

Strong Q4 helps 4iG beat FY20 estimates

After its seasonally strong final quarter, 4iG reported FY20 net revenues of HUF57.3bn, a 39% increase on FY19 and 6% ahead of our upgraded estimates following 4iG's Q3 report. FY20 EBITDA rose 24% to HUF5.1bn, up 24% y-o-y, with a higher than expected margin of 8.8% (Edison estimate 8.1%). PAT rose 21% to HUF3.4bn. 4iG reported minimal financial impact from COVID-19, with some segments of its business even benefiting (XaaS, security, home working). The group completed four transactions in H220, with a further deal announced post period end, which, together, are expected to add c HUF10bn of revenues to FY21 and HUF3.5bn+ of EBITDA. However, with the HDT deal yet to complete and without firm figures, we will wait until the full results to update our estimates. 4iG has also flagged a potential HUF15bn bond issue in FY21 to fund future M&A.

Year end	Revenue (HUFbn)	PBT* (HUFbn)	EPS* (HUF)	DPS (HUF)	P/E (x)	Yield (%)
12/19	41.1	3.3	31.5	22.0	20.7	3.4
12/20	57.3	4.2	36.3	24.0	18.0	3.7
12/21e	62.1	4.6	43.1	28.0	15.1	4.3
12/22e	70.3	5.9	54.2	35.0	12.1	5.4

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

FY20: Strong momentum carried through Q420

4iG confirmed a notably strong Q420, with revenues up 74% from Q320 (48% y-o-y growth), driving FY20 revenues to HUF57.3bn, a 39% y-o-y increase. EBITDA rose 24% to HUF5.1bn, up 24% y-o-y (FY19: HUF4.1bn) with PAT up 21% to HUF3.4bn. 4iG reported no perceptible slowdown in the Hungarian IT and ICT sectors in FY20 due to COVID-19. The pandemic acted as a catalyst to certain market segments, accelerating the digital transformation in both private and public sectors, with increased demand for home-working and cybersecurity solutions.

M&A upside yet to be factored into our estimates

We understand that the four transactions completed in H220, plus the acquisition of Hungaro DigiTel (HDT), on completion, should add more than HUF10bn of revenues to FY21e and c HUF3.5bn of EBITDA. However, with limited detail on the financials of the acquired businesses or the consideration paid by the company, we have not yet explicitly factored these acquisitions into our financial model. We propose to review our estimates once the full FY20 results become available. 4iG has also flagged an expected HUF15bn bond issue to support M&A in FY21.

Valuation: FY21 discount to peers, 4.3% yield

The 4iG story remains one of growth and consolidation, following 4iG's strong FY20 and with management guidance of 10%+ revenue growth in the medium term as 4iG consolidates market leadership in Hungary. Our current estimates indicate an FY21e P/E of 15.1x and an attractive 4.3% dividend yield. At this rating, the stock remains at a meaningful discount to its European and regional peers with further upside potential as growth is fuelled by an active M&A agenda.

IT services

4 March 2021

Price **HUF653**

Market cap **HUF60.3bn**

HUF365/€

Net cash (HUFbn) at 31 December 2021 3.2

Shares in issue 92.3m

Free float 37.1%

Code 4iG

Primary exchange Budapest

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (1.7) 1.6 13.0

Rel (local) (0.8) (9.8) 12.3

52-week high/low HUF707 HUF296

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

Full FY20 results April 2021

AGM April 2021

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FY20 preliminary results

Momentum maintained in Q420

Despite the far-reaching impact of the COVID-19 pandemic, 4iG reported no perceptible slowdown in the Hungarian IT and ICT sectors in FY20. The pandemic even acted as a catalyst in certain segments, accelerating the digital transformation in both private and public sectors, with increased demand for home-working and cybersecurity solutions. With a flexible operating model, 4iG was able to respond effectively to the operational challenges of the pandemic, allowing it to sustain growth across its main areas of strategic focus in FY20.

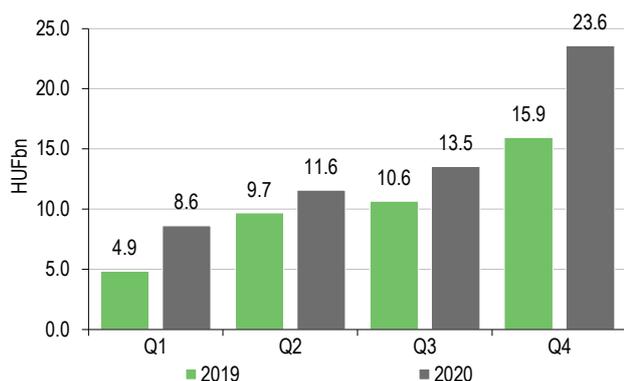
Exhibit 1: FY20 actuals versus Edison estimates

HUFm	2019	2020e	2020	FY20	Y-o-y
	Actual	Edison	Actual	Variance	Growth
Revenues	41,129	53,988	57,284	6%	39%
Gross profit	11,003	16,297	15,885	(3)%	44%
Gross margin	26.8%	30.2%	27.7%	(2)%	
EBITDA	4,075	4,389	5,051	15%	24%
EBITDA margin	9.9%	8.1%	8.8%	8%	
Normalised PBT	3,314	3,594	4,155	16%	25%
Normalised net income	2,893	3,127	3,341	7%	15%
Normalised basic EPS (HUF)	31.5	34.2	36.3	6%	15%
Normalised diluted EPS (HUF)	30.8	34.2	37.1	8%	21%
Net debt/(cash)	(4,039)	1,127	(3,159)		

Source: 4iG, Edison Investment Research

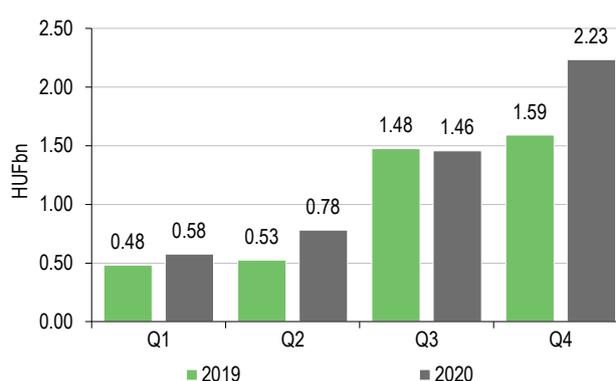
4iG confirmed a notably strong Q420, with an unusual volume of contracts signed as businesses and government adjusted to the impact of COVID-19. Q420 revenues were up 74% from Q320 (48% y-o-y), driving FY20 revenues to HUF57.3bn, a 39% increase on FY19 (HUF41.1bn). EBITDA rose 24% to HUF5.1bn, a 24% y-o-y increase (FY19: HUF4.1bn) and PAT rose 21% to HUF3.4bn. On a quarterly basis, EBITDA rose 40% from Q320 and 53% y-o-y to HUF2.2bn.

Exhibit 2: Quarterly revenues FY20 vs FY19



Source: 4iG

Exhibit 3: Quarterly EBITDA FY20 vs FY19



Source: 4iG

M&A: Four transactions in H220, another after year end

4iG continues to consolidate a fragmented market, targeting smaller players with an attractive client base or sector focus and a proven track record to support the company's growth and build out its headcount and capabilities.

4iG's headcount increased significantly over the course of the year, driven principally by the four acquisitions announced in H220. Headcount increased from just over 600 employees at the start of

the year to almost 700 staff by 30 September 2020, including more than 500 technical engineers, reaching a headcount of 924 (including contractors) by 31 December 2020.

As well as the most recent acquisition of HDT (subject to regulatory approval) announced in February 2021, 4iG completed the acquisition of DTSM in Q420, adding to the three transactions completed in Q320 ([TRC](#), the [CarpathiaSat JV](#) and INNObyte).

Preliminary agreement to acquire 75% of the shares of Hungaro DigiTel

In February 2021, 4iG announced a preliminary agreement with Antenna Hungárai Zrt. (AH) and Portuguese Telecommunication Investments Kft. (PTI) to acquire a 75% majority holding in HDT. Under the agreement, 4iG will acquire a 25% holding in HDT from AH and a 50% holding from PTI, with the remaining 25% being retained by AH. AH is a state-owned telecoms and broadcasting company and an existing partner to 4iG in CarpathiaSat. PTI is a portfolio company of a private equity group, Alpac Capital.

HDT is the market leading telecoms service provider in Hungary and one of the leading telecoms businesses in the region, providing VSAT and satellite broadcasting services. Its annual turnover was HUF5.2bn in 2020 (c €14.4m), with EBITDA of HUF3.1bn (c €8.6m). Its customers include major private sector businesses (banks, TV companies) as well as public sector customers. HDT has 45 employees. The deal is expected to be funded by a combination of debt and equity.

While there is no total clarity at present on how this acquisition will fit into the company's business model, following the establishment of CarpathiaSat (announced in August 2020), it represents the development of an important strategic partnership between 4iG and AH, to jointly develop digital satellite technologies and address both domestic and international telecoms opportunities. HDT will be a joint vehicle for these ambitions as well as for future partnership opportunities.

The transaction is conditional on regulatory approval, and is expected to complete in H121.

On completion of the acquisition of HDT, we understand that the five transactions together should add HUF10bn+ of revenues to FY21 and c HUF3.5bn of EBITDA. However, with limited details on the financials of the acquired businesses or the consideration paid by the company, we have not yet explicitly factored these acquisitions into our financial model and await more details from the company. We propose to review our estimates once the full FY20 results become available.

Outlook: HUF15bn bond issue to fund future M&A

With the Hungarian market still very fragmented and with not all IT services companies performing as strongly as 4iG, management continues to review M&A opportunities. The signs are that 4iG will continue to acquire opportunistically in FY21, having announced its participation in Magyar Nemzeti Bank's Funding for Growth Scheme, to support the issue of a HUF15bn bond in FY21. 4iG had net cash of HUF3.2bn as at 31 December 2020.

Exhibit 4: Financial summary

	HUFm	2018	2019	2020	2021e	2022e
Year ending 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		14,007	41,129	57,284	62,076	70,261
Cost of Sales		(8,938)	(30,126)	(41,399)	(43,170)	(48,622)
Gross Profit		5,070	11,003	15,885	18,907	21,638
EBITDA		842	4,075	5,051	5,614	6,955
Normalised operating profit		240	3,332	4,215	4,775	6,041
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	3,332	4,215	4,775	6,041
Net Interest		(21)	(18)	(60)	(142)	(157)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		219	3,314	4,155	4,632	5,883
Profit Before Tax (reported)		219	3,314	4,155	4,632	5,883
Reported tax		(117)	(488)	(741)	(649)	(882)
Profit After Tax (norm)		102	2,827	3,414	3,984	5,001
Profit After Tax (reported)		102	2,827	3,414	3,984	5,001
Minority interests		0	66	(73)	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		102	2,893	3,341	3,984	5,001
Net income (reported)		102	2,893	3,341	3,984	5,001
Basic average number of shares outstanding (m)		91.6	91.7	92.0	92.3	92.3
EPS - basic normalised (HUF)		1.11	31.54	36.30	43.15	54.16
EPS - diluted normalised (HUF)		1.08	30.77	35.54	42.38	53.20
EPS - basic reported (HUF)		1.11	30.82	37.09	43.15	54.16
Dividend (HUF)		0.00	22.00	24.00	28.00	35.00
Revenue growth (%)		(17.2)	193.6	39.3	8.4	13.2
Gross Margin (%)		36.2	26.8	27.7	30.5	30.8
EBITDA Margin (%)		6.0	9.9	8.8	9.0	9.9
Normalised Operating Margin		1.7	8.1	7.4	7.7	8.6
BALANCE SHEET						
Fixed Assets		1,571	1,948	3,757	6,223	8,093
Intangible Assets		1,221	1,525	2,752	4,881	6,442
Tangible Assets		140	322	781	1,119	1,427
Investments & other		210	101	223	223	223
Current Assets		6,824	22,161	33,925	30,310	32,764
Stocks		242	523	3,386	863	972
Debtors		4,306	12,892	17,407	17,071	19,322
Cash & cash equivalents		176	6,238	7,205	6,449	6,544
Other		2,101	2,508	5,926	5,926	5,926
Current Liabilities		(5,657)	(18,225)	(29,131)	(25,426)	(27,334)
Creditors		(3,894)	(16,361)	(25,648)	(21,943)	(23,851)
Tax and social security		0	0	0	0	0
Short term borrowings		(1,758)	(1,500)	(3,018)	(3,018)	(3,018)
Other (including finance lease liabilities)		(5)	(364)	(465)	(465)	(465)
Long Term Liabilities		(18)	(392)	(1,109)	(1,109)	(1,109)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(18)	(392)	(1,109)	(1,109)	(1,109)
Net Assets		2,720	5,493	7,441	9,998	12,414
Minority interests		0	64	(191)	64	64
Shareholders' equity		2,720	5,556	7,251	10,062	12,478
CASH FLOW						
Op Cash Flow before WC and tax		842	4,075	5,051	5,614	6,955
Working capital		(1,369)	3,587	(1,126)	(846)	(451)
Exceptional & other		(26)	(5)	(3)	0	0
Tax		(117)	(415)	(776)	(649)	(882)
Net operating cash flow		(671)	7,243	3,313	4,119	5,622
Capex		(120)	(1,471)	(2,522)	(2,516)	(2,784)
Acquisitions/disposals		0	3	206	0	0
Net interest		(11)	(13)	(39)	(142)	(157)
Equity financing		0	185	354	0	0
Equity financing		9	(356)	(104)	0	0
Dividends		0	0	(2,000)	(2,216)	(2,585)
Other		(3)	36	(88)	0	0
Net Cash Flow		(795)	5,626	(880)	(755)	95
Opening net debt/(cash)		792	1,587	(4,039)	(3,159)	(2,404)
FX		0	0	0	0	0
Other non-cash movements		0	0	0	0	0
Closing net debt/(cash)		1,587	(4,039)	(3,159)	(2,404)	(2,498)

Source: 4iG accounts, Edison Investment Research

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