

TEXT

Reuters: TEXT.WA Bloomberg: TXT PW

CEE Equity Research

IT Sector, Poland

10 November 2023, 08:05 CET

Turn from a 'growth' into a non-growth story?

Upgraded to Neutral, TP down to PLN132

We are upgrading TEXT to Neutral (from Underperform) with a Target Price slightly down to PLN132, as our negative view has materialized. We dislike TEXT's 3Q23 KPI's which might suggest a turn of TEXT's short-run earnings outlook from a 'growth' into a 'non-growth'. We highlight 1) flat q/q MRR, 2) flattish q/q volume of Livechat's core product clients', 3) slight q/q decline in Livechat's ARPU. We also highlight USD/PLN FX rate downtrend since the beginning of October, as a risk to TEXT's CF in the reporting currency (PLN). Moreover, TEXT has not yet capitalized on AI-initiatives in a scale that could be appreciated by investors, we think. Overall, we estimate c. 16x -17x P/E ratio in 2023/24E and 2024E-25E period, which we still find unappealing.

The AI story has not materialized so far. We think that implementation of Artificial Intelligence solutions into TEXT's products has not born fruits expected by the market so far. AI text suggestions in chatting applications have become a must-have of livechat/chatbot providers, in our view. TEXT provided AI solutions, but has not translated it into additional revenues/cash flows, we estimate. We believe, though, TEXT keeps working on existing and new products developments and sooner or later might potentially decide to lift its product prices related to new product functionalities. Though, we do not expect the growth to happen in the short run, as the company rarely increased prices in the past, the works on product upgrades may last for a bigger while, and no so much time has passed since the last price rise (which happened in 2022 for the first time since many years).

From a growth into a non-growth? TEXT's 3Q23E/24E KPIs came in disappointing, as suggest TEXT's flattish profits outlook in the short run. Please note that the number of livechat's clients stabilised, while APRU declined q/q to USD156.7. As a result, MRR of USD6.47 was just 1.8% up from 4Q22 and flat q/q. Chatbot's performance came in better. Chatbot's number of clients grew 5% q/q, while APRU increased 3% q/q, but note that the stream of revenues from Chatbot used to represent only c. 5% of total revenues.

2023/24E forecast. We expect TEXT's 2H23E/24E to slightly recover compared to 1H23/24E results, as we expect the post summer season to potentially attract new customers, as past trends suggest. We also continue to believe that the company may continue to expand its business, including potential growth in the number of Livechat and Chatbot clients and product prices. Overall, we estimate 2-3% y/y annual increase in the number of livechat clients and 1% y/y annual increase in ARPU in the forecast horizon.

Upsides: TEXT sees room for increasing prices, as competitors have increased product prices as well. Note that TEXT implemented price growth in 2022 for the first time, since 8 years. Any further growth in prices would represent upside to our financial forecasts.

Risks. Any USD/PLN depreciation (4.17x rate incorporated into our forecasts) represents a downside risk to our earnings estimate. Churn growth represents the key operational risk, as we see it. Please note that 3-4% monthly churn suggest that over one third of clients rotate annually.

Valuation and recommendation. We upgrade our recommendation to Neutral following the share price underperformance since our Underperform rating issued on May 30, 2023.

TEXT: Financial summary

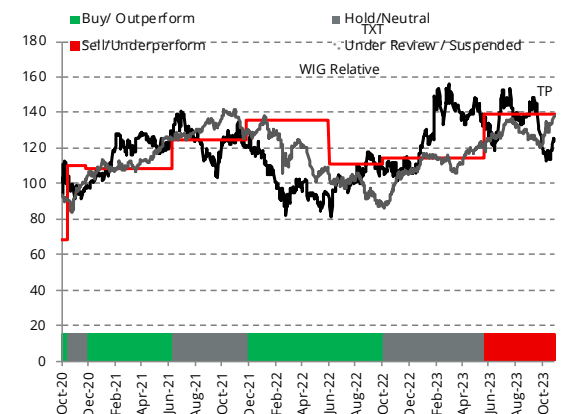
PLNmn	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Sales	179	223	316	335	348	359
EBITDA	117	138	198	215	228	236
EBIT	107	128	185	197	210	219
Net profit	100	119	170	183	196	204
P/E (x)	18.5	26.4	15.6	17.4	16.3	15.6
EV/EBITDA	15.4	22.4	12.8	14.2	13.4	12.8
DY	3.8%	3.2%	4.6%	3.7%	4.8%	5.1%

Source: Company data, Santander Brokerage Poland estimates, financial year ends in March 31

Recommendation	Neutral (↑)
Target Price (PLN, Dec'24)	PLN132 (↓)
Price (PLN, 9 November 2022)	125
Market cap. (PLNmn)	2,832
Free float (%)	58.1
Number of shares (mn)	25.75
Average daily turnover 3M (mn)	0.8

What has changed

- Target Price decreased to PLN132
- Decreased estimate of APRU, USD/PLN rate and livechat number of clients
- Slightly decreased risk free rate



The chart measures performance against the WIG index.

Main shareholders	% of votes
Shareholders union	41.9
Aviva pension fund	7.1
NN Pension Fund	6.2

Source: www.gpw.pl

Company description

TEXT is a developer of livechat solutions.

Analyst

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Fig. 1. TEXT: Forecasts changes

PLNmnn	2023/24E			2024/25E			2025/26E		
	New	Previous	Change	New	Previous	Change	New	Previous	Change
Sales	335	342	-2%	348	368	-6%	359	376	-5%
EBITDA	215	225	-4%	228	249	-8%	236	254	-7%
EBIT	197	212	-7%	210	236	-11%	219	241	-9%
Net profit	183	197	-7%	196	220	-11%	204	225	-9%

Source: Company data, Santander Brokerage Poland estimates

Fig. 2. TEXT: Valuation changes

PLN per share	New	Previous	Change
DCF valuation	132	139	-5%
Comparable valuation (based on 2023-2024E)	195	239	-19%
Weighted valuation*	132	139	-5%

Source: Company data, Santander Brokerage Poland estimates, *Target Price represents 100% DCF as it fully reflects business development in the long run; comparative valuation presented for illustrative purposes only

Fig. 3. TEXT: KPIs

PLNmnn	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E
Sales	131	179	223	316	335	348	359	369	381
Number of livechat clients	28784	32864	35559	37061	38261	39061	39861	40661	41461
Avg. number livechat clients'	28334	31659	34352	36310	37661	38661	39461	40261	41061
Avg. monthly ARPU (USD)*	100	122	137	161	178	180	182	183	185
Average monthly ARPU (PLN)*	385	471	540	725	742	750	757	765	772
Average USD/PLN*	3.8	3.9	3.9	4.5	4.17	4.17	4.17	4.17	4.17
EBITDA	88	117	138	198	215	228	236	245	254
EBITDA margin	68%	65%	62%	63%	64%	65%	66%	66%	67%

Source: Company data, Santander Brokerage Poland estimates, *average total revenues per number of clients of livechat

Fig. 4. TEXT: Forecasts changes vs. consensus

PLNmnn	2023/24E			2024/25E		
	SAN	Cons.	Diff.	SAN	Cons.	Diff.
Sales	335	374	-10%	348	414	-16%
EBITDA	215	240	-11%	228	280	-19%
EBIT	197	209	-6%	210	228	-8%
Net profit	183	195	-6%	196	213	-8%

Source: PAP, Santander Brokerage Poland estimates

Fig. 5. TEXT: Results Preview

Calendar quarter	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
PLNmnn	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23E	3Q23E	4Q23E
Sales	48.1	48.9	55.7	56.1	61.8	66.8	74.51	85.90	88.53	83.48	82.9	84.6	84.3
EBITDA	32.2	31.0	38.5	34.9	35.1	42.0	46.0	54.6	56.6	52.8	53.0	54.6	54.3
EBITDA margin	66.9%	63.4%	69.1%	62.1%	56.9%	62.9%	61.7%	63.6%	64.0%	63.3%	63.9%	64.5%	64.4%
EBIT	29.5	28.0	35.8	32.0	32.2	38.7	42.6	50.9	53.3	48.4	48.6	50.2	49.9
EBIT margin	61.3%	57.3%	64.3%	57.0%	52.2%	58.0%	57.1%	59.3%	60.2%	58.0%	58.6%	59.3%	59.2%
Net profit	27.5	26.6	32.7	29.4	30.3	36.0	39.6	47.2	49.6	45.2	45.0	46.7	46.4
Net margin	57.2%	54.4%	58.7%	52.4%	49.0%	53.9%	53.1%	54.9%	56.0%	54.1%	54.3%	55.2%	55.0%
Clients o livechat(eop)	32,864	33,358	33,909	34,582	35,559	36,823	37,114	36,850	37,061	37,765	37,838	38,000	38,261
Clients of livechat (avg.)	32,470	33,111	33,634	34,246	35,071	36,191	36,969	36,982	36,956	37,413	37,802	37,919	38,131
ARPU of livechat (US\$)	121.7	121.8	132.0	124.1	130.6	127.9	130.5	155.5	169.1	163.7	162.3	164.0	164.0
ARPU of livechat (PLN)	459	458	511	501	538	558	614	722	742	683	677	690	684
Avg. USD/PLN	3.77	3.76	3.87	4.04	4.12	4.36	4.71	4.64	4.39	4.17	4.17	4.21	4.17

Source: Company data, Santander Brokerage Poland estimates

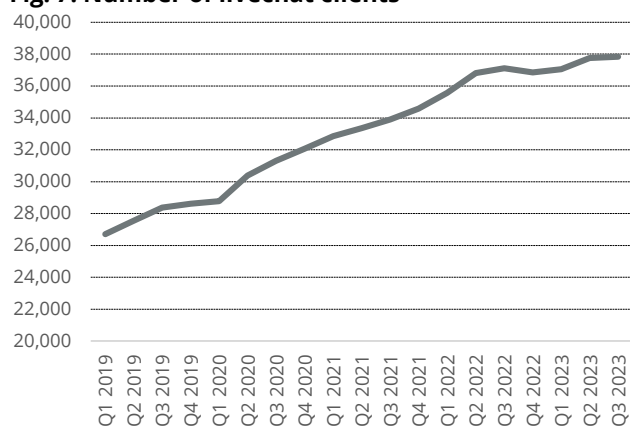
KPIs

Fig. 6. TEXT: 3Q23 KPIs

USDmn	3Q23	y/y	q/q
MRR	6.47	31.8%	0.0%
Livechat customers	37,838	2.0%	0.2%
Livechat ARPU	156.7	31.3%	-0.9%
Livechat initial ARPU	90.1	1.8%	8.7%
Chatbot customers	2,940	11.5%	4.9%
Chatbot ARPU	127	14.7%	3.3%
Chatbot initial ARPU	137	-17.4%	12.1%
Preliminary revenues	19.88	28.5%	-1.4%
USD/PLN quarterly avg.	6.47	31.8%	0.0%

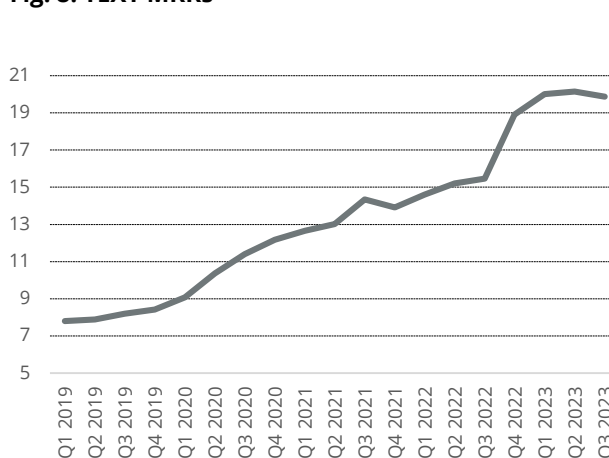
Source: Company data, Santander Brokerage Poland

Fig. 7. Number of livechat clients



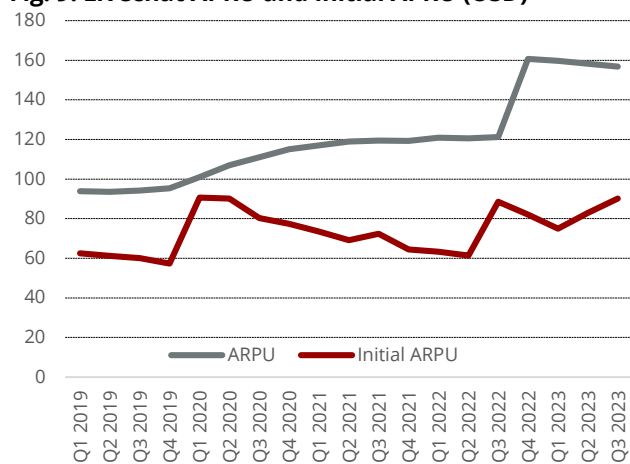
Source: Company data

Fig. 8. TEXT MRRs



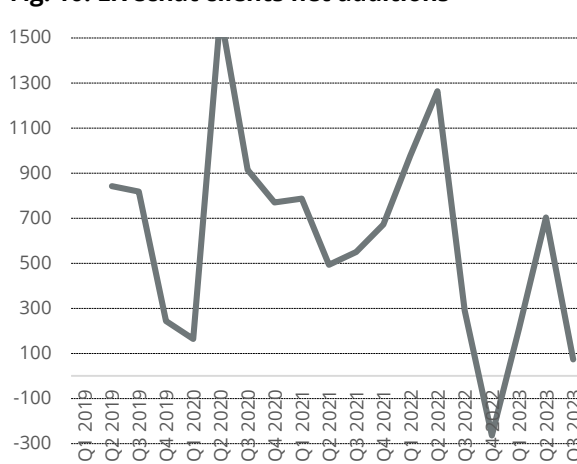
Source: Company data

Fig. 9. Livechat ARPU and initial ARPU (USD)



Source: Company data

Fig. 10. Livechat clients net additions



Source: Company data

Valuation

Fig. 11. DCF valuation

PLNmn	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E
Revenues	335.2	347.8	358.5	369.5	380.6
EBIT	197.0	210.3	218.7	227.3	236.0
Cash taxes on EBIT	13.8	14.7	15.3	15.9	44.8
NOPAT	183.2	195.6	203.4	211.4	191.2
Depreciation	17.5	17.5	17.5	17.5	17.5
Change in WC	-17.6	-1.7	-1.5	-1.5	-1.5
Capital expenditure	-18.0	-18.0	-18.0	-18.0	-18.0
Free cash flow	165.1	193.3	201.4	209.4	189.2
PV FCF	507				
Terminal growth	3.0%				
Terminal Value (TV)	3,247				
PV TV	2,507				
Total EV	3,015				
Net debt	-185				
Dividends	153				
Equity value	3,383				
Number of shares (mn)	25.8				
Value per share (Dec 2024)	132				

Source: Santander Brokerage Poland estimates

Fig. 12. TEXT: Comparable valuation

	P/E		EV/EBITDA	
	2023E	2024E	2023E	2024E
Foreign peer average multiples	21.0	18.0	32.0	27.9
Implied valuation per share (PLN)	181	166	228	205
Average implied valuation per share (PLN)	195			

Source: Company data, Bloomberg, Santander Brokerage Poland estimates

Financials

Fig. 13. TEXT: Income statement forecasts

PLNmn	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Net sales	179	223	316	335	348	359
EBITDA	117	138	198	215	228	236
EBIT	107	128	185	197	210	219
Profit before tax	107	128	186	197	211	219
Net profit	100	119	170	183	196	204
EBITDA margin	65.3%	62.0%	62.8%	64.0%	65.5%	65.9%
EBIT margin	59.8%	57.6%	58.7%	58.8%	60.5%	61.0%
Net margin	56.0%	53.5%	53.8%	54.6%	56.4%	56.9%

Source: Company data, Santander Brokerage Poland estimates

Fig. 14. TEXT: Balance sheet forecasts

PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E	2025/26E
Current assets	86	95	136	204	247	287
Fixed assets	39	42	60	65	65	66
Total assets	124	137	196	269	312	352
Current liabilities	12	11	17	19	20	20
bank debt	0	0	0	0	0	0
Long-term liabilities	12	11	17	19	20	20
bank debt	0	0	0	0	0	0
Equity	107	125	175	242	285	325
Total liabilities	124	137	196	269	312	352
Net debt	-57	-56	-96	-144	-185	-223

Source: Company data, Santander Brokerage Poland estimates

Fig. 15. TEXT: Cash flow statement forecasts

PLNmn	2020/21	2021/22	2022/23E	2023/24E	2024/25E	2025/26E
CF from operations	107	115	195	183	211	219
CF from investment	-14	-17	-33	-18	-18	-17
CF from financing	-72	-102	-122	-117	-153	-164
dividends	-71	-101	-122	-117	-153	-164
Net change in cash	21	-4	40	48	41	38

Source: Company data, Santander Brokerage Poland estimates

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Outperform - Total return 10% above benchmark. Upside of approximately $\geq 15\%$.

Neutral - Total return 0%-10% above benchmark. Upside of approximately 5%-15%.

Underperform - Total return below benchmark. Upside of approximately $< 5\%$.

NOTE: The relevant benchmark for European Equities (including CEE Equities) is the 1Y German Bund rate +ERP (5.5%).

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Target prices set from January to June are for December 31st of the current year. Target prices set from July to December are for December 31st of the following year.

Periodicity: our recommendations/ target prices for each issuer are going to be reviewed at least once a year and whenever market events so warrant.

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases).

Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The warranted equity method (WEV) is based on the formula $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$ which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

Liquidation value method - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.

The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.

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