

December 2, 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, margins and earnings in recent years, and is, in our view, well positioned for continued growth. The company has expanded its gross margin by more than 100 basis points over the past year (narrowing the gap between its global electronic distributor peers), supported by strong sales of private-label products, distribution efficiencies, and the increased use of e-commerce.
- * In 2020, revenue rose 24% and EPS more than doubled from the prior year. For the first nine months of 2021, ASBISc reported revenue growth of 42% and net income growth of 220%, which, in our view, partly reflects favorable comparisons over the same period in 2020. We expect continued organic growth will be supported by the recent launch of an Apple product-reselling unit (which operated 18 stores as of mid-year, with a year-end goal of 20) and the launch of innovative, internally developed products, including an ionic air diffuser designed to help combat coronaviruses, including COVID-19.
- * As of September 30, 2021, ASBISc had \$165.3 million in cash and equivalents on its balance sheet, compared with 2020 year-end total of \$159 million. Despite seasonality in cash flow trends in its business, we view the company's operational cash flow positively, as levels have risen each of the past three years. Further, we note that ASBISc recently announced an expanded interim dividend, which supports this favorable outlook.

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PRICE CHART



KEY STATISTICS

Key Stock Statistics

Recent price (11/30/21)	22.75
52 week high/low (PLN)	28.10 - 6.20
Shares outstanding (M)	55.5
Market cap (M, PLN)	1263
Dividend (\$)	0.3
Yield	5.5%

Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.9%

Financials (\$M)

Cash & Mkt Securities	165.3
Debt	250.3
Working Capital (\$M)	134.3
Current Ratio	1.2
Total Debt/Equity (%)	145
Payout ratio	0.5
Revenue (M) TTM	2996.0
Net Income (M) TTM	69.8
Net Margin	2.3%

Risk

Beta	0.55
Inst. ownership	8%

Valuation

P/E forward EPS	4.2
Price/Sales (TTM)	0.1
Price/Book (TTM)	1.8

Top Holders

Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.
Santander Towarzystwo Funduszy Inwestycyjnych S.A.
AXA Towarzystwo Funduszy Inwestycyjnych S.A.

Management

CEO	Mr. Siarhei Kostevitch
CFO	Mr. Marios Christou
CRO/IR	Mr. Constantinos Tziamalios
Company website	www.asbis.com

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- * Despite a near tripling in ASBISc's stock price year-to-date, we believe the current valuation remains well below peer levels, and does not fairly reflect the company's strong underlying fundamentals. Its recent market capitalization of approximately \$300 million -- 1.26 billion Polish zloty (PLN) -- implies a multiple of approximately 0.1-times our 2021 revenue estimate, below the average multiple of 0.4 for our group of global electronics-distribution peers. At current levels, the P/E multiple below 5-times our 2021 EPS estimate is also well below the peer average of 15-times.
- * We believe that ASBISc warrants a valuation closer to the industry average. Applying a multiple of 14 to our 2021 EPS estimate of 5.14 PLN (\$1.30), we arrive at a fair value estimate for ASB of approximately 72 PLN per share (\$17.50, applying a three-month average 3.96:1 PLN to U.S. dollar exchange rate), well above current prices near 23 PLN (\$5.60).

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. As of mid-2021, ASBISc was the official distributor of Apple products in 11 countries of the former Soviet Union (FSU). 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%.

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. During the third quarter of 2021, ASBISc extended a contract with Pure Storage. This widens its geographical coverage of Pure Storage products across 18 countries across the Europe, Middle East, and Asian (EMEA) markets. The company also entered into new distribution partnerships, with IT infrastructure players including Vertiv and Micro Focus Enterprise B.V. During the prior quarter, the company signed contracts for the distribution of motherboards and graphics cards with Biostar Microtech and expanded its presence in the business services sector by obtaining the title of a certified Partner of the NVIDIA HGX Platform.

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 also have benefited from the increase in online transactions, and from an automated system that coordinates supply-chain management activities. As of the third quarter of 2021, ASBISc cited 60% of its transactions taking place online. In 2020, ASBISc reported a gross margin of 5.8%, up from 5.4% in 2019 and the highest full-year figure since 2016. Gross margin in the first nine months of 2021 has improved further, to 6.9%, including 7.4% in the third quarter, as this metric continued to move closer to an average near 9% 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, the company launched a new subsidiary focused on the resale of Apple products. The unit purchases used Apple products in exchange for discounts on new purchases, and then resells the

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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	WSE: ASB	22.75*	28.1*	6.20*	1263*	219	24	136	8.3	0.55	5.5
ARROW ELECTRONICS INC	NYSE: ARW	121.65	130.00	92.25	8470	31	-1	NM	16.4	1.50	NA
AVNET INC	NASDAQ: AVT	36.27	45.43	30.36	3603	17	11	NM	18.8	1.53	2.6
INSIGHT ENTERPRISES INC	NASDAQ: NSIT	98.62	107.86	71.00	3440	38	8	10	20.3	1.81	NA

* Stock Statistics in PLN

older products, which retain substantial value in secondary markets. As of mid-2021, ASBISc operated 18 Apple product showrooms and planned to open two additional locations before the end of 2021. ASBISc expects the unit, which was funded with a modest initial \$1 million investment, to reach profitability by the end of 2021.

In addition, during the second quarter of 2021, ASBISc announced the launch of the internally developed and manufactured Perenio Ionic Shield, a portable ion air diffuser. The device emits specific ionic compositions including magnesium, potassium, zinc, platinum and gold, and is designed to protect against known coronaviruses, including COVID-19. The product is being sold across key European markets.

We also view positively ASBISc's recognition as a socially responsible company, which we think could lead to its inclusion in ESG investor portfolios over time. To that end, in September 2021, ASBISc entered the WIG-ESG index, which includes WSE-listed companies cited as socially responsible companies, in particular in the field of environmental, social, economic, and corporate governance issues. Further, ASBISc was among seven WSE-listed companies with the highest ratings and cited as a "Climate Aware Company," in the exchange's the third edition of the Companies Climate Awareness Survey.

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 risen 182%, versus an 11% increase for the WIG 20.

In November 2021, ASBISc reported 3Q 2021 EPS of \$0.33, up from \$0.19 for the same period in 2020, and net profit of \$18.2 million, up from \$10.4 million during the third quarter of 2020. For the first nine months of 2021, revenue rose 42% to \$2.1 billion, reflecting favorable annual comparisons due to the COVID-19 outbreak that took hold during the first half of 2020. Year-to-date in 2021, the company generated the largest portion of this revenue (28%) from smartphones. It generated 15% of revenue from CPUs and approximately 10% from laptops.

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%. In August 2021, ASBISc revised this guidance to revenue of \$2.9 billion-\$3.1 billion, which would represent 23%-31% growth, and net profit of \$71 million-\$74 million, which would represent growth of 95%-103%.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of \$3.02 billion in 2021 and \$3.5 billion in 2022, representing growth of 28% and 16%, respectively. The company reported 42% revenue growth in the first nine months of 2021, but we look for revenue growth rates to moderate, due to more-normalized year-over-year comparators, noting 16% growth in the third quarter of 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 Apple reselling business.

The company is emphasizing margin expansion over revenue growth, and appears on track to boost gross margins. It raised its gross margin by 40 basis points to 5.8% in 2020, and by more than 100 basis points, to 6.9%, in the first nine months of 2021. We project gross margins of 7.0% and 7.1% in 2021 and 2022, respectively.

We also project SG&A expenses of \$106 million in 2021 and \$123 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 \$1.30 in 2021 and \$1.60 in 2022, which would represent 97% and 23% growth, respectively. 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 \$163.2 million in cash and equivalents on its balance sheet as of September 30, 2021, up 38% from \$119.6 million at the same point in 2020.

As of September 30, 2021, 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. At the end of 2020, the total debt/capital ratio was 62%, above the peer average of 28%. However, we view the company's liquidity position as strong and underappreciated, as nearly all 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 total dividend of \$0.30 for 2020, which implies a current yield of approximately 5.5%. We are encouraged by its recent announcement of an interim dividend of \$0.20 (interim dividend in 2020 was \$0.10) to be paid in December 2021. 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 currently 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 remains compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals or its substantially raised guidance range. The company's recent market capitalization of approximately \$300 million (1.26 billion PLN) implies a multiple of approximately 0.1-times our 2021 revenue estimate, 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 near 7, below the peer average of 9.3. Despite the stock nearly tripling year-to-date, ASBISc is currently trading at a P/E below 5-times our 2021 EPS estimate, well below the peer average of approximately 15-times.

We think that recent initiatives, including reselling Apple products and marketing innovative, internally developed products like the Perenio Ionic Shield, are likely to drive results that should enhance the company's reputation among investors over time. Further, 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 14 to 2021 EPS of PLN 5.14 (using a three-month average PLN-to-USD exchange rate of 3.96), we arrive at a fair value estimate for ASB of 72 PLN per share (\$17.5), well above the current price near 23 PLN (\$5.60).

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2018	2019	2020	Q1 2021A	Q2 2021A	Q3 2021A	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	2069.6	1914.9	2366.4	733.4	680.1	716.5	890.0	3020.0	877.0	807.0	817.0	1007.0	3508.0
Gross Profit	98.1	104.1	138.3					212.6					250
SG&A	68.7	71.1	81.6					106.3					123.2
R&D	NA	NA	NA					NA					NA
Operating Income	29.4	33.1	56.7					106.3					126.7
Interest Expense	-13.6	-12.7	-11.6					-20.6					-20.0
Pretax Income	15.5	19.4	44.7					88.3					107.1
Tax Rate (%)	21	19	18					18					18
Net Income	12.0	15.2	36.5					72.1					88.6
Diluted Shares	55.5	55.4	55.5					55.5					55.5
EPS	0.22	0.28	0.66	0.27	0.27	0.33	0.43	1.30	0.42	0.36	0.36	0.46	1.60
Dividend	0.10	0.14	0.20					0.30					0.30
Growth Rates (%)													
Revenue	39	-7	24					28					16
Operating Income	20	13	71					87					19
Net Income	74	27	140					98					23
EPS	69	27	136					97					23
Valuation Analysis													
Price (PLN): High	3.64	3.56	8.08					NA					NA
Price (PLN): Low	2.34	2.05	1.77					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	101.4	103.7	158.9					NA					NA
Working Capital	70.7	79.4	105.3					NA					NA
Current Ratio	1.2	1.2	1.2					NA					NA
LTDebt/Equity (%)	0.1	3.1	4.2					NA					NA
Total Debt/Equity (%)	148	129	161					NA					NA
Ratio Analysis													
Gross Profit Margin	4.7%	5.4%	5.8%					7.0%					7.1%
Operating Margin	1.4%	1.7%	2.4%					3.5%					3.6%
Net Margin	0.6%	0.8%	1.5%					2.4%					2.5%
Return on Assets (%)	3.6	3.6	5.0					NA					NA
Return on Equity (%)	12.4	14.7	30.0					NA					NA
Op Inc/Int Exp	2.2	2.6	4.9					5.2					6.3
Div Payout	0.45	0.50	0.45					NA					NA

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