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Haitong Bank in a report from December 14 (08:00) updates recommendations on Polish TMT companies:

- Cyfrowy Polsat (BUY, FV PLN 32.3)
- Orange Polska (NEUTRAL, FV PLN 7)
- Play Communications (NEUTRAL, FV PLN 37.3)
- Netia (NEUTRAL, FV PLN 4.9)
- Asseco Poland (BUY, FV PLN 78.1)
- Comarch (BUY, FV PLN 226.7)
- LiveChat (BUY, FV PLN 126.6)
- Ten Square Games (BUY, FV PLN 690)
- Wirtualna Polska (NEUTRAL, FV PLN 82.8)

Valuation Methodology

Cyfrowy Polsat
We value Cyfrowy Polsat using a DCF and peer multiples. Using a DCF we arrive at PLN 30.4/sh while our peer valuation yields PLN 34.2/sh. Our final fair value is PLN 32.3/sh, implying 16% potential upside.

Orange Polska
We value Orange Polska using a DCF and peer multiples where DCF and peers have a 50% weight each. As Orange Polska does not pay dividends, we stopped valuing the stock using the DDM method. Using a DCF, we derive a fair value of PLN 7.7 and using peers of PLN 6.2. Our fair value is PLN 7.0, implying 7% upside potential to the current share price

Play Communications
We value Play using a DCF, DDM and peer multiples. Using a DCF, we derive a fair value of PLN 34.6; using DDM we arrive at PLN 33.5 and peers of PLN 43.9. Applying an equal weighting to each valuation method we obtain a fair value of PLN 37.3, implying 3% downside potential to the current share price.

Netia
We value Netia using the average of two methods: DCF and peer valuation. Using a DCF, we derive a fair value of PLN 4.7 while using peers it's PLN 4.9. Our blended FV is PLN 4.9 which implies 9% upside potential.

Asseco Poland
We value Asseco Poland using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 83.7/sh while our peer valuation yields PLN 72.5/sh. Our final fair value is PLN 78.1/sh, implying 17% upside potential.

Comarch
We value Comarch using two methods: DCF and peer multiples. Our final fair value is an average of these two methods (each with a 50% weighting). Using DCF we arrive at PLN 239.2/sh while our peer valuation yields PLN 214.2/sh. Our final fair value is PLN 226.7/sh, implying 16% potential upside.

LiveChat
We value Live Chat using a DCF while we show peers for illustrative purposes. Using a DCF we arrive at PLN 126.6/sh, implying 29% potential upside.

Ten Square Games
We value TSG using three valuation methods: DCF, EV/EBIT and P/E where each method has an equal weight. Using DCF, we value TSG at PLN 602/share, P/E at PLN 763/share and using EV/EBIT at PLN 705/share. Our final fair value is PLN 690/share and implies 31% upside.

Wirtualna Polska

We value Wirtualna Polska using two valuation methods: DCF and peer valuation. The final fair value is an average of those two methods where each method has an equal 50% stake. Under the DCF we derive a fair value of PLN 76.5/sh while using the peer valuation we derive PLN 89/sh. Our final value points to PLN 82.8/sh, which gives 1% upside potential.

Risks to Fair Value

Cyfrowy Polsat

Weaker than expected delivery on capex and EBITDA synergies on Netia and Interia.pl acquisition.
Weaker than expected monetization of UEFA TV content.
Weaker than expected performance of SmartDOM offer.
Weaker than expected net adds due to increasing market competition
ARPU and margin dilution from bundling offer and price pressure on the market,.
Weaker than expected performance of the TV ad market.
Erosion of Polsat TV audience share.
Weaker than expected macro situation that could cut TV ad budgets.

Orange Polska

Weak net adds in FTTx segment as a result of increased competition.
Price pressure in mobile broadband offer.
Price pressure in B2B market.
Competitive offer from CableTV and CPS/NET putting pressure on OPL's client base in dense areas.
ARPU erosion in the mobile voice segment.
Acceleration of net adds erosion in fixed-voice and fixed-data.
<u>Upside risks</u>
Faster than expected mobile and Fiber net adds
Faster than expected ARPU increase
Bigger than expected cost optimization initiatives
OPL selling more than expected real estates and network towers
OPL coming back to dividend faster than expected

Play Communications

Play stops its focus on the ARPU approach and returns to a more aggressive commercial stance in order to regain SIM card leadership.
Play SIM card base starts eroding.
Lower/Higher than expected price paid for the 3.4-3.8GHZ and 800MHz spectrum.
Play cuts the dividend outlook on the back of expensive spectrum and 5G rollout capex.
Higher/Lower than expected maintenance capex

Netia

<u>Upside risks</u>
CPS calling for remaining stake up to 100% at PLN 5.77/sh
Better than expected improvement in internet onnet and payTV net adds
Higher than expected post-acquisition synergies with Cyfrowy Polsat
<u>Downside risks</u>
CPS calling for remaining stake up to 100% at a lower price than PLN 5.77/sh.
Unsuccessful CPS/NET merger and extraction of post-acquisition synergies.
Acceleration in client erosion in fixed-voice and fixed-broadband.
Increasing competition in fixed-line due to FTTx upgrades.

Asseco Poland

Fierce competition in IT contracts from the new EU budget perspective.
Global recession and cut in IT budgets
Salary pressure from low unemployment and the accumulation of IT contracts in the new EU budget.
Unexpected fines and provisions on ongoing contracts.

Delay in IT spending related to the new EU budget.
A lower than expected growth rate at Formula Systems.
Visibly lower than expected dividend forecasts.
Cash flow deterioration.

Comarch
Delay in launch of new EU budget related to change in the Government.
Unfavorable court decision on ARiMR fine - in 2014 the Agriculture Agency (ARiMR) levied a PLN 32.5m fine on delays on the OFSA contract, while the total value of the 36-month contract is PLN 29m gross. Comarch does not agree with the fine and has made only a PLN2.3m provision for it.
Slowdown in IT market and unsuccessful global expansion.
Value destructive acquisitions.

LiveChat
Live Chat settles ARPU revenues in USD while incurring part of COGS and OPEX in PLN like rentals, headcount costs, equipment costs. Hence, Live Chat's P&L is exposed to USDPLN fluctuations.

Increasing competition in the Live Chat market, especially from freemium and bundled providers. The Live Chat market, like many dotcom businesses, typically has low entry barriers which triggers competition. Live Chat has proved already that it can successfully build a client base and slightly increase ARPU without pressure on the profitability side.

Salary pressure: Like IT businesses, Live Chat can experience salary pressure risk, especially from talented software developers. Live Chat is less exposed to this risk as it has a very efficient SaaS business model where sales are automated. Live Chat currently employs ca. 130 people and plans further hires.

Risk of third-party providers: Live Chat is using third party providers on data server space for its Live Chat application and also uses third party providers to settle cash payments for the Live Chat app. If any of those providers fails to provide their service well, it can result in a bad customer experience and affect churn and future net adds.

Ten Square Games
Macro risks: TSG produces and sells entertainment goods whose consumption is related to the economic strength of households or individuals. Changes in macroeconomic factors in the global market, such as the GDP growth rate, household income and expenditure levels and remuneration levels can have an impact on TSG's revenues.

FX risks: TSG incurs significant personnel costs and expenses related to the production of games in PLN, while a significant part of revenues is generated in foreign currencies.

Competition risk: Free-to-Play (F2P) and the mobile game market have relatively low entry barriers for new entities and easy access to global distribution of new products which results in considerable competition in the market.

Dependence on key distributors: Over 50% of TSG's revenue is generated by games that are distributed by Google, Facebook and Apple through their digital distribution platforms or online portals. A possible change in Google, Facebook and Apple policies regarding the acceptance of products for distribution would require TSG to adapt existing or future products, which may be difficult to achieve in the short term and generate additional high costs. The reliability of the IT systems of distributors, which allows effective sales of TSG products, is also important as failure can lead to disadvantageous situations like: (1) lack of access to the game for existing players; (2) lack of micropayments by players using a given game; (3) inability of potential new players to download the game.

Workforce risk: Personnel are TSG's key asset. The lack of a qualified workforce and higher-than-expected salary pressure may negatively affect the achievement of TSG's strategic goals and its financial results.

Key personnel risk: The competence and know-how of key employees, in particular those who form the management team, as well as management and game designers, are very important for TSG's operations. The departure of people from these groups may result in TSG losing knowledge and experience in the field of professional game design.

Technology risks: (1) TSG uses the Unity 3D engine in the process of game production, periodically purchasing a subscription with access to this technology. There is a risk that fees may increase to a level negatively affecting the profitability of produced games. (2) There is a risk that new technology appears to which TSG will not be able to adapt quickly, thus it may negatively impact its competitive market position. A new technology risk occurs mostly in Evergreen and Legacy types, characterized by a longer and demanding process of game production.

Delays in game production: Game production is a complex and multistage process, dependent not only on the human factor and the implementation of the next stages of work on the game, but also on technical factors. Failure to meet the planned production schedule may delay the game's release, which in turn may have a negative impact on the sales level of the product and prevent TSG from achieving the expected financial results.

Wirtualna Polska

Upside risks

Lighter than expected impact from Covid-19 on the internet ad market, which results in smaller than expected ad budgets cuts.

Lighter than expected impact from Covid-19 on WPL ecommerce especially in travel from a faster and stronger than expected recovery in consumer demand.

Stronger than expected WPL restructuring steps on the back of the Covid-19 crisis.

Downside risks

Macroeconomic situation – the advertising market is highly correlated to GDP. Correlation analysis of historical data shows that the overall Polish ad market grows when GDP grows at least 3% pa.

Growth of internet ad market and e-commerce market – A change in the global economy affecting Polish GDP, the unemployment rate and average salary could also affect the growth rates of the online ad and e-ommerce market, which is strongly correlated to general consumption trends.

Competition – both online advertising and e-commerce are very competitive markets as the direct competitors of WPL Group are strong global and local brands such as Google, Facebook, Onet.pl, Gazeta.pl Group, Interia Group

Unsuccessful acquisitions – WPL Group's growth is currently boosted by acquisitions. There is a risk that some acquisitions may be unsuccessful in terms of overpayment or wrongly chosen business profile.

Development of ad blocking applications, which are usually part of web browser software or anti-virus software. Their further and faster development can negatively affect the online ad market as a marketing tool and result in a decrease in ad budgets of advertisers.

Weak performance of WPL TV channel – after restructuring measures WPL's TV channel has started to improve its TV audience share and EBITDA numbers.

IMPORTANT DISCLOSURES