getting better, which is reflected in the updated guidance.

Asbis

Risk factors

Margins under pressure

Margins generated by distributors still remain under pressure, chiefly due to the very aggressive domestic and regional competition and the growing share of exports in the total volume of sales. The margins generated by regional players are often higher than domestic margins but the costs of transportation and logistics are an additional burden on the results.

A potential margin decline, resulting from the local distributors' reaction to the intense activity of foreign competitors such as Asbis, seems to be a risk which could worsen results in the short term and which could render the multi-country business model less profitable in the longer term.

Exposure for former Soviet Union countries – higher margins and risks

The company has suffered specific problems in individual countries, from time to time, resulting from the deterioration of the economic situation of individual countries (the main risks in Russia, Ukraine, Belarus, and Kazakhstan) due to many issues, including political instability.

Internal problems in individual countries may arise at any time and adversely affect the company's business. Even though operating in these countries is risky, it allows higher margins to be generated than those of competitors in the region.

Private labels

For many years, the companies have been selling products under private labels which helps generate much higher (double-digit) margins than the distribution of other IT products. However, selling private labels is connected with additional costs and risk, such as the need to maintain service, reserves for faulty products and outlays on R&D.

Currently, Asbis has a share of private labels in its sales of around 5-7% (historically even 25% of total sales). We see this division as an addition for improving group margin but it also increases the risk.

Inventory obsolescence and industry price decline

The market for IT products and components is notable for rapid changes in technology and short product life cycles, which means that the inventory can quickly become obsolete.

Hedging and FX

The reporting currency is the US dollar. In 2019, about 50% of the company's revenues were denominated in this currency, while the rest was denominated in Euro, Russian ruble (RUB), Ukrainian hryvnia (UAH), Kazakh tenge (KZT) and other currencies, including those related to the Euro. Most of Asbis's trade liabilities (approximately 80%) are denominated in USD. In addition, approximately half of the group's operating expenses are denominated in USD, while the other half are denominated in Euro and other currencies, including Euro peg.

As a result, the reported results are affected by changes in exchange rates, in particular USD to Euro and other currencies of the countries in which the company operates, including: the Russian ruble, the Ukrainian hryvnia, the Czech koruna, the Polish zloty, the Croatian kuna, the Kazakh tenge and the Hungarian forint.

Asbis

Risk factors

High debt costs

The distribution business is characterised by high demand for cash necessary for growth. The sanctions imposed on Russia and the tensions related to the Ukrainian crisis have increased the cost of financing in these countries.

The weighted average cost of debt in 2019 (credit facilities and factoring agreements) was 7.6% (2018: 8.1%).

Risk of macroeconomic slowdown and weaker IT market

In recent years, GDP in the Euro zone and retail sales have been growing, supported by rising disposable income and pretty stable unemployment.

However, there are many uncertainties related to the global economy resulting from turbulence in various countries, volatility of exchange rates and weaker demand on many markets. The potential macroeconomic slowdown in the EMEA region could have a negative impact on hardware and software sales and the growth dynamics of the IT market and, consequently, on Asbis's revenues.

The COVID-19 pandemic might be detrimental to consumer total spending, including IT hardware

Due to the COVID-19-related lockdown and social distancing, GDP is expected to decline in the EMEA region. While consumer sentiment has improved significantly since the first lockdown, there was still a negative impact on the labour market (particularly in some sectors, such as banking, tourism, advertising, and events). Hence, in the short/mid-term, there is a risk that retail sales in EMEA region and IT hardware might slow down.

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 2020-2025F, 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 2025F. 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% which reflects the yield of 10-year Treasury bonds in US dollars. Beta has been assumed at 2.0x (substantial sensitivity to declining margins, net profit margin around 1.0% and F/X exposure). We have adopted an equity risk premium of 6.0%. We have discounted all free cash flows for the company as at 31 December 2020 and deducted the forecasted net debt.

DCF model

mUSD	2020F	2021F	2022F	2023F	2024F	2025F
EBIT	43.7	33.2	33.9	34.3	34.6	34.8
Tax rate	19.5%	20.4%	20.4%	20.4%	20.4%	20.4%
NOPLAT	35.2	26.4	27.0	27.3	27.6	27.7
CAPEX	-4.5	-5.1	-5.9	-5.6	-5.8	-6.0
D&A	4.2	4.3	4.5	4.7	4.9	5.1
Changes in WC	30.2	-13.0	8.9	6.4	5.7	5.1
FCF	4.6	38.6	16.7	20.0	20.9	21.7
WACC	8.8%	9.2%	9.2%	9.2%	9.3%	9.4%
Discount ratio		0.92	0.84	0.77	0.70	0.64
DFCF		35.4	14.0	15.4	14.7	13.9

Revenues dynamics in 2021		-10.0%	-5.0%	0.0%	5.0%
	5.25%	345.9	348.6	351.2	353.5
	5.35%	414.5	422.1	429.3	436.5
Gross margin in 2021	5.45%	482.3	494.8	507.0	518.7
	5.55%	549.8	566.8	583.9	600.2

Valuation range (mnPLN)	422-507
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Source: PKO BP Securities

Our DCF valuation indicates valuation range between PLN 422-507mn.

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

Company	P/E			EV/EBITDA			Dividend yield (%)
	2019	2020F	2021F	2019	2020F	2021F	
AB SA	8.5	7.3	-	4.7	4.4	-	-
AVNET INC	6.9	20.0	15.9	4.5	8.9	9.6	2.9
ARROW ELECTRONICS INC	11.9	12.0	10.2	7.3	8.3	7.4	-
ELECTROCOMPONENTS PLC	21.5	21.2	26.8	14.7	14.1	16.3	3.3
WPG HOLDINGS LTD	10.6	8.8	7.9	15.3	13.7	12.3	-
REDINGTON INDIA LTD	9.7	9.1	9.8	6.3	5.5	5.5	-
DIGITAL CHINA GROUP CO LTD-A	27.9	26.1	19.1	-	19.7	14.6	-
ALSO HOLDING AG-REG	27.3	22.2	18.6	15.8	12.6	11.5	1.7
INSIGHT ENTERPRISES INC	12.7	11.7	10.8	8.3	7.9	7.3	-
DATATEC LTD	113.3	34.7	22.7	7.9	-	3.5	-
MEDIAN	12.3	16.0	15.9	7.9	8.9	9.6	2.9
Asbis (PKO BP Securities)	6.5	4.1	5.1	5.6	4.7	5.4	7.5
Premium/discount to PKO BP Securities forecast	-47%	-74%	-68%	-29%	-47%	-44%	156%

Source: based on Bloomberg consensus, PKO BP Securities

Asbis: Summary of comparative valuation

	2019	2020F	2021F	Average 2019-2021F
Asbis net profit forecast (USDm)	15.3	24.1	19.5	
Asbis EBITDA forecast (USDm)	37.2	48.0	37.4	
Peer companies: P/E median	12.3	16.0	15.9	
Asbis Valuation (PLNm)	718.3	1,470.2	1,183.1	1,123.9
Peer companies: EV/EBITDA median	7.9	8.9	9.6	
Asbis Valuation (PLNm)	708.1	1,146.2	982.7	945.6

Source: Bloomberg, PKO Securities

Asbis

Profit and loss account	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Sales of products, goods and materials	1 137,7	1 484,9	2 069,6	1 914,9	2 202,9	2 092,8	2 168,1	2 222,3
Costs of sold products, goods and materials	-1 072,3	-1 408,2	-1 971,5	-1 810,7	-2 081,9	-1 978,7	-2 050,4	-2 102,1
Gross profit on sales	65,4	76,7	98,1	104,1	121,0	114,1	117,7	120,2
EBITDA	22,4	25,7	31,9	37,2	48,0	37,4	38,2	38,7
Selling costs	-28,8	-34,7	-46,0	-42,9	-45,3	-47,7	-49,4	-50,7
General administrative expenses	-16,3	-17,6	-22,7	-28,1	-32,4	-33,5	-34,7	-35,6
Other operating income	0,0	-1,0	-0,1	0,1	0,3	0,3	0,3	0,3
Operating profit	20,3	23,4	29,3	33,2	43,7	33,2	33,9	34,3
Financial expenses net	-14,3	-14,4	-14,2	-14,2	-13,8	-8,7	-8,5	-8,1
Pre-tax profit	6,0	9,0	15,1	19,0	29,9	24,5	25,4	26,2
Income tax	-1,4	-2,1	-3,1	-3,7	-5,8	-5,0	-5,2	-5,4
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)	4,6	7,0	12,0	15,3	24,1	19,5	20,2	20,9
Balance Sheet	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Fixed assets	28,4	28,4	29,2	33,3	33,8	34,5	36,0	36,9
Intangible assets	3,0	3,2	3,1	2,6	2,6	2,6	2,6	2,6
Tangible assets	23,2	24,5	25,3	29,7	30,0	30,8	32,2	33,1
Other long-term assets	2,2	0,7	0,9	1,0	1,2	1,1	1,2	1,2
Current assets	387,0	495,6	474,6	599,5	671,3	637,9	660,9	677,5
Inventories	113,9	145,0	180,2	266,0	312,3	296,8	307,6	315,3
Receivables	221,1	238,2	174,6	212,2	244,1	231,9	240,2	246,2
Other long-term assets	18,7	19,0	18,4	17,6	20,2	19,2	19,9	20,4
Cash and cash equivalents	33,4	93,4	101,4	103,7	94,7	90,0	93,2	95,6
Total Assets	415,4	523,9	503,8	632,8	705,1	672,4	696,9	714,4
Equity capital	85,9	94,5	99,2	108,2	124,8	135,9	147,8	159,9
Liabilities	329,5	429,5	404,6	524,6	580,4	536,5	549,1	554,6
Long-term liabilities	1,5	0,6	0,7	4,5	5,7	4,9	4,9	4,8
Loans and borrowings	1,2	0,2	0,1	3,3	4,4	3,6	3,6	3,5
Trade liabilities and other	0,4	0,4	0,6	1,1	1,3	1,3	1,3	1,3
Short-term liabilities	327,9	428,9	403,9	520,1	574,7	531,6	544,1	549,7
Loans and borrowings	98,6	136,5	146,6	136,3	142,2	117,6	117,3	113,6
Trade liabilities and other	202,0	253,0	208,1	321,3	369,4	351,1	363,8	373,0
Other	27,3	39,3	49,2	62,6	63,1	62,9	63,0	63,1
Total Equity & Liabilities	415,4	523,9	503,8	632,8	705,1	672,4	696,9	714,4

Asbis

Cash flow	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Operating cash flow	9.4	42.1	18.7	33.6	13.5	46.1	29.9	32.3
Investment cash flow	-2.3	-2.1	-3.1	-3.6	-4.5	-5.1	-5.9	-5.6
Financial cash flow	-4.9	-0.6	-3.4	-9.7	-65.3	-42.1	-23.2	-26.2
Other	2016	2017	2018	2019	2020F	2021F	2022F	2023F
DPS	0.03	0.06	0.10	0.14	0.15	0.15	0.16	0.16
Net debt	89.8	108.6	116.2	108.5	124.6	100.3	99.3	94.9

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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.

Connections which could influence the objectivity of Analysis

Entities associated with PKO BP Securities may, insofar as is legally permissible, participate or invest in financial transactions in relations with the Issuer, render services to or assist in rendering services to the Issuer or have the option to or conclude transactions on financial instruments issued by the Issuer ("financial instruments"). PKO BP Securities may, insofar as permissible under Polish law, conclude transactions on financial instruments before this instrument is presented to recipients.

PKO BP Securities has the following connections with the Issuer:

Issuer:	Reservation
Asbis	3, 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.
6. PKO BP Securities and PKO Bank Polski, whose organisational unit is PKO BP Securities, hold shares of the Issuer, which are the object of this analysis, in a total number constituting at least 5% of share capital.

It is possible that PKO BP Securities or PKO Bank Polski or persons involved in drafting a report have a long or short position on the Issuer's shares or other instruments whose value is connected with the value of the financial instruments issued by the Issuer in an amount not lower than 0.5% of the Issuer's share capital.

Excluding the above, no other contractual relations exist between the Issuer and DM PKO BP that could influence the objectivity of this Analysis.

Disclosures

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Other disclosures

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This Analysis has been drafted subject to due diligence to the best knowledge of the Recommending Entity; there exist no other connections between PKO BP Securities and the analyst drafting this Analysis on one part and the Issuer on the other.

The time and date stipulated on the front page of the report are the time and date of completing the process of drafting the Analysis.

The time and date of the first distribution of the Analysis are identical with the time and date of delivering this Analysis in electronic form to customers.

Whenever this Analysis quotes a price for the financial instrument, it will be understood as the closing price from the last trading day.