

42/2024/GPW (105) November 27, 2024

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

Digital Network

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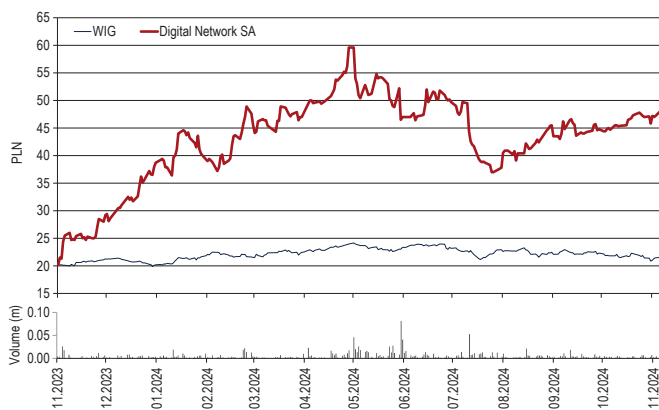
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Sector: TMT – media
Bloomberg code: DIG PW
Price: PLN 48.90
12M EFV: PLN 81.0 (-)

Market Cap: US\$ 51 m
Av. daily turnover: US\$ 0.05 m
12M range: PLN 20.20-59.60
Free float: 36%

Digital Network

Stock performance



Source: Bloomberg

Recommended action

The growing market with numerous competitive edges. The digital-out-of-home (DOOH) segment (in which Digital Network operates) boasting numerous advantages (starting from an option of precise targeting of advertising campaigns and their optimization in the real time, increased engagement of viewers thanks to dynamic displays and high recall rate through flexibility, interactivity, integration with mobile devices and Internet of things and up to enhanced environment-friendliness and cost efficiency) over the traditional outdoor advertising (OOH) belongs to the fastest growing segments of the global advertising market with a growth dynamic in the range from a dozen or so percent to 20% p.a. (depending on the region). In Poland, the DOOH market was growing at a c. 50% rate p.a. in a couple of past years and in the coming years we would expect it to grow with at least a dozen or so percent rate. Last year the digital advertising had a c. 24% share in Poland's outdoor advertising market; in global terms the DOOH market accounts for over 40% of the OOH market and with respect to developed countries this market share ranges from 60% to 70%. One should expect a further (possibly substantial) growth of this share in the following years.

Guide to adjusted profits

Adj EBITDA, adj EBITDA without leasing and adj EBIT exclude the Company's goodwill impairment. Adj net profit excludes the Company's goodwill impairment and profit on a disposal of stakes in subsidiaries.

Key data

IFRS consolidated		2023	2024E	2025E	2026E
Sales	PLN m	64.3	71.4	79.8	88.4
EBITDA	PLN m	33.3	40.2	45.0	50.3
Adj EBITDA	PLN m	35.1	40.2	45.0	50.3
EBITDA ex. leases	PLN m	25.9	31.6	35.5	39.9
Adj EBITDA ex. leases	PLN m	27.7	31.6	35.5	39.9
EBIT	PLN m	22.7	28.1	32.1	36.4
Skor. EBIT	PLN m	24.5	28.1	32.1	36.4
Net income	PLN m	21.3	22.0	23.9	27.0
Adj net income	PLN m	17.0	22.0	23.9	27.0
Adj EPS	PLN	4.02	5.18	5.64	6.37
Adj EPS r/r	%	96	29	9	13
Net debt ex. leases	PLN m	-25.4	-10.4	-12.9	-16.5
Net debt incl. leases	PLN m	-1.2	17.1	17.1	16.3
P/E	x	12.2	9.4	8.7	7.7
P/CE*	x	11.1	8.3	7.7	6.9
EV/EBITDA*	x	8.1	7.1	6.0	5.2
EV/EBIT*	x	8.8	7.9	6.6	5.7
DPS	PLN	0.73	4.10	4.85	5.16
Gross dividend yield	%	1.5	8.4	9.9	10.6
Number of shares (eop)	m	4.2	4.2	4.2	4.2

* multiples based on estimates of proportionally consolidated D&A, EBIT and EBITDA.

Source: Company, DM BOS SA estimates

Recent events

- 2Q24 financial results release: September 24
- 3Q24 financial results release: November 26

Upcoming events

- Interim dividend payout for 2024 (DPS at PLN 2.41): November 28

The **key departments of risk** related to the DOOH segment pertain to violations of privacy and security of data gathered, intensifying competition for best locations, regulatory and legal issues (e.g. the landscape resolution in Warsaw and other cities), content management and quality control.

The leader of the DOOH market in Poland. Digital Network sells advertising time in Poland's biggest network of LED and LCD digital screens (>20,000) located in 315 Polish cities and reaching

c. 6.5 million viewers daily (13 million contacts). Expectations of the Company's further growth are based on (i) assumed further growth of the network capacity and (ii) acquisition of premium locations as well as (iii) systematic growth of ads pricing and (iv) growing rate of oversold inventory (of which the current utilization slightly exceeds 30% on a yearly average basis). Apart from the good growth outlook the Company's business model is characterized

by high profitability, low capex and low NWC requirements which translates into a substantial cash accumulation (distributed to the Company's shareholders, in line with the adopted dividend policy).

Our 12M EFV estimate for Digital Network stands at PLN 81 per share (the valuation ranges from PLN 68 to PLN 102 per share).

Risk factors

1. Adoption of the landscape resolution in Warsaw (and/or other cities) possibly limiting further development of DOOH and the Company
2. Increased competitive pressures
3. Low diversification of the client base
4. Losing key employees
5. Technological changes
6. Technology malfunctioning
7. Violations of privacy and data leaks
8. Loan default by entities from outside the Group
9. Potential share supply overhang

Catalysts

1. Further dynamic growth of the DOOH market
2. Increasing inventory utilization
3. Increases in the price list
4. Adj profits yoy growth
5. Profitability yoy improvement
6. Further expansion of technical infrastructure

Competitive advantages

1. Economies of scale achieved (the biggest DOOH network in Poland)
2. High entry barriers (red tape, technology, limited attractive locations available)
3. High capacity of network (broadcasting) loop vs the current level of inventory utilization
4. Well-developed technical infrastructure (all over Poland)
5. Numerous premium locations
6. Constant modernization of technical infrastructure

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	44	26	7	5	0	5
Percentage	51%	30%	8%	6%	0%	6%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	28	38	11	5	0	5
Percentage	32%	44%	13%	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%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)
Digital Network							
Mikołaj Stępień/ Sobiśław Pająk	Not rated	Not rated	27.11.2024	-	27.11.2024	48.90	81.00 –

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

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