

32/2024/GPW (81) October 1, 2024

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

Cloud Technologies

Investment summary	2
Recent events	2
Upcoming events	2
Catalysts	3
Risk factors	3
Disclaimer	4

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

Analyst: Tomasz Rodak, CFA

Sector: TMT – IT software & services

Market Cap: US\$ 85 m

Fundamental rating: Hold (→)

Bloomberg code: CLD PW

Market relative: Neutral (→)

Av. daily turnover: US\$ 0.01 m

Price: PLN 66.00

12M range: PLN 57.60-90.00

12M EFV: PLN 70.00 (↓)

Free float: 33%

Cloud Technologies

Investment summary

2Q24 financial results were close to our estimations. Moreover, the Company reported a strong dynamic of revenues in July, reaching 37% yoy, albeit this may be partially attributed to the low base effect. On the other hand, we notice further US\$ depreciation vs PLN which will adversely impact expected dynamics of revenues in the upcoming quarters.

We include two new facts in our forecasts. First, in July the Company acquired a 100% stake in a Norwegian company Nordic Data Resources (NDR) for PLN 6.9 million which gave access to new channels of data distribution. According to our estimations, extra revenues – generated thanks to the new acquisition – may reach c. PLN 0.4 million per month at the end of next year which may imply c. PLN 4-5 million of additional sales over a year. Second, in June Oracle Corporation informed about a shutdown of Oracle Advertising that was the client of Cloud Technologies (and generated 5% of the Company's 1H24 sales). Without this major ads market player the Company may face a risk of a revenues drop in the short term, in the long term though it may become a beneficiary of this development provided it is successful in filling the gap left by Oracle Advertising.

We lower our revenues forecasts for the Company given (i) further US\$ depreciation vs PLN (by c. 5% since our last report), (ii) 1H24 revenues which proved c. 5% below our expectations and (iii) expected dynamic declines of the Group's revenues due to Oracle Advertising's shutdown in the short term. These above mentioned negative factors are partially offset by an expected growth of revenues generated thanks to the NDR acquisition. Consequently, our forecasts of adj EBITDA for 2024E/ 2025E/ 2026E decrease by 12%/ 8%/ 9%.

Guide to adjusted profits

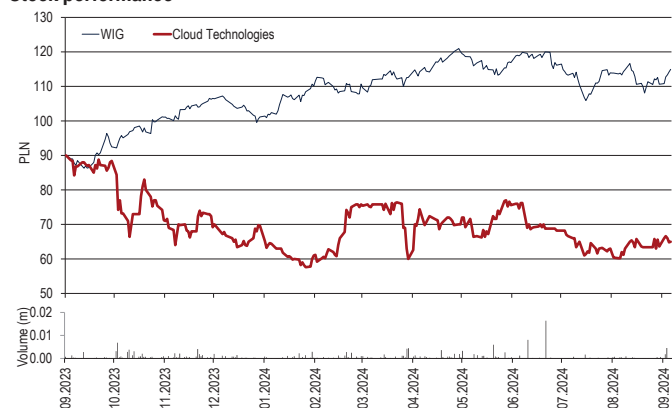
Adj profits (EBITDA, EBIT, NI) exclude costs of the incentive program valuation

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	54.7	47.5	53.6	60.6
EBITDA	PLN m	25.3	25.2	30.0	33.4
Adj EBITDA	PLN m	27.5	27.0	31.9	35.2
EBIT	PLN m	13.2	11.8	17.1	22.9
Adj EBIT	PLN m	15.5	13.6	19.0	24.8
Net income	PLN m	8.7	11.2	15.3	20.4
Adj net income	PLN m	11.0	13.1	17.2	22.2
Adj EPS	PLN	2.20	2.63	3.44	4.44
Adj EPS yoy chg	%	-21	19	31	29
Net debt	PLN m	-15.1	-27.5	-41.2	-57.8
EV/Sales	x	5.8	6.4	5.4	4.5
Adj P/E	x	30.0	25.1	19.2	14.9
EV/Adj EBITDA	x	11.4	11.2	9.1	7.7
EV/Adj EBIT	x	20.4	22.3	15.2	11.0
Gross dividend yield	%	1.5	1.9	1.9	2.0
DPS	PLN	1.00	1.25	1.23	1.33
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 July: September 23, 2024
2. 1H24 financial results release: September 16, 2024
3. Purchase of a stake in Nordic Data Resources: July 12, 2024

Upcoming events

1. 3Q24 financial results release: November 25, 2024

Our target 12M EFV drops 7% to PLN 70 per share (from PLN 75 per share) because of: (i) lower forecasts, (ii) lower WACC and (iii) slight decline of peers multiples. Our valuation remains close to the Company's share market price, therefore we uphold our LT fundamental Hold recommendation and ST relative Neutral bias.

Catalysts

1. Nordic Data Resources' acquisition gives access to new distribution channels
2. CLD may fill the market gap left after Oracle Advertising's shutdown.
3. Rising importance of Internet advertising
4. Dynamic growth of the programmatic segment (main market model)
5. More and more frequent implementation of AI (more precise users profiling, growing demand for data)
6. Active dividend policy
7. Strong cash generation
8. Slower than expected growth pace of the data sales segment's revenues
9. Positive impact of potential acquisitions
10. Strong USD in relation to PLN

Risk factors

1. Oracle Advertising's shutdown may lead to a revenue fall in the short term.
2. Economic slowdown
3. Rise in competitive pressures
4. Changes in personal data protection laws
5. IT systems malfunction
6. Losing the key sources and /or distributors of data
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	45	26	8	5	0	5
Percentage	51%	29%	9%	6%	0%	6%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	28	40	11	5	0	5
Percentage	31%	45%	12%	6%	0%	6%

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	4	5	0	1	0	2
Percentage	33%	42%	0%	8%	0%	17%

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	2	6	1	1	0	2
Percentage	17%	50%	8%	8%	0%	17%

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	12.08.2024	-33%	-46%	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 ↑
Tomasz Rodak	-	→	-	06.05.2024	06.05.2024	-	-	-	71.40	75.00 →
Tomasz Rodak	-	→	-	29.05.2024	29.05.2024	-	-	-	66.40	75.00 →
Tomasz Rodak	-	→	-	12.07.2024	12.07.2024	-	-	-	68.80	75.00 →
Tomasz Rodak	Hold	→	12.08.2024	-	12.08.2024	Not later than 12.08.2025	5%	4%	63.00	75.00 →
Tomasz Rodak	-	→	-	24.09.2024	24.09.2024	-	-	-	66.60	75.00 →
Tomasz Rodak	-	→	-	01.10.2024	01.10.2024	-	-	-	66.00	70.00 ↓

* 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	-38%
Tomasz Rodak	-	→	-	25.09.2023	26.09.2023	-	-
Tomasz Rodak	-	→	-	12.10.2023	12.10.2023	-	-
Tomasz Rodak	-	→	-	06.11.2023	06.11.2023	-	-
Tomasz Rodak	Underweight	↓	08.12.2023	-	08.12.2023	30.04.2024	-5%
Tomasz Rodak	-	→	-	09.01.2024	09.01.2024	-	-
Tomasz Rodak	-	→	-	01.02.2024	01.02.2024	-	-
Tomasz Rodak	-	→	-	29.02.2024	29.02.2024	-	-
Tomasz Rodak	-	→	-	04.04.2024	04.04.2024	-	-
Tomasz Rodak	Neutral	↑	30.04.2024	-	30.04.2024	Not later than 30.04.2025	-5%
Tomasz Rodak	-	→	-	06.05.2024	06.05.2024	-	-
Tomasz Rodak	-	→	-	29.05.2024	29.05.2024	-	-
Tomasz Rodak	-	→	-	12.07.2024	12.07.2024	-	-
Tomasz Rodak	-	→	-	12.08.2024	12.08.2024	-	-
Tomasz Rodak	-	→	-	24.09.2024	24.09.2024	-	-
Tomasz Rodak	-	→	-	01.10.2024	01.10.2024	-	-

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

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