

August 31, 2021

ASBISC ENTERPRISES PLC

(WSE: ASB)

Founded in 1990, Cyprus-based ASBISc Enterprises PLC specializes in the distribution of computer hardware and software, mobile solutions, and other IT products and digital equipment. The company's geographic focus is the former Soviet Union, Central and Eastern Europe, and the Middle East and Africa (EMEA).

COMPANY HIGHLIGHTS

- * ASB: A Leading Global Technology Product Distributor
- * ASBISc has grown revenues, margins and earnings in recent years, and is, in our view, well positioned for continued growth. The company has expanded its gross margin by more than 100 basis points over the past two years (narrowing the gap between its global electronic distributor peers), supported by strong sales of private-label products, distribution efficiencies, and the increased use of e-commerce.
- * In 2020, revenue rose 24% and EPS more than doubled from the prior year. For the first half of 2021, ASBISc reported revenue growth of 60% and net income growth of 540%, which, in our view, partly reflects favorable comparisons over the same period in 2020. We expect continued organic growth will be supported by the recent launch of an Apple product-reselling unit (which operated 18 stores as of mid-year, with a year-end goal of 20) and the launch of an innovative, internally developed ionic air diffuser designed to help combat coronaviruses, including COVID-19.
- * As of June 30, 2021, ASBISc had \$117.3 million in cash on its balance sheet, which was down from its 2020 year-end total of \$159 million due to seasonality in cash flow trends in its business. However, as was the case in the preceding three years, we expect net positive cash flow from operating activities for the full-year in 2021, and note that net cash inflows from operating activities rose to \$49.3 million in 2020, up from \$29.5 million in 2019 and \$18.7 million in 2018.
- * Despite a more-than tripling in ASBISc's stock price year-to-date, we believe the current valuation remains well below peer levels, and does not fairly reflect the company's strong underlying fundamentals. Its recent market capitalization of approximately \$370 million -- 1.4 billion Polish zloty (PLN) -- implies a multiple of approximately 0.1-times our 2021

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PRICE CHART



KEY STATISTICS

Key Stock Statistics	
Recent price (8/30/21)	25.00
52 week high/low (PLN)	28.10 - 4.72
Shares outstanding (M)	55.5
Market cap (M, PLN)	1388
Dividend (\$)	0.3
Yield	4.7%

Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.7%

Financials (\$M)

Cash & Mkt Securities	111.2
Debt	222.3
Working Capital (\$M)	117.2
Current Ratio	1.2
Total Debt/Equity (%)	144
Payout ratio	0.5
Revenue (M) TTM	2899.0
Net Income (M) TTM	61.9
Net Margin	2.1%

Risk

Beta	0.53
Inst. ownership	7%

Valuation

P/E forward EPS	5.0
Price/Sales (TTM)	0.3
Price/Book (TTM)	2.4

Top Holders

Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A.
AXA Towarzystwo Funduszy Inwestycyjnych S.A.
NN Investment Partners International Holdings B.V.

Management

CEO	Mr. Siarhei Kostevitch
CFO	Mr. Marios Christou
CRO/IR	Mr. Constantinos Tziamalīs
Company website	www.asbis.com

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revenue estimate, below the average multiple of 0.4 for our group of global electronics-distribution peers. At current levels, the forward P/E multiple of 5.2-times is also well below the peer average of 15-times.

- * We believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 14 to our 2021 EPS estimate of 5.05 PLN (\$1.30), we arrive at a fair value estimate for ASB of approximately 70 PLN per share (\$18, applying a current 3.9:1 PLN to U.S. dollar exchange rate), well above current prices near 25 PLN (\$6.5).

INVESTMENT THESIS

Founded in 1990, Cyprus-based ASBISc Enterprises PLC specializes in the distribution of computer hardware and software, mobile solutions, and other IT products and digital equipment. ASBISc currently sells products in 56 countries. It purchases most of these products from leading technology manufacturers, including Apple, Intel, AMD, Samsung, Microsoft, Acer, Lenovo, and many others. As of mid-2021, ASBISc was the official distributor of Apple products in 11 countries of the former Soviet Union (FSU). ASBISc also generates revenue from the sale of private-label products, including Prestigio (tablets, external storage, GPS devices, car-DVRs, multiboards, etc.), Canyon (power banks, networking products, and other peripheral devices), and Perenio (IoT products, and building control and security systems). ASBISc has subsidiaries in 27 countries and approximately 20,000 customers worldwide.

Russia and other former Soviet Union countries accounted for 54.5% of revenue in 2020, and have accounted for more than half of revenue in recent years. Central and Eastern Europe (24.3%), Middle East and Africa (11.8%), Western Europe (7.2%), and Other (2.2%) accounted for the balance of 2020 sales. In 2020, sales growth exceeded the company average in four of these geographic markets: Western Europe (34.2%), Other (32.9%), Middle East and Africa (28.3%), Russia/former Soviet Union (25.9%). Only Central and Eastern Europe saw more-modest growth of 13.5%. In our view, ASBISc has established a strong presence in multiple fast-growing markets and is well positioned to source high-demand products thanks to its robust distribution network.

Although the pandemic caused widespread industry disruption in 2020, leading many businesses to close, ASBISc was able to meet customer needs for digital and remote connectivity technologies. We believe this is reflected in the company's positive revenue growth in all four quarters of 2020, including the difficult second quarter, when revenue rose 2%.

We believe that ASBISc benefits from the strong relationships it has developed with key IT vendors over the past 30 years, and from its presence in many emerging global markets. We expect demand for computer products in these markets to continue to grow rapidly, and see opportunities for the company to expand further in Africa and Asia.

ASBISc has a centralized distribution platform that allows for greater efficiency and lower transport costs, thus boosting margins. The company's two distribution centers in the Czech Republic and the United Arab Emirates receives products from vendors, and then distribute these products to individual countries. The company is also expanding warehouse space in Poland.

Margins have also benefited from the increase in online transactions, and from an automated system that coordinates supply-chain management activities. In 2020, ASBISc reported a gross margin of 5.8%, up from 5.4% in 2019 and the highest full-year GM since 2016. Gross margin in the first half of 2021 improved further, to 6.7%, as this metric continued to move closer to an average near 9% for our global technology distributor peer group.

Management sees the potential for additional margin growth through the sale of private-label products, which have higher margins than those of international suppliers. The company's private-label business includes tablets and other products sold under the Prestigio and Canyon names, and Perenio smart-home and smart-security sensors.

ASBISc is also pursuing new growth opportunities. In February 2021, the company announced the launch of a new subsidiary focused on the resale of Apple products. The unit purchases used Apple products in exchange for discounts on new purchases, and then resells the older products, which retain substantial value in secondary markets. As of May 2021, ASBISc operated 18 Apple product showrooms and planned to open two additional locations before the end of 2021. ASBISc expects the unit, which was funded with a modest initial \$1 million investment, to reach profitability in the second half of 2021.

In addition, during the second quarter of 2021, ASBISc announced the launch of the internally developed and manufactured Perenio Ionic Shield, a portable ion air diffuser. The device emits specific ionic compositions including magnesium, potassium, zinc, platinum and gold, and is designed to protect against known coronaviruses, including COVID-19. The product is being sold across key European markets. In addition, the company signed contracts for the distribution of motherboards and graphics cards with Biostar Microtech and expanded its presence in the business services sector by obtaining the title of a certified Partner of the NVIDIA HGX Platform.

RECENT DEVELOPMENTS

ASBISc shares trade on the Warsaw Stock Exchange (WSE) under the ticker ABS. In 2020, the stock rose 147%, compared to an 8% decline for the WIG 20 Index, which consists of the 20 largest companies on the WSE. Year-to-date, the stock has more-than tripled, up 209%, versus a 19% increase for the WIG 20.

In August 2021, ASBISc reported 2Q 2021 EPS of \$0.27, up from \$0.04 for the same period in 2020, and net profit of \$15.0 million, up from \$2.5 million during the second quarter of 2020. Revenue rose 79% to \$680 million, and first-half 2021 results showed 60% growth over the prior-year period, reflecting favorable annual comparisons due to the COVID-19 outbreak that took hold during the first half of 2020. During the first half of 2021, the company generated the largest portion of this revenue (29.1%) from smartphones. It generated 15.3% of revenue from CPUs and approximately 9.5% from laptops.

In March 2021, ASBISc issued guidance for the full year 2021, highlighted by revenues of \$2.7 billion-\$2.9 billion, which would represent 14%-22% growth, and net profit of \$47 million-\$51 million, which

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
ASBIS ENTERPRISES PLC*	WSE: ASB	25.00*	28.1*	4.72*	1380*	335	24	136	9.8	0.53	4.7
ARROW ELECTRONICS INC	NYSE: ARW	123.29	124.76	75.24	8811	57	-1	NM	16.6	1.54	NA
AVNET INC	NASDAQ: AVT	41.08	45.43	24.3	4094	49	-4	NM	NA	1.54	2.3
INSIGHT ENTERPRISES INC	NASDAQ: NSIT	102	107.27	52.63	3521	71	8	10	20.9	1.84	NA

* Stock Statistics in PLN

would represent growth of 29%-40%. In August 2021, ASBISc revised this guidance to revenue of \$2.9 billion-\$3.1 billion, which would represent 23%-31% growth, and net profit of \$71 million-\$74 million, which would represent growth of 95%-103%.

EARNINGS & GROWTH ANALYSIS

We forecast revenue of \$3.09 billion in 2021 and \$3.7 billion in 2022, representing growth of 31% and 20%, respectively. After the company reported 60% revenue growth in the first half of 2021, we expect its revenue growth rates will begin to moderate, due to more-normalized year-over-year comparators. Looking ahead, we expect the company to continue to diversify its revenue beyond the former Soviet Union countries, which have accounted for more than 50% of revenue in recent years. We also expect it to generate additional sales from the new Apple reselling business.

The company is emphasizing margin expansion over revenue growth, and appears on track to boost gross margins. It raised its gross margin by 40 basis points to 5.8% in 2020, and by nearly 90 basis points, to 6.7%, in the first half of 2021. We project gross margins of 6.9% and 7.1% in 2021 and 2022, respectively.

We also project SG&A expenses of \$106 million in 2021 and \$126 million in 2022. These estimates imply SG&A spending of approximately 3.4% of revenue in both years, consistent with recent periods.

We forecast EPS of \$1.30 in 2021 and \$1.70 in 2022, which would represent 97% and 31% growth, respectively. We note that ASBISc's business is seasonal, with higher revenue and earnings in the second half of the year due to back-to-school and holiday shopping.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating for ASBISc is Medium. The company had \$111.2 million in cash on its balance sheet as of June 30, 2021, down from \$158.9 million at December 31, 2020, which we attribute to seasonality in its cash flows across its business.

As of June 30, 2021, ASBISc had a current ratio of 1.2. This ratio has been stable since 2015 and is below the average of 1.7 for Technology Distributor peers. At the end of 2020, the total debt/capital ratio was 62%, above the peer average of 28%. However, we view the company's liquidity position as strong and underappreciated, as most of its balance sheet liabilities relate to short-term borrowing to help finance the expansion of inventory and product distribution.

We believe that the company's cash conversion metrics underscore the efficiency of its selling infrastructure and strong relationships with suppliers. The average cash conversion cycle was approximately 30 days as of December 31, 2020, well below the average of 42 days for peers. Average days sales outstanding (DSO) was 37 days, less than half the peer average of 78. Days sales of inventory (DSI) was 44.6 days, roughly in line with the peer average of 41.7, which we view as important given that tech products can quickly become obsolete as new products reach the market. Lastly, average days payable outstanding (DPO) was roughly 54 days, compared to 63 days for the peer group.

The weighted-average cost of debt (cash lines and factoring lines) was 8.0% in 2020, up from 7.6% in 2019, which management attributed in part to sanctions imposed on Russia and tensions in Ukraine. However, we note that ASBISc has negotiated improved terms with lenders, and expect continued favorable lending terms as its financial position strengthens.

Net cash inflows from operating activities in 2020 were \$49.3 million, up from \$29.5 million in 2019. Net cash outflows from investing activities were \$4.8 million, up from \$3.4 million. Net cash outflows from financing activities were \$1.8 million, compared to outflows of \$5.6 million in 2019.

In addition to investing in growth initiatives, ASBISc has focused on shareholder returns, which we view as a strong positive. It currently distributes up to 50% of net profits as dividends. It paid an interim dividend

of \$0.10 per share in December 2020 and announced a final dividend of \$0.20 to be paid in May 2021, for a total dividend of \$0.30 for 2020. That would imply a current dividend yield of approximately 4.7%. In 2019, ASBISc also began a share-repurchase program and bought back more than 300,000 shares. With liquidity supported by growing revenue, cash flow, and earnings, and access to borrowed capital, we believe that ASBISc is well capitalized for the foreseeable future.

MANAGEMENT & RISKS

Siarhei Kostevitch is the founder, president and CEO of ASBISc. Mr. Kostevitch received a Master's degree in radio engineering design at the Radio Engineering University of Minsk in 1987. Between 1987 and 1992, he worked at the Research Centre at the Radio Engineering University. Mr. Kostevitch, through KS Holdings, Ltd., holds approximately 37% of the company's shares and voting power.

ASBISc's board currently has six members. Although the board has only two independent directors, we note that these directors chair the company's audit and remuneration committees.

Risks for ASBISc include increased competition from both established companies and new entrants; economic and political developments that could impact business conditions in its major markets; periodic shortages of specific IT components, particularly semiconductors and microchips; and changes in foreign exchange rates. ASBISc's reporting currency is the U.S. dollar, which accounted for 45% of revenues in 2020, about 80% of trade payable balances, and approximately half of operating expenses. As such, a stronger U.S. dollar would lower revenue and gross profit, while a weaker U.S. dollar would have a positive impact on revenue and gross profit.

COMPANY DESCRIPTION

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VALUATION

In our view, ASBISc's current valuation remains compelling based on multiple metrics and does not fairly reflect the company's strong underlying fundamentals or its substantially raised guidance range. The company's recent market capitalization of approximately \$360 million (1.4 billion PLN) implies a multiple of approximately 0.1-times our 2021 revenue estimate, below the average multiple of 0.4 for our group of global electronics-distribution peers. The stock also trades at a trailing 2020 enterprise value/EBITDA multiple of 6.5, below the peer average of 9.4. Despite the stock more-than tripling year-to-date, ASBISc is currently trading at a forward P/E of 5.0-times, well below the peer average of 15-times.

We think that recent initiatives, including reselling Apple products and marketing innovative, internally developed products like the Perenio Ionic Shield, are likely to drive results that should enhance the company's reputation among investors over time. Further, we view the company's overall liquidity position as strong, as nearly all of its debt relates to short-term borrowing to help finance inventory purchases and product distribution. As such, its leverage profile is mitigated by the company's supply-chain efficiency and strong revenue and cash flow.

Based on these factors, we believe that ASBISc warrants a valuation closer to the industry average. Applying a slightly below-peer-average multiple of 14 to 2021 EPS of PLN 5.05, we arrive at a fair value estimate for ASB of 70 PLN per share (\$18), well above the current price near 25 PLN (\$6.5).

Steve Silver,
Argus Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2016	2017	2018	2019	2020	Q1 2021A	Q2 2021A	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	1137.7	1484.9	2069.6	1914.9	2366.4	733.4	680.1	775.1	898.7	3088.2	925.0	851.0	9065.0	1017.5	3700.0
Gross Profit	65.4	76.7	98.1	104.1	138.3					212.2					260.9
SG&A	45.2	52.3	68.7	71.1	81.6					106.1					126.0
R&D	NA	NA	NA	NA	NA					NA					NA
Operating Income	20.2	24.4	29.4	33.1	56.7					106					134.9
Interest Expense	-11.2	-12.8	-13.6	-12.7	-11.6					-17.2					-17.0
Pretax Income	6.3	10.2	15.5	19.4	44.7					90.0					118.2
Tax Rate (%)	23	23	21	19	18					20					20
Net Income	4.6	6.9	12.0	15.2	36.5					72.4					94.6
Diluted Shares	55.5	55.5	55.5	55.4	55.5					55.5					55.5
EPS	0.08	0.13	0.22	0.28	0.66	0.27	0.27	0.34	0.42	1.30	0.42	0.39	0.42	0.47	1.70
Dividend	0.03	0.06	0.10	0.14	0.20					0.30					0.30
Growth Rates (%)															
Revenue	-4	31	39	-7	24					31					20
Operating Income	NA	NA	20	13	71					87					27
Net Income	NA	NA	74	27	140					98					31
EPS	NA	NA	69	27	136					97					31
Valuation Analysis															
Price (PLN): High	NA	3.39	3.64	3.56	8.08					NA					NA
Price (PLN): Low	NA	2.24	2.34	2.05	1.77					NA					NA
PE: High	NA	NA	NA	NA	NA					NA					NA
PE: Low	NA	NA	NA	NA	NA					NA					NA
PS: High	NA	NA	NA	NA	NA					NA					NA
PS: Low	NA	NA	NA	NA	NA					NA					NA
Yield: High	NA	NA	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL)															
Cash	33.4	93.4	101.4	103.7	158.9					NA					NA
Working Capital	59.1	66.7	70.7	79.4	105.3					NA					NA
Current Ratio	1.2	1.2	1.2	1.2	1.2					NA					NA
LTDebt/Equity (%)	1.4	0.2	0.1	3.1	4.2					NA					NA
Total Debt/Equity (%)	116	145	148	129	161					NA					NA
Ratio Analysis															
Gross Profit Margin	5.7%	5.2%	4.7%	5.4%	5.8%					6.9%					7.1%
Operating Margin	1.8%	1.6%	1.4%	1.7%	2.4%					3.4%					3.6%
Net Margin	NA	0.5%	0.6%	0.8%	1.5%					2.3%					2.6%
Return on Assets (%)	3.2	3	3.6	3.6	5.0					NA					NA
Return on Equity (%)	5.5	7.7	12.4	14.7	30.0					NA					NA
Op Inc/Int Exp	1.8	1.9	2.2	2.6	4.9					6.2					7.9
Div Payout	0.38	0.46	0.45	0.50	0.45					NA					NA

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