

Tuesday, 5 September 2023 | Update

Vercom: hold (reiterated)

VRC.PW; VRC.WA | TMT, Poland

Strong Growth But Steep Premium

Vercom's share price has rallied more than 75% since the beginning of the year, far outperforming the broad WIG benchmark, as investors reacted to a strong earnings momentum (incl. organic growth), a successful acquisition of MailerLite that opened the door to new global markets and significantly increased the customer base, and a business model delivering consistent cash flow generation.

We have updated our financial forecasts for Vercom to include a more optimistic margin evolution forecast, among others, leading us to expect EBITDA of PLN 82m in 2023 and PLN 107m in 2024, estimates that imply strong respective year-over-year growth rates (vs. proforma incl. MailerLite) of ca. 39% and 31%. However, at 19.3x 2023E EV/EBITDA and 14.4x 2024E multiple, Vercom is currently trading at premiums to the peer group as high as 82% and 63%, respectively. While we agree that Vercom is currently outperforming its peers in terms of earnings growth, at the current level the value premium tells us that its near-term upside potential has been largely exhausted.

After updating the DCF model risk-free rate, we set our new target price for VRC at PLN 67.40, which implies upside potential of less than 1% and mandates no more than a 'hold' recommendation.

Attractive Profile vs. Peers

The investment profile of Vercom looks very attractive vis-à-vis other industry players. The Company is poised to be among the sector's fastest-growing businesses in terms of revenue growth through 2025. Whereas the CPaaS business of Vercom's parent, cyber_Folks, is forecast to grow its revenues at a CAGR of 17% in 2022-25, the median growth expected of the peer group is only 13%. Similarly, we also expect cyber_Folks CPaaS to outperform its sector in terms of EBITDA growth with a CAGR of around 31% over the next three years versus 18% anticipated of the industry as a whole.

Continued Development of MailerLite

Vercom acquired MailerLite in June 2022. MailerLite is a global supplier of e-mail communication tools for business. It operates mainly in the United States and Western Europe. MailerLite has upheld its forward earnings momentum in the time since the acquisition, moreover, with continued development, a Spanish-language version of MailerLite was launched in July 2023 that is ready for monetization in Spanish-speaking markets.

Good Results for Q2 2023

Vercom reported results for Q2'23 above our expectations and market consensus (+8%/+8% of positive surprise respectively on the EBITDA line). The main reason were higher-than-expected revenues. Sales amounted to PLN 81.1m in 2Q'23, approx. PLN 2.6m more than we had forecast. Gross margin came in at 53.7%. SG&A expenses in the quarter were PLN 26.6m (32.9% of sales). Other operating activities fetched a net gain of PLN 0.3m, and financing activity brought in a PLN 3.1m higher profit than in 2Q'22 thanks to positive exchange differences.

(PLN m)	2021	2022	2023E	2024E	2025E
Revenue	178.9	260.3	325.3	399.2	474.1
EBITDA	33.8	52.1	82.0	107.4	132.4
Margin	18.9%	20.0%	25.2%	26.9%	27.9%
EBIT	28.4	42.4	68.0	91.9	115.9
Net profit	22.7	31.4	49.7	68.5	90.8
P/E	65.8	47.5	30.1	21.8	16.4
P/S	8.3	5.7	4.6	3.7	3.2
P/B	7.2	4.2	3.9	3.6	3.2
EV/EBITDA	42.1	30.8	19.3	14.4	11.4
DPS	0.68	0.00	1.13	1.35	1.86
Dividend Yield	1.0%	0.0%	1.7%	2.0%	2.8%

current price*	PLN 67.20
target price	PLN 67.40
mCap	PLN 1.43bn
free float	PLN 0.33bn
ADTV (3M)	PLN 0.3 m

*Price as of September 4, 2023, 5:00 PM

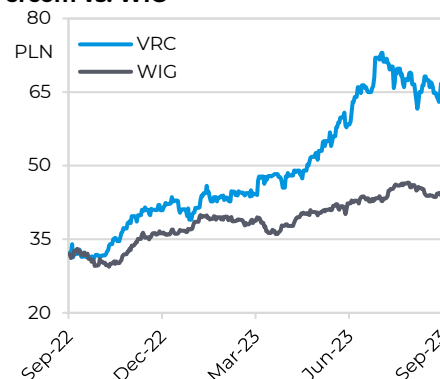
Ownership

R22	50.0%
Itema Ventures UAB	12.8%
Adam Lewkowicz	7.2%
Krzysztof Szyszka	6.4%
NN PTE	5.6%
PTE Allianz	6.1%
Others	11.9%

About Vercom

Vercom uses the "Communication Platform as a Service" model to create cloud-based communications platforms supporting voice, video, and message. In 2022 Vercom generated revenue of PLN 260m including acquisitions. Going forward Vercom intends to grow its business organically and through acquisitions.

Vercom vs. WIG



company	target price		recommendation	
	new	old	new	old
Vercom	67.40	41.80	hold	hold

company	current price	target price	upside
Vercom	67.20	67.40	+0.3%

forecast update	2023E	2024E	2025E
	Revenue	-13.6%	-9.6%
EBITDA	+6.1%	+10.2%	+16.6%
Net income	+10.7%	+11.2%	+20.6%

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank issued the following recommendations for Vercom in the 12 months prior to this publication:

Vercom (Paweł Szpigiel)

Rating	hold	buy
Rating date	2022-12-01	2022-10-03
Target price (PLN)	41.80	36.60
Price on rating day	42.00	31.80

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