WSE Analytical Coverage Program

20/2025/GPW (38) May 13, 2025

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

Digital Network

Analysts:
Mikołaj Stępień, Sobiesław Pająk, CFA

DOM MAKLERSKI

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

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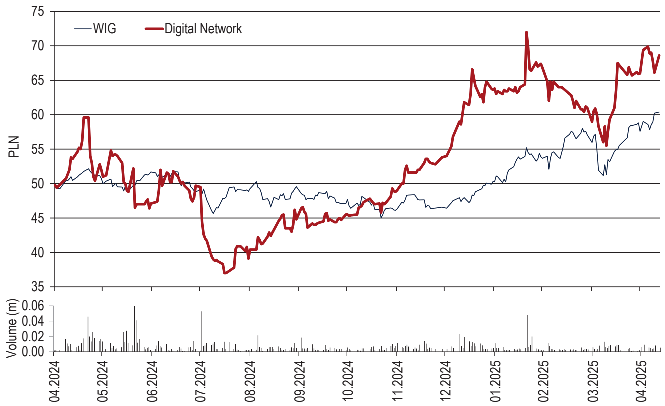
Digital Network

Sector: TMT – media
Bloomberg code: DIG PW
Price: PLN 69.00
12M EFV: PLN 94.0 (↑)

Market Cap: US$ 77 m
Av. daily turnover: US$ 0.09 m
12M range: PLN 37.00-72.00
Free float: 36%

Stock performance



Source: Bloomber

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		2024	2025E	2026E	2027E
Sales	*PLN m*	74.7	83.2	91.4	100.4
EBITDA	*PLN m*	43.7	46.2	49.7	54.4
Adj EBITDA	*PLN m*	43.7	46.2	49.7	54.4
EBITDA ex. leases	*PLN m*	35.4	37.7	40.3	44.0
Adj EBITDA ex. leases	*PLN m*	35.4	37.7	40.3	44.0
EBIT	*PLN m*	31.7	34.2	36.6	40.2
Skor. EBIT	*PLN m*	31.7	34.2	36.6	40.2
Net income	*PLN m*	25.2	25.8	27.5	30.1
Adj net income	*PLN m*	24.2	25.8	27.5	30.1
Adj EPS	*PLN*	5.71	6.08	6.49	7.10
Adj EPS r/r	*%*	38	6	7	9
Net debt ex. leases	*PLN m*	-13.1	-16.4	-18.7	-21.5
Net debt incl. leases	*PLN m*	10.1	9.1	9.1	8.9
P/E	*x*	12.1	11.4	10.6	9.7
P/CE*	*x*	11.3	10.1	9.5	8.7
EV/EBITDA*	*x*	12.5	8.7	7.8	7.2
EV/EBIT*	*x*	13.4	9.7	8.6	8.0
DPS	*PLN*	4.10	4.82	5.56	5.95
Gross dividend yield	*%*	5.9	7.0	8.1	8.6
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 BOŚ SA estimates

Recent events

1. Preliminary sales for 1Q25: April 11
2. Management proposal of a DPS for 2024: April 23
3. FY24 financial results release: April 30

Upcoming events

1. 1Q25 financial results release: May 20
2. 2Q25 financial results release: September 30
3. 3Q25 financial results release: November 28

Recommended action

The trend of the advertising market digitization and growing demand for interactive campaigns support a positive outlook for the DOOH industry. Digital Network operates the largest nationwide network of digital screens in prime locations. The inventory sell-through rate remains relatively low (just over 30% annually on average), while the market entry barriers are high (lengthy administrative procedures, technological requirements, and a limited pool of attractive locations).

Last year witnessed a vigorous growth of the Company's revenues (up 16% yoy) and profitability improvement as well (adj EBIT up 30% yoy). Preliminary 1Q25 revenues imply a c. 25% yoy growth which should support the Company's margins, we believe. Given higher than we expected FY24 figures we raise our financial forecasts for 2025 and the following years on the back of a low double-digit growth rate of sales assumed and margins established on the current high levels. Hence, our 12M EFV rises, by 16%, to PLN 94 per share.

The Company's substantial ability to generate cash flows coupled with its growth profile makes Digital Network an interesting investment idea combining merits of a dividend and growth company.

Review of 4Q24 and FY24 financial results

4Q24 financial results as well as FY24 figures were in line with the management's forecast released earlier. 4Q24 sales reached PLN 27 million (up 20% yoy). The profitability grew yoy due to the operating leverage. Adj EBITDA/ adj EBIT/ adj NI reached PLN 17/ 14 / 10 million (up 46%/ 57%/ 55% yoy). In 2024 total sales/ adj EBITDA/ adj EBIT/ adj EBIT/ adj NI reached PLN 44/ 32 / 24 million (up 16%/ 25%/ 30%/ 38% yoy).

1Q25 financial results preview

Usually, 1Q is a weaker season for the DOOH industry witnessing lower revenues and lower margins than in the rest of a year. The Company has already released preliminary 1Q25 revenues that reached c. PLN 15 million (up 25% yoy). We expect a sales growth coupled with the operating leverage effect to help improve yoy profitability. We forecast EBITDA and EBIT at c. PLN 8 million (up 32% yoy) and 5 million (up 56% yoy), respectively. We expect lower interest income due to a decline of the cash balance and extended loans in yoy terms. We forecast NI close to PLN 4 million (up 35% yoy) with some additional support from a higher share of profits attributable to the parent company – in recent quarters, the Company has increased its capital involvement in key subsidiaries from 85% to 93%.

Forecast changes

FY24 results beat our forecasts both, on the level of revenues and profitability; especially, a material growth of already high profitability constituted a positive surprise, so did a growth of preliminary 1Q25 revenues. Thus, we raise our forecasts for the next years assuming margins should stay on the current satisfactory high levels.

Dividend

This year we expect the Company to pay the 2nd tranche of a dividend for last year in the amount of PLN 2.41 per share (at last year's end the same amount of an interim dividend was distributed which implies a DPS of PLN 4.82); the Company will likely pay an interim dividend from this year's profits (according to our estimates, at PLN 2.78). We assume a dividend for 2025 to amount to PLN 5.56 per share.

Valuation

Our DCF valuation falls under the positive impact of (i) valuation horizon forward shift, (ii) financial forecasts upgrade, and (iii) the RFR lowering; this translates into an 11% valuation rise to PLN 79 per share. Due to (i) financial forecasts upgrade and (ii) increases in peer multiples, our peer-relative valuation rises 21% to PLN 110 per share. Ultimately, our 12M EFV for Digital Network - being a 50%-50% mix of a DCF valuation and peer-relative exercise - is up by 16% and renders PLN 94 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 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/(sales/average A/R))
Inventory turnover (in days) = 365/(COGS/average inventory))
A/P turnover (in days) = 365/(COGS/average A/P))
Current ratio = ((current assets – ST deferred assets)/current liabilities)
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = 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.

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

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	40	30	6	5	0	5
Percentage	47%	35%	7%	6%	0%	6%

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	4	0	1	0	2
Percentage	36%	36%	0%	9%	0%	18%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	27	37	12	5	0	5
Percentage	31%	43%	14%	6%	0%	6%

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	3	1	1	0	2
Percentage	36%	27%	9%	9%	0%	18%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)	
Digital Network								
Mikołaj Stępień/ Sobiesław Pająk	Not rated	Not rated	27.11.2024	-	27.11.2024	48.90	81.00	–
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	01.12.2024	02.12.2024	49.00	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	06.01.2025	07.01.2025	56.80	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	29.01.2025	29.01.2025	63.80	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	18.02.2025	18.02.2025	72.00	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	19.02.2025	19.02.2025	69.80	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	14.03.2025	14.03.2025	63.60	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	10.04.2025	10.04.2025	57.60	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	11.04.2025	11.04.2025	59.30	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	05.05.2025	05.05.2025	69.90	81.00	→
Mikołaj Stępień/ Sobiesław Pająk	-	-	-	13.05.2025	13.05.2025	69.00	94.00	↑

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

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The production of the report was completed on May 13, 2025 at 6.10 p.m.
The report was distributed on May 13, 2025 at 6.20 p.m.

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This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.
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