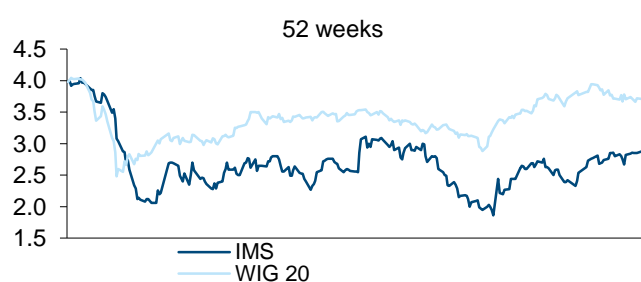


IMS

Buy

PLN mn	2020e	2021e	2022e	2023e
Net sales	37.1	49.2	57.6	65.3
EBITDA	11.8	14.0	16.4	18.6
EBIT	5.8	7.7	9.8	11.5
Net result after min.	4.6	6.0	7.8	9.3
EPS (PLN)	0.14	0.18	0.24	0.29
CEPS (PLN)	0.33	0.38	0.45	0.51
BVPS (PLN)	0.70	0.78	0.89	1.01
Div./share (PLN)	0.05	0.11	0.13	0.17
EV/EBITDA (x)	8.7	7.3	6.0	5.2
P/E (x)	19.8	15.3	11.7	9.9
P/CE (x)	8.7	7.5	6.3	5.6
Dividend Yield	1.7%	3.9%	4.6%	6.0%



Performance	12M	6M	3M	1M
in PLN	-26.7%	10.1%	16.0%	2.2%

Share price (PLN) close as of 09/02/2021	2.83	Reuters	IMS.WA	Free float	31.8%
Number of shares (mn)	32.4	Bloomberg	IMS PW	Shareholders	Dariusz Lichacz (19.7%)
Market capitalization (PLN mn / EUR mn)	,92 / ,20	Div. Ex-date			Michał Kornacki (19.01%)
Enterprise value (PLN mn / EUR mn)	,102 / ,23	Target price	3.54	Homepage:	www.imssensory.com

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Continuation of Covid-suspended growth

Despite lockdowns in Poland due to the COVID-19 pandemic and pressure on prices for services providers for retail companies, IMS was able to increase the number of subscription locations (exp. +3% y/y) and minimize the decline of subscription segment revenues to only 13% y/y, offering lower discounts (ARPL -20% y/y) than we expected in our previous report (-22%). Moreover, the company managed to pay out a dividend in a challenging 2020 and maintain a safe ND/EBITDA ratio below 1.0x.

Going forward, we expect the pandemic situation to stabilize in 2021 (along with ongoing vaccination), allowing customers to get back to shopping malls and IMS to rebuild lost revenues (especially in ad services and digital signage segments). Despite the fact that we do not assume another lockdown, we applied very conservative growth assumptions of 14-29% below the mid targets outlined in the recent Incentive Program for 2021-23.

IMS should be a beneficiary of a qualitative review of the brick and mortar presence of Polish retailers, with possible cross-selling opportunities thanks to rent savings. The addition of 200-250tsd sqm of new floorspace, continued commercialization of own music databases, decent OPEX control and outlook for foreign expansion bode well for both top line and margin growth.

Taking all this into consideration, we maintain our **Buy** recommendation for IMS, lowering our target price from PLN 3.73 to **PLN 3.54**. On top of that, the company offers a DY of 3.9%/4.6%/6.0% in 2021/22/23 and is traded at a significant discount to peers of 28-34% in terms of P/E ratio and 37-46% for EV/EBITDA (2021-22e).

Valuation

We employed a DCF model as our valuation tool, based on our forecasts for 2021-25e. We used a discount rate based on WACC and a terminal value based on perpetuity. The DCF model led us to a 12-month target price of **PLN 3.54** per share, which in our opinion reflects the value of the company in a more proper way than a peer comparison, as it includes future prospects.

Our estimates are based on the following assumptions:

- Risk-free rate of 1.4%, equity premium at 6%, debt premium of 2.0% and beta at 1.0.
- **Nominal tax** rate of 19% in 2021-25e and in perpetuity.
- **Terminal value** growth rate of **1%**.
- **EBIT margin** in perpetuity at **12%** – very conservative approach, as IMS is likely to show 15.7% even in 2020 (2016-19 average of 20.2%).
- **Dividend Payout Ratio** of 80% in 2021 and then 70% (dividend policy implies at least 60% of net profit), translating into 3.8%/4.5%/5.9% DY in 2021/22/23.
- **No M&A included**

Peer group comparison

Below, we present the P/E and EV/EBITDA multiples for the peer group, which consists mainly of companies operating in “DOOH” marketing, i.e. advertising agencies, recording & publishing music.

	Market cap (EUR mn)	P/E			EV/EBITDA		
		2020e	2021e	2022e	2020e	2021e	2022e
Stroer	4 237	42.2	23.0	18.5	12.5	10.3	9.4
JCDecaux	3 702	-263.5	35.1	13.0	13.9	15.9	12.9
APG SGA	524	138.6	22.7	19.0	35.8	13.0	11.2
Vivendi	30 753	24.4	19.9	17.7	16.1	14.3	12.9
WPP	11 381	14.3	11.1	9.8	9.9	8.6	8.0
Warner Music	16 387	58.9	37.7	29.2	25.4	20.8	17.7
M&C Saatchi	144	16.5	13.1	n/a	8.7	7.6	n/a
Publicis Groupe	11 606	10.5	10.0	9.7	6.6	6.4	6.2
Median total		20.5	21.3	17.7	13.2	11.7	11.2
IMS		19.8	15.3	11.7	8.7	7.3	6.0
<i>Premium/discount</i>		<i>-3%</i>	<i>-28%</i>	<i>-34%</i>	<i>-34%</i>	<i>-37%</i>	<i>-46%</i>
Implied value		2.8	3.9	4.3	4.5	4.7	5.4

Source: Factset, Erste Group Research

The peer group of IMS involves much larger companies market-cap-wise; the company is traded at a significant discount of 28-34% in terms of P/E ratio and 37-46% for EV/EBITDA (2021-22e).

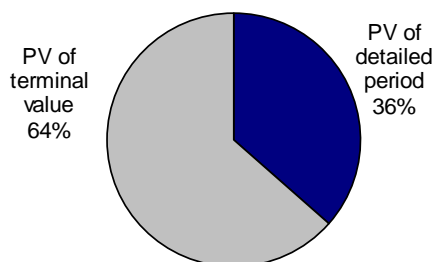
WACC calculation

	2021e	2022e	2023e	2024e	2025e	Term. value Normalized
Risk free rate	1.4%	1.4%	1.4%	1.4%	1.4%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	7.4%	7.4%	7.4%	7.4%	7.4%	9.0%
Cost of debt	3.4%	3.4%	3.4%	3.4%	3.4%	6.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	2.8%	2.8%	2.8%	2.8%	2.8%	4.9%
Equity weight	89%	89%	89%	89%	89%	90%
WACC	6.9%	6.9%	6.9%	6.9%	6.9%	8.6%

DCF valuation

(PLN mn)	2021e	2022e	2023e	2024e	2025e	Normalized
<i>Sales growth</i>	32.5%	17.0%	13.4%	9.4%	6.2%	1.0%
EBIT	8	10	11	13	13	9
<i>EBIT margin</i>	15.6%	17.0%	17.6%	17.8%	17.6%	12.0%
<i>Tax rate</i>	19%	19%	19%	19%	19%	19%
Taxes on EBIT	-1	-2	-2	-2	-3	-2
NOPLAT	6	8	9	10	11	7
+ Depreciation	6	7	7	8	8	8
<i>Capital expenditures / Depreciation</i>	82%	86%	89%	90%	90%	103%
+/- Change in working capital	-2	-1	-1	0	0	0
<i>Chg. working capital / chg. Sales</i>	-14%	-10%	-8%	-3%	-6%	-10%
- Capital expenditures	-5	-6	-6	-7	-8	-9
Free cash flow to the firm	9	10	11	11	12	7
<i>Terminal value growth</i>						1.0%
Terminal value						97
Discounted free cash flow - Dec 31 2020	8	8	9	9	9	74
Enterprise value - Dec 31 2020	117					
Minorities	0					
Non-operating assets	0					
Net debt	11					
Other adjustments	0					
Equity value - Dec 31 2020	107					
Number of shares outstanding (mn)	32.4					
Cost of equity	7.4%					
12M target price per share (PLN)	3.54					
Current share price (PLN)	2.83					
<i>Up/Downside</i>	25.1%					

Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBIT margin				
		11.0%	11.5%	12.0%	12.5%	13.0%
WACC	7.6%	3.89	3.89	3.89	3.89	3.89
	8.1%	3.70	3.70	3.70	3.70	3.70
	8.6%	3.54	3.54	3.54	3.54	3.54
	9.1%	3.40	3.40	3.40	3.40	3.40
	9.6%	3.27	3.27	3.27	3.27	3.27
		Terminal value growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
WACC	7.6%	3.52	3.69	3.89	4.12	4.39
	8.1%	3.38	3.53	3.70	3.90	4.14
	8.6%	3.25	3.39	3.54	3.71	3.92
	9.1%	3.14	3.26	3.40	3.55	3.73
	9.6%	3.04	3.15	3.27	3.41	3.56

Erste Group Research – Company Report

IMS | Media | Poland

11 February 2021

Income Statement	2018	2019	2020e	2021e	2022e	2023e
(IAS, PLN mn, 31/12)	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023
Net sales	52.70	58.97	37.12	49.20	57.57	65.27
Cost of goods sold	3.27	3.23	1.22	2.60	2.98	3.31
Gross profit	0.00	0.00	0.00	0.00	0.00	0.00
SG&A	0.00	0.00	0.00	0.00	0.00	0.00
Other operating revenues	0.19	1.55	0.69	0.59	0.69	0.78
Other operating expenses	0.49	0.35	0.23	0.31	0.36	0.41
EBITDA	16.55	17.98	11.78	14.01	16.42	18.62
Depreciation/amortization	4.48	6.10	5.93	6.32	6.66	7.15
EBIT	12.07	11.87	5.84	7.69	9.76	11.46
Financial result	-0.46	-0.55	-0.49	-0.35	-0.14	-0.04
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	11.61	11.32	5.35	7.35	9.62	11.43
Income taxes	2.36	1.97	0.79	1.40	1.83	2.17
Result from discontinued operations	0.00	0.00	-0.18	0.00	0.00	0.00
Minorities and cost of hybrid capital	-0.04	-0.04	-0.07	-0.03	-0.04	-0.04
Net result after minorities	9.29	9.40	4.63	5.98	7.83	9.30
Balance Sheet	2018	2019	2020e	2021e	2022e	2023e
(IAS, PLN mn, 31/12)						
Intangible assets	14.12	17.43	18.63	18.89	19.27	20.35
Tangible assets	12.63	12.96	12.28	11.46	10.84	10.48
Financial assets	0.81	1.23	1.23	1.23	1.23	1.23
Total fixed assets	27.56	31.61	32.13	31.57	31.33	32.05
Inventories	3.58	3.53	2.58	3.16	3.50	3.80
Receivables and other current assets	16.72	16.10	12.62	15.59	17.52	19.20
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	0.64	1.29	1.00	1.20	1.50	1.80
Total current assets	20.94	20.92	16.20	19.95	22.52	24.80
TOTAL ASSETS	48.50	52.53	48.33	51.52	53.85	56.85
Shareholders'equity	18.25	19.95	22.77	25.16	28.76	32.54
Minorities	-0.02	-0.06	-0.14	-0.16	-0.20	-0.24
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	0.00	0.00	0.00	0.00	0.00	0.00
LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	5.87	5.67	6.17	5.95	4.95	4.24
Other LT liabilities	7.79	6.73	4.82	4.82	4.82	4.82
Total long-term liabilities	13.65	12.40	10.99	10.78	9.77	9.06
Interest-bearing ST debts	3.70	5.34	5.62	5.42	4.47	3.81
Other ST liabilities	12.91	14.92	9.08	10.33	11.04	11.69
Total short-term liabilities	16.61	20.26	14.70	15.75	15.52	15.50
TOTAL LIAB. , EQUITY	48.50	52.53	48.33	51.52	53.85	56.85
Cash Flow Statement	2018	2019	2020e	2021e	2022e	2023e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	14.50	14.97	6.82	9.33	12.19	13.56
Cash flow from investing activities	-4.84	-2.44	-7.23	-5.15	-5.75	-6.40
Cash flow from financing activities	-16.04	-11.88	-0.77	-3.98	-6.14	-6.86
CHANGE IN CASH , CASH EQU.	-6.38	0.65	-1.19	0.20	0.30	0.30
Margins & Ratios	2018	2019	2020e	2021e	2022e	2023e
Sales growth	9.7%	11.9%	-37.1%	32.5%	17.0%	13.4%
EBITDA margin	31.1%	30.2%	31.6%	28.5%	28.5%	28.5%
EBIT margin	22.7%	20.0%	15.7%	15.6%	17.0%	17.6%
Net profit margin	17.4%	15.7%	12.3%	12.1%	13.5%	14.2%
ROE	47.7%	49.2%	21.7%	25.0%	29.0%	30.3%
ROCE	29.7%	24.2%	10.6%	14.1%	18.7%	21.7%
Equity ratio	37.6%	37.8%	46.8%	48.5%	53.0%	56.8%
Net debt	8.9	9.7	10.8	10.2	7.9	6.2
Working capital	4.3	0.7	1.5	4.2	7.0	9.3
Capital employed	34.9	36.3	38.2	40.0	41.3	43.4
Inventory turnover	-1.0	-0.9	-0.4	-0.9	-0.9	-0.9

Source: Company data, Erste Group estimates

Erste Group Research – Company Report

IMS | Media | Poland

11 February 2021

Company description

IMS is the leader of Polish sensory marketing market. The Company was established in 2020, half of revenues is derived from audio, video and aroma marketing subscriptions. IMS has diversified portfolio of services and clients mainly from retail sector. Debuted on NewConnect in 2012 and then moved to WSE in 2014. IMS has been paying out dividends each year and conducted several buybacks.

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Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
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Erste Group Research – Company Report

IMS | Media | Poland

11 February 2021

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