

2021-12-03 12:00

### Key data

Target price [PLN]	8,3
DCF Valuation [PLN]	6,1
Comparative Valuation [PLN]	14,8
Market price [PLN]	5,2
Growth/decrease potential [%]	59,6%
Market cap [mIn PLN]	72,0
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

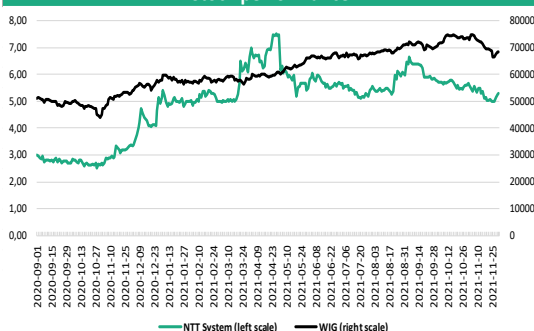
#### Growth factors

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 Q3 2021

- As in H1 2021, the **results in Q3 2021 are among the best in the history of NTT System**. After the decrease in revenues in the Q2, the Company in Q3 increased sales to PLN 281.5 million, which indicates an increase by 24.8% qoq and 32.5% yoy.
- NTT System continues **high sales dynamics in the segment of own-produced and processed products** (in Q3 an increase of 64.6% qoq, in Q2 an increase of 98.4% qoq). The segment's revenues amounted to PLN 25.1 million.
- Similarly **high dynamics is observed in the segment of distribution of components, accessories, peripherals and consumer electronics** (in Q3 an increase by 26.3% qoq, in Q2 an increase by 8.9% qoq). The segment's revenues amounted to PLN 197.1 million.
- In turn, following a decline in revenues in the **segment of computer and tablet distribution** in Q2 (minus 37.8% qoq), in Q3 the Company increased sales in this segment by 9.3% qoq to PLN 55.5 million. The dynamics of **software sales (including games)** also decelerated significantly in Q3 to 3.3% compared to 48.5% in the Q2. The segment's revenues amounted to PLN 2.3 million.
- The company generated **gross profit on sales** of PLN 13.3 million (increase by 33.3% qoq), operating profit of PLN 5.9 million (PLN 4.4 million in Q2 2021 and PLN 4.1 million in Q3 2020). **The net profit of PLN 4.1 million remained at a similar level** as in the previous quarter.
- We **positively assess the gross margin** (increase by 0.3 pp. from 4.4% in Q2 to 4.7% in Q3) and the **EBIT margin** (increase by 0.2 pp. from 1.9% in Q2 to 2.1% in Q3). However, we identify a **decline in the net profit margin** (a decrease of 0.4 pp from 1.8% in Q2 to 1.4% in Q3).

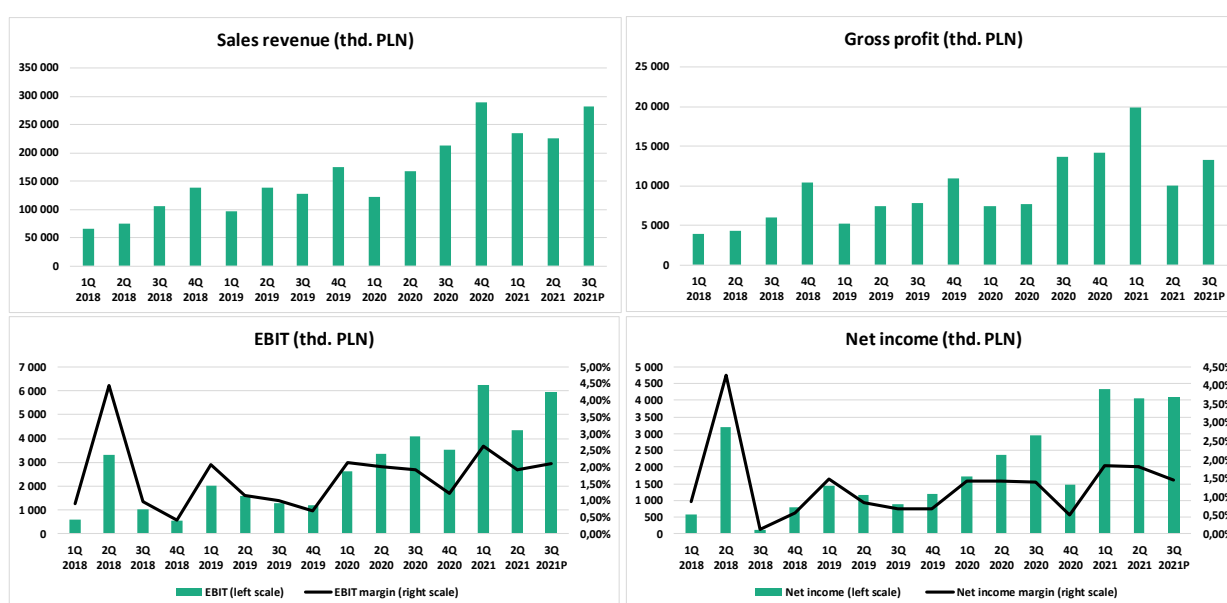
PLN thd	2020	2021E	2022E	2023E	2024E	2025E
Sales	790 985	936 615	1 024 265	1 113 019	1 232 921	1 375 740
EBITDA	14 131	17 488	20 137	22 780	25 842	29 145
EBITDA margin	1,8%	1,9%	2,0%	2,0%	2,1%	2,1%
EBIT	13 588	16 938	19 473	21 991	24 916	28 177
Net income	8 547	13 808	15 830	17 838	20 172	22 776
Equity	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 3Q 2021 against the DM Banku BPS forecasts

thd. PLN	DM BPS		Comparison to the			
	3Q 2021	forecasts	DM BPS forecasts	2Q 2021	1Q 2021	Change qoq
<b>Revenue</b>	281 537	236 682	19,0%	225 619	235 588	-4,2%
Profit on sales	13 318	9 683	37,5%	9 987	19 859	-49,7%
<i>Sales margin</i>	4,7%	4,1%	15,6%	4,4%	8,4%	-47,5%
<b>EBITDA</b>	6 139	4 118	49,1%	4 527	6 410	-29,4%
<i>EBITDA margin</i>	2,2%	1,7%	25,3%	2,0%	2,7%	-26,3%
<b>EBIT</b>	5 954	3 933	51,4%	4 346	6 227	-30,2%
<i>EBIT margin</i>	2,1%	1,7%	27,3%	1,9%	2,6%	-27,1%
<b>Gross profit</b>	4 849	4 674	3,7%	5 144	5 502	-6,5%
<i>Gross profit margin</i>	1,7%	2,0%	-12,8%	2,3%	2,3%	-2,4%
<b>Net income</b>	4 081	3 786	7,8%	4 066	4 341	-6,3%
<i>Net income margin</i>	1,4%	1,6%	-9,4%	1,8%	1,8%	-2,2%

Source: DM Banku BPS SA, Company



Source: DM Banku BPS SA calculations, Company

**Expected impact:** The decline in revenues in the second quarter was significantly recovered in the third quarter (an increase by 24.8%). NTT System surprised us positively by generating total sales of 19% above our quarterly estimates. The segment of components, accessories, peripherals and consumer electronics had the greatest impact on the value of revenues, with the total value of PLN 197.1 million (70% of total revenues). We expect this segment to exceed PLN 200 million in Q4 for the first time in history. However, we observe that revenue increases (at the similar level of record high in Q4 2020), are increasingly driven by inflation rather than volume. To an increasing extent, the Company is also experiencing the effects of the adopted business model, assuming the import of goods from abroad and then their sale on the Polish market (approx. 95% of revenues are domestic sales). The growing cost of purchased components results from post-pandemic conditions, which include a decrease in the availability of components for the production of IT equipment, disruptions in supply chains from Asian countries (including a significant increase in transport prices), extension of the delivery time (up to 14-20 weeks) and depreciation of PLN against the main world currencies. Ultimately, despite the positive and higher-than-expected net result (PLN 4.1 million against estimated PLN 3.8 million), **NTT System experienced a decline in net profitability.**

**Finally, we maintain our valuation from October**, identifying the potential for an increase in the value of the Company due to the forecasted high revenues in the traditionally best fourth quarter of the year. However, an open question refers to the development of net profit under the pressure of the unfavorable macroeconomic environment.

## 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: 3rd December 2021, 12:05

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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List of recommendations issued within the last 12 months as part of the Analytical Coverage Support Program 3.0.

Company	Recommendation	Target price	Market price	Type of recommendation	Date of Issue	Analyst(s)
NTT SYSTEM	nd	8,30	5,98	Initial report	2021-09-01	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	17,00	12,90	Initial report	2021-09-07	Artur Wizner
MONNARI TRADE	nd	5,30	2,80	Initial report	2021-09-07	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,60	Initial report	2021-09-07	Artur Wizner, Tomasz Czamecki
PROCHEM	nd	31,00	25,00	Initial report	2021-10-06	Artur Wizner
NTT SYSTEM	nd	8,30	5,80	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
MONNARI TRADE	nd	5,30	2,90	Analysis of results	2021-10-01	Łukasz Bryl, Tomasz Czamecki
PROTEKTOR	nd	4,60	3,40	Analysis of results	2021-10-08	Artur Wizner, Tomasz Czamecki
VIVID GAMES	nd	1,23	1,39	Analytical report	2021-10-18	Łukasz Bryl, Tomasz Czamecki
PROCHEM	nd	31,00	25,40	Analysis of results	2021-11-17	Artur Wizner
VIVID GAMES	nd	1,23	1,37	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,30	5,04	Financial forecast	2021-11-24	Łukasz Bryl, Tomasz Czamecki
UNIBEP	nd	14,00	10,35	Analytical report	2021-11-24	Artur Wizner
VIVID GAMES	nd	1,23	1,34	Analysis of results	2021-12-02	Łukasz Bryl, Tomasz Czamecki
NTT SYSTEM	nd	8,30	5,16	Analysis of results	2021-12-03	Łukasz Bryl, Tomasz Czamecki