

**47/2024/GPW (110)** December 1, 2024

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

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# Digital Network

Recommended action .....	2
Recent events .....	2
Upcoming events .....	2
Risk factors .....	3
Catalysts .....	3
Competitive advantages .....	3

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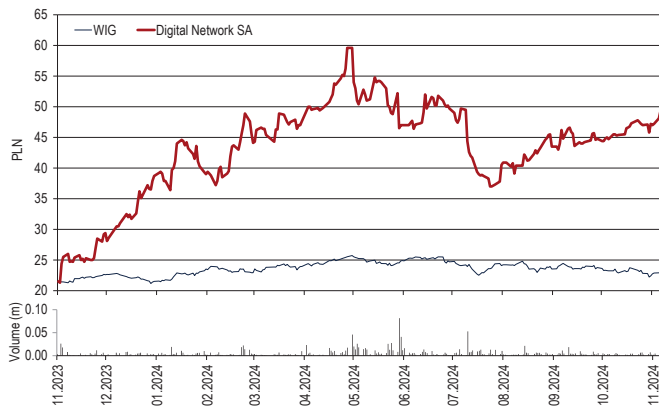
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Sobiesław Pająk, CFA

Sector: TMT – media  
Bloomberg code: DIG PW  
Price: PLN 49.00  
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

## Key points

■ **The strategy.** The DOOH segment has a bright outlook ahead supported by digitalization trends of the ad market and growing demand for interactive advertising strategies. Digital Network owns the biggest network of digital screens in Poland in attractive locations, a level of inventory sold is still relatively low (over 30% on a yearly average basis) and the entry barriers are high (red tape, technology, limited attractive locations available). We assume a low two-digit growth of the Company's revenues on the back of continuous development of the screen network, higher level of inventory sold and rising prices. We also expect a further profitability increase due to an expected growth of the inventory utilization, pricing upgrades and rising share of (high margin) direct sale. A strong ability to generate cash coupled with the Company's undemanding share market price (vs our valuation) bodes well for dividend yields in the coming years.

■ **3Q24 financial results.** Sales at PLN 18.6 million (up 10% yoy) proved to be in line with our estimates. Likewise, adj EBITDA and adj EBIT at PLN 11 million (up 6% yoy) and PLN 8 million (up 3% yoy), respectively, were in line with our

## 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
- Interim dividend payout for 2024 (DPS at PLN 2.41): November 28
- 3Q24 financial results release: November 26

## Upcoming events

- 4Q24 financial results release: April 2025

expectations. The high base effect (3Q23 was particularly good) was behind a slight yoy drop of margins. In 3Q23 a disposal of a subsidiary generated a one-off PBT in the amount of PLN 7.2 million and in result, reported 3Q24 net profit showed a yoy deterioration. Adj net profit reached PLN 7 million (up 31% yoy) supported by higher interest income and lower minorities share in subsidiaries.

- **4Q24E.** On the one hand, the 4th quarter is the so called high season in the DOOH market, on the other, bonuses for employees are paid. In the discussed period we expect a single-digit revenue growth and slight improvement of adj EBIT margin due to the operating leverage effect. Adj net profit should be additionally supported by higher interest income and lower minorities yoy share.
- **FY financial forecasts.** In FY24 we forecast sales/ adj EBITDA/ adj EBIT/ adj net profit at PLN 71 million (up 11% yoy)/40 million (up 15% yoy)/28 million (up 15% yoy)/ 22 million (up 29% yoy). Our forecasts don't differ much from the Company's management guidance published at the end of November.
- **2025 outlook.** We assume the Company's further business growth aided by the DOOH industry development, albeit due to the fact that Digital Network is the biggest network of digital screens in Poland we expect its growth pace to be slower than the market's. Next year we expect a sales growth at a low dozen or so per cent rate. The Company's margins should improve steadily on the back of increasing inventory utilization, pricing upgrades and rising share of a (high margin) direct sale.
- **Financial forecast changes.** Our financial forecasts stay intact.
- **Risk to financial forecasts.** High (both sides).
- **Dividend.** Given the Company's dividend policy we expect a payout of 90% of consolidated profits for 2024 in the form of a dividend. We forecast a DPS at PLN 4.85 with PLN 2.41 per share to be paid already in December this year (the ex-dividend day set on November 28). In December 2025 the Company should, according to its dividend policy, pay out an interim dividend for 2025 which we estimate at PLN 2.50 per share.
- **Valuation.** Our 12M EFV stays intact.

#### 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 pressure
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* chain 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** =  $\text{EBIT}/\text{sales}$   
**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	28	5	5	0	5
Percentage	51%	32%	6%	6%	0%	6%

### Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	41	9	5	0	5
Percentage	31%	47%	10%	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	3	5	1	1	0	2
Percentage	25%	42%	8%	8%	0%	17%

**Recommendation tracker**

<b>Analyst</b>	<b>Fundamental Recommendation</b>	<b>Relative Recommendation</b>	<b>Report date</b>	<b>Reiteration date</b>	<b>Distribution date</b>	<b>Price at issue/ reiteration*</b>	<b>EFV (12 months)</b>
<b>Digital Network</b>							
Mikolaj Stepień/ Sobiesław Pająk	Not rated	Not rated	27.11.2024	-	27.11.2024	48.90	81.00 -
Mikolaj Stepień/ Sobiesław Pająk	-	-	-	01.12.2024	02.12.2024	49.00	81.00 →

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

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