

IMS - Buy

Target Price: PLN 3.54 | Close as of 27/05/2021: PLN 3.40

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1Q21 with no major surprise, promising May (NEUTRAL)

IMS released 1Q21 financials with following highlights:

- **Sales** of PLN 7.2mn (-31% y/y) vs PLN 7.6mn expected by us
- **EBITDA** of PLN 1.8mn (-37% y/y and -28% q/q) vs PLN 1.6mn forecasted by us
- **Net loss** of PLN 0.05mn (vs net profit of PLN 0.94mn a year ago) vs PLN 0mn expected by us
- **FCF** of PLN 0.1mn (vs PLN 2.7mn a year ago)
- **ND/EBITDA** of 0.9x (vs 0.6x a year ago)
- **Cash** of PLN 2.7mn (vs PLN 1.3mn a year ago)
- **# of employees** amounted to 49 (vs 55 a year ago)
- **Number of subscription locations** amounted to 19.9k (-0.2k y/y) – vs 20.3k expected by us // **May forecast – 20.8k (according to IMS)**

Exp. 1Q21									
P & L (PLN mn)	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q	Erste	diff
Revenue	10.41	6.51	8.91	10.66	7.16	-31%	-33%	7.6	-6%
Operating expenses	9.17	5.59	7.63	9.48	7.36	-20%	-22%	7.6	-3%
Profit (loss) on sales	1.35	0.90	1.30	1.36	-0.19				
Other operating revenues/exp	0.03	-0.13	0.16	-0.37	0.30				
EBITDA	2.78	2.21	3.02	2.43	1.75	-37%	-28%	1.6	9%
EBIT	1.38	0.77	1.46	1.00	0.11	-92%	-89%	0.1	10%
Financial activity, net	-0.24	-0.08	-0.09	-0.38	-0.13				
EBT	1.14	0.69	1.38	0.62	-0.02				
Income tax	0.25	0.04	0.20	0.17	0.05				
Net profit after minorities	0.94	0.48	1.18	0.51	-0.05		-109%	0.0	
Margins	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q		
Profit (loss) on sales	13.0%	13.8%	14.6%	12.8%	-2.7%	-15.7 pp	-15.4 pp		
EBITDA	26.7%	34.0%	33.8%	22.8%	24.4%	-2.3 pp	1.6 pp		
EBIT	13.2%	11.8%	16.4%	9.3%	1.5%	-11.7 pp	-7.8 pp		
EBT	11.0%	10.6%	15.4%	5.8%	-0.2%	-11.2 pp	-6 pp		
Net profit after minorities	9.0%	7.4%	13.2%	4.7%	-0.6%	-9.6 pp	-5.4 pp		

Source: Factset, Erste Group Research

OPINION: NEUTRAL

IMS reported 1Q21 key PnL lines being almost in line with our expectations. Adjusted EBITDA (0.3mn obtained from government support) would amount to PLN 1.5mn (vs PLN 1.6mn forecasted by us). Lower number of subscription location (19.9k or -0.2k y/y and -0.3k q/q) due to lockdown measures in 1Q21 may look worryingly at the first sight, but fortunately IMS provided May update, indicating growth up to 20.8k locations (YTD increase above the additions in the whole 2020).

To the positive side we see:

- Virtually stable margins in key segments (audio & aroma) despite 14%/34% sales decline y/y
- 19% y/y decrease of net debt (amounting to PLN 8.3mn as of 1Q21)
- 1.1k y/y growth of audio subscription locations (of which 0.8k q/q) – combined with proposed acquisition of Audio Marketing, budget segment should strengthen further

On the flip side:

- Weak FCF of PLN 0.1mn (vs PLN 2.7mn a year ago)
- Margin deterioration in digital signage systems (down to 21% from 51% a year ago)

Going forward, reopening of shopping malls should support top line rebound in 2Q and 3Q of 2021, whereas progressive commercialization of own musical compositions is likely to support profitability in audio segment.

BS and CF	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q
Receivables	9.1	7.5	8.0	7.3	5.4	-41%	-26%
Cash	1.3	4.0	1.1	2.0	2.7	98%	32%
Equity	19.3	19.8	19.5	20.0	20.5	6%	3%
Total assets	48.4	48.5	44.9	46.0	44.4	-8%	-3%
net debt	10.2	8.3	10.4	8.9	8.3	-19%	-7%
net debt/EBITDA LTM	0.6	0.5	0.7	0.8	0.9		
OCF	3.0	2.6	0.3	4.5	1.1	-64%	-75%
CAPEX	-0.4	-0.5	-0.6	-2.4	-1.0	176%	-58%
FCF	2.7	2.1	-0.3	2.1	0.1	-97%	-96%
Sales split by segments	1Q20	2Q20	3Q20	4Q20	1Q21	y/y	q/q
Audio & video subscriptions	4.9	4.0	4.8	4.6	4.2	-14%	-8%
share (%)	47%	61%	53%	43%	59%		
Aroma subscriptions	2.0	1.4	1.8	1.4	1.3	-34%	-9%
share (%)	19%	22%	20%	13%	18%		
Audio & video ad services	2.8	0.7	1.7	2.5	1.2	-57%	-53%
share (%)	27%	11%	19%	24%	17%		
Digital Signage systems	0.3	0.2	0.4	1.6	0.1	-49%	-91%
share (%)	3%	2%	5%	15%	2%		
Others	0.4	0.3	0.2	0.6	0.3	-21%	-52%
Result on segment							
Audio & video subscriptions	3.7	2.8	3.3	3.4	2.9	-23%	-15%
margin (%)	62%	59%	59%	65%	60%		
Aroma subscriptions	1.2	0.9	1.1	0.6	0.8	-34%	42%
margin (%)	56%	56%	56%	35%	54%		
Audio & video ad services	1.7	0.3	0.9	1.6	0.7	-60%	-57%
margin (%)	62%	42%	54%	62%	57%		
Digital Signage systems	0.1	0.0	0.2	0.1	0.0	-79%	-79%
margin (%)	51%	22%	53%	9%	21%		
Others	0.1	0.2	-0.1	0.1	0.0		
Subscriptions							
# of locations, of which:	20 081	20 044	20 292	20 236	19 895	-186	-341
audio & video	16 020	15 999	16 202	16 270	16 093	73	-177
aroma	4 061	4 045	4 090	3 966	3 802	-259	-164
Average revenue per location (PLN/month)	114	90	108	99	92	-20%	-7%
audio & video	102	83	99	94	87	-15%	-7%
aroma	162	116	147	117	110	-32%	-6%

Source: Factset, Erste Group Research

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