

Robust H120, set for continued growth in H220

In its H120 results, 4iG reported net revenues of HUF20.2bn, an increase of 39% on H119. EBITDA increased 35% to HUF1.4bn, with EBITDA margins falling slightly from 6.9% to 6.7%. H120 net income rose 34% from H119 to HUF0.8bn, with EPS of HUF8.5 (H119: HUF6.3). As well as the impact of COVID-19, the weaker margins in H120 also reflect increased personnel costs, which almost doubled to HUF3.9bn (H119: HUF2.0bn), with headcount increasing to 644 (FY19: 594). 4iG's H120 revenues, together with an FY20 order book of HUF20.8bn, mean management continues to hold its 20% revenue growth guidance for FY20 ahead of the seasonally stronger H2. We maintain our estimates.

Year end	Revenue (HUFbn)	PBT* (HUFbn)	Adjusted EPS* (HUF)	DPS (HUF)	P/E (x)	Yield (%)
12/18	14.0	0.2	1.1	0.0	N/M	N/A
12/19	41.1	3.3	31.1	22.0	19.6	3.6
12/20e	49.1	3.4	31.1	22.0	19.6	3.6
12/21e	58.9	4.8	43.9	31.0	13.9	5.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H120: Robust performance despite COVID-19

4iG's net revenues of HUF20.2bn represent organic growth of 39% on H119 (HUF14.5bn). Gross profits increased 74% to HUF6.2bn (H119: HUF3.6bn), with increased gross margins of 30% (H119: 24%) reflecting a greater balance of IT Services (notably outsourcing and development) in the revenue mix. EBITDA rose 35% to HUF1.4bn (H119: HUF1.0bn), with EBITDA margins falling slightly from 6.9% to 6.7% (below 4iG's medium-term target of 8–10%). H120 net income was HUF0.8bn vs HUF0.6bn in H119, up 34%, with EPS of HUF8.5 (H119: HUF6.3). Net cash fell to zero from HUF1.3bn at Q120. 4iG reported an FY20 contracted order book of HUF20.8bn.

Outlook: Set for continuing growth

4iG has weathered the initial onset of COVID-19 and delivered a solid set of H120 results, with like-for-like revenue growth of 39% and EBITDA growth of 35%. The company has continued to increase headcount and has invested in new IT and CRM systems to deliver further group efficiencies. Encouragingly, recurring revenues have increased from 10% in FY19 to 16% in H120. Gross profit margins have held up well, but due to personnel costs, EBITDA margins are below target at 6.7% against our estimates for FY20 of 8.5% and management's medium-term target of 8–10%.

Valuation: FY21 discount to peers, 3.6% yield

Management anticipates revenue growth of c 20% in FY20, and 10% FY21-22, as 4iG consolidates its market leadership in Hungary. Looking at 4iG's FY21 P/E of 13.9x and given the stock remains at a meaningful discount to its European and regional peers, in our view, 4iG's valuation does not reflect the growth prospects for the business. The shares are also offer an attractive 3.6% dividend yield.

IT services

2 September 2020
Price **HUF608**
Market cap **HUF55.4bn**

HUF355/€

Net debt (HUFbn) at end H120 0.0

Shares in issue 91.1m

Free float 36.1%

Code 4iG

Primary exchange Budapest

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.3 (12.3) (32.8)

Rel (local) 1.7 (8.8) (22.7)

52-week high/low HUF978.0 HUF296.0

Business description

4iG is one of the leading IT services and systems integrators in Hungary, working with public sector clients, large corporates and SMEs. Management is focused on becoming the market leader in Hungary by FY22 as well as targeting expansion in Central and Eastern Europe.

Next events

TBC trading update Dec 2020

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H120 interim results

Robust performance despite COVID-19 headwind

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In terms of cash flow, the group reported a net outflow from operating activities of HUF3.0bn (H119: net inflow of HUF4.1bn) with a large swing in trade creditors as the principal reason for the change (H120: HUF4.6bn outflow vs H119: HUF7.7bn inflow). The group reported a reduction in net cash from HUF1.3bn to HUF0.0bn. In April, the board approved an FY19 dividend payment of HUF22 per share (a yield of 3.6%), payable in September 2020.

Exhibit 1: Key financials

HUFbn	FY19	H119	H120	FY20e
Gross revenues*				
IT Services	11.1	2.6	8.3	12.8
– y-o-y growth	73%	2%	217%	15%
Commerce	29.9	11.9	11.9	36.2
– y-o-y growth	292%	211%	0%	21%
Other	0.5	0.2	0.1	0.5
– y-o-y growth	8%	92%	(44)%	10%
Total	41.5	14.7	20.3	49.5
Gross profits				
IT Services	7.1	1.6	4.2	8.3
Commerce	3.9	1.9	2.0	6.3
Other	0.0	0.0	0.0	0.2
Total	11.0	3.6	6.2	14.8
Gross margins				
IT Services	63.9%	62.6%	50.7%	64.7%
Commerce	13.0%	16.1%	16.9%	17.5%
Other	1.6%	0.4%	(45.8)%	32.4%
Total	26.5%	24.2%	30.4%	29.8%
EBITDA	4.1	1.0	1.4	4.2
% margin	9.9%	6.9%	6.7%	8.5%
Normalised operating profit	3.4	0.7	1.0	3.4
% margin	8.2%	4.9%	4.9%	6.9%
% effective tax rate (normalised basis)	15%	18%	22%	13%
EPS – basic normalised (HUF)	31.9	6.3	8.5	31.8
– y-o-y growth	2,763%	N/A	35%	0%

Source: 4iG, Edison Investment Research. Note: *Revenues on a gross basis including value of goods resold.

Operational developments

After a period of significant growth, with profits almost tripling in FY19 to HUF4.1bn, 4iG completed a small reorganisation of the business, the benefits of which are expected to be seen in the full year results. As well as investment in personnel and a structural reorganisation, this included an upgrade of the group's CRM and project management system to a cloud-based platform, ServiceNow. 4iG

also established a dedicated automation group to focus on automation of technical and operational support tasks.

4iG's strategic goals remain to develop its presence in software driven IT segments, such as industry 4.0, fintech, blockchain, artificial intelligence, data communication, as well as other bespoke solutions.

Key developments: M&A, JV and reassuring EU budget

As we have previously reported, in July 2020 Gellért Jászai (chairman and CEO) acquired the shares held by Lőrinc Mészáros, a related party, taking his stake to 63.9% of the equity (ex treasury shares), underlining his commitment to the company. The free float remains at 36.1%.

In July, as part of its ongoing buy-and-build strategy, 4iG acquired TR Consult (TRC) (consideration undisclosed), a specialist IT consultancy focused on the cybersecurity sector, with revenues of c €2m (HUF0.7bn). In August, 4iG announced the formation of CarpathiaSat Hungarian Space Telecommunications Corporation, a JV formed between 4iG (51%), Antenna Hungária (44%) and New Space Industries (4%) to launch and operate Hungary's first geostationary satellite for a period of 20 years from 2024, for commercial, government and scientific research purposes.

In Q120, 4iG was awarded 'ICT company of the year 2019' at the IT Business & Technology conference. 4iG also received recognition from its strategic partners, Dell (Premier Partner) and Hewlett Packard Enterprise (Central European 'As-a-Service Partner of the Year 2020').

In July 2020, EU leaders agreed the next long-term EU budget cycle for 2021–27, worth €1.1tn over the period. The budget supports investment in the digital and green transitions and, among other aims, provides continuity to the current EU funding package supporting Hungary's ongoing digital transformation, to the benefit of the Hungarian ITC ecosystem. The Hungarian market is a relative digital laggard in Europe and has therefore attracted EU funds over the past five years to help transition the economy online.

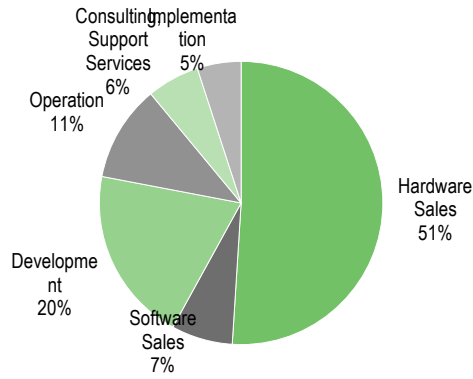
Segmental analysis: Strength in outsourcing and development

Although absolute revenues were broadly flat for hardware and software sales collectively (IT reselling - Commerce segment in Exhibit 1) compared to H119 (HUF11.9bn), as a proportion of total revenues reselling fell from 73% of FY19 revenues to 58% of H120 revenues. Altogether sales in the segment were more heavily weighted towards Q120 (breakdown not disclosed) as companies provided employees with equipment and infrastructure for effective remote working with the onset of COVID-19. Thereafter companies postponed further hardware and software investment, affecting Q2 growth in reselling.

Software development showed the strongest growth in H120, rising from HUF0.9bn in H119 to HUF4.0bn in H120, largely unaffected by the pandemic, with development projects delivered remotely through online delivery and collaboration tools. 4iG also secured a number of long-term outsourcing contracts in FY19, leading to H120 outsourcing revenues climbing from HUF1.1bn in H119 to HUF2.1bn in H120. Other revenue also increased from HUF0.6bn in H119 to HUF2.1bn in H120, driven by significant FY19 customer wins in support services, infrastructure development and consultancy work.

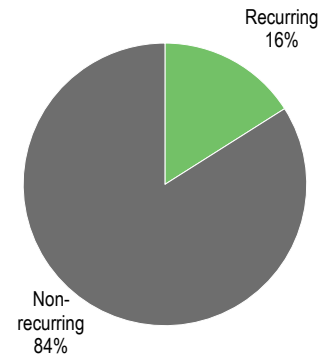
Importantly, revenue visibility continues to improve, with the proportion of recurring revenues continuing to grow from 10% in FY19 to 16% in H120.

Exhibit 2: Breakdown by service line



Source: 4iG

Exhibit 3: Recurring revenues

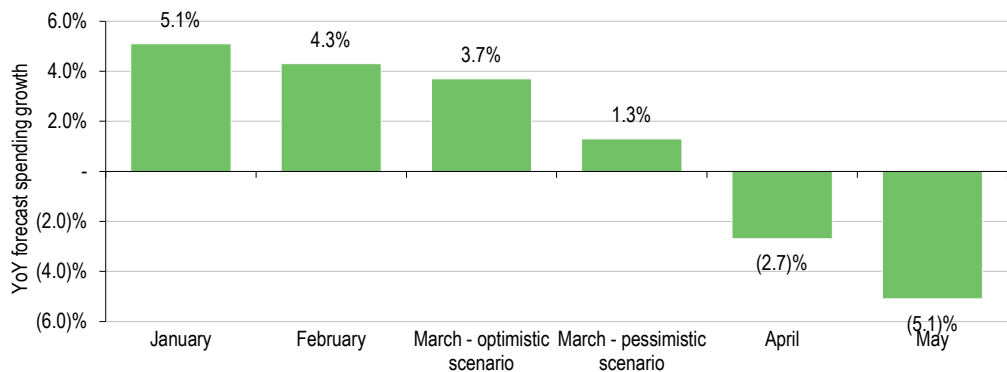


Source: 4iG

Falling global IT sector growth forecasts

The [COVID-19](#) pandemic has led to revised growth forecasts for global IT spending. Latest Statista forecasts show the global IT industry declining by 5.1% in 2020 compared to 2019, reflecting an increasing decline as the pandemic has progressed. An important point to note is that at the start of the year, the industry was expecting growth of 5.1% and is now anticipating a 5.1% slowdown, a negative swing of 10.2%

Exhibit 4: Year-on-year FY20 IT industry growth forecasts – the impact of COVID-19



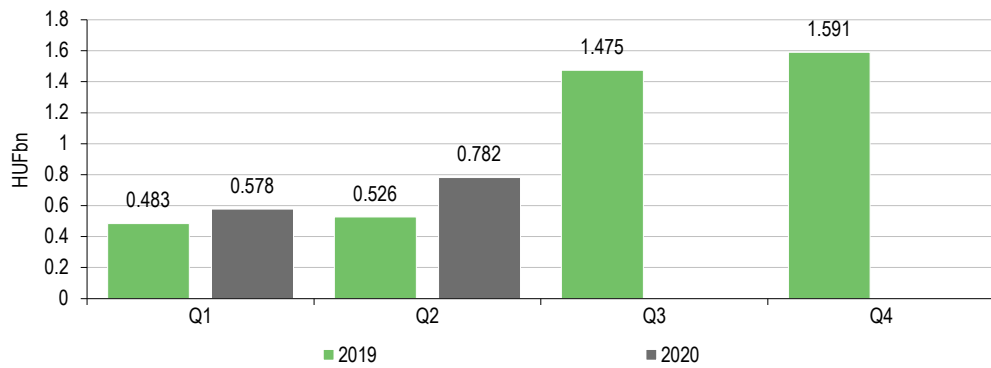
Source: Statista.com – 28 August 2020

Outlook: Prospects underpinned by strong growth

4iG has weathered the initial onset of COVID-19 and delivered a solid set of H120 results, with like-for-like revenue growth of 39% and EBITDA growth of 35%. The company has continued to increase headcount and has invested in new IT and CRM systems to deliver further group efficiencies. Reselling slowed in Q220, but the breadth of the group has meant that software development and outsourcing have continued as the drivers of group revenue growth. Encouragingly, recurring revenues have increased from 10% in FY19 to 16% in H120. Gross profit margins have held up well, but investment in personnel and the upgrading of IT and CRM systems has meant that EBITDA margins have remained below target at 6.7%, versus management's medium-term target of 8–10% and our estimates for FY20 of 8.5%.

Revenues remain significantly H2-weighted (typically c 60%) and in 2019, H2 EBITDA represented c 75% of FY19 EBITDA. Quarterly EBITDA in FY20 continues to track ahead of FY19 comparators.

Exhibit 5: Quarterly EBITDA breakdown – FY20 vs FY19



Source: 4iG

Management reported an FY20 contracted order book of HUF20.8bn at the middle of August 2020, which, together with H120 revenues of HUF20.2bn, means the business remains well placed to achieve its FY20 revenue target. In this context, management continues to hold its revenue growth guidance of 20% for FY20, with management also targeting EBITDA margins of 8–10% in the medium term. Given the H2 weighting of the business, we believe there is a solid basis for continuing growth for 4iG in H220 and beyond and we continue to hold our FY20 estimates.

Exhibit 6: Financial summary

	HUFm	2018	2019	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		14,007	41,129	49,083	58,881	68,467
Cost of Sales		(8,938)	(30,126)	(34,322)	(41,183)	(47,625)
Gross Profit		5,070	11,003	14,761	17,699	20,842
EBITDA		842	4,075	4,152	5,631	7,726
Normalised operating profit		240	3,362	3,380	4,792	6,811
Amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		240	3,362	3,380	4,792	6,811
Net Interest		(21)	(18)	(22)	2	31
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		219	3,344	3,358	4,794	6,843
Profit Before Tax (reported)		219	3,344	3,358	4,794	6,843
Reported tax		(117)	(488)	(437)	(671)	(1,026)
Profit After Tax (norm)		102	2,857	2,921	4,123	5,816
Profit After Tax (reported)		102	2,857	2,921	4,123	5,816
Minority interests		0	66	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		102	2,922	2,921	4,123	5,816
Net income (reported)		102	2,922	2,921	4,123	5,816
Basic average number of shares outstanding (m)		91.6	91.7	91.8	91.8	91.8
EPS - basic normalised (HUF)		1.11	31.87	31.84	44.93	63.39
EPS - diluted normalised (HUF)		1.08	31.09	31.08	43.86	61.87
EPS - basic reported (HUF)		1.11	31.87	31.84	44.93	63.39
Dividend (HUF)		0.00	22.00	22.00	31.00	44.00
Revenue growth (%)		-17.2	193.6	19.3	20.0	16.3
Gross Margin (%)		36.2	26.8	30.1	30.1	30.4
EBITDA Margin (%)		6.0	9.9	8.5	9.6	11.3
Normalised Operating Margin		1.7	8.2	6.9	8.1	9.9
BALANCE SHEET						
Fixed Assets		1,571	1,948	2,079	2,274	2,527
Intangible Assets		1,221	1,525	1,440	1,375	1,335
Tangible Assets		140	322	539	798	1,092
Investments & other		210	101	101	101	101
Current Assets		6,824	22,161	23,078	27,389	32,362
Stocks		242	523	686	824	953
Debtors		4,306	12,892	13,498	16,192	18,829
Cash & cash equivalents		176	6,238	6,386	7,865	10,073
Other		2,101	2,508	2,508	2,508	2,508
Current Liabilities		(5,652)	(17,861)	(18,006)	(20,408)	(22,662)
Creditors		(3,894)	(16,361)	(16,765)	(19,166)	(21,421)
Tax and social security		0	0	0	0	0
Short term borrowings		(1,758)	(1,500)	(1,242)	(1,242)	(1,242)
Other		0	0	0	0	0
Long Term Liabilities		(18)	(57)	(57)	(57)	(57)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(18)	(57)	(57)	(57)	(57)
Net Assets		2,725	6,192	7,095	9,199	12,171
Minority interests		0	64	64	64	64
Shareholders' equity		2,725	6,255	7,158	9,262	12,234
CASH FLOW						
Op Cash Flow before WC and tax		842	4,075	4,152	5,631	7,726
Working capital		(1,360)	3,231	(366)	(430)	(510)
Exceptional & other		(26)	(5)	0	0	0
Tax		(117)	(415)	(437)	(671)	(1,026)
Net operating cash flow		(661)	6,886	3,350	4,530	6,190
Capex		(120)	(1,471)	(903)	(1,034)	(1,168)
Acquisitions/disposals		0	3	0	0	0
Net interest		(11)	(13)	(22)	2	31
Equity financing		0	185	0	0	0
Dividends		0	0	(2,019)	(2,019)	(2,844)
Other		(3)	36	0	0	0
Net Cash Flow		(795)	5,626	406	1,479	2,209
Opening net debt/(cash)		792	1,587	(4,039)	(4,445)	(5,924)
FX		0	0	0	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		1,587	(4,039)	(4,445)	(5,924)	(8,133)

Source: 4iG accounts, Edison Investment Research

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