

14/2024/GPW (41) April 30, 2024

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 4.0.

Cloud Technologies

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This is an excerpt from the Polish version of DM BOŚ SA's research report.

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Analyst: Tomasz Rodak, CFA

Sector: TMT – IT software & services

Fundamental rating: Hold (→)

Market relative: Neutral (↑)

Price: PLN 70.60

12M EFV: PLN 75.00 (↑)

Market Cap: US\$ 90 m

Bloomberg code: CLD PW

Av. daily turnover: US\$ 0.01 m

12M range: PLN 57.60-106.00

Free float: 33%

Cloud Technologies

Investment summary

In 4Q23 the Company's revenues in the Data sales segment turned to be marginally lower than we expected. Monthly dynamics in January and February this year are in line with our expectations. Thus, we modify our financial forecasts marginally. We believe that till 2Q24 PLN-denominated revenue dynamics will remain under pressure (albeit softening) of a weak US\$. The Company's return to a double-digit revenue dynamic is expected from 3Q24.

In January and February Cloud Technologies revealed healthy dynamics of US\$-denominated sales to key clients at 15%-16% which we believe should allow for a 7% yoy growth of 1Q24 EBITDA.

Our estimate of the Company's 12M EFV rises to PLN 75 per share (from PLN 71 per share), up 6%, due to increasing peer multipliers and declining WACC assumption. Our valuation remains close to the Company's share market price, therefore we uphold our LT fundamental Hold recommendation. At the same time, we expect the negative impact of a weak US\$ on the Company's financials to gradually recede, thus we upgrade ST relative rating to Neutral (from Underweight).

1Q24 financial results preview

On May 27 the Company will release 1Q24 financial results.

In monthly reports Cloud Technologies informed that in January and February dynamics of US\$-denominated sales to key clients reached 15% and 16% yoy, respectively. Given the US\$ depreciation vs PLN, we estimate a PLN-denominated dynamic for January and February at 4% and 5% yoy, respectively. At the same time we expect US\$-denominated sales to key clients in March to reach

Guide to adjusted profits

Adj profits (EBITDA, EBIT, NI) exclude costs of the incentive program valuation (c. PLN 0.6 million per quarter).

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	54.7	52.1	58.9	65.2
EBITDA	PLN m	25.3	28.7	32.8	36.6
Adj EBITDA	PLN m	27.5	30.6	34.8	38.6
EBIT	PLN m	13.2	17.4	21.8	27.1
Adj EBIT	PLN m	15.5	19.3	23.8	29.1
Net income	PLN m	8.7	15.5	19.6	24.1
Adj net income	PLN m	11.0	17.4	21.6	26.1
Adj EPS	PLN	2.20	3.47	4.32	5.21
Adj EPS yoy chg	%	-21	58	24	21
Net debt	PLN m	-15.1	-37.0	-54.2	-74.1
EV/Sales	x	6.4	6.3	5.3	4.5
Adj P/E	x	33.2	21.1	16.9	14.0
EV/Adj EBITDA	x	12.8	10.8	9.0	7.6
EV/Adj EBIT	x	22.7	17.1	13.1	10.0
Gross dividend yield	%	1.4	1.7	1.9	2.0
DPS	PLN	1.00	1.25	1.39	1.45
Number of shares (eop)	m	5.0	5.0	5.0	5.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. Estimated sales to key clients in February: April 22, 2024
2. Release of FY23 financial results: April 15, 2024

Upcoming events

1. 1Q24 financial results release: May 27, 2024
2. 1H24 financial results release: September 16, 2024
3. 3Q24 financial results release: November 25, 2024

c. 16% which implies a c. 5% yoy growth of sales to key clients denominated in PLN. In result, in 1Q24 we forecast the revenues in the Data sales segment to increase 5% yoy (an average of monthly dynamics). We also assume an 82% yoy decline of the revenues in the Other activity segment due to a deconsolidation of financial reports of a sold company Audience Network (without any negative impact on the EBITDA level). All in all, in 1Q24 we expect a 16% yoy decline of the Company's revenues, yet accompanied with a growth of adj EBITDA and NI estimated at 7% and 18% yoy.

Catalysts

1. Rising importance of Internet advertising
2. Dynamic growth of the *programmatic* segment (main market model)
3. More and more frequent implementation of AI (more precise users profiling, growing demand for data)
4. Active dividend policy
5. Strong cash generation
6. Dynamic improvement of financial results
7. Slower than expected growth pace of the data sales segment's revenues
8. Positive impact of potential acquisitions
9. Strong USD in relation to PLN

Risk factors

1. Economic slowdown
2. Rise in competitive pressures
3. Changes in personal data protection laws
4. IT systems malfunction
5. Loss of key data sources
6. Key data distributor loss
7. Internet advertising business model change
8. FX risk (USD weakening vs PLN)
9. Negative impact of potential acquisitions
10. Low liquidity on the WSE

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	43	26	9	5	0	4
Percentage	49%	30%	10%	6%	0%	5%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	25	40	13	5	0	4
Percentage	29%	46%	15%	6%	0%	5%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	8	4	1	1	0	3
Percentage	47%	24%	6%	6%	0%	18%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	4	7	2	1	0	3
Percentage	24%	41%	12%	6%	0%	18%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)	
Cloud										
Tomasz Rodak	Hold	-	11.09.2023	-	11.09.2023	Not later than 11.09.2024	-25%	-41%	94.00	88.00 -
Tomasz Rodak	-	→	-	25.09.2023	26.09.2023	-	-	88.60	88.00 →	
Tomasz Rodak	-	→	-	12.10.2023	12.10.2023	-	-	88.80	88.00 →	
Tomasz Rodak	-	→	-	06.11.2023	06.11.2023	-	-	73.00	88.00 →	
Tomasz Rodak	-	→	-	08.12.2023	08.12.2023	-	-	68.00	71.00 ↓	
Tomasz Rodak	-	→	-	09.01.2024	09.01.2024	-	-	65.20	71.00 →	
Tomasz Rodak	-	→	-	01.02.2024	01.02.2024	-	-	63.00	71.00 →	
Tomasz Rodak	-	→	-	29.02.2024	29.02.2024	-	-	61.60	71.00 →	
Tomasz Rodak	-	→	-	04.04.2024	04.04.2024	-	-	74.20	71.00 →	
Tomasz Rodak	-	→	-	30.04.2024	30.04.2024	-	-	70.60	75.00 ↑	

* prices at issue/reiteration are the closing prices at the report or reiteration date

Market-relative recommendation tracker

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/reiteration*	Relative performance
Cloud							
Tomasz Rodak	Neutral	-	11.09.2023	-	11.09.2023	08.12.2023	94.00 -38%
Tomasz Rodak	-	→	-	25.09.2023	26.09.2023	-	88.60 -
Tomasz Rodak	-	→	-	12.10.2023	12.10.2023	-	88.80 -
Tomasz Rodak	-	→	-	06.11.2023	06.11.2023	-	73.00 -
Tomasz Rodak	Underweight	↓	08.12.2023	-	08.12.2023	30.04.2024	68.00 -5%
Tomasz Rodak	-	→	-	09.01.2024	09.01.2024	-	65.20 -
Tomasz Rodak	-	→	-	01.02.2024	01.02.2024	-	63.00 -
Tomasz Rodak	-	→	-	29.02.2024	29.02.2024	-	61.60 -
Tomasz Rodak	-	→	-	04.04.2024	04.04.2024	-	74.20 -
Tomasz Rodak	Neutral	↑	30.04.2024	-	30.04.2024	Not later than 30.04.2025	70.60 -

* prices at issue/reiteration are the closing prices at the report or reiteration date

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