

SARE S.A.



Price target: PLN 33.40

Rating: BUY

SARE's full-year 2016 results were above our forecasts on the revenue level. While sales came in at PLN 41.3m (+8.1% y-o-y; EVRe: PLN 39.6m), EBIT and net margin equaled 12.9% (2015: 16.3%; EVRe: 13.7%) and 8.6% (2015: 9.9%; EVRe: 9.6%) respectively. The subsidiary Salelifter Sp. z.o.o showed the strongest improvement of sales (+137.7% y-o-y to PLN 2.1m) and net income (PLN 807k vs. PLN 681k in 2015). The segment Teletarget Sp. z.o.o, which generated revenues of PLN 25k (2015: PLN 83k) and net income of PLN 107k (PLN 226k), performed the weakest. Between January and December SARE generated an operating cash flow of PLN 2.8m and net cash as of 31 December 2016 equaled PLN 4.1m.

In January 2017, SARE published its strategy for 2017E-2019E, which defines the objectives and directions relating to the development of the Group in the following years. The main strategic goal is the significant increase of the company's value through a focus on complex SaaS-based tools, which allow customers to increase sales in the omnichannel model (both online and offline). In our view, this should positively impact SARE's gross margin going forward and result in a EBITDA CAGR of c. 20%. In order to realise its strategic objectives, SARE plans the following: (1) creation of a fully-integrated Group, both in terms of technology and organisation (2) profitable growth in the main segments due to synergies (3) search for new development opportunities through acquisitions and investments in R&D, especially in Mobile Marketing, Online Video, Big Data. According to e.g. ZenithOptimedia, these areas will be the growth drivers of the online advertising sector in the near future. Another strategic goal of SARE is the geographic diversification of its revenues, especially in the EU.

SARE's profitability in 2016 was below our expectations, which was mainly due to the gross margin (35.7% vs. 36.9% in 2015). We have accounted for this in our estimates, which imply an EBITDA CAGR 16-19E of 19.5%. However, due to a lower WACC (12.8% vs. 13.7% before) and a higher peer-group-based fair value (PLN 30.23 vs. PLN 26.78) our 12-months PT (80% DCF, 20% peer group) is now higher (PLN 33.40 vs. PLN 28.10). In our view, SARE's new strategy clearly shows that management are aware of the challenges and trends in the online advertising sector. The SARE Group has very ambitious financial goals, which in our view they will only be able to achieve if they conduct acquisitions e.g. in the Mobile area. However, in order to finance them, the company might need additional financing.

in PLNm	2015	2016	2017E	2018E	2019E	2020E
Net sales	38.26	41.34	50.07	55.55	61.34	66.41
EBITDA	6.79	6.18	8.55	9.52	10.55	11.31
EBIT	6.25	5.34	7.53	8.39	9.29	9.96
Net income	3.79	3.55	5.73	6.44	7.15	7.68
EPS	1.83	1.74	2.50	2.81	3.12	3.35
DPS	0.00	0.00	1.25	1.41	1.56	1.68
Dividend yield	0.00%	0.00%	5.40%	6.07%	6.74%	7.24%
RoE	23.19%	17.80%	25.02%	24.83%	24.39%	23.24%
Net gearing	-19.02%	-19.08%	-11.16%	-13.09%	-15.52%	-20.68%
EV/Sales	1.18x	0.98x	0.88x	0.80x	0.74x	0.69x
EV/EBITDA	7.92x	5.72x	5.14x	4.64x	4.33x	4.02x
P/E	14.96x	9.26x	8.24x	7.42x	6.91x	6.40x

Company profile

SARE S.A. is a technological company, which provides advanced proprietary solutions for sales support, especially in the area of online marketing. The company plans to expand into Big Data, Mobile and Online Video in the coming years. Within the Group, SARE also develops several start-ups with complementary services.

Website	www.saresa.pl
Sector	Online advertising
Country	Poland
ISIN	PLSARE000013
Reuters	SARP.WA
Bloomberg	SAR PW

Share information

Share price	23.15
Number of shares (m)	2.29
Market cap. (PLNm)	53.05
Market cap.(EURm)	12.51
52-weeks max / min	PLN 25 / PLN 16.10
Average volume (shares)	1,524

Performance

4-weeks	18.41%
13-weeks	26.85%
26-weeks	13.04%
52-weeks	-5.12%
YTD	21.59%

Shareholder structure

WS Investments Ltd.	34.98%
Tomasz Pruszczyński	26.23%
Petrovasko Ltd	10.50%
Damian Rutkowski	5.90%
Vasto Investments S.a.r.l	5.33%
Free float	17.06%

Financial calendar

Q1/17 results	May 23, 2017
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Analyst

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Overview over our forecasts for 2017E-2020E

in PLNm	2017E	2018E	2019E	2020E
SARE	10.05	11.09	12.10	13.05
<i>(Share in total sales)</i>	20.1%	20.0%	19.7%	19.7%
Net margin	0.2%	0.4%	0.8%	1.0%
Average number of clients	500	536	568	594
Average monthly fee (PLN)	1,674	1,725	1,776	1,830
INIS, mr Target	36.93	40.76	44.87	48.19
<i>(Share in total sales)</i>	73.8%	73.4%	73.1%	72.6%
Net margin	12.8%	13.0%	13.2%	13.3%
Average number of clients INIS	121	125	128	133
Average monthly fee INIS (PLN)	13,668	14,078	14,500	14,935
Yearly sales mr Target (PLN)	17,085	19,648	22,595	24,403
Salelifter	3.01	3.57	4.23	5.01
<i>(Share in total sales)</i>	6.0%	6.4%	6.9%	7.5%
Net margin	34.6%	30.6%	26.6%	22.6%
Number of campaigns	1,951	2,244	2,580	2,967
Average remuneration/campaign (PLN)	1,545	1,591	1,639	1,688
Teletarget	0.08	0.13	0.14	0.16
<i>(Share in total sales)</i>	0.2%	0.2%	0.2%	0.2%
Net margin	-80.0%	0.1%	3.0%	4.2%
Number of campaigns	400	600	660	726
Average remuneration/campaign (PLN)	206	212	219	225
Total sales	50.07	55.55	61.34	66.41
change y-o-y	21.1%	10.9%	10.4%	8.3%

Source: East Value Research GmbH

in PLNm	2017E		2018E		2019E		2020E	
	new	old	new	old	new	old	new	old
Net sales	50.07	43.44	55.55	47.07	61.34	51.08	66.41	54.62
EBITDA	8.55	8.88	9.52	9.39	10.55	9.84	11.31	10.22
<i>EBITDA margin</i>	17.1%	20.4%	17.1%	19.9%	17.2%	19.3%	17.0%	18.7%
EBIT	7.53	7.91	8.39	8.43	9.29	8.80	9.96	9.13
<i>EBIT margin</i>	15.0%	18.2%	15.1%	17.9%	15.2%	17.2%	15.0%	16.7%
Net income	5.73	6.07	6.44	6.48	7.15	6.78	7.68	7.04
<i>Net margin</i>	11.4%	14.0%	11.6%	13.8%	11.7%	13.3%	11.6%	12.9%

Source: East Value Research GmbH

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Reduce: Based on our analysis, we expect the stock to cause a negative return between 0% and -10% over the next twelve months

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