

2021-10-01 12:40

Key data

Target price [PLN]	8,3
DCF Valuation [PLN]	6,1
Comparative Valuation [PLN]	14,8
Market price [PLN]	5,8
Growth/decrease potential [%]	43,1%
Market cap [mIn PLN]	80,3
Free float [mIn PLN]	22,2%
Industry	IT - hardware distribution
WSE code	NTT
Bloomberg code	NTT PW

Analysts

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Company profile

The largest Polish manufacturer of desktop computers, sold both under own and external brands. The company is also one of the leading distributors of accessories, components and peripherals in Poland.

Source: www.gpw.pl

Shareholders:

	[%]
Tadeusz Kurek	23,9
Davinder Singh Loomba	23,9
Andrzej Rymuza	8,3
Anna Pytkowska	5,8
Barbara Kurek	5,5

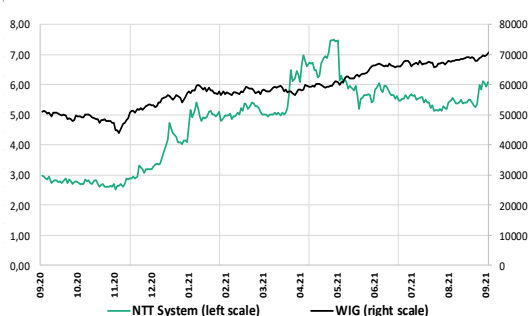
Growth factors

Strong demand for IT
Public procurement
Government subsidies
Remote work popularity

Risk factors

Exchange rate fluctuations
Low company profitability
Economic slowdown
Supply chain disruptions

Stock performance



Source: DM Banku BPS SA calculations

NTT System SA

Analysis of the results for the 1H 2021

- The published results for the first half of 2021 are among the best in the history of NTT System. Revenues amounted to 461.2 million PLN, which means an increase by 59.3% compared to the first half of 2020. The company generated a profit before tax of 10.6 million PLN compared to 5.2 million PLN in the same period last year. Net profit increased from 4.1 million PLN to 8.4 million PLN, i.e. by 104.9% yoy.
- The 1Q2021 contributed mostly to the favorable half-year results. In line with our expectations, there was a decline in sales in 2Q2021. Revenues decreased by 4.3% qoq, and net profit by 15% qoq.
- The declines in revenues were recorded mainly in the segment of distribution of computers and tablets (37.8% qoq) and in the segment of services (8.9% qoq). On the other hand, in the segment with the largest share in the group's revenues (distribution of components, accessories, peripherals and consumer electronics) there was recorded the largest increase in terms of value. The segment's revenues increased by 9.3 million PLN to 156 million PLN (8.9% qoq). The reason was the increase in sales of smartphones and smartwatches, e-book readers, computer components - Intel and AMD processors, motherboards and graphics cards, and accessories for remote work - microphones, headphones, webcams.
- Strong growths were also recorded in the segment of in-house production and processed products (98.4% qoq to 15.2 million PLN) and in the software segment, including games (48.5% qoq to 2.3 million PLN).
- The company introduced new products to its offer, such as Azur HPC servers (as the only local company in Poland), new smartphone brands of world leaders (Motorola, OPPO, Realme, Vivo, OnePlus, Xiaomi, Samsung, TP-LINK Neffos, Doogee, Philips Mobile) and new product groups - household appliances (including Candy Hoover) and smartwatches/bands (Huami-Amazfit).
- The company operates in a dynamic environment characterized, on the one hand, by a revival in demand in the business segment and public tenders, and on the other hand, by a decrease in the availability of components for the production of IT equipment and an increase in their prices. Disruptions in supply chains from Asia and an increase in logistics costs also affect the Company's operations.
- Despite this, the EBIT margin remained at the level from the 1Q2021 (1.88% compared to 1.90%) and was slightly higher (0.16 pp) than in the record-breaking 2020. Moreover, in line with our expectations, the Company is systematically improving net profitability. In 2Q2021, the net profit margin amounted to 1.75% and was higher by 0.52 pp qoq and 0.71 pp yoy.

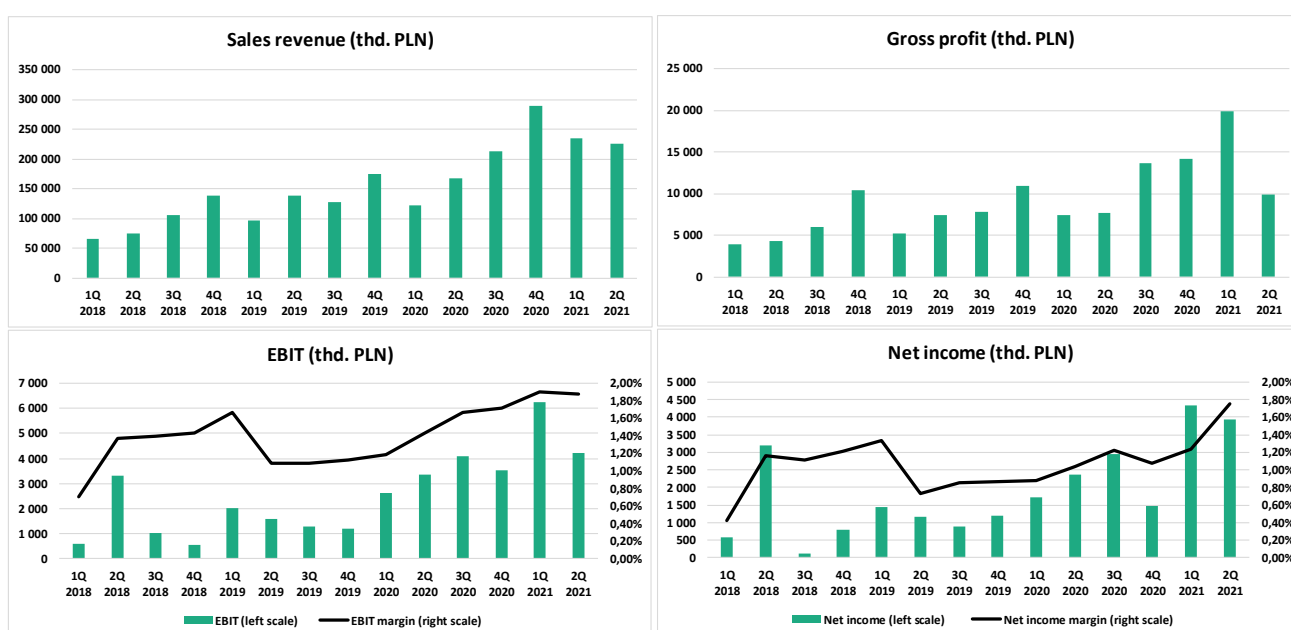
	PLN thd	2020	2021E	2022E	2023E	2024E	2025E
Sales		790 985	936 615	1 024 265	1 113 019	1 232 921	1 375 740
EBITDA		14 131	17 488	20 137	22 780	25 842	29 145
<i>EBITDA margin</i>		1,8%	1,9%	2,0%	2,0%	2,1%	2,1%
EBIT		13 588	16 938	19 473	21 991	24 916	28 177
Net income		8 547	13 808	15 830	17 838	20 172	22 776
Equity		144 081	162 371	178 467	196 335	216 605	239 459
Debt		12 327	12 355	11 483	9 733	10 090	7 034
P/E		9,8	6,0	5,3	4,7	4,1	3,7
P/BV		0,6	0,5	0,5	0,4	0,4	0,3
EV/EBITDA		5,0	4,1	3,6	3,2	2,8	2,6
DY		1,3%	2,1%	2,4%	2,7%	3,1%	3,5%

Source: DM Banku BPS SA, E - estimates

Financial results for 2Q 2021 against the DM Banku BPS forecasts

tys. PLN	DM BPS		Comparison to the			
	Q publ.	forecasts	DM BPS forecasts	Q-1 hist	Q-2 hist	Change q/q
Revenue	225 619	225 345	0,1%	235 588	289 164	-18,5%
Profit on sales	9 957	9 683	2,8%	19 859	14 203	39,8%
Sales margin	4,4%	4,3%	2,7%	8,4%	4,9%	71,6%
EBITDA	4 413	4 114	7,3%	6 410	3 670	74,7%
EBITDA margin	2,0%	1,8%	7,1%	2,7%	1,3%	114,4%
EBIT	4 232	3 933	7,6%	6 227	3 516	77,1%
EBIT margin	1,9%	1,7%	7,5%	2,6%	1,2%	117,4%
Gross profit	5 030	4 674	7,6%	5 502	1 772	210,5%
Gross profit margin	2,2%	2,1%	7,5%	2,3%	0,6%	281,1%
Net income	3 952	3 786	4,4%	4 341	1 466	196,1%
Net income margin	1,8%	1,7%	4,3%	1,8%	0,5%	263,5%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

Expected impact: The high results for the first half of the year stem mainly from the first quarter, while the expected slowdown occurred in the second quarter. The published revenues are in line with our forecasts (0.1% above our estimates), while in case of net profit level the underestimation was 4.4%. The systematic improvement of the net profit profitability, which we forecasted, results from the strategy adopted by the Management Board, assuming the focus on NTT's own products (under the HIRO brand) and high-margin goods. It shows also that NTT System copes well with the challenges, which include the decrease in availability of components for production of IT equipment (mainly graphics cards, processors, LCD panels), their price increases and problems with supply chains from Asia, including an increase in transport prices from this direction. Finally, **we maintain our valuation**, recognizing the potential for growth in the value of the Company. In the longer term, we also see opportunities for development in public procurement and private investments of companies supported by the National Reconstruction Program, in which 3.034 billion EUR has been allocated for digital transformation.

Basic definitions

CAPEX (capital expenditures) - investment expenditures on product development, system implementation (including intangible assets) or tangibles assets in the part in which the capital is intended to maintain the company's current ability to generate income.

DCF (discounted cash flows) - discounted cash flows; all future cash flows are estimated and discounted in order to determine their present value. The value of the discount rate used corresponds to the cost of capital and includes an assessment of the risk related to future cash flows.

DFCF - Discounted FCF (Free Cash Flows to Firm).

EBIT (earnings before interest and taxes) - operating income i.e. the income before deduction of taxes and interest.

EBITDA (earnings before interest, taxes, depreciation and amortization) - the company's operating profit before deducting interest on interest-bearing liabilities (loans, bonds), taxes, amortization and depreciation of tangible and intangible assets; here EBITDA = operating income + amortization of tangible fixed assets + depreciation of intangible assets.

EV (Enterprise Value) - total enterprise value; here EV = current stock market capitalization + net debt.

EV / EBITDA - the ratio is calculated by dividing the present value of the enterprise (EV) by the value of EBITDA.

FCFF (Free Cash Flow to Firm) - free cash flows for owners of equity capital and creditors, which can be defined as flows resulting from the company's operating and investment activities, after all financial expectations of capital donors, i.e. all parties financing the company, have been settled.

WSE - Warsaw Stock Exchange.

NOPLAT - net operating result less adjusted taxes; here NOPLAT = EBIT * (1 - tax rate).

P / BV (price / book value) - the ratio is calculated by dividing the current capitalization of a listed company by the book value of its equity, which is provided in the company's balance sheet.

P / E (price earnings ratio) - stock exchange ratio. It is calculated by dividing the market price of one share by the net profit per share.

PV TV - Present Value, ie the residual value (TV) discounted at the present moment.

CR - current report.

SB - Supervisory Board.

TV (Terminal Value) - residual value; enterprise value after the forecast period; here estimated with the help of the Gordon model.

WACC - weighted average cost of capital; financial indicator informing about the average relative cost of capital engaged in financing the enterprise.

Information and legal disclaimer

This analytical report was prepared by Dom Maklerski Banku BPS S.A. at the request of the Warsaw Stock Exchange on the basis of an agreement concluded between Dom Maklerski Banku BPS S.A. and WSE under the "Analytical Coverage Support Program 3.0.". Dom Maklerski Banku BPS S.A. will receive remuneration for the report.

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Distribution of this study: 1 October 2021, 12:45

This report is published on the day of its completion on the publicly available website <https://dmbps.pl/wsparcie-analityczne/program-wsparcia-pokrycia-analitycznego-gpw/ntt-system-s-a>.

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