

# Sirma Group Holding

**Buy**

Unchanged

Price: BGN 0.52  
Price target: BGN 0.64  
(from BGN 0.90)

## A better year is here

We maintain our BUY rating on Sirma Group Holding (Sirma), but we have reduced our 12M price target (PT) from BGN 0.90/share to BGN 0.64/share (23% upside potential). Although the company did not manage to maintain its yoy EBITDA dynamics in positive territory in 2020 (-3% yoy), missing our forecast by 17%, we keep our positive stance on the name. The key arguments for BUYING the stock, in our view, are: i) a material improvement in the market outlook – between October 2020 and April 2021, Gartner hiked its growth forecast for the global ICT market significantly; ii) double-digit EBITDA growth over the next three years, on our forecasts, with a 2020-23E EBITDA CAGR of 11%; and iii) its moderate valuation, with its 2021E EV/EBITDA at only 3.2x, on our estimates, a 63% discount vs. its peers. On top of this, we note the large buyback (up to BGN 20m may be spent on the programme by the end of 2022E, with a cap price of BGN 2.0/share), which could be an additional sweetener in Sirma's equity story, if executed on a larger scale, in our view.

**The 2021E ICT market outlook has improved materially.** Between October 2020 and April 2021, Gartner hiked its forecast for global ICT market growth in 2021E, from +4.1% yoy, to +8.4% yoy (latest available forecast). In the segments in which Sirma operates, the forecasts have also risen significantly: from 4.1% yoy to +9.0% yoy for IT services; and from +7.2% yoy to +10.7% yoy for software.

**Last year proved to be more challenging than we had assumed.** Sirma reported 2020 EBITDA of BGN 11.3m, 17% below our numbers. It did manage to preserve its EBITDA margin at an unchanged level vs. 2019, at c.19%, but the top-line drop of 3% resulted in a similar profit contraction. On a positive note, it kept its leverage under control (net debt/EBITDA at 1.5x, unchanged vs. 2019).

**We have become more conservative.** Although we believe the company should perform better in 2021E, and we anticipate the EBITDA growing by 22% yoy, to BGN 13.8m, uncertainty still prevails. Consequently, our new EBITDA figures are lower than previously, by 3% for 2021E and 5% for 2022E. Nonetheless, we still see Sirma as a growth company, which should improve its balance sheet strength over the next three years (net debt/EBITDA down from 1.5x in 2020 to 0.3x in 2023E, on our numbers).

**Still attractive valuation commands a BUY rating.** Our 12M PT of BGN 0.64 (23% upside) is based solely on our DCF model (a 100% weight), as we believe that Sirma's core story is associated with growth and profit generation. We also note its small size (2020 EBITDA of c.EUR 6m), which makes a peer group valuation less relevant (a 0% weight), in our view. Nonetheless, on our numbers, the company is valued at a 2021E EV/EBITDA of 3.2x, a 63% discount to those of its peers with a similar growth profile (a 2020-23E EBITDA CAGR of 11%).

**Risks:** GDP growth worldwide; FX risk; Brexit; competition; employee turnover; litigation; and low liquidity.

### Expected events

AGM	23 June
1H21 results	30 August
3Q21	29 November

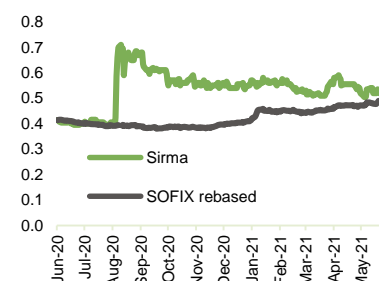
### Key data

Market cap	USD 19m
3M ADTV	USD 15.9k
Free float	53%
Shares outstanding	59m
Major shareholders	
	Geori Parvanov Marinov (8.9%)
	Tsvetan Borisov Alexiev (8.2%)
	Chavdar Velizarov Dimitrov (8.0%)
Bloomberg code	SKK BU
SOFIX Index	550

### Price performance

52-w range	BGN 0.36-0.71
52-w performance	26%
Relative performance	6%

### Sirma 12M share price performance



	Revenues	EBITDA	EBIT	NI	EPS	DPS	P/E	EV/EBITDA	Div	ND/EBITDA
	BGNm	BGNm	BGNm	BGNm	BGN	BGN	x	x	yield	x
2019	59.3	11.6	6.4	5.1	0.09	0.00	6.0x	4.1x	0.0%	1.5x
2020	57.0	11.3	5.9	3.7	0.06	0.00	8.3x	4.2x	0.0%	1.5x
2021E	64.6	13.8	7.1	5.2	0.09	0.00	6.0x	3.2x	0.0%	0.9x
2022E	73.0	14.8	8.0	5.7	0.10	0.00	5.4x	2.7x	0.0%	0.6x
2023E	81.3	15.5	8.6	6.1	0.10	0.00	5.1x	2.3x	0.0%	0.3x

**Analysts:** Pawel Wieprzowski, PhD; Piotr Raciborski, CFA  
E-mail: pawel.wieprzowski@wood.com; piotr.raciborski@wood.com

**Warsaw:** +48 22 222 1549  
Website: www.wood.com

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## Closing Prices as of 14 June 2021

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Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.  
Palladium, Namesti Republiky 1079/1a,  
110 00 Prague 1 – Czech Republic  
tel.: +420 222 096 111  
fax: +420 222 096 222  
<http://www.wood.cz>

# Company snapshot – BUY, PT BGN 0.64/share

Sirma		SHARE PRICE PERFORMANCE		COMPANY DESCRIPTION							
<b>BUY</b>		SGH BU		Sirma Group Holding is one of the largest ICT companies in the region. It has operated for 28 years, and has been listed on the Bulgarian Stock Exchange since 2015. The company has completed over 400 projects in 185 countries. In 2020, the Bulgarian market accounted for 39% of its revenues, the US share stood at 22%, while the UK added 16%. Sirma's main scope of operations is developing software and rendering IT services for many sectors, including banks and industrial companies.							
Bloomberg ticker	0.52										
Closing price (BGN/share)	0.64										
PT (BGN/share)	23%										
Upside to PT	59										
Shares outstanding (m)	19										
Market cap (USDm)	53%										
Free float	15.9										
Average daily turnover (USDk)	26%										
52 Week performance	6%										
52 Week relative performance	0.36-0.71										
52 Week Range (BGN)											
RATIOS											
BGN/share											
EPS	2019	2020	2021E	2022E	2023E	VALUATION RATIOS	2019	2020	2021E	2022E	2023E
BVPS	0.09	0.06	0.09	0.10	0.10	EV/EBITDA	4.1x	4.2x	3.2x	2.7x	2.3x
DFS (from the given year's net profit)	1.48	1.53	1.62	1.72	1.82	P/E	6.0x	8.3x	6.0x	5.4x	5.1x
Dividend payout ratio	0.00	0.00	0.00	0.00	0.00	FCF yield	13.4%	12.5%	11.0%	11.2%	10.8%
	0%	0%	0%	0%	0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCIAL RATIOS											
EBITDA margin	2019	2020	2021E	2022E	2023E	FCF BREAKDOWN (BGNm)	2019	2020	2021E	2022E	2023E
EBIT margin	19.0%	18.9%	20.5%	19.4%	18.3%	EBIT	6	6	7	8	9
Net margin	10.4%	9.9%	10.6%	10.5%	10.1%	NOPAT	6	5	6	7	8
Effective tax rate	8.8%	8.2%	10.1%	9.9%	9.4%	Net investment	-2	-3	-1	-1	-1
ROE	8.5%	10.0%	10.0%	10.0%	10.0%	FCF	4	4	3	3	3
ROA	5.2%	4.5%	5.9%	6.2%	6.1%						
ROIC	3.7%	3.2%	4.5%	4.8%	4.8%						
	4.5%	3.1%	4.2%	4.5%	4.6%						
COMPANY FINANCIALS											
INCOME STATEMENT, BGNm						BALANCE SHEET, BGNm					
Revenues	2019	2020	2021E	2022E	2023E	PPE	2019	2020	2021E	2022E	2023E
Other income	59.3	57.0	64.6	73.0	81.3	Goodwill	9	9	9	11	12
Costs of materials and hired services	1.9	2.4	2.8	3.1	3.5	Intangibles	22	22	22	22	22
Employee benefits	-26.5	-28.0	-30.6	-34.4	-37.9	Others	59	58	59	60	62
Other	-22.7	-21.8	-24.8	-29.0	-33.7	Total non-current assets	0	1	1	1	1
EBITDA	0.4	-1.6	-1.8	-2.1	-2.3	Inventories	91	90	92	95	98
D&A	11.6	11.3	13.8	14.8	15.5	Trade accounts receivable	1	1	1	2	2
Operating profit	-5.3	-5.4	-6.6	-6.8	-7.0	Cash and cash equivalents	11	17	15	17	19
PBT	6.4	5.9	7.1	8.0	8.6	Others	11	13	11	10	14
Income tax	5.9	5.3	7.5	8.4	8.8	Total current assets	32	33	32	32	32
Minorities	-0.5	-0.4	-0.8	-0.8	-0.9	Total shareholders equity	54	63	60	61	66
Net profit	5.1	3.7	5.2	5.7	6.1	Long-term borrowings	104	108	114	122	130
						Other LT liabilities	8	10	10	10	10
CASH FLOW STATEMENT, BGNm						Total non-current liabilities	12	13	13	13	13
CF from operations	2019	2020	2021E	2022E	2023E	ST Debt	16	16	11	6	6
Cash receipts from customers	3	6	12	13	13	ST trade payables	7	10	6	7	7
Payments to suppliers	61	58	67	76	85	Other ST liabilities	7	8	8	8	8
CF from investments	-7	-4	-8	-9	-10	Total current liabilities	29	33	25	20	21
o/w capex (PPE)	-3	-2	-3	-4	-4	Total equity and liabilities	145	154	152	155	164
o/w capex (intan.assets & other)	-2	-2	-5	-6	-6	Gross debt	28	29	24	19	19
CF from fin. activities	4	0	-5	-5	0	Net debt	17	16	13	9	5
o/w borrowings	23	23	-5	-5	0	ND/EBITDA	1.5x	1.5x	0.9x	0.6x	0.3x
other	-18	-23	0	0	0						
DYNAMICS (yoy)						Revenues breakdown					
Revenues	2019	2020	2021E	2022E	2023E	BGNm	2019	2020	2021E	2022E	2023E
OPEX	4%	-3%	13%	13%	11%	Revenues by segments	62	59	65	73	81
EBITDA	6%	-2%	12%	13%	12%	yoy	5%	-4%	9%	13%	11%
EBIT	0%	-3%	22%	7%	5%	Intelligent evolution of enterprises	28	27	30	34	38
Net income	-12%	-7%	21%	12%	7%	yoy	12%	-4%	9%	15%	12%
	-14%	-27%	39%	11%	6%	Solutions, products and consulting in finance	10	10	11	13	15
						yoy	1%	2%	9%	14%	13%
						System integration	23	22	24	26	29
						yoy	-1%	-7%	8%	10%	10%
ND/EBITDA and capex						FCF and FCF yield					
CAPEX (BGNm)		ND/EBITDA (x; rhs)		FCF (BGNm)		FCF yield (rhs)					
2019	5	1.5	4	1.5	4.13	13.4%	36%	2020	3.86	12.5%	31%
2021E	8	0.9	9	0.6	3.41	11.0%	26%	2021E	3.45	11.2%	21%
2022E	10	0.3					16%	2022E			11%
2023E							6%				1%
							-4%				

## Valuation

**We rate Sirma a BUY, with a price target (PT) of BGN 0.64/share, offering 23% upside potential.** We derive our PT based solely on our DCF analysis, with the peer group valuation assigned a 0% weight, as we believe that the FCF-based measure encapsulates Sirma's growth and profit generation capacity, which is the core of the equity story, in a better way.

### Valuation summary

	Weight	PT	Current price	Upside
DCF	100%	0.64	0.52	23%
Peer-based valuation	0%	1.54	0.52	196%
<b>Weighted PT</b>	<b>100%</b>	<b>0.64</b>	<b>0.52</b>	<b>23%</b>

Source: WOOD Research

### DCF: 12M PT at BGN 0.64/share

We base our DCF valuation on the following assumptions:

- ✓ A WACC of c.11%.
- ✓ A present value of the discounted free cash flows of BGN 25m for 2021-28E.
- ✓ An end-2020 net debt of BGN 16m.
- ✓ A present value of the terminal value of BGN 40m.
- ✓ A terminal growth rate of 1%.
- ✓ Issued shares of c.59m.

### DCF valuation

BGN m	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
<b>Revenues</b>	<b>67.3</b>	<b>76.1</b>	<b>84.8</b>	<b>94.5</b>	<b>104.4</b>	<b>113.4</b>	<b>121.3</b>	<b>127.9</b>	<b>129.2</b>
yoy	13%	13%	11%	11%	10%	9%	7%	5%	1%
EBIT	7.1	8.0	8.6	9.3	9.9	10.6	11.3	11.6	11.6
EBIT margin	11%	11%	10%	10%	9%	9%	9%	9%	9%
Cash tax on EBIT	-0.7	-0.8	-0.9	-0.9	-1.0	-1.1	-1.1	-1.2	-1.2
<b>NOPAT</b>	<b>6.4</b>	<b>7.2</b>	<b>7.7</b>	<b>8.4</b>	<b>8.9</b>	<b>9.6</b>	<b>10.2</b>	<b>10.4</b>	<b>10.4</b>
(+) D&A	6.6	6.8	7.0	7.2	7.5	7.7	7.9	8.4	8.4
(-) Capex	-8.3	-9.2	-10.0	-10.1	-10.1	-9.8	-9.5	-8.5	-8.4
(-) Change in WC	-1.4	-1.3	-1.3	-1.5	-1.5	-1.4	-1.2	-1.0	-1.0
Net investment	-3.0	-3.8	-4.4	-4.4	-4.1	-3.5	-2.8	-1.1	-1.0
<b>Free cash flow</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>4.0</b>	<b>4.7</b>	<b>6.1</b>	<b>7.4</b>	<b>9.3</b>	<b>9.4</b>
Terminal growth [g(t)]	1.0%								
PV TV	40								
PV FCF 2021-28E	25								
Enterprise value	65								
Net debt (end-2020)	16								
Minorities (end-2020)	16								
<b>Equity value, BGNm</b>	<b>32</b>								
Number of shares (m)	59								
Value per share (BGN, 1 Jan 2021)	0.54								
<b>12M PT (BGN/share)</b>	<b>0.64</b>								

Source: WOOD Research

### DCF sensitivity

		WACC						
		8%	9%	10%	11%	12%	13%	14%
<b>Terminal growth rate</b>	<b>0.1%</b>	0.61	0.59	0.58	0.57	0.56	0.55	0.54
	<b>0.4%</b>	0.63	0.62	0.60	0.59	0.58	0.57	0.56
	<b>0.7%</b>	0.65	0.64	0.63	0.62	0.60	0.59	0.58
	<b>1.0%</b>	0.67	0.66	0.65	<b>0.64</b>	0.63	0.62	0.60
	<b>1.3%</b>	0.70	0.69	0.68	0.66	0.65	0.64	0.63
	<b>1.6%</b>	0.73	0.71	0.70	0.69	0.68	0.67	0.65
	<b>1.9%</b>	0.76	0.74	0.73	0.72	0.71	0.69	0.68

Source: WOOD Research

## Peer group

**Sirma is valued at significant discounts vs. its peers, despite having a similar profits growth profile.** On our numbers, it trades at a 2021E EV/EBITDA of 3.2x, 63% below its peers' median. A similar discount (-69%) is present for Sirma's 2021E P/E of 6.0x, according to our forecasts. We note, however, that the company's profits should grow in line with its peers (i.e., a 2020-23E EBITDA CAGR of 11%, on our estimates).

### Peers valuation

	Mcap USDm	ND/ EBITDA (x)	P/E			EBITDA CAGR 20-23E	EV/EBITDA			Dividend yield			
			2021E	2022E	2023E		2021E	2022E	2023E	2021E	2022E	2023E	
<b>Sirma</b>	<b>BG</b>	<b>19</b>	<b>0.9x</b>	<b>6.0</b>	<b>5.4</b>	<b>5.1</b>	<b>11%</b>	<b>3.2</b>	<b>2.7</b>	<b>2.3</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Asseco Poland	AL	1,578	0.2x	13.7	13.7	13.3	5%	4.5	4.1	3.8	4.2%	4.2%	4.2%
S&T	AT	1,660	1.1x	19.0	15.9	13.9	13%	9.6	8.3	6.8	1.2%	1.4%	1.6%
Asseco SEE	PL	1,669	-0.9x	75.3	67.4	56.9	11%	43.7	38.6	32.8	1.0%	1.1%	1.3%
Nnit	DK	543	-0.1x	16.1	14.9	14.2	n.a.	7.9	7.3	6.7	2.6%	3.0%	3.6%
Comarch	PL	515	1.6x	21.6	17.2	15.3	11%	8.5	7.7	7.0	2.6%	2.9%	3.2%
Asseco Business Sols.	PL	575	-0.7x	17.8	17.5	17.2	-2%	7.4	7.2	6.8	1.0%	1.6%	2.1%
Bittnet Systems (WOOD)	RO	39	-0.7x	19.6	11.4	8.5	60%	10.6	7.2	4.9	0.0%	0.0%	5.0%
<b>Peers median</b>			-0.1x	19.0	15.9	14.2	11%	8.5	7.3	6.8	1.2%	1.6%	3.2%
<b>Sirma vs. median</b>			1.0x	-69%	-66%	-64%	-0.1pp	-63%	-63%	-66%	-1pp	-2pp	-3pp

Source: Bloomberg, WOOD Research;

### Peers valuation

	P/E (x)			EV/EBITDA (x)		
	2021E	2022E	2023E	2021E	2022E	2023E
Total weighted median (x)	19.04	15.89	14.20	8.55	7.27	6.76
EPS (BGN) for P/E and EBITDA (BGNm) for EV/EBITDA	0.1	0.1	0.1	14	15	16
Sirma: implied enterprise value				118	107	105
Sirma implied Equity value	99	91	86	87	79	78
Sirma: implied Equity value per share (BGN)	1.66	1.54	1.45	1.47	1.33	1.31
Weight (%)	0.0%	0.0%	0.0%	33.3%	33.3%	33.3%
<b>Implied weighted equity value per share (BGN)</b>						<b>1.37</b>
<b>12M price target (PT)</b>						<b>1.54</b>

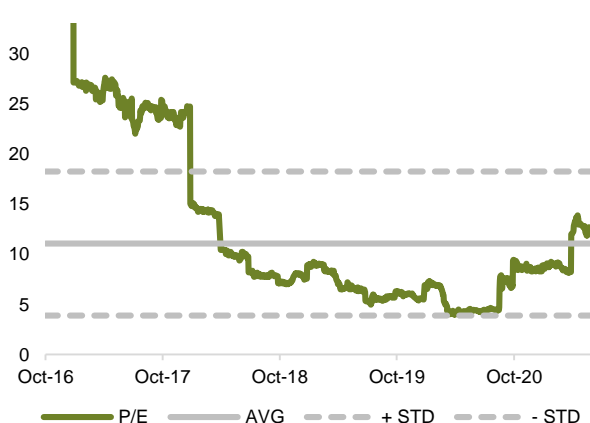
Source: Bloomberg, WOOD Research

**Sirma trades at a 6.2x EV/12M trailing EBITDA, on the Bloomberg figures, slightly above its long-term average of 6.0x.** On its P/12M trailing EPS, it is valued above the historical levels, at 12.0x, vs. the 11.1x average.

### EV/EBITDA\*



### P/E\*\*



Source: Bloomberg, WOOD Research; \*current EV dividend by the trailing 12M EBITDA; \*\*current price divided by trailing 12M EPS; multiples prior to 2017 treated as outliers for the purpose of the average and standard deviation calculations

## Financial forecasts revisions

### WOOD: forecasts revisions

BGN m	Actual	2020		2021E			2022E		
		WOOD	Diff.	New	Old	Diff.	New	Old	Diff.
Revenues	59.4	61.4	-3%	67.3	66.7	1%	76.1	74.6	2%
EBITDA	11.3	13.6	-17%	13.8	14.3	-3%	14.8	15.6	-5%
Operating profit	5.9	6.9	-14%	7.1	7.5	-5%	8.0	8.8	-9%
Net income	3.7	6.2	-40%	5.2	6.3	-18%	5.7	7.2	-20%
<i>EBITDA margin</i>	19%	22%	-3pp	20%	21%	-1pp	19%	21%	-2pp
<i>Operating margin</i>	10%	11%	-1pp	11%	11%	-1pp	11%	12%	-1pp
<i>Net margin</i>	6%	10%	-4pp	8%	9%	-2pp	8%	10%	-2pp

Source: Company data, WOOD Research

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## Risks

- ✓ GDP growth worldwide.
- ✓ FX risk.
- ✓ Brexit.
- ✓ Competition.
- ✓ Employee turnover.
- ✓ Litigation risk.
- ✓ Low liquidity.

# Financials

## Profit and loss account

BGN m	2019	2020	2021E	2022E	2023E
<b>Revenue</b>	<b>59</b>	<b>57</b>	<b>65</b>	<b>73</b>	<b>81</b>
Intelligent evolution of enterprises	28	27	30	34	38
Solutions, products and consulting in finance	10	10	11	13	15
System integration	23	22	24	26	29
Other income	2	2	3	3	3
Opex	-55	-54	-60	-68	-76
<b>Operating profit</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>EBITDA</b>	<b>12</b>	<b>11</b>	<b>14</b>	<b>15</b>	<b>16</b>
Net financial cost	0	-1	0	0	0
Profit before tax	6	5	8	8	9
Tax	-1	0	-1	-1	-1
<b>Net income</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>6</b>

Source: Company data, WOOD Research

## Margins and profitability ratios

	2019	2020	2021E	2022E	2023E
EBITDA margin	19%	19%	20%	19%	18%
EBIT margin	10%	10%	11%	11%	10%
Net profit margin	9%	8%	10%	10%	9%
ROA	4%	3%	4%	5%	5%
ROE	5%	5%	6%	6%	6%
ROIC	4%	3%	4%	5%	5%

Source: Company data, WOOD Research

## Balance sheet

BGN m	2019	2020	2021E	2022E	2023E
<b>Non-current assets</b>	<b>91</b>	<b>90</b>	<b>92</b>	<b>95</b>	<b>98</b>
Property, plant and equipment	9	9	9	11	12
Intangible assets	59	58	59	60	62
Goodwill	22	22	22	22	22
Other	0	1	1	1	1
<b>Current assets</b>	<b>54</b>	<b>63</b>	<b>60</b>	<b>61</b>	<b>66</b>
Inventories	1	1	1	2	2
Related party receivables	0	0	0	0	0
Trade receivables	11	17	15	17	19
Other	32	32	32	32	32
Cash and cash equivalents	11	13	11	10	14
<b>Total assets</b>	<b>145</b>	<b>154</b>	<b>152</b>	<b>155</b>	<b>164</b>
<b>Total equity</b>	<b>104</b>	<b>108</b>	<b>114</b>	<b>122</b>	<b>130</b>
Equity of owners of parent company	88	91	96	102	108
Non-controlling interest	16	16	18	20	22
<b>Non-current liabilities</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
Long-term borrowings	8	10	10	10	10
Other	3	3	3	3	3
<b>Current liabilities</b>	<b>29</b>	<b>33</b>	<b>25</b>	<b>20</b>	<b>21</b>
Bank loans	16	16	11	6	6
Trade payables	7	10	6	7	7
Other	7	8	8	8	8
<b>Total liabilities and equity</b>	<b>145</b>	<b>154</b>	<b>152</b>	<b>155</b>	<b>164</b>
<b>Debt (BGN m)</b>					
Gross debt	28	29	24	19	19
Net debt	17	16	13	9	5
Net debt/EBITDA	1.5x	1.5x	0.9x	0.6x	0.3x

Source: Company data, WOOD Research



## Cash flow statement

BGN m	2019	2020	2021E	2022E	2023E
Net income	5	4	5	6	6
D&A	5	5	7	7	7
WC	2	3	1	1	1
Other	-10	-6	-2	-1	-1
<b>Cash flow from operations</b>	<b>3</b>	<b>6</b>	<b>12</b>	<b>13</b>	<b>13</b>
CAPEX	-5	-4	-8	-9	-10
Organic CAPEX	-3	-3	-8	-9	-10
M&A	-2	-1	0	0	0
Other	2	0	0	0	0
<b>Cash flow from investing</b>	<b>-7</b>	<b>-4</b>	<b>-8</b>	<b>-9</b>	<b>-10</b>
Proceeds from bank loans	5	2	-5	-5	0
Other	1	2	0	0	0
<b>Cash flow from financial activities</b>	<b>4</b>	<b>0</b>	<b>-5</b>	<b>-5</b>	<b>0</b>
<b>Net change in cash</b>	<b>-1</b>	<b>2</b>	<b>-1</b>	<b>-1</b>	<b>4</b>
Cash at the beginning of the period	11	11	13	11	10
<b>Cash at the end of the period</b>	<b>11</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>14</b>

Source: Company data, WOOD Research

## Valuation multiples

	2019	2020	2021E	2022E	2023E
P/E (x)	6.0	8.3	6.0	5.4	5.1
EV/EBITDA (x)	4.1	4.2	3.2	2.7	2.3
Dividend yield (%)	0%	0%	0%	0%	0%
FCF yield (%)	13%	12%	11%	11%	11%

Source: Company data, WOOD Research

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## CONTACTS

### Czech Republic

namesti republiky 1079/1a  
Palladium  
110 00 Praha 1  
Czech Republic  
Tel +420 222 096 111  
Fax +420 222 096 222

### Poland

Skylight Zlote Tarasy  
Zlota 59  
00 120 Warszawa  
Poland  
Tel +48 22 222 1530  
Fax +48 22 222 1531

### UK

City Point, 11<sup>th</sup> Floor  
1 Ropemaker Street  
London EC2Y 9HT  
Tel +44 20 3530 0691

### Italy

Via Luigi Settembrini, 35  
20124 Milan  
Italy  
Tel +39 02 36692 500

### Kristen Andrasko

Head of Equities  
+420 222 096 253  
kristen.andrasko@wood.com

**Bloomberg page**  
WUCO

[www.wood.com](http://www.wood.com)

### Romania

Metropolis Center  
89-97 Grigore Alexandrescu St.  
010624 Bucharest 1  
Tel.: +40 316 30 11 81

## Research

### Co-Head of Research/ Head of Research Poland

**Marta Jezewska-Wasilewska**  
+48 22 222 1548  
marta.jezewska-wasilewska@wood.com

### Head of Turkey Research

**Atinc Ozkan**  
+90 542 202 3632  
atinc.ozkan@wood.com

### Head of Financials

**Can Demir**  
+44 20 3530 0623  
can.demir@wood.com

### Consumer/Real Estate

**Jakub Caithaml**  
+420 222 096 481  
jakub.caithaml@wood.com

### Financials

**David Lojkasek**  
+420 222 096 256  
david.lojkasek@wood.com

### CEE

**Aidar Ulan**  
+420 739 627 170  
aidar.ulan@wood.cz

### Co-Head of Research/Head of Greek Research

**Alex Boulougouris**  
+30 211 106 9447  
alex.boulougouris@wood.com

### Head of Russia Research

**Ildar Davletshin**  
+44 203 530 0631  
ildar.davletshin@wood.com

### Head of TMT

**Piotr Raciborski**  
+48 22 222 1551  
piotr.raciborski@wood.com

### Energy/Utilities

**Ondrej Slama**  
+420 222 096 484  
ondrej.slama@wood.com

### Greece

**Fani Tzioukalia**  
+30 211 106 9449  
fani.tzioukalia@wood.com

### Head of Consumer/Industrials

**Lukasz Wachelko**  
+48 22 222 1560  
lukasz.wachelko@wood.com

### Head of Romania Research

**Iuliana Ciopraga**  
+40 316 30 1185  
iuliana.ciopraga@wood.com

### Energy

**Jonathan Lamb**  
+44 20 3530 0621  
jonathan.lamb@wood.com

### Poland

**Pawel Wieprzowski**  
+48 22 222 1549  
pawel.wieprzowski@wood.com

### Russia

**Dmitry Vlasov**  
+44 750 714 6702  
dmitry.vlasov@wood.com

### Macroeconomics

**Raffaella Tenconi**  
+44 20 3530 0685  
raffaella.tenconi@wood.com

### Macroeconomics

**Alessio Chiesa**  
+44 75177 06102  
alessio.chiesa@wood.com

### Utilities/Mining/Pharma

**Bram Buring**  
+420 222 096 250  
bram.buring@wood.com

### Consumer

**Jakub Mician**  
+420 222 096 320  
jakub.mician@wood.com

### Gaming/Mid-caps

**Maria Mickiewicz**  
+48 602 450 718  
maria.mickiewicz@wood.com

## Sales

### Head of Sales

**Kristen Andrasko**  
+420 222 096 253  
kristen.andrasko@wood.cz

**Grzegorz Skowronski**  
+48 22 222 1559  
grzegorz.skowronski@wood.com

**Jan Koch**  
+48 22 222 1616  
jan.koch@wood.com

**Jarek Tomczynski**  
+44 203 530 0688  
jarek.tomczynski@wood.com

**Piotr Kopec**  
+48 22 222 1615  
piotr.kopec@wood.com

**Kostas Tsigkourakos**  
+30 694 082 5810  
kostas.tsigkourakos@wood.com

**Ioana Pop**  
+44 20 3530 0693  
ioana.pop@wood.com

**Tatiana Sarandinaki**  
Brasil Plural in association with WOOD&Co.  
1 212 388 5613  
tsarandinaki@wood-brasilplural.com

## Sales Trading and Execution Services

**Zuzana Mora**  
+420 222 096 283  
zuzana.mora@wood.com

**Ermir Shkurti**  
+420 222 096 847  
ermir.shkurti@wood.com

**Vladimir Vavra**  
+420 222 096 397  
vladimir.vavra@wood.com

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