

May 25, 2021

ASBISC ENTERPRISES PLC (WSE: ASB)

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

COMPANY HIGHLIGHTS

- * ASB: A Leading Global Technology Product Distributor
- * ASBISC has grown revenues and earnings in recent years, and is, in our view, well positioned for continued growth. The company has expanded its gross margin by more than 100 basis points over the past two years, supported by strong sales of private-label products, distribution efficiencies, and the increased use of e-commerce.
- * In 2020, revenue rose nearly 24% and EPS more than doubled from the prior year. Fourth-quarter results were especially impressive, with 30% revenue growth. For the full year of 2021, ASBISC has guided towards revenue growth of 14%-22% over 2020, and we are encouraged by the strong reported revenue growth of 47% for the first quarter of 2021.
- * As of March 31, 2021, ASBISC had \$89.3 million in cash on its balance sheet, which was down from its year-end total of \$159 million due to seasonality in cash flow trends in its business. However, as was the case in the preceding three years, we expect net positive cash flow from operating activities for the full-year in 2021, and note that net cash inflows from operating activities for 2020 were \$49.3 million, up from \$29.5 million in 2019 and \$18.7 million in 2018.
- * Despite a near tripling in ASBISC's stock price year-to-date, we believe the current valuation remains compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals. Its recent market capitalization of approximately \$340 million -- 1.3 billion Polish zloty (PLN) -- implies a multiple of approximately 0.2-times 2020 revenue, below the average multiple of 0.3 for our group of global electronics-distribution peers. At current levels, the trailing P/E ratio of 9.5-times is also well below the peer average of 16-times.

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KEY STATISTICS

Key Stock Statistics

Recent price (5/25/21)	23.30
52 week high/low (PLN)	27.20 - 3.15
Shares outstanding (M)	55.2
Market cap (M, PLN)	1286.0
Dividend (\$)	0.3
Yield	4.7%

Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.1%

Financials (\$M)

Cash & Mkt Securities	89.3
Debt	198.3
Working Capital (\$M)	119.9
Current Ratio	1.2
Total Debt/Equity (%)	132.8
Payout ratio	0.5
Revenue (M) TTM	2366.0
Net Income (M) TTM	36.5
Net Margin	1.5%

Risk

Beta	0.79
Inst. ownership	17%

Valuation

P/E forward EPS	6.9
Price/Sales (TTM)	0.2
Price/Book (TTM)	2.6

Top Holders

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

Management

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

PRICE CHART



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* We believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 15 to 2020 EPS of 2.51, we arrive at a fair value estimate for ASB of approximately 38 PLN per share (\$10, applying a three-month average 3.82:1 PLN to U.S. dollar exchange rate), well above current prices near 23.30 PLN (6.37).

INVESTMENT THESIS

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

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

Although the pandemic caused widespread industry disruption in 2020, leading many businesses to close, ASBISc was able to meet customer needs for digital and remote connectivity technologies. We believe this is reflected in the company's positive revenue growth in all four quarters of 2020, including the difficult second quarter, when revenue rose 2%. In our view, the subsequent 34% growth in 3Q, 30% growth in 4Q, and 47% growth in 1Q 2021 highlight the resiliency and underlying strength of ASBISc's business.

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

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

Margins have also benefited from the increase in online transactions, and from an automated system that coordinates supply-chain management activities. In 2020, ASBISc reported a gross margin of 5.8%, up from 5.4%

in 2019 and the highest full-year GM since 2016. Gross margin in the first quarter of 2021 improved further, to 6.4%, as this metric continued to move closer to an average of 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, it announced the launch of a new subsidiary, Breezy, that will focus on the resale of Apple products. Breezy will purchase used Apple products in exchange for discounts on new purchases, and then resell the older products, which retain substantial value in secondary markets. ASBISc expects Breezy, which will be funded with an initial \$1 million investment, to reach profitability in the second half of 2021. Breezy will initially operate in Ukraine, Kazakhstan, and Belarus, and later expand to Georgia, Armenia, Azerbaijan, and Central European countries including Poland.

RECENT DEVELOPMENTS

ASBISc shares trade on the Warsaw Stock Exchange (WSE) under the ticker ABS. In 2020, the stock rose 147%, compared to an 8% decline for the WIG 20 Index, which consists of the 20 largest companies on the WSE. Year-to-date, the stock has nearly tripled, versus an 9% increase for the WIG 20.

In May 2021, ASBISc reported 1Q 2021 EPS of \$0.27, up from \$0.04 for the same period in 2020, and a net profit of \$15.1 million, up from \$2.2 million during the first quarter of 2020. Revenue rose 47% to \$733 million. The company generated the largest portion of this revenue (25%) from smartphones. It also generated 17.5% of revenue from CPUs and approximately 89% 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%. ASBISc reiterated this guidance in May 2021.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of \$2.89 billion in 2021 and \$3.35 billion in 2022, representing growth of 22% and 16%, respectively, and note that sales rose a strong 47% in the first 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 Breezy business.

The company is emphasizing margin expansion over revenue growth, and appears on track to further boost gross margins. It raised its gross margin by 40 basis points to 5.8% in 2020, and by nearly 90 basis points, to 6.33%, in the fourth quarter. We currently project gross margins of 6.4% in 2021 and 6.5% 2022.

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
ASBIS ENTERPRISES PLC*	ASB	23.30	27.20	3.15	1286	595	24	136	9.5	0.79	4.7
ARROW ELECTRONICS INC	ARW	122.22	123.00	63.28	9018	82	-1	NM	12.7	1.56	NA
AVNET INC	AVT	44.58	45.32	24.3	4436	63	-4	NM	27.1	1.54	1.9
INSIGHT ENTERPRISES INC	NSIT	101.82	104.6	44.15	3596	106	8	10	19.9	18.3	NA

* Stock Statistics in PLN

We also project SG&A expenses of \$104 million in 2021 and \$119 million in 2022. These estimates imply SG&A spending of approximately 3.6% of revenue in both years, consistent with recent periods.

We forecast EPS of \$0.92 in 2021 and \$1.20 in 2022. We note that ASBISc's business is seasonal, with higher revenue and earnings in the second half of the year due to back-to-school and holiday shopping.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for ASBISc is Medium. The company had \$89.3 million in cash on its balance sheet as March 31, 2021, down from \$159 million at December 31, 2020, which we attribute to seasonality in its cash flows across its business.

As of March 31, 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 most of its balance sheet liabilities relate to short-term borrowing to help finance the expansion of inventory and product distribution.

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

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

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

In addition to investing in growth initiatives, ASBISc has focused on shareholder returns, which we view as a strong positive. It currently distributes up to 50% of net profits as dividends. It paid an interim dividend of \$0.10 per share in December 2020 and announced a final dividend of \$0.20 to be paid in May 2021, for a total dividend of \$0.30 for 2020. That would imply a current dividend yield of approximately 4.7%. 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

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).

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. Its recent market capitalization of approximately \$340 million (1.3 billion PLN) implies a multiple of approximately 0.2-times 2020 revenue, below the average multiple of 0.3 for our group of global electronics-distribution peers. The stock also trades at a trailing 2020 enterprise value/EBITDA multiple near 7.0, below the peer average of 9.4, and at a trailing P/E of 9.5-times, well below the peer average of 16-times.

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

Based on these factors, we believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 15 to 2020 EPS of PLN 2.51, we arrive at a fair value estimate for ASB of approximately 38 PLN per share (\$10), well above the current price of 23.30 PLN (\$6.37).

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2018	2019	2020	Q1 2021A	Q2 2021E	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	2069.6	1914.9	2366.4	733.4	563.4	679.0	924.6	2889.4	837.9	653.6	787.7	1072.6	3351.8
Gross Profit	98.1	104.1	138.3					185.1					209.1
SG&A	68.7	71.1	81.6					104.4					116.2
R&D	NA	NA	NA					NA					NA
Operating Income	29.4	33.1	56.7					80.6					92.9
Interest Expense	-13.6	-12.7	-11.6					-14.4					-13.5
Pretax Income	15.5	19.4	44.7					66.3					79.8
Tax Rate (%)	21	19	18					20.0					20.0
Net Income	12.0	15.2	36.5					51.2					63.9
Diluted Shares	55.5	55.4	55.2					55.2					55.3
EPS	0.22	0.28	0.66	0.27	0.10	0.24	0.31	0.92	0.33	0.15	0.30	0.42	1.20
Dividend	0.10	0.14	0.20										
Growth Rates (%)													
Revenue	39	-7	24					22					16
Operating Income	20	13	71					42					15
Net Income	74	27	140					40					25
EPS	69	27	136					39					30
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%					6%					6%
Operating Margin	1.4%	1.7%	2.4%					3%					3%
Net Margin	0.6%	0.8%	1.5%					2%					2%
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					5.6					6.9
Div Payout	0.45	0.50	0.45					NA					NA

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