WOOD & COMPANY



# ANY Security Printing Company PLC

**Hold**

**Initiation of coverage**

**Price: HUF 1,319**
**Price target: HUF 1,406**

# The dividends printer

**We initiate coverage of ANY PLC (ANY HB) with a HOLD rating and a price target (PT) of HUF 1,406/share, implying 7% upside to its current price. ANY is the leading security printing company in Hungary, with significant operations in Romania and Bulgaria. We like ANY due to its resilience to the economic cycle and high dividend yield; however, we believe that its growth prospects are already incorporated in the share price, given the long-term threat of digitalisation.**

**Strong revenue base, resilient over economic cycles.** ANY has grown by approximately 8% per year since 2011, to reach HUF 24.9bn in sales in 2016. The company generates half of its revenues from government contracts, while the other half is from private sector contracts. Given its product mix, we perceive ANY as a cyclical-resilient business.

**Diversification across business lines.** We see ANY's diverse product offering as a strength for a security printing market player. Aside from allowing the company to service large government contracts, it also helps to protect it from negative trends, such as digitalisation, which we expect to only affect its form production unit.

**Increasing exposure to markets outside Hungary.** In 2016, ANY generated 37% of its revenues from markets outside Hungary, up from 28% in 2011. The two most important markets are Romania, which accounted for 78% of exports in 2016, and Bulgaria, at 14%. We expect this trend to continue, assuming that the company will generate 43% of its revenues from other markets in 2021E.

**Adjusted EBITDA margin stability, improving slightly, by 30bps by 2021E.** The margin has increased from 9% in 2011 to 11.4% in 2016, due to a more profitable product mix and a higher contribution from exports. Although we expect mild margin pressure over the next few years due to labour market tightness in Hungary and Romania, we see the margin improving by a further 30bps, to reach 11.7% in 2021E.

**Good FCF generation, with FCF to EBITDA increasing from 15% in 2017E to 48% in 2021E.** After a large capex spend in 2016 to acquire three production plants, we expect the FCF as a percentage of EBITDA to increase to 48% in 2021E, giving the company enough room to expand its operations, or maintain its dividend profile. This comes after capex investments estimated at 110% of depreciation over our forecast period, representing 38% of the 2021E EBITDA.

**Strong dividends profile, with a payout of 100% over our forecast period and an average dividend yield of 6.1%.** ANY has historically paid dividends at a ratio of 100% and even higher in some years. We expect this trend to continue, implying dividend yields, based on the current share price, of 6.4% in 2017E, 5.8% in 2018E, 5.9% in 2019E, 6.4% in 2020E and 6.1% in 2021E.

**Justified premium vs. peers.** ANY is trading currently at a premium vs. its peers of 50.1% on our 2018E P/E of 16.9x, and 69.5% on our 2018E EV/EBITDA of 8.7x, while its 2018E dividend yield of 5.8% is 46.9% higher. However, we cannot find a directly comparable peer due to ANY's diversity across various sub-segments of the security printing market, and we do not believe a much higher premium than the current one is justified.

### Expected events

| | |
|---|---|
| FY17 results | 5 March 2018 |

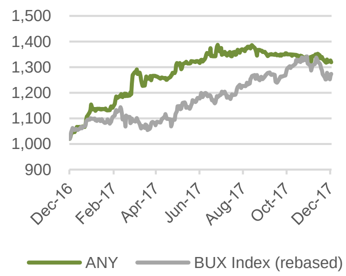
### Key data

| | |
|---|---|
| Market cap | HUF 19,514m |
| Free float | 48.3% |
| 3M ADTV | EUR 34k |
| Shares outstanding | 14.79m |
| Major Shareholder | Erdos family (22%) |
| Bloomberg code | ANY HB |
| Reuters code | ANYB.BU |
| BUX Index | 1,274 |

### Price performance

| | |
|---|---|
| 52-w range | HUF 1,020-1,387 |
| 52-w performance | 29.3% |
| Relative performance | 4.4% |

**ANY 12M share price performance**




| Year | Sales (HUF m) | EBITDA (HUF m) | EBIT (HUF m) | Net income (HUF m) | EPS (HUF) | P/E (x) | EV/EBITDA (x) | DPS (HUF) | Dividend yield |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | 22,692 | 2,291 | 1,423 | 1,017 | 68.8 | 10.6 | 4.3 | 55.0 | 7.6% |
| **2015** | 21,366 | 2,277 | 1,366 | 932 | 63.0 | 14.3 | 6.0 | 73.0 | 8.1% |
| **2016** | 24,911 | 2,977 | 1,969 | 1,202 | 81.3 | 13.2 | 6.6 | 65.0 | 6.1% |
| **2017E** | 24,606 | 2,797 | 1,713 | 1,132 | 76.5 | 17.2 | 8.7 | 84.1 | 6.4% |
| **2018E** | 25,950 | 2,878 | 1,778 | 1,155 | 78.1 | 16.9 | 8.7 | 76.5 | 5.8% |
| **2019E** | 27,830 | 3,049 | 1,931 | 1,243 | 84.0 | 15.7 | 8.4 | 78.1 | 5.9% |
| **2020E** | 27,247 | 3,060 | 1,926 | 1,190 | 80.5 | 16.4 | 8.3 | 84.0 | 6.4% |

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EQUITY RESEARCH

# Contents



## Closing Prices as of 13 December 2017



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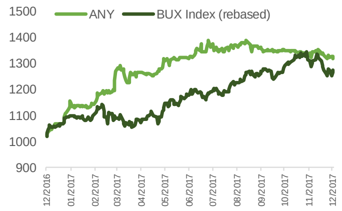
# Company snapshot – HOLD, HUF 1,406

**ANY PLC**

| HOLD | |
|---|---|
| Bloomberg ticker | ANY HB |
| Closing price (HUF) | 1,319 |
| Price target (HUF) | 1,406 |
| Upside to PT | 7% |
| Shares outstanding (m) | 14.79 |
| Market cap (HUFm) | 19,677 |
| Free float | 48% |
| Average daily turnover (EURk) | 34 |
| 52 Week performance | 29.3% |
| 52 Week relative performance | 4.4% |
| 52 Week Range (HUF) | 1,020-1,387 |

**SHARE PRICE PERFORMANCE**




**COMPANY DESCRIPTION**

ANY Security Printing Company PLC is the leading Hungarian security printing company, with significant operations in Romania and Bulgaria. The company was first established in 1851, and it has since expanded its product offering across the security printing spectrum, ranging from eIDs and passports, to bank/loyalty cards production and business/election forms. Over 2011-16, ANY has grown by almost 8% per annum, reaching sales of HUF 24.9bn, whilst its exports business has grown in significance, representing 37% of sales in 2016, from 28% in 2011.

**RATIOS**

| PER SHARE RATIOS (HUF) | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| EPS | 63.0 | 81.3 | 76.5 | 78.1 | 84.0 | 80.5 |
| BVPS | 406.2 | 422.5 | 414.9 | 416.4 | 422.3 | 418.8 |
| DPS | 73.0 | 65.0 | 84.1 | 76.5 | 78.1 | 84.0 |

| FINANCIAL RATIOS | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| EBITDA margin | 10.7% | 12.0% | 11.4% | 11.1% | 11.0% | 11.2% |
| EBIT margin | 6.4% | 7.9% | 7.0% | 6.9% | 6.9% | 7.1% |
| Net margin | 4.4% | 4.8% | 4.6% | 4.5% | 4.5% | 4.4% |
| ROE | 15.5% | 19.2% | 18.4% | 18.7% | 19.9% | 19.2% |
| Net debt/EBITDA | -0.2x | 0.9x | 1.3x | 1.4x | 1.4x | 1.4x |
| Capex/depreciation | 1.48x | 4.31x | 1.10x | 1.10x | 1.10x | 1.10x |

| Growth | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Revenues | -5.8% | 16.6% | -1.2% | 5.5% | 7.2% | -2.1% |
| EBITDA | -0.6% | 30.7% | -6.0% | 2.9% | 5.9% | 0.4% |

| VALUATION RATIOS | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| EV/EBITDA | 6.0x | 6.6x | 8.7x | 8.7x | 8.4x | 8.3x |
| P/E | 14.3x | 13.2x | 17.2x | 16.9x | 15.7x | 16.4x |
| EV, EURm | 13,724 | 19,521 | 24,433 | 25,100 | 25,464 | 25,524 |
| Net debt, EURm | -501 | 2,583 | 3,653 | 4,143 | 4,318 | 4,180 |
| FCF | 126 | -1,909 | 410 | 877 | 1,252 | 1,688 |
| FCF yield | 0.9% | -9.8% | 1.7% | 3.5% | 4.9% | 6.6% |
| Dividend yield | 8.1% | 6.1% | 6.4% | 5.8% | 5.9% | 6.4% |

| FCF BREAKDOWN | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| EBIT | 1,366 | 1,969 | 1,713 | 1,778 | 1,931 | 1,926 |
| NOPAT | 1,228 | 1,684 | 1,509 | 1,567 | 1,704 | 1,696 |
| Depreciation | 911 | 1,008 | 1,084 | 1,101 | 1,117 | 1,134 |
| Change in WC | -667 | -261 | -991 | -580 | -340 | 105 |
| Capex | -1,346 | -4,340 | -1,193 | -1,211 | -1,229 | -1,247 |
| FCF | 126 | -1,909 | 410 | 877 | 1,252 | 1,688 |

**COMPANY FINANCIALS**

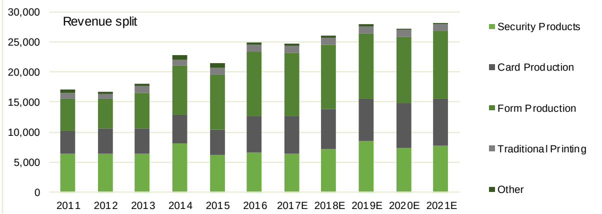
| INCOME STATEMENT, HUFm | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Revenues | 21,366 | 24,911 | 24,606 | 25,950 | 27,830 | 27,247 |
| Costs | -19,089 | -21,934 | -21,808 | -23,071 | -24,781 | -24,187 |
| o/w Material expenses | -14,345 | -16,145 | -16,363 | -17,127 | -18,646 | -17,929 |
| o/w Personnel expenses | -4,770 | -5,601 | -5,586 | -5,900 | -6,112 | -6,228 |
| o/w Other expenses | 26 | -188 | 140 | -45 | -23 | -30 |
| EBITDA | 2,277 | 2,977 | 2,797 | 2,878 | 3,049 | 3,060 |
| Depreciation | -911 | -1,008 | -1,084 | -1,101 | -1,117 | -1,134 |
| EBIT | 1,366 | 1,969 | 1,713 | 1,778 | 1,931 | 1,926 |
| Interest expense, net | -11 | -103 | -94 | -133 | -176 | -209 |
| Tax | -88 | -281 | -193 | -195 | -207 | -206 |
| Minorities | -335 | -383 | -295 | -295 | -307 | -321 |
| Net Income for shareholders | 932 | 1,202 | 1,132 | 1,155 | 1,243 | 1,190 |

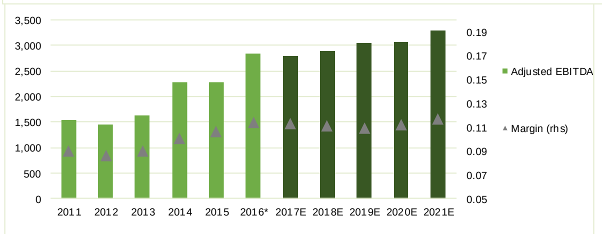
| CASH FLOW STATEMENT, HUFm | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| CF from operations | 1,451 | 2,276 | 1,521 | 1,971 | 2,326 | 2,751 |
| o/w depreciation | 911 | 1,008 | 1,084 | 1,101 | 1,117 | 1,134 |
| o/w change in WC | -667 | -261 | -991 | -580 | -340 | 105 |
| CF from investments | -1,346 | -4,340 | -1,193 | -1,211 | -1,229 | -1,247 |
| o/w capex | -1,320 | -4,429 | -1,193 | -1,211 | -1,229 | -1,247 |
| CF from fin. activities | -941 | 2,114 | -557 | -820 | -1,083 | -1,621 |
| o/w dividends | -1,080 | -962 | -1,245 | -1,132 | -1,155 | -1,243 |
| Cash flow | -837 | 51 | -229 | -60 | 15 | -117 |
| Cash balance | 815 | 865 | 636 | 576 | 590 | 473 |

| BALANCE SHEET, HUFm | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| PPE | 3,758 | 7,230 | 7,338 | 7,448 | 7,560 | 7,673 |
| Intangible assets, net | 80 | 50 | 50 | 50 | 50 | 50 |
| Goodwill | 335 | 335 | 335 | 335 | 335 | 335 |
| Others | 9 | 5 | 5 | 5 | 5 | 5 |
| Total non-current assets | 4,182 | 7,620 | 7,728 | 7,838 | 7,950 | 8,063 |
| Cash and cash equivalents | 815 | 865 | 636 | 576 | 590 | 473 |
| Trade receivables | 2,992 | 3,445 | 4,382 | 4,977 | 5,337 | 5,225 |
| Inventories | 2,028 | 2,144 | 2,225 | 2,346 | 2,516 | 2,463 |
| Others | 1,403 | 1,299 | 1,299 | 1,299 | 1,299 | 1,299 |
| Total current assets | 7,239 | 7,754 | 8,542 | 9,198 | 9,743 | 9,462 |
| Total assets | 11,421 | 15,374 | 16,270 | 17,036 | 17,693 | 17,525 |
| Total shareholders equity | 6,009 | 6,250 | 6,138 | 6,160 | 6,248 | 6,196 |
| Minority interest | 883 | 1,124 | 1,266 | 1,443 | 1,632 | 1,830 |
| LT Debt | 0 | 1,633 | 1,483 | 1,333 | 1,183 | 1,033 |
| Other LT liabilities | 495 | 940 | 940 | 940 | 940 | 940 |
| Total non-current liabilities | 495 | 2,573 | 2,423 | 2,273 | 2,123 | 1,973 |
| ST Debt | 0 | 1,036 | 2,027 | 2,607 | 2,946 | 2,841 |
| ST payables | 2,878 | 2,467 | 2,494 | 2,631 | 2,821 | 2,762 |
| Other ST liabilities | 1,050 | 1,659 | 1,659 | 1,659 | 1,659 | 1,659 |
| Total current liabilities | 4,034 | 5,426 | 6,444 | 7,160 | 7,691 | 7,526 |
| Total equity and liabilities | 11,421 | 15,374 | 16,270 | 17,036 | 17,693 | 17,525 |

**OPERATIONS**

| | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Revenues | 21,366 | 24,911 | 24,606 | 25,950 | 27,830 | 27,247 |
| o/w Security Products | 6,139 | 6,680 | 6,427 | 7,248 | 8,586 | 7,440 |
| o/w Card Production | 4,186 | 5,937 | 6,293 | 6,608 | 6,938 | 7,285 |
| o/w Form Production | 9,205 | 10,715 | 10,394 | 10,602 | 10,814 | 11,030 |
| o/w Traditional Printing | 1,106 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 |
| o/w Other | 730 | 436 | 349 | 349 | 349 | 349 |
| as % of revenues | | | | | | |
| Security Products | 29% | 27% | 26% | 27% | 31% | 27% |
| Card Production | 20% | 24% | 26% | 24% | 25% | 27% |
| Form Production | 43% | 43% | 42% | 43% | 39% | 40% |
| Traditional Printing | 5% | 5% | 5% | 5% | 4% | 4% |
| Other | 3% | 2% | 1% | 2% | 1% | 1% |
| Export revenues | 8,348 | 9,228 | 10,159 | 10,558 | 11,012 | 11,580 |
| o/w Security Products | 598 | 471 | 836 | 870 | 944 | 1,116 |
| o/w Card Production | 296 | 318 | 315 | 396 | 486 | 583 |
| o/w Form Production | 7,074 | 8,101 | 8,835 | 9,117 | 9,408 | 9,706 |
| o/w Traditional Printing | 5 | 10 | 0 | 0 | 0 | 0 |
| o/w Other | 375 | 328 | 174 | 174 | 174 | 174 |
| Export revenues as % of total | 39% | 37% | 41% | 41% | 40% | 42% |



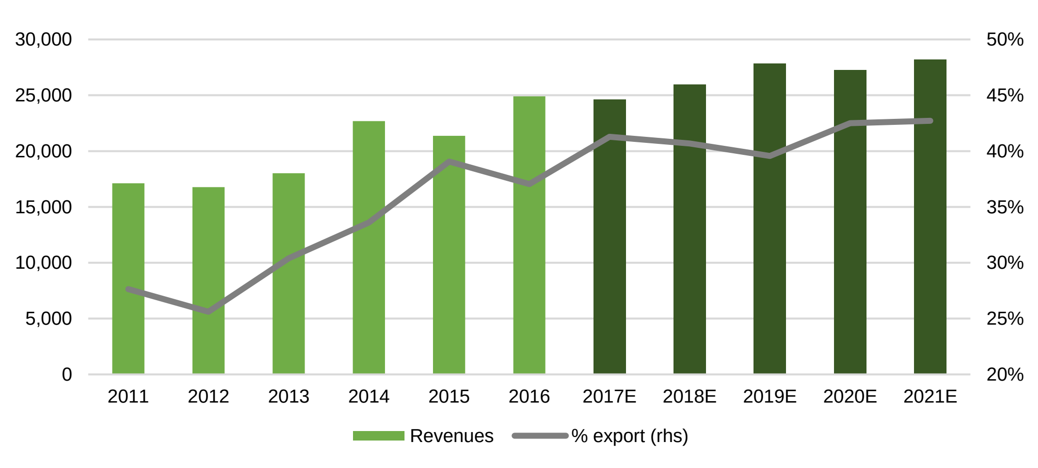



# Investment case

**We initiate coverage of ANY PLC with a HOLD rating and a price target (PT) of HUF 1,406/share. ANY is the leading security printing company in Hungary, with significant operations in Romania and Bulgaria. The company is diversified across the security market and in terms of geography, deriving 37% of its revenues from markets other than Hungary in 2016, up from 28% in 2011. Our PT implies 7% upside to the current share price. We like ANY for its: i) strong revenue base, resilient over the economic cycle; ii) diversification across business lines; iii) increasing exposure to markets outside Hungary; iv) adjusted EBITDA margin stability, improving slightly, by 30bps by 2021E; v) good FCF generation, with the FCF to EBITDA increasing from 15% in 2017E to 48% in 2021E; and vi) strong dividends profile, with a payout of 100% over our forecast period and an average dividend yield of 6.1%. However, in our view, the company is fairly valued, with the industry facing a long-term threat due to digitalisation. We see short- to medium-term revenue growth in certain business lines; however, this is already incorporated in its share price, in our view. We see upside risks for our estimates if the company shifts its business model to incorporate further digitalisation, or it secures a large government contract in the less developed markets in Central Africa; however, these would need to be more visible in order to be incorporated in our valuation. ANY is trading currently at a premium vs. its peers of 50.1% on our 2018E P/E of 16.9x, and 69.5% on our 2018E EV/EBITDA of 8.7x, while its 2018E dividend yield of 5.8% is 46.9% higher. However, we have not found a directly comparable peer, given ANY's diversity across security printing business lines, with its peers only covering parts of the company's activity. Given its higher dividend yield, and exposure to security and card printing (which offers some protection against the global decline in the printing industry), as well as growth opportunities in Eastern Europe, we believe that ANY deserves to trade at a premium vs. its peers; however, we do not see a much higher premium than the current one as justified.**

**Strong revenue base, resilient over economic cycles.** ANY has grown by approximately 8% per year since 2011, to reach HUF 24.9bn in sales in 2016. The company generates half of its revenues from government contracts, while the other half comes from private sector contracts. It renewed its largest contract with the Hungarian government for the period covering 2017-21E, covering eIDs, passports, vehicle registration certificates and driving licences, estimated to be worth approximately HUF 9bn/year. In terms of the private sector, amongst its largest customers are Sodexo, Erste, Allianza, Aegon and MOL. ANY also generates revenues from elections in Hungary, and we estimate HUF 500m in 2018E and HUF 1.5bn in 2019E from the Hungarian and EU parliament elections, and the municipalities elections. As these do not occur every year, we see a high base effect in 2020E, with revenues declining 2.1%. Given its product mix, we see ANY showing resilience over the economic cycle, apart from its card production unit, which is sensitive to banking activity and retail sales.

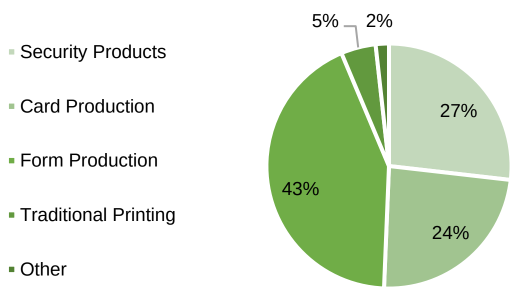
### Revenue growth



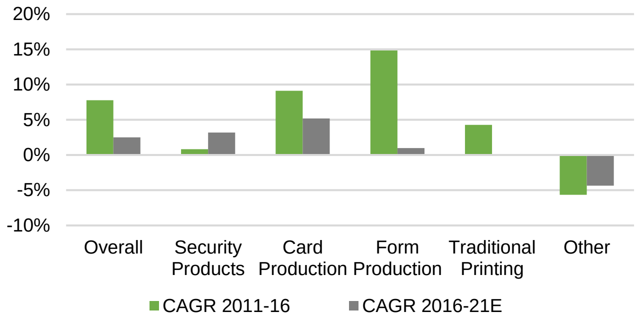

*Source: Company data, WOOD Research*

**Diversification across business lines.** We see ANY's diverse product offering as a strength for a security printing market player. Aside from allowing the company to service large government contracts, it also helps protect it from negative trends, such as digitalisation, which we expect will only affect its form production unit, where we assume growth of 1% per year over 2016-21E. We expect the company to grow overall by a CAGR of 2.5% over 2016-21E, while we assume the fastest growth in card production, at 5.2% over the same period.

## Revenue split across business lines (2016)



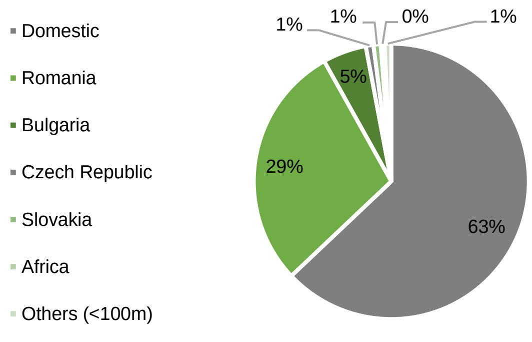

## Revenue growth across business lines



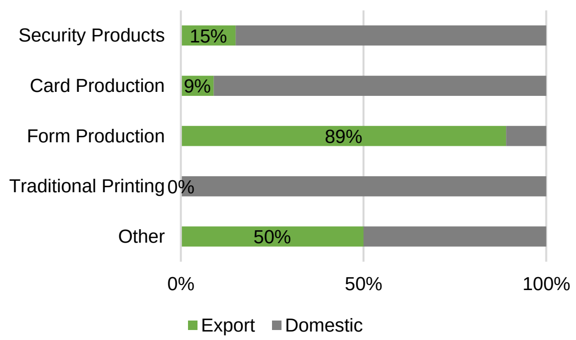

*Source: Company data, WOOD Research*

**Increasing exposure to markets outside Hungary.** In 2016, ANY generated 37% of its revenues from markets outside Hungary, up from 28% in 2011. The two most important markets are: Romania, which accounted for 78% of exports in 2016; and Bulgaria, at 14%. We expect this trend to continue, assuming that the company will generate 43% of its revenues from other markets in 2021E. Although we expect most of this revenue to come from form production in 2021E, which is the slowest growing strategic area, we see an increase in security products from 7% in 2016 to 15% in 2021E, which would boost the company's brand outside its home market, increasing the likelihood of a larger value contract. However, we see the likelihood of a large value foreign government contract as low at the moment, and we have not integrated any such contract into our valuation.

## Revenue split by geography (2016)



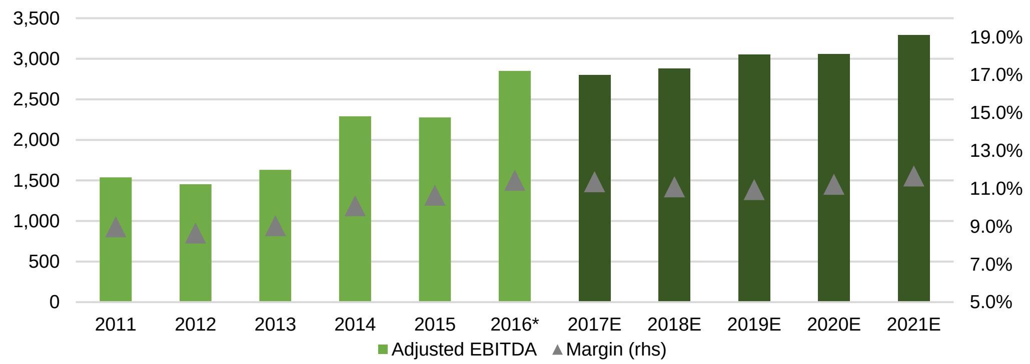

## Business lines revenue split by geography (2021E)




*Source: Company data, WOOD Research*

**Adjusted EBITDA margin stability, improving slightly, by 30bps by 2021E.** The adjusted EBITDA margin (excluding the HUF 126m one-off gain in 2016 due to the real estate transaction) increased from 9% in 2011 to 11.4% in 2016, due to a more profitable product mix and a higher contribution from export sales. Although we expect mild margin pressure over the next few years, due to labour market tightness in Hungary and Romania, we see the margin improving by a further 30bps to reach 11.7% in 2021E, as the more profitable security products and card production lines should gain a larger share of sales, in our view.

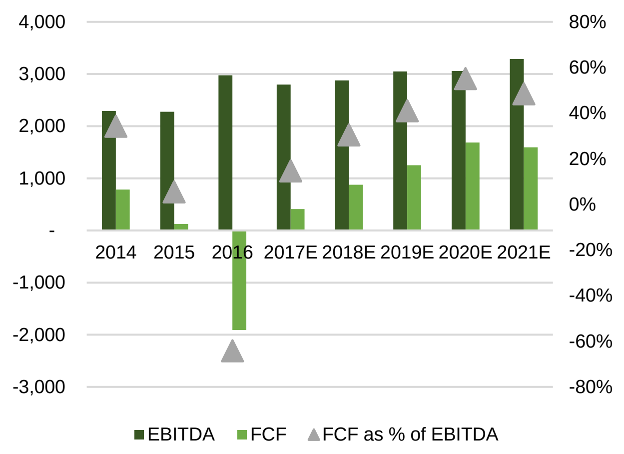
## Adjusted EBITDA dynamics



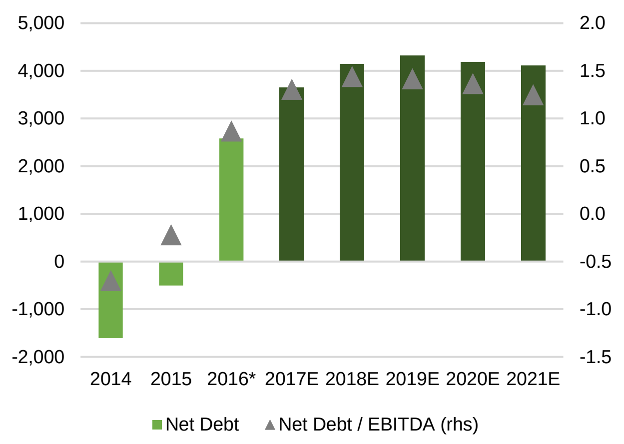

*Source: Company data, WOOD Research; *positive one-off impact of HUF 126m due to the real estate transaction*

**Good FCF generation, with FCF to EBITDA increasing from 15% in 2017E to 48% in 2021E.** After a large capex spend in 2016 to acquire three production plants, we expect the FCF as a percentage of EBITDA to increase to 48% in 2021E, giving the company enough room to expand its operations, or maintain its dividend profile. This comes after capex investments are estimated at 110% of depreciation over our forecast period, representing 48% of EBITDA in 2021E. As the company has extended its invoice terms in order to gain market share, we are expecting an increase in its cash conversion cycle from 46 in 2016 to 66 from 2018E-onwards. However, this should not pressure its FCF generation ability as it will be financed by low rate working capital lines, while its net debt profile should remain on the conservative side, reaching a maximum of 1.44 in 2018E, before stabilising at 1.25 in 2021E.

**FCF and EBITDA expectations**



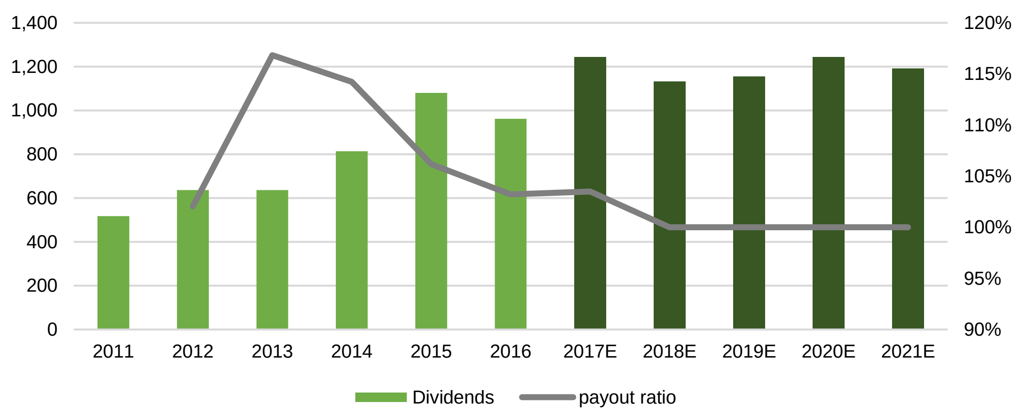

**Net debt dynamics**




*Source: Company data, WOOD Research; *2016 increase in net debt includes financing for the real estate transaction*

**Strong dividends profile, with a payout of 100% over our forecast period, with an average dividend yield of 6.1%.** ANY has historically paid dividends at a ratio of 100%, and even higher in some years. We expect this trend to continue, which would imply dividend yields, based on the current share price, of 6.3% in 2017E, 5.8% in 2018E, 5.9% in 2019E, 6.3% in 2020E and 6% in 2021E, on our estimates.

**Dividends**




*Source: Company data, WOOD Research*

# Valuation

## Valuation summary

We initiate coverage of ANY PLC with a HOLD rating and a price target (PT) of HUF 1,406/share. Our PT is derived from our DCF fair value of HUF 1,268/share and DDM fair value of HUF 1,341/share, equally weighted. Our PT implies 7% upside to the current HUF 1,319 share price.

### Valuation summary

| | Equity value (HUF m) | Per share |
|---|---|---|
| DCF | 18,758 | 1,268 |
| DDM | 19,835 | 1,341 |
| Average (50:50) | 19,297 | 1,304 |
| **12-month PT (HUF)** | | **1,406** |
| Current price (HUF) | | 1,319 |
| **Upside** | | **7%** |

*Source: WOOD Research*

## DCF: current fair value of HUF 18,758m

We base our DCF valuation on the following assumptions:

- ✓ A blended WACC of 7.4% including:
  i. A weight of 59% for Hungary and 41% for Romania based on our forecast domestic/export revenue split for 2017-21E.
  ii. A risk free rate of 3% for Hungary and 4.5% for Romania.
  iii. An equity risk premium of 4.5% for Hungary and 4.5% for Romania.
  iv. A debt risk premium of 3.5% for the company.
  v. An unlevered beta of 0.70x, given the company's lower sensitivity to the economic cycle, implying a 0.92x levered beta using its D/E ratio
- ✓ A terminal growth rate of 2%, given the long-term industry dynamics, which imply digitalisation, in line with our expectation of a slowdown after assuming a sales CAGR of 2.5% over 2016-2021E.
- ✓ An average cash conversion cycle of 65 days for the period.
- ✓ Minorities implied as 17% of the EV based on its share of the 2017E book value to total equity.

### DCF valuation

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Revenue | 22,692 | 21,366 | 24,911 | 24,606 | 25,950 | 27,830 | 27,247 | 28,204 |
| EBIT | 1,423 | 1,366 | 1,969 | 1,713 | 1,778 | 1,931 | 1,926 | 2,139 |
| Cash taxes on EBIT | 209 | 137 | 286 | 204 | 211 | 227 | 231 | 256 |
| **NOPAT** | **1,214** | **1,228** | **1,684** | **1,509** | **1,567** | **1,704** | **1,696** | **1,883** |
| Depreciation | 868 | 911 | 1,008 | 1,084 | 1,101 | 1,117 | 1,134 | 1,151 |
| Change in operating WC | -139 | -667 | -261 | -991 | -580 | -340 | 105 | -173 |
| CAPEX | -1,157 | -1,346 | -4,340 | -1,193 | -1,211 | -1,229 | -1,247 | -1,266 |
| **Net investment** | **-429** | **-1,102** | **-3,593** | **-1,099** | **-690** | **-452** | **-8** | **-288** |
| **FCF** | **785** | **126** | **-1,909** | **410** | **877** | **1,252** | **1,688** | **1,595** |
| Discount factor | | | | | 0.93 | 0.86 | 0.80 | 0.75 |
| PV of FCF | | | | | 811 | 1,079 | 1,354 | 1,192 |
| **SUM of PV FCF** | | | | | **4,436** | | | |
| Long term FCF growth rate | | | | | 2.0% | | | |
| Residual value at horizon | | | | | 30,241 | | | |
| **PV of Residual value** | | | | | **22,597** | | | |
| Net debt | | | | | 3,653 | | | |
| Minorities (BV weighted) | | | | | 4,622 | | | |
| **Equity value** | | | | | **18,758** | | | |
| Number of shares (m) | | | | | 14.79 | | | |
| Equity value per share | | | | | 1,268 | | | |
| **12M price target** | | | | | **1,366** | | | |
| **% upside** | | | | | **4%** | | | |

*Source: WOOD Research*

#### WACC estimate

| | Hungary | Romania |
|---|---|---|
| Risk free rate | 3.0% | 4.5% |
| Unlevered beta | 0.70 | 0.70 |
| Levered beta | 0.92 | 0.92 |
| Equity risk premium | 4.5% | 4.5% |
| **Cost of equity** | **7.2%** | **8.7%** |
| Risk free rate | 3.0% | 4.5% |
| Debt risk premium | 3.5% | 3.5% |
| Tax rate | 9.0% | 16.0% |
| **After-tax cost of debt** | **5.9%** | **6.7%** |
| %D | 26% | 26% |
| %E | 74% | 74% |
| **WACC** | **6.8%** | **8.2%** |
| Weight | 59% | 41% |
| **Cost of equity blended** | **7.8%** | |
| **WACC blended** | **7.4%** | |

*Source: WOOD Research*

## DDM: current fair value of HUF 19,835m

We base our DDM valuation on the following assumptions:

- ✓ A blended cost of equity of 7.8%, including:
  - i. A weight of 59% for Hungary and 41% for Romania, based on our forecast domestic/export revenue split for 2017-21E.
  - ii. A risk free rate of 3% for Hungary and 4.5% for Romania.
  - iii. An equity risk premium of 4.5% for Hungary and 4.5% for Romania.
  - iv. An unlevered beta of 0.70x, giving the company's lower sensitivity to the economic cycle, implying a 0.92x levered beta using its D/E ratio.
- ✓ A terminal growth rate of 2%, given the long-term industry dynamics, which imply digitalisation, in line with our expectation of a slowdown, after assuming a sales CAGR of 2.5% over 2016-2021E.
- ✓ A payout ratio of 100%

#### DDM valuation

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Net income to shareholders | 1,017 | 932 | 1,202 | 1,132 | 1,155 | 1,243 | 1,190 | 1,321 |
| **Dividend** | **814** | **1,080** | **962** | **1,245** | **1,132** | **1,155** | **1,243** | **1,190** |
| Payout ratio | 114% | 106% | 103% | 104% | 100% | 100% | 100% | 100% |
| Discount factor | | | | 0.96 | 0.89 | 0.82 | 0.76 | 0.71 |
| PV of Dividend | | | | 1,190 | 1,004 | 950 | 949 | 843 |
| **SUM of PV Dividend** | | | | **4,936** | | | | |
| Long term FCF growth rate | | | | 2.0% | | | | |
| Residual value at horizon | | | | 21,029 | | | | |
| **PV of residual value** | | | | **14,899** | | | | |
| **Equity value** | | | | **19,835** | | | | |
| Number of shares (m) | | | | 14.79 | | | | |
| Equity value per share | | | | 1,341 | | | | |
| **12M price target** | | | | **1,445** | | | | |
| **% upside** | | | | **10%** | | | | |

*Source: WOOD Research*

## Peer comparison

As ANY combines both traditional printing services and direct mail services with more specialised niche services, such as cards or securities printing, we could not find a perfect peer for the company. We did find peers that are active throughout several areas of the printing industry, with different proportions of these services in their turnovers. At an 2018E P/E of 16.9x and a 2019E P/E of 15.7x, ANY trades at premiums of 50.1% and 52.3%, respectively, vs. its peers. At an average 2017-18E EV/EBITDA of 8.7x, ANY trades at premiums of 40% and 69.5%, respectively. Also, the company offers a dividend yield of 5.8% on 2018E, which represents a 46.9% higher yield than its peers. As a result of its higher dividend yield, and the exposure to the securities and card printing industries, which offer some protection against the global decline in the printing industry and even offer growth opportunities in Eastern European countries (where the demand for such services is increasing), we believe that ANY deserves to trade at a premium vs. its peers. Still, we do not believe that a much higher premium than the current one is justified.

### Peer comparison

| Name | Market cap (US$) | P/E | | | | EV/EBITDA | | | | Dividend yield | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2016A | 2017E | 2018E | 2019E | 2016A | 2017E | 2018E | 2019E | 2017E | 2018E | 2019E |
| De la Rue | 842 | 38.4x | 13.0x | 12.3x | 11.5x | 6.1x | 7.6x | 7.1x | 6.7x | 0.0% | 0.0% | 0.0% |
| Elanders AB-B | 326 | 12.7x | 12.8x | 9.1x | 7.7x | 11.4x | 9.0x | 6.2x | 5.2x | 3.6% | 3.9% | 4.0% |
| Orell Fuessli AG-REG | 221 | 20.3x | 17.6x | 17.0x | 16.5x | 5.8x | 4.9x | 4.8x | 4.8x | 3.6% | 4.0% | 4.0% |
| Valid Solucoes SA | 352 | 13.1x | 17.4x | 10.3x | 9.1x | 8.8x | 6.2x | 5.1x | 4.8x | 4.3% | 6.9% | 6.8% |
| RR DONNELLEY & SONS CO | 623 | n.m. | 8.6x | 7.5x | 5.5x | 51.5x | 4.7x | 4.4x | 3.5x | n.m. | 8.1% | 8.1% |
| TUNGKONG INC -A | 1,083 | 32.7x | 28.4x | 22.6x | 18.3x | 34.0x | n.m. | n.m. | n.m. | 1.6% | 2.2% | 2.7% |
| **MEDIAN** | | **20.3x** | **15.2x** | **11.3x** | **10.3x** | **10.1x** | **6.2x** | **5.1x** | **4.8x** | **3.6%** | **3.9%** | **4.0%** |
| **ANY** | | **13.2x** | **17.2x** | **16.9x** | **15.7x** | **6.6x** | **8.7x** | **8.7x** | **8.4x** | **6.4%** | **5.8%** | **5.9%** |
| ***Discount/premium*** | | ***-35.3%*** | ***13.3%*** | ***50.1%*** | ***52.3%*** | ***-35.3%*** | ***40.0%*** | ***69.5%*** | ***75.2%*** | ***78.1%*** | ***46.9%*** | ***47.6%*** |

*Source: WOOD Research, Bloomberg*

# Risks

**Macro risks.** With more than 90% of its revenues derived from Hungary and Romania, ANY operates in very favourable macro environments in both countries, with our house view expecting Hungary to grow by 4.1% in 2018E, from 3.7% in 2017E, while Romania is currently the second-fastest growing economy in the EU, with our growth expectations at 4.5% in 2018E, from 6% in 2017E. While this momentum is supporting the company, a change in the growth trajectory might impact performance. However, we see ANY and most of its business lines, apart from card production, as being more resilient to the economic cycle.

**Tax risk.** With the corporate tax rate having been lowered in Hungary to 9% in 2017, the company is benefiting from a lower tax base than in the past. Although we do not see any intentions for any corporate tax rate hikes, and we assume that the tax rate remains constant over the explicit forecast period, we highlight this as a risk, particularly as the company has a dividend payout ratio of 100%.

**Labour costs.** Both Hungary and Romania's labour markets are very tight at the moment, with our house view expecting wages to increase by 10% or more in 2018E in Hungary, while we expect the trend of double-digit nominal wage growth experienced over the past year to continue in 2018E in Romania. Although we have assumed an increase of 5% in wages in 2018E, slowing down to 2.5% in 2021E, we believe that upside risks for our estimates could affect profitability, given that labour costs amounted to 22.5% of revenues in 2016.

**FX risks.** The company does not have much FX exposure due to its operations, given that most of its debt is in HUF; and, while parts of its input costs are in EUR, these are naturally hedged by the EUR revenues from its export markets. However, due to its subsidiaries in Romania and Bulgaria, the company is exposed to translation risk from RON and BGN back to HUF.

**Digitalisation.** We see the current trend of the digitalisation of the security printing market as negative for ANY, particularly for its form production business line. This represented 43% of the company's revenue in 2016, and 80% of it consists of transactional mailing, such as invoices and bank statements delivery, which we believe is likely to be the most affected by the trend. Although the penetration rate of the electronic delivery of invoices is still very low, at less than 15% in this business line's main markets – Romania, Hungary and Bulgaria – the expectation is for these markets to catch up with more developed ones in the medium to long-term, such as Norway, at above 40%. We have taken this into account in our assumptions, with form production expected to grow at a CAGR of 1% over 2016-21E, the slowest of the company's three strategic business lines; however, an acceleration of the trend could erode the top line further. At the same time, a higher adoption of smartphone payment services, such as Apple pay, could slow down the company's card production business line. However, we do not see this trend as significant in the company's three main markets in the short to medium term. On the other hand, ANY also offers electronic invoices delivery services to its clients, which are of lower value, but higher profitability. This gives it the ability to gain market share at the expense of smaller and less diverse competitors. Furthermore, digitalisation could be beneficial for its card production side, where a pick-up in contactless cards and the further conversion of government-issued documents to electronic, such as health registration cards, could mitigate the impact.

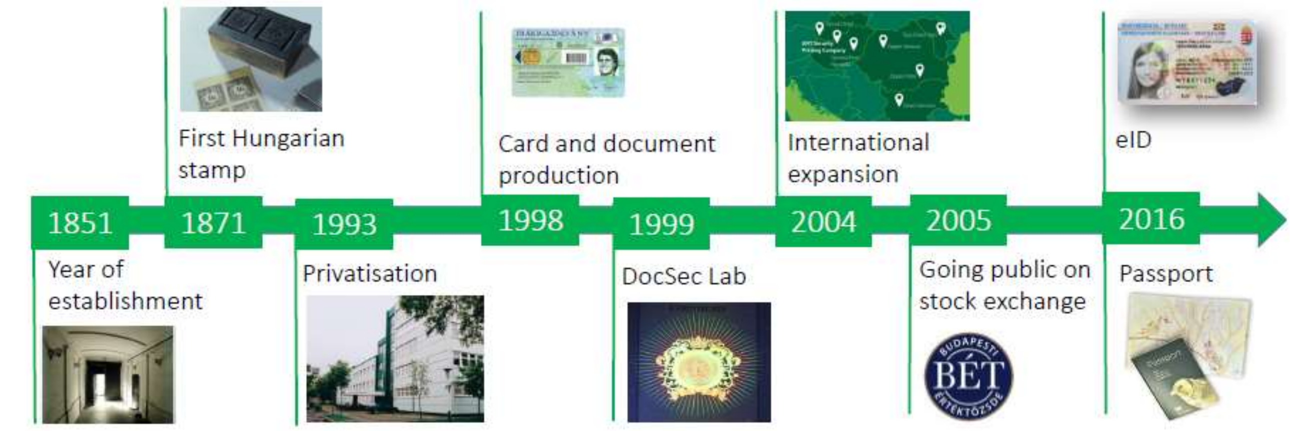
**Customer concentration.** With almost 50% of its revenues coming from governmental contracts, and a large part of this being the HUF 9bn/year contract with the Hungarian government renewed recently for the 2017-21 period, ANY has a large customer concentration in its portfolio. Although the loss of such a contract could affect the business adversely, we highlight that ANY has a long tradition of working with the Hungarian government, and that these type of contracts require significant local presence and expertise in order to be executed. As such, we see this as a very low probability scenario.

# Company overview

**ANY is the leading Hungarian security printing company, with significant operations in Romania and Bulgaria. The company was first established in 1851, and it has since expanded its product offering across the security printing spectrum, ranging from eIDs and passports, to bank/loyalty cards production and business/election forms. Over 2011-16, ANY has grown by almost 8% per annum, reaching sales of HUF 24.9bn, whilst its exports business has grown in significance as well, representing 37% of sales in 2016, from 28% in 2011.**

Having been established as the Habsburg Empire's state printing house branch in Timisoara in 1851, ANY has since grown into one of the leaders of the security printing industry in CEE. Constantly evolving to keep up with the trends, the company was privatised in 1993 by Dr. Akos Erdos, its current Chairman of the Board, who still owns a 15% stake. Since then, it has become the main supplier of security products to the Hungarian government, while also branching out into neighbouring countries. ANY listed successfully on the Budapest Stock Exchange in 2005, and is part of the main index currently.

**Company history**




*Source: Company data*

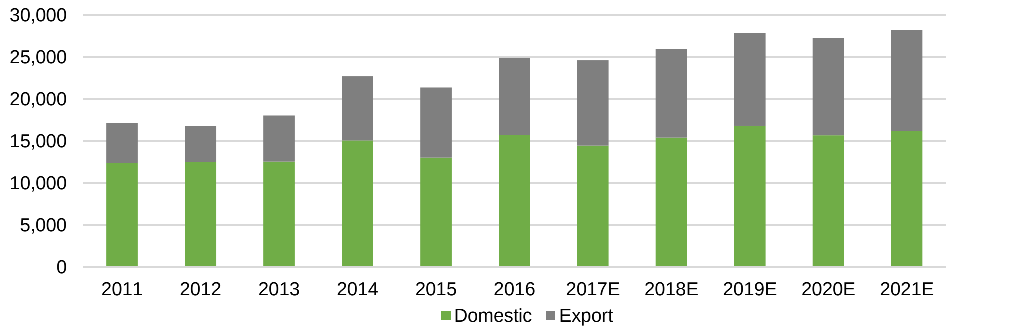
**Since 2011, ANY has grown dynamically, by 8% per annum, reaching HUF 24.9bn in sales in 2016.** This growth comes together with an increase in export sales, which increased to 37% of revenues in 2016 from 28% in 2011.

In terms of customer base, ANY has an approximately equal split between the government and private sector. In the private sector, its largest customer is MOL, while also servicing financial institutions like Erste and OTP, as well as utilities companies.

Its largest contract is with the Hungarian government, valued at HUF 9bn per year, and it recently re-won the tender for this contract, starting in 2017 for a period of five years. This contract covers security printing products, such as eIDs, passports, vehicle registration certificates and driving licences.

Other significant one-off revenues come from the elections in Hungary, where ANY has been the supplier of choice for the government for the past 50 years. This not only comes from a long-lasting working relationship with the government, but also because significant logistics capabilities and local presence are required for fulfilling such contracts. The top-line contribution from such contracts is estimated at HUF 500m for the EU and Hungarian parliament elections, and HUF 1bn for the municipal elections.

**Revenue growth**

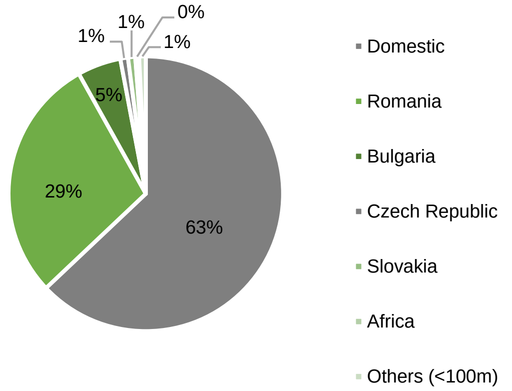



*Source: Company data, WOOD Research*

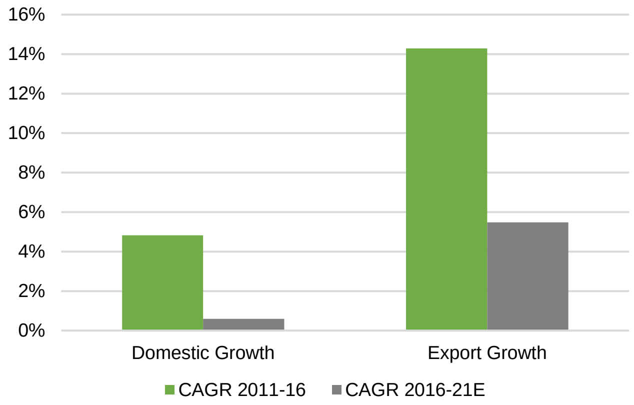
**While 63% of its revenues come from Hungary, ANY has been continuously expanding abroad.** Its other two main markets are Romania (29%) and Bulgaria (5%), while the rest of the markets represent less than 1% of sales individually. The company has a presence in central Africa as well: although this has a minimal top-line impact of less than 1% at the moment, it could lead to future growth in fast developing markets. As of 2016, 88% of its export revenues came from form production and personalisation and data processing, which is a significantly export-dedicated category, with 76% of revenues exports driven and 24% domestic. Over 2011-16, ANY experienced faster growth in its export markets than at home, 14% vs. 5% revenue CAGRs, respectively – this is a trend we expect to continue.

Although having full control over its subsidiaries' operations, which requires top-line consolidation, ANY has a 50% ownership share in its Romanian and Bulgarian subsidiaries; hence its bottom line is diluted by minorities.

### Revenue split by geography (2016)




### Revenue growth by geography




*Source: Company data, WOOD Research*

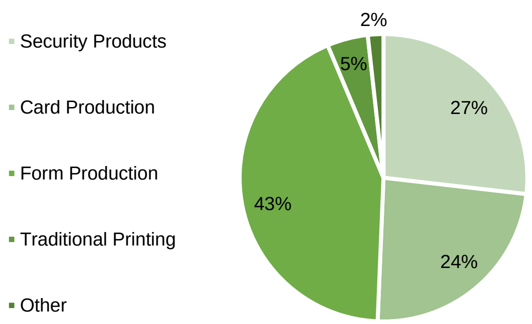
**ANY derives 93% of its revenue from strategic business lines.** Its three most important business lines – security products, card production and form production – are its main focus. ANY has capabilities across the value chain, ranging from planning/consultancy, printing and logistics to verification and monitoring/scanning using its proprietary scanning devices.

### Business lines description

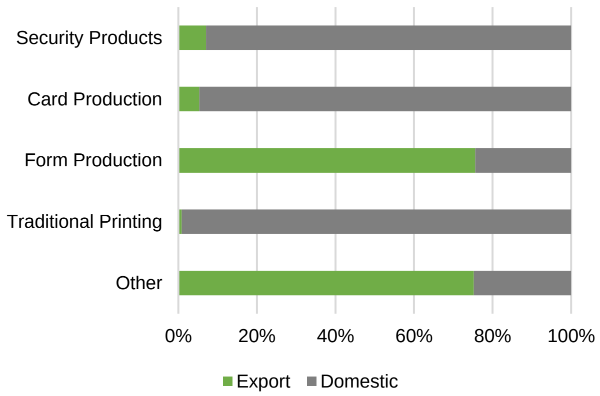
| Business line | Security products | Card production | Form production | Traditional printing | Other |
|---|---|---|---|---|---|
| Products | Passports<br>Tax stamps<br>Security printers, inks<br>Election forms | eIDs<br>Driving licenses<br>Vehicle registration cards<br>Bank cards<br>Loyalty cards | Transactional mailing (invoices/statements)<br>Business forms<br>Lottery forms | | |
| 2016 revenue (HUF bn) | 6.7 | 5.9 | 10.7 | 1.1 | 0.4 |
| 2016 % of revenue | 27% | 24% | 43% | 5% | 2% |
| 2016 export/domestic % split | 7% / 93% | 5% / 95% | 76% / 24% | 1% / 99% | 75% / 25% |
| 2011-16 CAGR | 1% | 9% | 15% | 4% | -6% |
| 2016-21E CAGR | 3% | 5% | 1% | 0% | -4% |
| Estimated EBITDA margin | 10-15% | 10-15% | 10-12% | 5% | 5% |

*Source: Company data, WOOD Research*

### Revenue split by business line (2016)



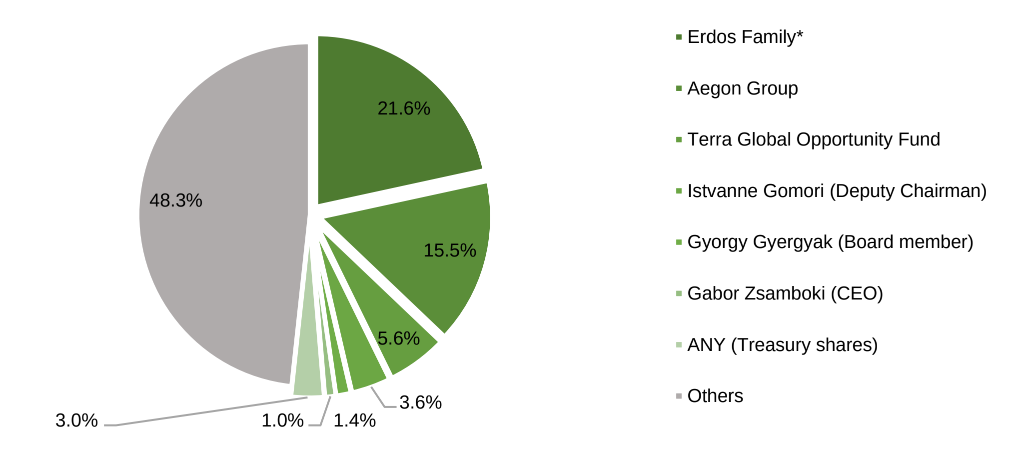

### Business line revenue split by geography (2016)




*Source: Company data*

**ANY has a dispersed shareholding structure, with the largest shareholder being the Erdos Family, with a 21.6% stake (Dr. Akos Erdos 14.8%, Mr. Tamas Erdos 6.8%).** Other significant shareholders are: Aegon Group (15.5%); Terra Global Opportunity Fund (5.6%); and Dr. Istvanne Gomori (3.6% via BE-LU), the company's Vice-Chairwoman of the Supervisory Board; while two of the company's managers have a 1% stake, Mr. Gyorgy Gyergyak (board member) and Mr. Gabor Zsamboki (CEO). The company holds a 3% stake as treasury shares, which were acquired at a c.20% discount to its current share price. The rest of the shareholders have a stake below 5%, with the total free float being 48.3%.

**ANY: shareholding structure (30 September 2017)**




*Source: Company data; *Dr. Akos Erdos 14.8% (11.6% EG Capital, 3.2% Fortunarum Kft) and Mr. Tamas Erdos 6.8% (Digital Forest)*

## 2016 real estate transaction

In 2016, ANY acquired two production plants in Budapest and one in Paszto for EUR 8.1m. Previously, the company leased these plants in EUR, and it acquired them in order to capitalise on the low yield environment, as well as the real estate opportunistic sale by its previous owner. The loan to acquire the real estate is denominated in HUF at a fixed low single-digit rate. As the purchase price was lower than the market value, negative goodwill was accounted for, resulting in a positive one-off item in 2016. The impact of the transaction is as follows:

- ✓ A positive one-off of HUF 126m in 2016, reported in other revenue and affecting the EBITDA.
- ✓ An improvement in the EBITDA margin, but a decline in the EBIT margin, given that this cost has shifted from an operating cost to depreciation.
- ✓ An expected increase in net income of HUF 50m going forward, given that the yearly loan repayment is lower than the previous operational lease.

## Company management

**Dr. Akos Erdos** has been the Chairman of the Board of Directors since 1993. With extensive experience in the journalism/printing industries, he was involved in the privatisation of ANY, and currently holds 15% of the company via two investment vehicles (EG Capital 11.6%, Fortunarum Kft 3.2%).

**Mr. Gabor Zsamboki** has been a member of the Board of Directors since 2005, and the company's CEO since 2008. Having worked in various management roles at other Hungarian entities, he joined ANY in 1999 as its Deputy Chief Commercial and Marketing officer, and holds 1% of the company currently.

**Mr. Laszlo Balla** – General Deputy CEO

**Mr. Ferenc Berkesi** – Chief Security Officer

**Mr. Tamas Karako** – Chief Financial Officer and Investor Relations

**Mr. Gabor Peter** – Chief Information Officer

**Dr. Lajos Szekelyhidi** – Chief Research and Development Officer

**Mr. Zoltan Toth** – Chief Technical and Production Officer

**ANY's supervisory board** consists of six members, of which three are considered independent. Mr. Ferenc Berkesi, the company's Chief Security Officer, is also a member of the supervisory board. Dr. Istvanne Gomori is the Supervisory Board Vice-chairwoman, and owns a 3.6% stake via BE-LU.

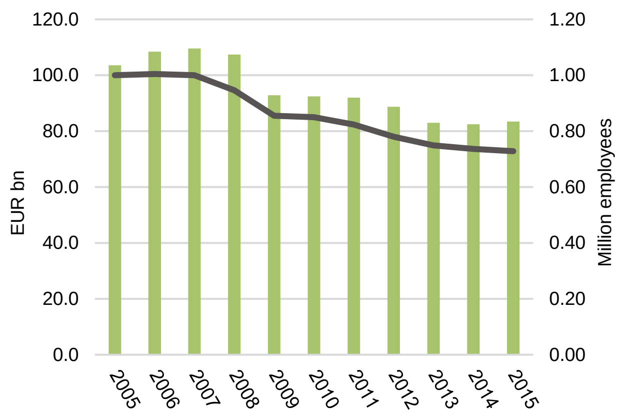
# Sector overview

## Traditional printing services

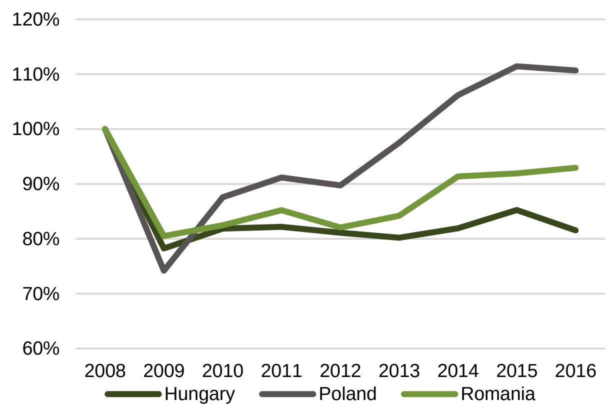
With the increased penetration of digital media, the traditional printing industry has been on a downward trend over the past decade. Still, the decline has not been as abrupt as one would expect, and the downward trend has lessened in the past four years. While the switch from newspapers and books to digital alternatives is already an established trend, other segments of the industry, such as advertising, are growing again as the economy picks up speed. Also, as the industry size shrinks, smaller companies are finding it harder to survive, which helps larger companies, which are benefiting from economies of scale, to gain market share. Companies that offer integrated services also perform better.

In the CEE region, printing companies have showed more resilience versus the international trend. In the past seven years, the trend has actually returned to growth, as the decline in some segments, such as traditional printing, which are being replaced by digital media, is being more than offset by the growth of other segments that are starting from a low base. Thus, the combined turnover of printing services in 2016 reached EUR 3.1bn in Poland, EUR 0.9bn in Hungary and EUR 0.75bn in Romania.

**EU: turnover and employees of printing industry**



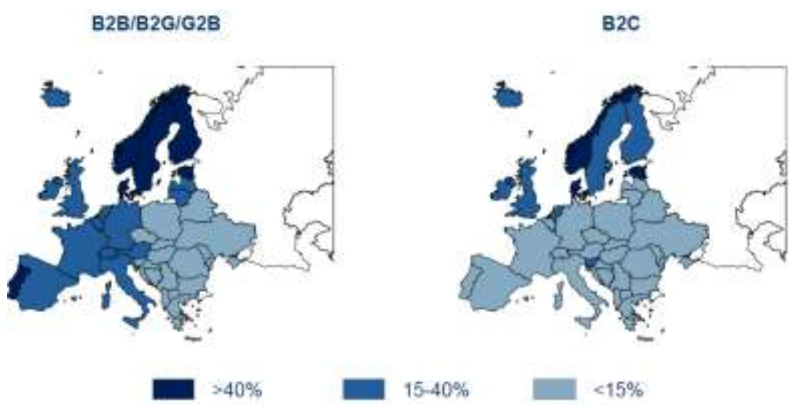

**Growth rates of printing industry in CEE**




*Source: WOOD Research, Eurostat*

One segment of the traditional paper printing market is the printing of invoices for home delivery. This segment has been declining in Western Europe, but it is still growing in some Eastern European countries due to the low base and the increase in advertising spending. While, in these countries, there might still be revenue opportunities in the short term, we believe that the overall downtrend is likely to be similar to Western Europe, where paper invoices are being replaced by customers using the internet to check and pay their accounts.

**Electronic invoices penetration (share of total invoices)**



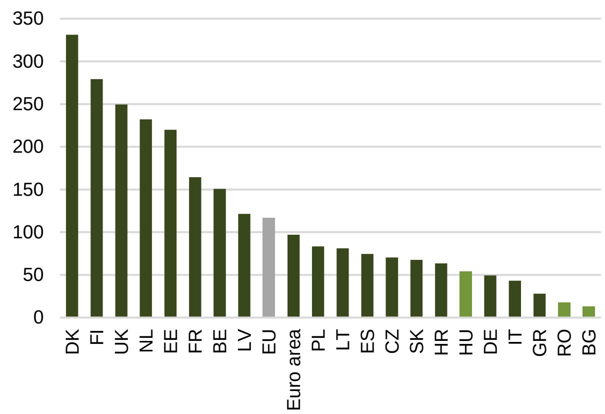

*Source: Billentis Internal Market Overview & Forecast*

## Speciality printing

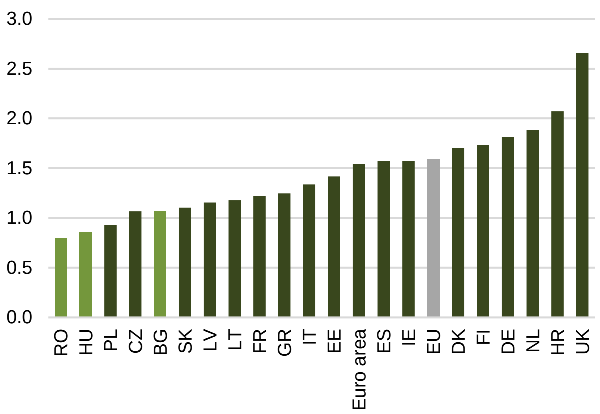
Despite the traditional printing services market being on a downward path, the speciality printing industry is driven by a different set of factors and is less affected by the growing number of digital devices. For the purpose of this report, we look at two segments of the market: the card printing industry, and security forms, such as passports, etc.

**The card printing** industry in Eastern Europe goes hand-in-hand with the development of the retail banking industry. The number of card transactions per capita is still significantly lower in some Eastern European countries compared to the EU average. From this point of view, Romania (17 average card transactions per capita) and Bulgaria (13 transactions on average per capita) stand out versus the average of the EU (97 transactions per capita). The situation is similar in terms of number of cards per capita where all CEE countries rank low in the range of 0.8x to 1x cards per capita compared to the EU average of 1.6x cards per capita. The potential growth of the industry is higher when considering the recent trend of switching towards contactless cards, which is still in an early stage in most CEE countries, while being more advanced for the average EU.

**Card payments per capita**




**Number of cards per capita**




*Source: WOOD Research, Eurostat, ECB*

**Electronic IDs and securities printing:** The electronic IDs (eIDs) and securities printing market in Europe is a niche market, which is also undergoing a change from paper-based to digital currently. The EU's eIDAS regulation has established the first framework for the switch from traditional paper-based documents to electronic forms. Thus, there is an increasing trend towards switching to smart-card based IDs across Europe, and worldwide. The eID system can also be used for driving licences, the national health system and local public transportation systems, as well as more general forms of identification. While most countries have already introduced the eID system, the actual number of eIDs that have been printed is still very low. Market estimates put the number of citizens that will have eID cards by 2021E at 3.6bn worldwide. While 82% of all countries worldwide have implemented eID programmes thus far, the actual number of IDs issued is still lagging behind.

**State of implementation of national eIDs**

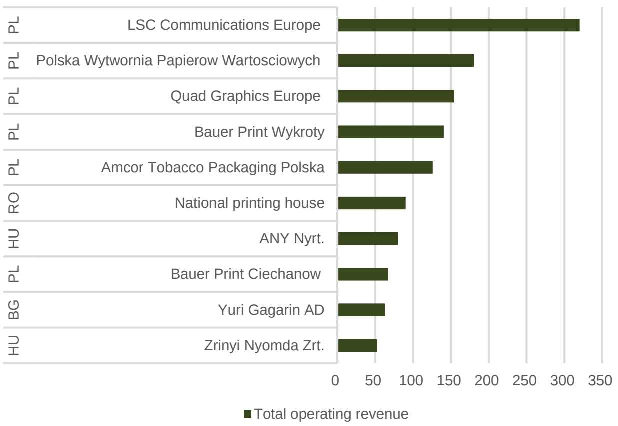
| Member state | Biometric | Compulsory/optional | Member state | Biometric | Compulsory/optional |
|---|---|---|---|---|---|
| Austria | no | Optional | Liechtenstein | no | Optional |
| Belgium | yes | Compulsory | Lithuania | yes | Optional |
| Bulgaria | yes | Compulsory | Luxembourg | yes | Compulsory |
| Croatia | yes | Compulsory | Malta | yes | Compulsory |
| Czech Republic | yes | Compulsory | Netherlands | yes | Optional |
| Denmark | no | Optional | Norway | no | Optional |
| Estonia | yes | Compulsory | Poland | no | Compulsory |
| Finland | yes | Optional | Portugal | yes | Compulsory |
| France | no | Optional | Romania | yes | Compulsory |
| Germany | yes | Optional | Slovakia | no | Compulsory |
| Greece | no | Compulsory | Slovenia | no | Optional |
| Hungary | yes | Optional | Spain | yes | Compulsory |
| Iceland | yes | Compulsory | Sweden | yes | Optional |
| Ireland | yes | Optional | Switzerland | no | Optional |
| Italy | yes | Optional | United Kingdom | no | Optional |
| Latvia | yes | Optional | | | |

*Source: WOOD Research, Wikipedia*

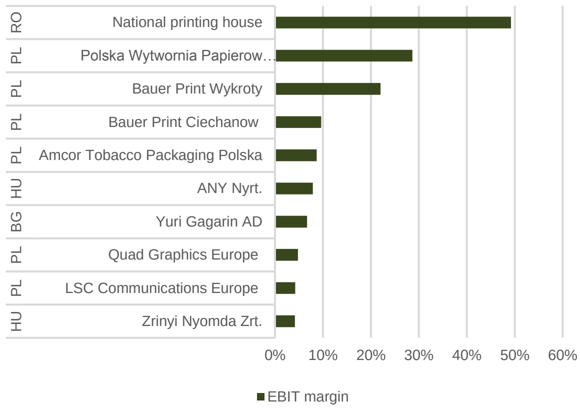
## Competitive landscape in printing in CEE

According to our analysis, the CEE printing market is fairly fragmented, with the largest companies accounting for around 10% of their local market. In Poland, LSC Communications Europe (a subsidiary of international company RR Donnelley) handles local printing solutions. It provides printing services for magazines, catalogues, books and direct mail, as well as photo and video production, and the corresponding logistics. Upm Raflatac (a subisidiary of UPM group) produces labels. Polska Wytwornia Papierow Wartosciowych is a state-owned company that handles the printing of banknotes, as well as security papers, IDs, passports and bank cards. In the Czech Republic, the largest printing company is Moraviapress a.s., which specialises in offset rotary printing. Similarly, privately-owned Europrint prints magazines, leaflets, books and catalogues. In Romania, the state-owned National Printing House is the largest printing company, handling official paperwork, passports production, national health cards, student cards, vignettes, stamps and other security papers. The company reports an operating margin of close to 50% in 2016.

### Largest companies in CEE




### Profit margins




*Source: WOOD Research, EMIS*

### M&A transactions in the region in the past 10 years and average multiples where available

| Country | | Median | | Average | |
|---|---|---|---|---|---|
| | # of deals | EV/sales | EV/EBITDA | EV/sales | EV/EBITDA |
| Romania | 12 | 0.84 | 8.03 | 0.99 | 8.01 |
| Croatia | 4 | 1.39 | 1.11 | 1.39 | 1.11 |
| Czech Republic | 11 | n.a. | n.a. | n.a. | n.a. |
| Hungary | 22 | 0.85 | 8.03 | 1.23 | 8.01 |
| Poland | 19 | 1.18 | 9.41 | 1.18 | 9.41 |
| Serbia | 1 | n.a. | n.a. | n.a. | n.a. |
| Hungary | 4 | n.a. | n.a. | n.a. | n.a. |

*Source: WOOD Research, EMIS*

# Macro overview

**ANY generates more than 90% of its revenues from Hungary and Romania, with Hungary providing the lion's share.** As such, we focus our macro analysis on these two countries. We also highlight that we believe that ANY and the sector in which it operates are showing resilience to the economic cycle; hence, we attribute it an unlevered beta of 0.70x. We feel this is relevant for most of the company's business lines, while card production should behave more in line with the business cycle, depending on banking activity for bank cards production, and retail sales for loyalty cards production, which are both rising on the back of the good macro momentum. However, this business line represented only 24% of the company's revenue in 2016, and we expect it to increase in share to 27% in 2021E.

## Hungary

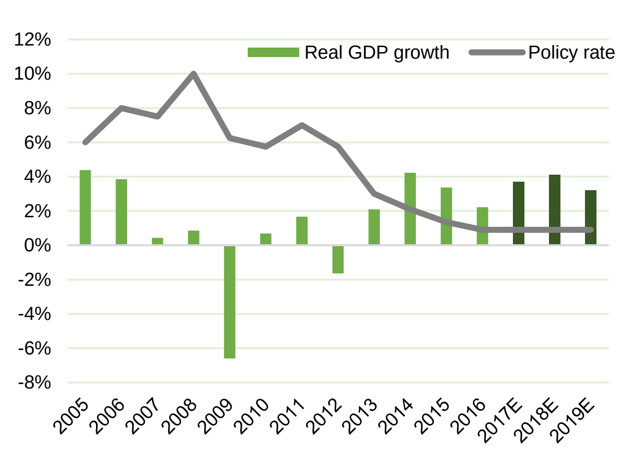
**We expect real GDP growth at around 4.1% in 2018E, slowing to 3.2% in 2019E, driven broadly by strong internal demand and a favourable global backdrop**. Besides the tight labour market which generates double digit wage growth and the inflation rate converging gradually to the 3% MNB target, the economy is also helped by the cut in corporate tax to 9% which is triggering an inflow of FDIs. Inflationary pressures are building, with the recent acceleration of expected pricing power as an important indicator.

In our view, the recovery is broad and robust, and inflation is picking up. As such, monetary policy should be tightened mildly in order to remain prudent and in line with the spirit of the MNB's inflation and financial stability mandates. We see the overnight deposit rate being held at -0.15% in 2018E, with the policy rate possibly rising by 30bps towards the end of 2018E.

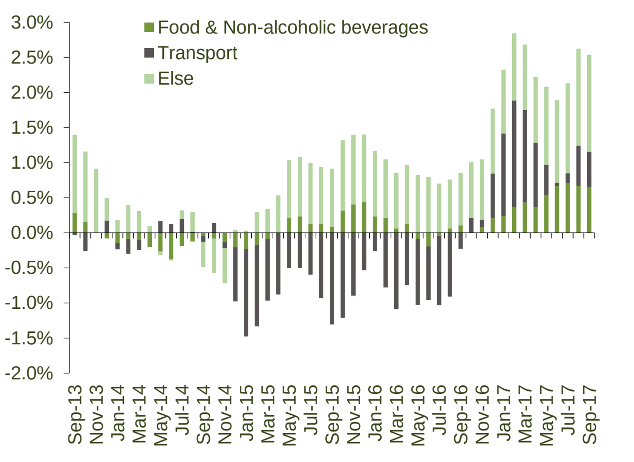
We see the HUF trading at 303 against the EUR on average in 2018E and at 295 in 2019E. We remain very sceptical about a steady depreciation path from the current levels, as the balance of payments is very strong, inflationary pressures are growing and the influence the central bank has on the local bond market remains steady.

The current account continues to perform well, posting a surplus of 4.9% of GDP on a 4Q rolling basis at the end of 1H17. Furthermore, exports were 83.5% of GDP on a 12M rolling basis at the end of the same period (very similar to what it was a year ago). On the funding side, net FDI inflows have increased from 1.3% of GDP at the end of 2Q16, to 3.4% on a 12M rolling basis. Portfolio investment, meanwhile, is still recording a net outflow, but is down: only 4.0% of GDP on the same basis, compared to 5.7% last year. Other investment is also still showing a net outflow but down from 10.8% to 4.3%.

**Real GDP growth**

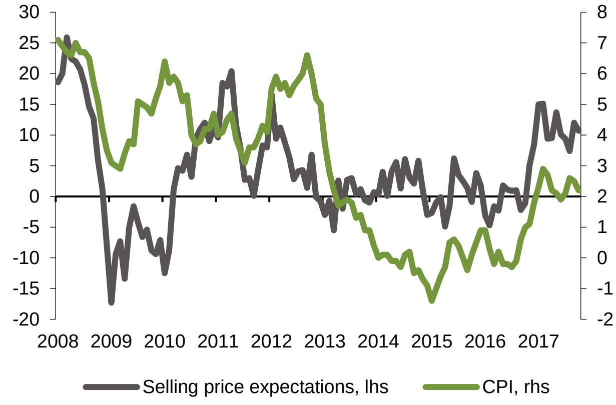



**Inflation is broadly driven**

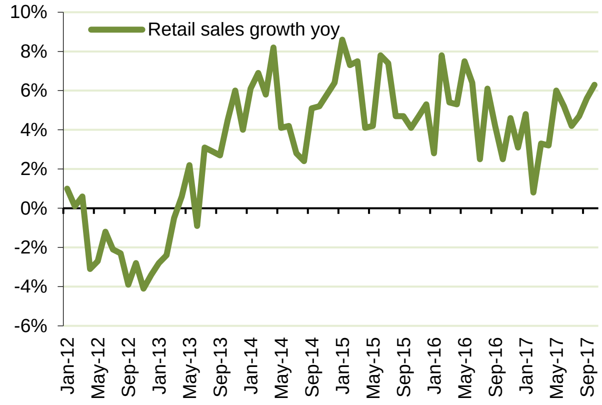



*Source: Eurostat, ADA Economics in association with WOOD Research*

## Expected pricing power has risen vs. 2012

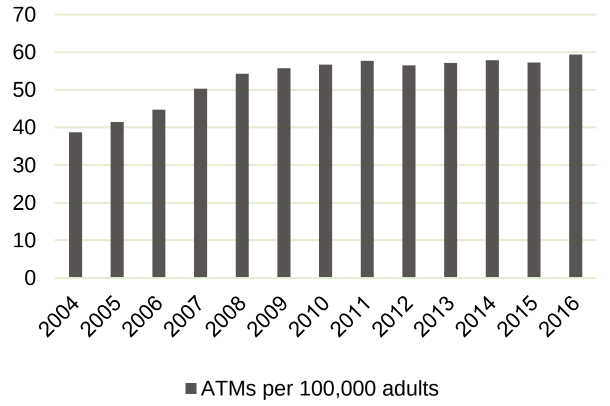



## Retail sales continue growing

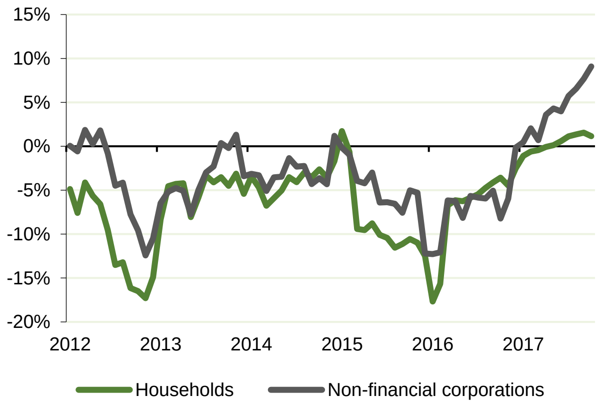



*Source: Eurostat, ADA Economics in association with WOOD Research*

## Retail banks increase activity




## While both households and NFC loans are picking up




*Source: WOOD Research, IMF*

## Key macro projections

| | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|
| Real GDP growth | 2.1% | 4.2% | 3.4% | 2.2% | 3.7% | 4.1% | 3.2% |
| Households | 0.2% | 2.8% | 3.6% | 4.3% | 4.5% | 5.2% | 4.5% |
| Government | 4.1% | 5.1% | 1.1% | 0.8% | 0.5% | 2.0% | 2.0% |
| Investment | 9.8% | 12.3% | 1.9% | -10.6% | 5.3% | 8.4% | 2.2% |
| Exports | 4.2% | 9.1% | 8.5% | 3.4% | 6.0% | 10.0% | 6.7% |
| Imports | 4.5% | 11.0% | 6.4% | 2.9% | 9.5% | 11.0% | 9.1% |
| Population, m | 9.9 | 9.9 | 9.9 | 9.8 | 9.8 | 9.8 | 9.9 |
| Unemployment rate | 10.3 | 7.8 | 6.9 | 5.2 | 4.3 | 3.3 | 2.3 |
| Inflation, avg | 1.7% | -0.2% | -0.1% | 0.4% | 2.7% | 2.9% | 3.5% |
| Policy rate, MNB eop | 3.00 | 2.10 | 1.35 | 0.90 | 0.90 | 0.90 | 0.90 |
| Current account in % of GDP | 3.8% | 1.5% | 3.5% | 6.1% | 4.0% | 3.5% | 3.0% |
| EUR/HUF, eop | 297 | 316 | 316 | 310 | 308 | 303 | 295 |
| Fiscal balance in % of GDP | -2.6% | -2.7% | -2.0% | -1.9% | -1.9% | -2.4% | -2.4% |
| Public debt in % of GDP | 76.0% | 75.2% | 74.7% | 73.9% | 73.0 | 72.0% | 71.0% |

*Source: ADA Economics in association with WOOD Research*

## Romania

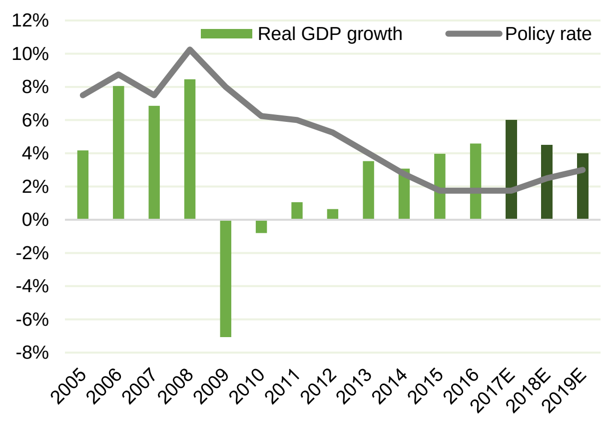
**We forecast GDP growth at 4.5% in 2018E, still a strong performer amongst the CE4**. Romania has been the second-fastest growing economy in the EU in the past year, behind the record-breaking pace of Ireland. In our view, part of this stellar performance reflects the genuine structural improvements achieved post the 2010 financial crisis: a better budget framework; the expanded productive capacity; a more competitive environment; and less acute currency mismatch risks in private sector balance sheets. These achievements, in our view, justify a real potential growth rate – i.e., the estimated rate of growth compatible with stable, modest inflation and no imbalances – that has risen to around 3%, equivalent to that of Poland.

Aside from the structural improvements, we believe the strong economic growth experienced by Romania is the product of strong fiscal and monetary stimulus, which are boosting a recovery in construction, on top of a very favourable European growth backdrop. The tight labour market and generous public sector wage increases have pushed average wage growth to double-digits in the past two years, and we do not believe this trend will change next year. In fact, nominal wage growth may even hit 20+%.

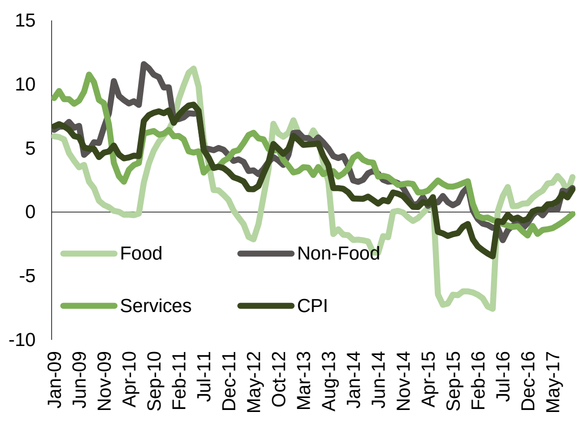
The tightening cycle has begun and the RON is set on a mild depreciation path. The NBR has already started the tightening cycle, by narrowing the interest rate corridor to ±1.25ppts in October and again to ±1.00ppts in November. The policy rate stands at 1.75%. The governor also made a rare comment on the RON, indicating greater flexibility for the currency. We believe that the corridor could narrow further, which means there is more upside from the overnight interbank rate even before the policy rate is increased. We expect the policy rate to rise by 75bps in 2018E and we see a mild depreciation path to 4.7 vs. the EUR, with upside risk if the budget saga escalates further. Our forecast has inflation at 2.8% in 2018E, edging higher to 3.5% in 2019E. We see upside risks for inflation as the easiest way for SMEs to respond to the new turnover tax is to evade taxes and increase prices.

We see depreciation risks increasing as a result of the fiscal changes as they reduce the appeal of FDI and other investment inflows. The BOP, for now, shows a modest funding gap because the FDI is fairly stable, portfolio investment remains strong and the other investment outflows are beginning to turn around. However, the latest data we have is for August and, since then, the confusion around the budget has increased. The good news is that we do not see any significant impact on remittances from Brexit for now, but EU funds absorption seems sluggish.

**Real GDP growth gaining momentum**

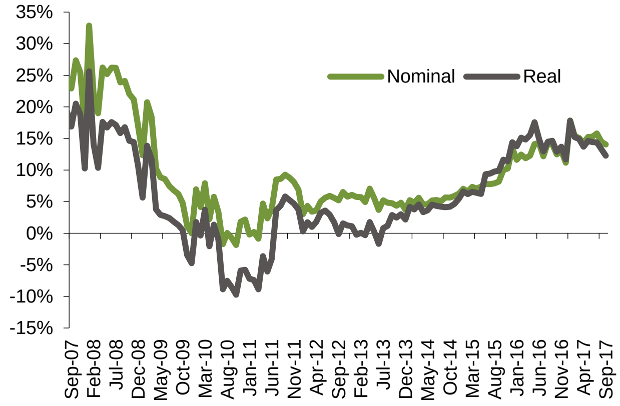



**Inflation held back by low food prices and VAT cuts**

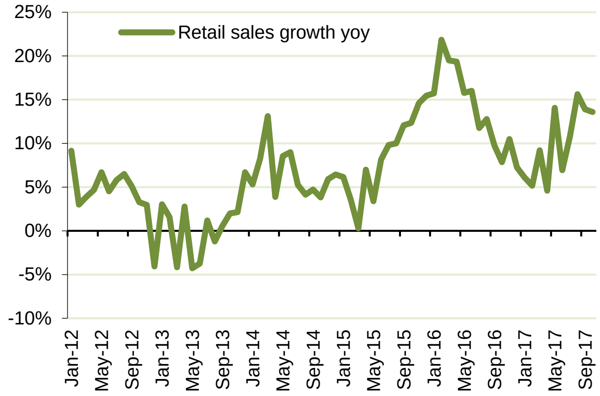



*Source: Eurostat, ADA Economics in association with WOOD Research*

### Real wage growth above 10%yoy and staying there

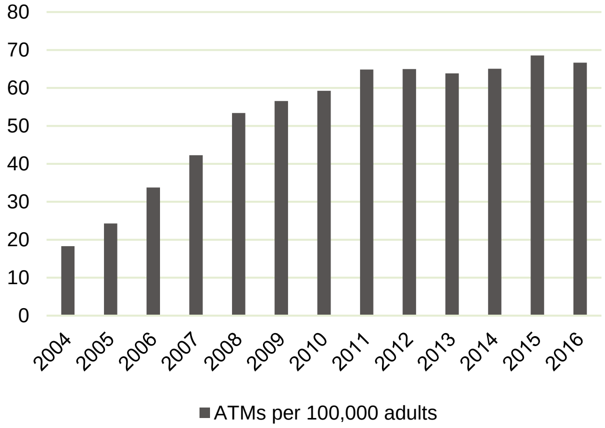



### Industrial confidence on the rise

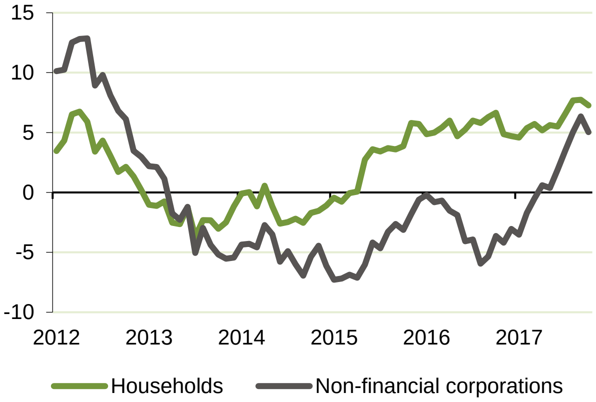



*Source: Eurostat, ADA Economics in association with WOOD Research*

### ATMs development slowing, although at a higher penetration per capita than Hungary




### Households loans still growing strong




*Source: WOOD Research, IMF*

### Key macro projections

| | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|
| Real GDP growth | 3.5% | 3.1% | 4.0% | 4.6% | 6.0% | 4.5% | 4.0% |
| Households | 0.7% | 4.7% | 5.9% | 7.4% | 7.5% | 5.0% | 5.7% |
| Government | -4.6% | 0.8% | 0.2% | 4.7% | 3.6% | 4.0% | 3.6% |
| Investment | -5.4% | 3.2% | 7.4% | -3.5% | 0.1% | 1.0% | 1.0% |
| Exports | 19.7% | 8.0% | 4.6% | 8.3% | 9.3% | 11.0% | 9.0% |
| Imports | 8.8% | 8.7% | 8.0% | 9.8% | 10.2% | 9.0% | 9.0% |
| Population, m | 20.0 | 20.0 | 19.9 | 19.8 | 19.8 | 19.7 | 19.7 |
| Unemployment rate | 7.1 | 6.8 | 6.8 | 5.9 | 4.9 | 4.4 | 3.9 |
| Inflation, avg | 4.0% | 1.1% | -0.6% | -1.5% | 1.0% | 2.8% | 3.5% |
| Policy rate, NBR eop | 4.00 | 2.75 | 1.75 | 1.75 | 1.75 | 2.50 | 3.00 |
| Current account in % of GDP | -1.1% | -0.7% | -1.2% | -2.1% | -3.8% | -4.2% | -4.5% |
| EUR/RON, eop | 4.5 | 4.5 | 4.5 | 4.5 | 4.6 | 4.7 | 4.7 |
| Fiscal balance in % of GDP | -2.5% | -1.9% | -1.5% | -2.4% | -2.8% | -3.5% | -4.0% |
| Public debt in % of GDP | 37.9%% | 39.7% | 38.0% | 37.5% | 36.5% | 37.0% | 38.0% |

*Source: ADA Economics in association with WOOD Research*

# Financial forecasts

## Revenue CAGR of 2.5% for 2016-21E

**Security products – 3.2% CAGR.** We see this growth as sustainable over the next five years, driven by:

- ✓ A higher adoption of biometric passports in Hungary, given that these have been implemented only recently, and are optional currently.
- ✓ An increased share of exports in inks and fibres.

We also assume that ANY will generate revenue from the upcoming elections as following: HUF 500m in 2018E for the Hungarian parliament elections, and HUF 1.5bn in 2019E for the EU parliament and municipal elections.

In 2016, the company generated positive revenue due to the migrant referendum in Hungary, which we estimate at HUF 500m, increasing the base for the growth calculation. As such, we assume the core security products revenues growth excluding election forms seasonality at 5% per annum.

**Card production – 5.2% CAGR.** We expect card production to be the fastest growing business line due to:

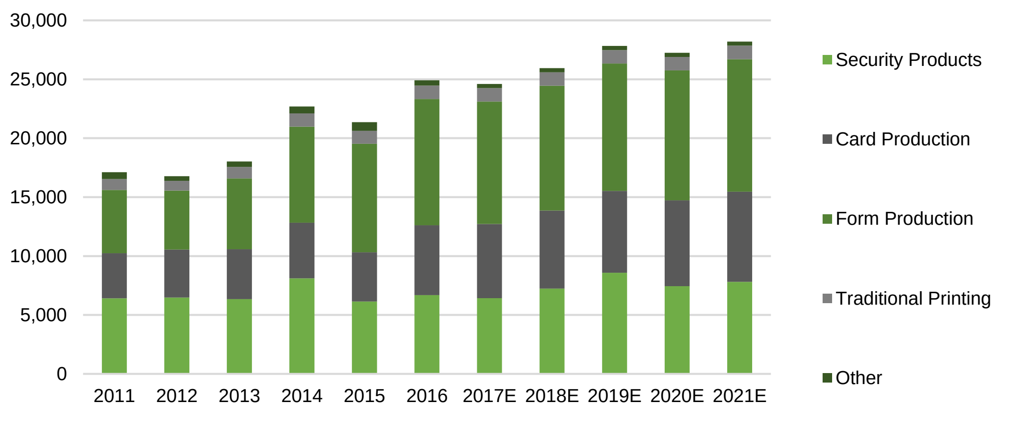
- ✓ Higher adoption of eIDs in Hungary.
- ✓ Other governmental cards switching to digital such as health registration card.
- ✓ Increase adoption of bank cards, particularly as ANY's 3 main markets have some of the lowest card penetration in Europe, approximately 50% below average.
- ✓ Switch to contactless card, which have been slower in adoption in the company's 3 main markets, and we expect this trend to accelerate.

**Form production – 1% CAGR.** We assume a slowdown in form production growth:

Approximately 80% of form production is represented by transactional mailing (bank statements/utility bills) and almost 75% of this comes from its main export markets, Romania and Bulgaria. Although less than 15% of B2C and B2B invoices delivery are done electronically, we expect these markets to follow a similar trend to Western Europe, where invoicing and statements have been switching to digital. Signs of this have appeared in Romania already in the past few years, where companies give the option for electronic invoice delivery to their clients based in cities. However, we expect this trend to be partly mitigated by the company's ability to offer electronic delivery, cloud database and invoice management, which will result in lower revenue, but a higher margin product mix.

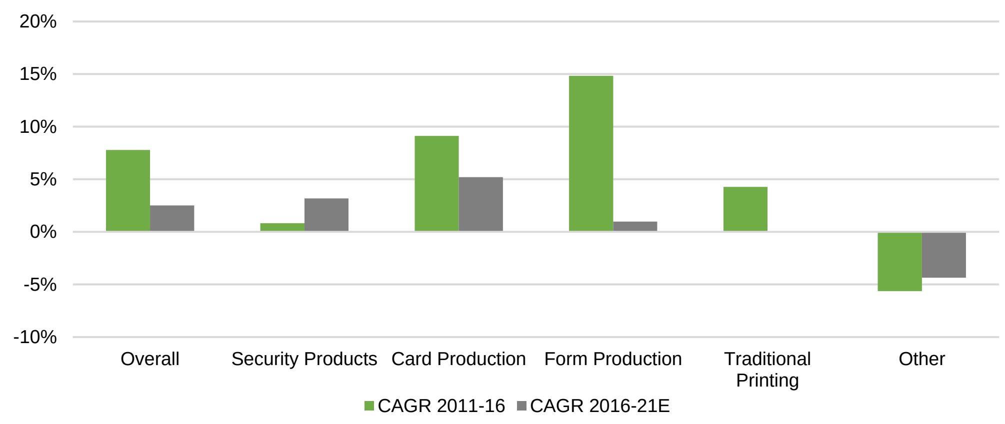
**Flat growth in the Other and Traditional printing segments.** Given that these segments combined represent less than 7% of ANY's total revenue in 2016, and they are not considered of strategic importance for the company, we have assumed them to be flat for the forecast period. We assume a small decline in Other revenues due to its current run rate as of 9M17.

### Revenue split by product line (HUF m)




*Source: Company data, WOOD Research*

## Revenue growth by product line

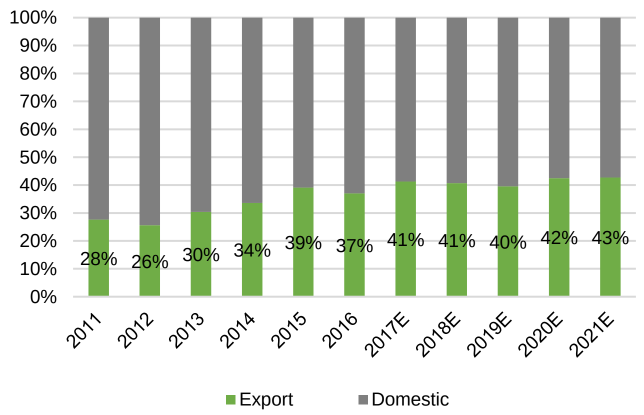



*Source: Company data, WOOD Research*

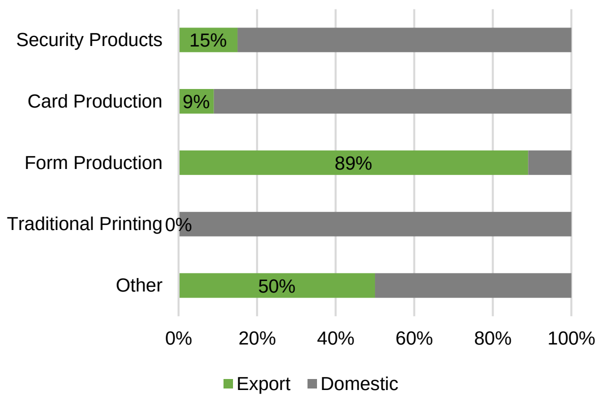
**We expect export revenues as a percentage of total revenues to reach 43% by 2021E, in line with the company's target of 45% over the medium term.** We see this trend as supported, given our following assumptions:

- ✓ Form production exports to reach 89% in 2021E, from 76% in 2016, as Romania and Bulgaria will lag Hungary in terms of electronic invoice delivery adoption.
- ✓ Security products to reach 15% in 2021E, from 7% in 2016, as ANY will increase its supply of security inks and fibres to the whole CEE region.

**Revenue split by geography**




**Product lines revenue split by geography (2021E)**




*Source: Company data, Wood Research*

## Costs dynamics

**Material expenses at 65.5% of revenues in the long term,** improving from the average of 66.3% seen in the past three years. We see this as a result of the following factors:

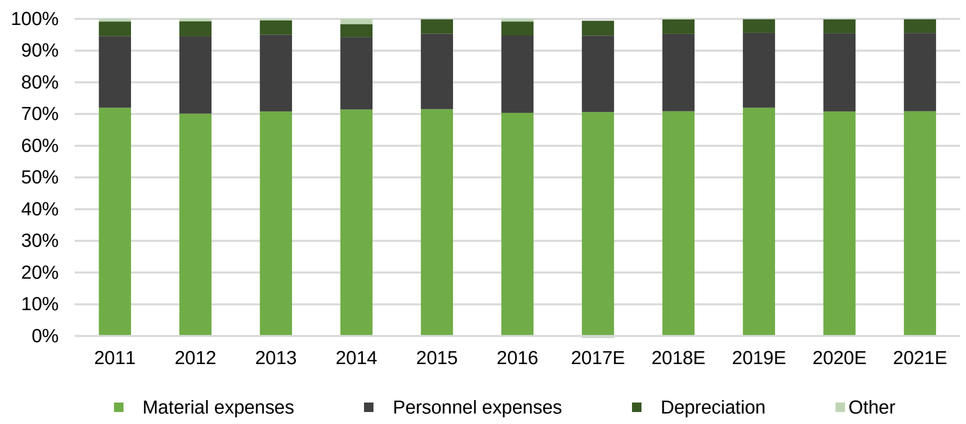
- ✓ The digitalisation of form production, resulting in a higher-margin product mix.
- ✓ An increase of security products and card production in the sales mix as these are higher-margin business lines.

In the years when the company is expected to generate revenues from elections, such as 2018E and 2019E, we expect a higher material expense as a percentage of revenues, given that these are lower-margin products.

**Wage growth to put pressure on personnel costs.** Given that the company generates more than 91% of its revenues from Hungary and Romania, where we expect wage increases due to labour market tightness, we assume that wages grow at 5% in 2018E, while slowing down to 3% in 2019E and 2.5% in both 2020E and 2021E.

**Depreciation at 15% of PPE.** ANY uses a straight-line depreciation method for its asset base at the following rates: Buildings at 2-3%; Leasehold improvements at 6%; Machinery and equipment at 14.5-33%. As the company purchased three production plants in 2016, it has almost doubled its PPE via an c.HUF 3.5bn addition, while subsequently lowering its depreciation to PPE ratio, given the lower rates used for buildings. As such, we see the depreciation rate as a percentage of PPE remaining constant at 15% over our forecast period given its asset base.

**Costs as a % of revenues**




*Source: Company data, WOOD Research*

**Costs breakdown**

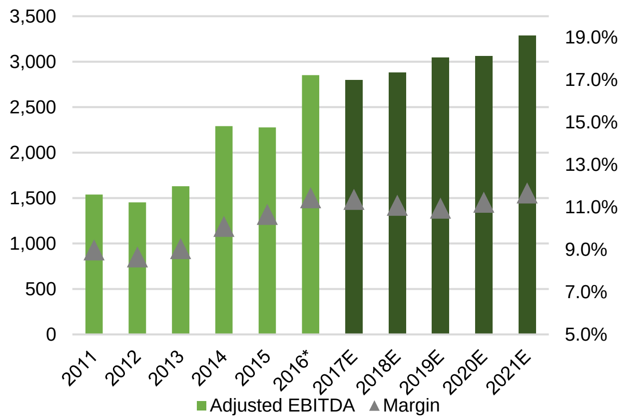
| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Material expenses as % of revenues | 66.9% | 67.1% | 64.8% | 66.5% | 66.0% | 67.0% | 65.8% | 65.5% |
| Personnel expenses as % of revenues | 21.4% | 22.3% | 22.5% | 22.7% | 22.7% | 22.0% | 22.9% | 22.8% |
| Depreciation as % of PPE | 25.8% | 23.7% | 13.8% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% |
| | | | | | | | | |
| Average no. of employees | 777 | 802 | 832 | 845 | 850 | 855 | 850 | 855 |
| Average wage (HUF m) | 6.26 | 5.95 | 6.73 | 6.61 | 6.94 | 7.15 | 7.33 | 7.51 |
| Average wage growth | 12.0% | -5.0% | 13.2% | -1.8% | 5.0% | 3.0% | 2.5% | 2.5% |

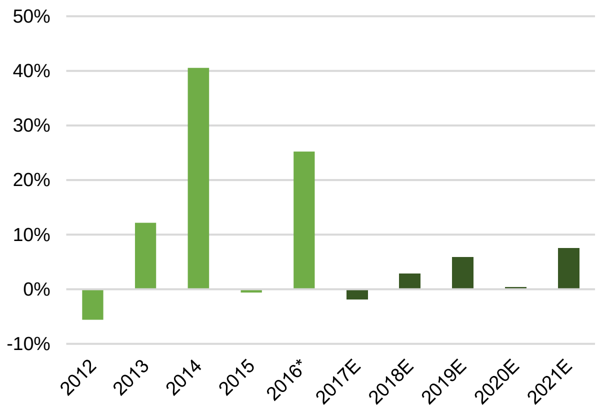
*Source: Company data, WOOD Research*

## Adjusted EBITDA margin at 11.7% for 2021E

**We expect 30bps of EBITDA margin improvement by 2021E.** As a base, we use the 2016 adjusted EBITDA margin of 11.4%, excluding the HUF 126m one-off gain due to the real estate transaction. We see this slight improvement in the margin as driven by a more profitable product mix, focused on security and card products, which have lower material expenses, while partly mitigated by the wage cost pressure experienced in Hungary and Romania, with personnel costs expected by us to grow at a CAGR of 2.8% over 2016-21E.

**Adjusted EBITDA growth dynamics**



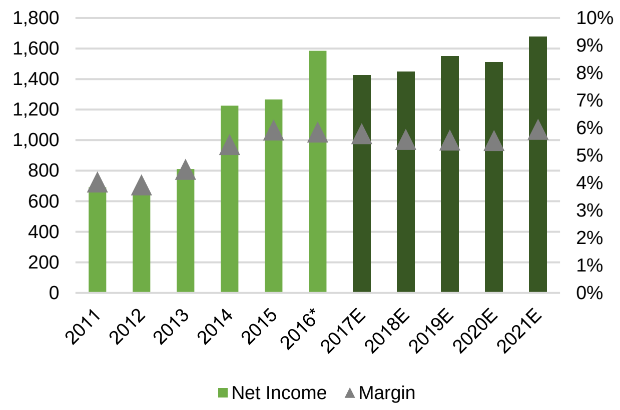




*Source: Company data, WOOD Research, *excluded positive one-off impact of HUF 126m due to the real estate transaction*

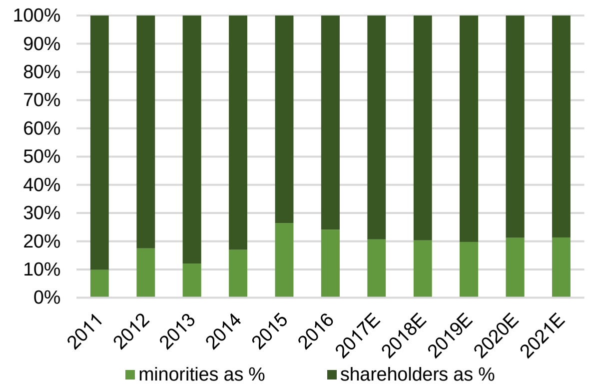
## Net income CAGR of 2.8% by 2021E

**We expect a relatively flat margin to 2021E, while net income grows by a CAGR of 2.8%.** This compares to a 5.9% adjusted net income margin (excluding the one-off real estate gain) in 2016. On the one hand, we see the net margin benefiting from the corporate tax rate in Hungary being lowered to 9% in 2017, while, on the other, the margin is affected negatively by interest expenses. In order to drive revenue growth, ANY has extended its receivables days, while financing the working capital at a low rate. Based on this, we assume an increase in receivables days to 70 by 2021E from 50 in 2016, subsequently increasing the net interest expenses to 0.8% of sales in 2021E, compared to 0.4% in 2016. We expect the minorities to account for 20-21% of the net income in the next five years.

**Net income dynamics**




**Net income split between shareholders and minorities**

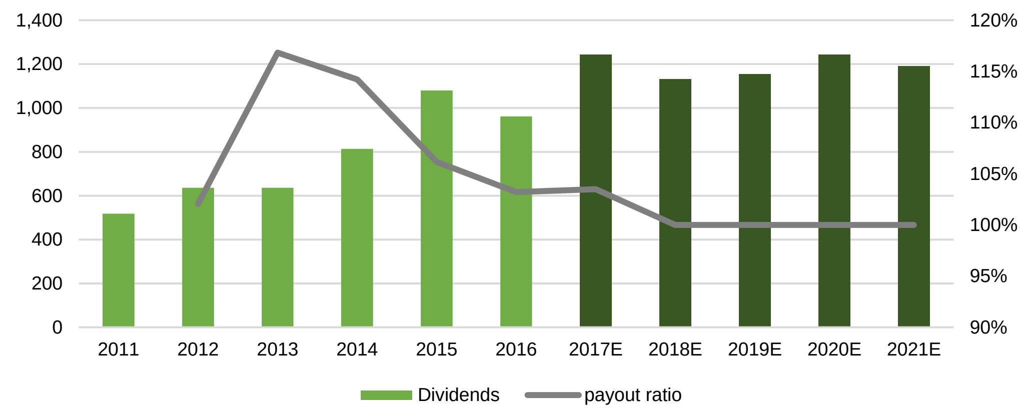



*Source: Company data, WOOD Research; *positive one-off impact of HUF 126m due to the real estate transaction*

## Dividends – 100% payout

**We expect the dividend payout ratio of 100% to continue.** The company has historically paid out dividends at a ratio of 100%, and even higher in some years. This is due to the 3% treasury shares that ANY holds, for which the company distributes the dividend savings amongst the rest of the shareholders.

**Dividends**




*Source: Company data, WOOD Research*

## Capex at 110% of depreciation

**We expect capex at a rate of 110% to depreciation in the future.** This implies capex reaching HUF 1.3bn in 2021E, while not putting any pressure on the company's cash flow, given that it will account for 67% of NOPAT and 44% of FCF before capex. The level of investment will allow the company to grow its asset base at a level that sustains its forecast growth rate.

**Capex**

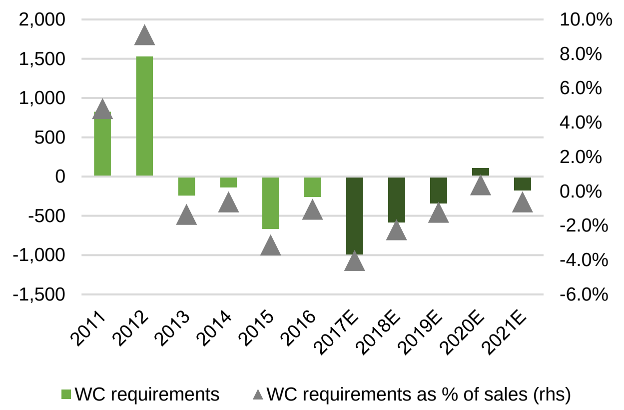
| HUF m | 2014 | 2015 | 2016* | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| **Capex** | **1,157** | **1,346** | **4,340** | **1,193** | **1,211** | **1,229** | **1,247** | **1,266** |
| NOPAT | 1,214 | 1,228 | 1,684 | 1,509 | 1,567 | 1,704 | 1,696 | 1,883 |
| as % of NOPAT | 95% | 110% | 258% | 79% | 77% | 72% | 74% | 67% |
| FCF before capex | 1,943 | 1,472 | 2,431 | 1,603 | 2,088 | 2,481 | 2,935 | 2,861 |
| as % of FCF before capex | 60% | 91% | 179% | 74% | 58% | 50% | 43% | 44% |
| **as % of depreciation** | **133%** | **148%** | **431%** | **110%** | **110%** | **110%** | **110%** | **110%** |

*Source: Company data, WOOD Research; *includes the real estate transaction*

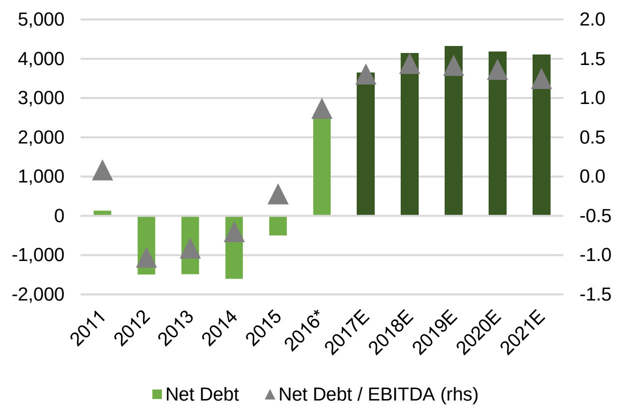
## Working capital requirements to increase

**As the company is pushing to claim market share, it has extended its invoice terms.** Based on this, we assume an increase in receivables days from 50 in 2016 to 65 in 2017E and 70 in 2018E, after which there should be no changes. Combined with our assumption of 33 inventory days and 37 payable days, this translates into a cash conversion cycle of 61 in 2017E and 66 from 2018E onwards, from 46 in 2016. The working capital requirements will be financed with short-term debt, which we assume will be financed at a 3% rate in 2017E, climbing to 5% in 2021E. Although this implies an increase in the net debt, we consider this to be at comfortable levels over the next five years, with net debt to EBITDA reaching a maximum of 1.44x in 2018E, followed by a decline to 1.25x in 2021E.

**Working capital requirements increase**




**Net Debt dynamics**




*Source: Company data, WOOD Research; *2016 increase in net debt includes financing for the real estate transaction*

## Operational data

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Revenue | 22,692 | 21,366 | 24,911 | 24,606 | 25,950 | 27,830 | 27,247 | 28,204 |
| Security Products | 8,107 | 6,139 | 6,680 | 6,427 | 7,248 | 8,586 | 7,440 | 7,812 |
| *of which elections* | | | | | *500* | *1,500* | | |
| Card Production | 4,722 | 4,186 | 5,937 | 6,293 | 6,608 | 6,938 | 7,285 | 7,649 |
| Form Production | 8,153 | 9,205 | 10,715 | 10,394 | 10,602 | 10,814 | 11,030 | 11,251 |
| Traditional Printing | 1,128 | 1,106 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 |
| Other | 582 | 730 | 436 | 349 | 349 | 349 | 349 | 349 |
| | | | | | | | | |
| As % of sales | | | | | | | | |
| Security Products | 36% | 29% | 27% | 26% | 28% | 31% | 27% | 28% |
| Card Production | 21% | 20% | 24% | 26% | 25% | 25% | 27% | 27% |
| Form Production | 36% | 43% | 43% | 42% | 41% | 39% | 40% | 40% |
| Traditional Printing | 5% | 5% | 5% | 5% | 4% | 4% | 4% | 4% |
| Other | 3% | 3% | 2% | 1% | 1% | 1% | 1% | 1% |
| | | | | | | | | |
| Growth | 26% | -6% | 17% | -1% | 5% | 7% | -2% | 4% |
| Security Products | 28% | -24% | 9% | -4% | 13% | 18% | -13% | 5% |
| Card Production | 12% | -11% | 42% | 6% | 5% | 5% | 5% | 5% |
| Form Production | 36% | 13% | 16% | -3% | 2% | 2% | 2% | 2% |
| Traditional Printing | 16% | -2% | 3% | 0% | 0% | 0% | 0% | 0% |
| Other | 26% | 25% | -40% | -20% | 0% | 0% | 0% | 0% |
| | | | | | | | | |
| Domestic sales | 15,064 | 13,018 | 15,683 | 14,447 | 15,392 | 16,817 | 15,667 | 16,156 |
| Security Products | 7,487 | 5,541 | 6,209 | 5,592 | 6,379 | 7,641 | 6,324 | 6,640 |
| Card Production | 4,241 | 3,890 | 5,619 | 5,979 | 6,211 | 6,453 | 6,702 | 6,961 |
| Form Production | 1,992 | 2,131 | 2,614 | 1,559 | 1,484 | 1,406 | 1,324 | 1,238 |
| Traditional Printing | 1,118 | 1,101 | 1,133 | 1,143 | 1,143 | 1,143 | 1,143 | 1,143 |
| Other | 226 | 355 | 108 | 174 | 174 | 174 | 174 | 174 |
| | | | | | | | | |
| Domestic as % of sales | 66% | 61% | 63% | 59% | 59% | 60% | 58% | 57% |
| Security Products | 92% | 90% | 93% | 87% | 88% | 89% | 85% | 85% |
| Card Production | 90% | 93% | 95% | 95% | 94% | 93% | 92% | 91% |
| Form Production | 24% | 23% | 24% | 15% | 14% | 13% | 12% | 11% |
| Traditional Printing | 99% | 100% | 99% | 100% | 100% | 100% | 100% | 100% |
| Other | 39% | 49% | 25% | 50% | 50% | 50% | 50% | 50% |
| | | | | | | | | |
| Export sales | 7,628 | 8,348 | 9,228 | 10,159 | 10,558 | 11,012 | 11,580 | 12,048 |
| Security Products | 620 | 598 | 471 | 836 | 870 | 944 | 1,116 | 1,172 |
| Card Production | 481 | 296 | 318 | 315 | 396 | 486 | 583 | 688 |
| Form Production | 6,161 | 7,074 | 8,101 | 8,835 | 9,117 | 9,408 | 9,706 | 10,013 |
| Traditional Printing | 10 | 5 | 10 | - | - | - | - | - |
| Other | 356 | 375 | 328 | 174 | 174 | 174 | 174 | 174 |
| | | | | | | | | |
| Export as % of sales | 34% | 39% | 37% | 41% | 41% | 40% | 42% | 43% |
| Security Products | 8% | 10% | 7% | 13% | 12% | 11% | 15% | 15% |
| Card Production | 10% | 7% | 5% | 5% | 6% | 7% | 8% | 9% |
| Form Production | 76% | 77% | 76% | 85% | 86% | 87% | 88% | 89% |
| Traditional Printing | 1% | 0% | 1% | 0% | 0% | 0% | 0% | 0% |
| Other | 61% | 51% | 75% | 50% | 50% | 50% | 50% | 50% |
| | | | | | | | | |
| EBITDA | 2,291 | 2,277 | 2,977 | 2,797 | 2,878 | 3,049 | 3,060 | 3,290 |
| Adjusted EBITDA | 2,291 | 2,277 | 2,851 | 2,797 | 2,878 | 3,049 | 3,060 | 3,290 |
| EBITDA margin | 10.1% | 10.7% | 12.0% | 11.4% | 11.1% | 11.0% | 11.2% | 11.7% |
| Adjusted EBITDA margin* | 10.1% | 10.7% | 11.4% | 11.4% | 11.1% | 11.0% | 11.2% | 11.7% |
| | | | | | | | | |
| Receivable days | 44 | 51 | 50 | 65 | 70 | 70 | 70 | 70 |
| Inventory days | 25 | 35 | 31 | 33 | 33 | 33 | 33 | 33 |
| Payable days | 33 | 49 | 36 | 37 | 37 | 37 | 37 | 37 |
| Cash conversion cycle | 36 | 37 | 46 | 61 | 66 | 66 | 66 | 66 |
| | | | | | | | | |
| WCR as % of sales | -0.6% | -3.1% | -1.0% | -4.0% | -2.2% | -1.2% | 0.4% | -0.6% |

*Source: Company data, WOOD Research; *2016 EBITDA adjusted by the one-off gain of HUF 126m due to the real estate transaction*

# 3Q17 review

**ANY reported its 3Q17 results on 20 November 2017. Revenues for the quarter were reported at HUF 6,373m, down 5.4% yoy and 3.6% qoq. In terms of EBITDA, we saw a slight increase in margins, with the reported margin for 3Q17 at 11.9%, up 0.81ppts yoy and 0.15ppts qoq. As the company's results show a degree of volatility on a quarterly basis, looking at its results for 9M17 vs. 9M16 gives a better understanding of the underlying dynamics, in our view.**

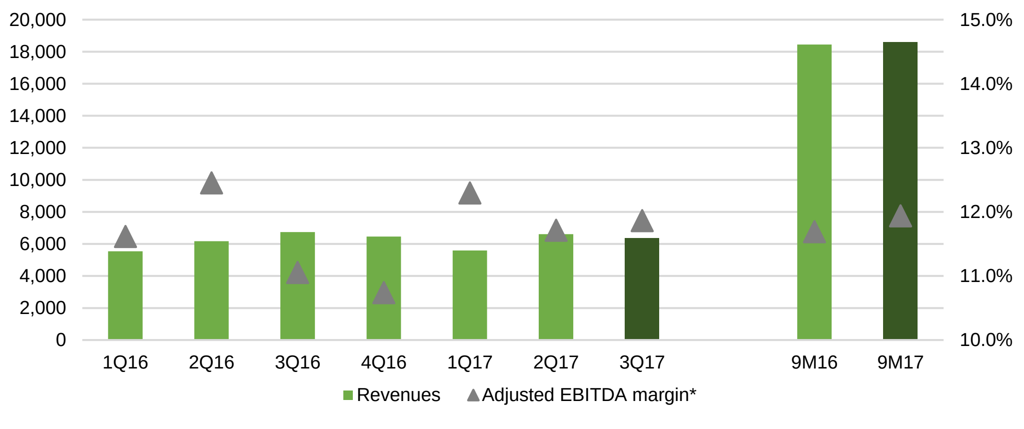
Revenues for 9M17 were reported at HUF 18.6bn, up slightly, by 0.7% compared to 9M16. We note that the reason for the low growth is the high base of 9M16, due to the revenues generated by the Hungarian migrant quota referendum in 2016, estimated at c.HUF 500m, with the largest part of this allocated to security products. When looking at the performance of each business line, we see a more detailed picture. The main growth drivers were security products, up 4.5%, due to higher exports and an increased volume of tax stamps, and card production, up 6.1% yoy due to the higher volumes of document cards (eIDs). On the other hand, we see a decline in form production of 3.5% yoy, while other revenues fell significantly, by 39.9%. This is a trend we are expecting to continue over our forecast period, to 2021E, where we expect a 2016-21E CAGR of 3.2% for security products, 5.2% for card production, and a slowdown in form production to 1%. While we saw a slowdown in domestic revenues (also affected by a higher base in 9M16 due to the revenues incurred for the Hungarian migration quota referendum), export revenues grew by 15% yoy over 9M17, and represented 41% of total revenues over the period, compared to 36% in the same period last year.

On the costs side, we see a 2.9% increase in material expenses and a 1.5% increase in personnel expenses affecting profitability. However, these were partly offset by a gain in Other expenses, which increased almost 8x to HUF 251m for 9M17 vs. the same period last year. This gain was driven mainly by a change in inventories manufactured, with a reported gain from the value of unfinished production connected to security and card products.

The reported EBITDA for 9M17 was HUF 2.2bn, a decline of 2.8% vs. 9M16. However, when adjusting the 9M16 EBITDA by the one-off gain of HUF 126m accounted in 1Q16 for the real estate transaction, we see different dynamics. The adjusted EBITDA for 9M17 shows an actual increase of 2.8% over the same period, with the margin improving slightly, by 0.2ppts to 11.9%. In 2016, the company acquired three production plants it was previously leasing, thereby shifting this cost from an operating expense to depreciation. As a consequence, depreciation expenses increased over 9M17 by HUF 66m, a 9.1% yoy increase. We see this as being the main driver of the EBITDA margin improvement over 9M17. While boosting the EBITDA margin, the increase in depreciation affected the EBIT margin negatively, which was down by 0.76ppts to 7.7% in 9M17.

In terms of net income, we see a decline of 6.3% to HUF 1.2bn over the period, while the minorities increased by 13.9% to HUF 312m, driven by a higher export share. This resulted in a decline in the net income for shareholders of 12% to HUF 852m. However, we note that the one-off gain generated by the real estate transaction in 2016 resulted in a higher base for comparison.

### 3Q17 / 9M17 dynamics




*Source: Company data, WOOD Research; *EBITDA adjusted by the HUF 126m one-off gain reported in 1Q16 due to the real estate transaction*

## 3Q financial results

| (HUF m) | 3Q16 | 2Q17 | 3Q17 | yoy | qoq | 9M16 | 9M17 | yoy |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | **6,739** | **6,608** | **6,373** | **-5.4%** | **-3.6%** | **18,449** | **18,577** | **0.7%** |
| Security Products | 1,682 | 1,798 | 1,589 | -5.5% | -11.6% | 4,613 | 4,820 | 4.5% |
| Card Production | 1,641 | 1,718 | 1,907 | 16.2% | 11.0% | 4,656 | 4,941 | 6.1% |
| Form Production | 2,918 | 2,678 | 2,404 | -17.6% | -10.2% | 7,966 | 7,685 | -3.5% |
| Traditional Printing | 280 | 308 | 391 | 39.6% | 26.9% | 748 | 851 | 13.8% |
| Other | 218 | 106 | 82 | -62.4% | -22.6% | 466 | 280 | -39.9% |
| Material expenses | -4,270 | -4,380 | -4,224 | -1.1% | -3.6% | -12,014 | -12,367 | 2.9% |
| Personnel expenses | -1,555 | -1,545 | -1,528 | -1.7% | -1.1% | -4,180 | -4,243 | 1.5% |
| Other expenses | -170 | 91 | 135 | n.m. | 48.4% | 27 | 251 | 829.6% |
| **EBITDA** | **745** | **774** | **756** | **1.5%** | **-2.3%** | **2,283** | **2,218** | **-2.8%** |
| **Adjusted EBITDA*** | **745** | **774** | **756** | **1.5%** | **-2.3%** | **2,157** | **2,218** | **2.8%** |
| D&A | -256 | -266 | -268 | 4.7% | 0.8% | -728 | -794 | 9.1% |
| **EBIT** | **489** | **508** | **488** | **-0.1%** | **-3.8%** | **1,555** | **1,424** | **-8.4%** |
| Financial result | -32 | -24 | -23 | -27.8% | -3.7% | -65 | -70 | 7.6% |
| Pre-tax profit | 457 | 484 | 465 | 1.8% | -3.8% | 1,490 | 1,354 | -9.1% |
| Tax | -106 | -57 | -79 | -25.4% | 37.6% | -248 | -190 | -23.3% |
| Net income | 351 | 426 | 386 | 10.0% | -9.3% | 1,242 | 1,164 | -6.3% |
| Minorities | 57 | 135 | 70 | 22.8% | -47.9% | 274 | 312 | 13.9% |
| **Net income for shareholders** | **294** | **291** | **316** | **7.6%** | **8.6%** | **968** | **852** | **-12.0%** |

*Source: Company data, WOOD Research, *EBITDA adjusted by the HUF 126m one-off gain reported in 1Q16 due to the real estate transaction*

## 3Q17 operational results

| | 3Q16 | 2Q17 | 3Q17 | yoy | qoq | 9M16 | 9M17 | yoy |
|---|---|---|---|---|---|---|---|---|
| EBITDA margin | 11.1% | 11.7% | 11.9% | 0.81pp. | 0.15pp. | 12.4% | 11.9% | -0.44pp. |
| Adjusted EBITDA margin* | 11.1% | 11.7% | 11.9% | 0.81pp. | 0.15pp. | 11.7% | 11.9% | 0.25pp. |
| EBIT margin | 7.3% | 7.7% | 7.7% | 0.41pp. | -0.02pp. | 8.4% | 7.7% | -0.76pp. |
| Net Income margin | 5.2% | 6.4% | 6.1% | 0.85pp. | -0.39pp. | 6.7% | 6.3% | -0.47pp. |
| Net Income for shareholders margin | 4.4% | 4.4% | 5.0% | 0.60pp. | 0.55pp. | 5.2% | 4.6% | -0.66pp. |
| Business lines as % of revenues | | | | | | | | |
| Security Products | 25% | 27% | 25% | -0.03pp. | -2.28pp. | 25% | 26% | 0.94pp. |
| Card Production | 24% | 26% | 30% | 0.06pp. | 0.04pp. | 25% | 27% | 1.36pp. |
| Form Production | 43% | 41% | 38% | -0.06pp. | -0.03pp. | 43% | 41% | -1.81pp. |
| Traditional Printing | 4% | 5% | 6% | 0.02pp. | 0.01pp. | 4% | 5% | 0.53pp. |
| Other | 3% | 2% | 1% | -0.02pp. | 0.00pp. | 3% | 2% | -1.02pp. |
| Export revenues | 2,210 | 2,584 | 2,567 | 16.2% | -0.7% | 6,574 | 7,561 | 15.0% |
| Security Products | 144 | 127 | 334 | 131.9% | 163.0% | 352 | 636 | 80.7% |
| Card Production | 76 | 49 | 68 | -10.5% | 38.8% | 250 | 184 | -26.4% |
| Form Production | 1,786 | 2,333 | 2,105 | 17.9% | -9.8% | 5,622 | 6,552 | 16.5% |
| Traditional Printing | 3 | 2 | 10 | 233.3% | 400.0% | 7 | 15 | 114.3% |
| Other | 201 | 73 | 50 | -75.1% | -31.5% | 343 | 174 | -49.3% |
| Export as % of total revenues | 33% | 39% | 40% | 7.49pp. | 1.18pp. | 36% | 41% | 5.07pp. |
| Security Products | 9% | 7% | 21% | 0.12pp. | 0.14pp. | 8% | 13% | 5.56pp. |
| Card Production | 5% | 3% | 4% | -0.01pp. | 0.01pp. | 5% | 4% | -1.65pp. |
| Form Production | 61% | 87% | 88% | 0.26pp. | 0.00pp. | 71% | 85% | 14.68pp. |
| Traditional Printing | 1% | 1% | 3% | 0.01pp. | 0.02pp. | 1% | 2% | 0.83pp. |
| Other | 92% | 69% | 61% | -0.31pp. | -0.08pp. | 74% | 62% | -11.46pp. |
| Receivable days | 62 | 64 | 63 | 2.1% | -1.9% | 62 | 63 | 2.1% |
| Inventory days | 32 | 32 | 38 | 17.6% | 18.3% | 32 | 38 | 17.6% |
| Payable days | 30 | 27 | 35 | 16.9% | 28.4% | 30 | 35 | 16.9% |
| Cash conversion cycle | 64 | 69 | 66 | 3.0% | -4.4% | 64 | 66 | 3.0% |

*Source: Company data, WOOD Research; *EBITDA adjusted by the HUF 126m one-off gain reported in 1Q16 due to the real estate transaction*

# Financials

## Income statement forecasts

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Revenue | 22,692 | 21,366 | 24,911 | 24,606 | 25,950 | 27,830 | 27,247 | 28,204 |
| Material expenses | -15,188 | -14,345 | -16,145 | -16,363 | -17,127 | -18,646 | -17,929 | -18,474 |
| Personnel expenses | -4,863 | -4,770 | -5,601 | -5,586 | -5,900 | -6,112 | -6,228 | -6,422 |
| Other expenses | -350 | 26 | -188 | 140 | -45 | -23 | -30 | -19 |
| **EBITDA** | **2,291** | **2,277** | **2,977** | **2,797** | **2,878** | **3,049** | **3,060** | **3,290** |
| D&A | -868 | -911 | -1,008 | -1,084 | -1,101 | -1,117 | -1,134 | -1,151 |
| **EBIT** | **1,423** | **1,366** | **1,969** | **1,713** | **1,778** | **1,931** | **1,926** | **2,139** |
| Net finance income/(expense) | 7 | -11 | -103 | -94 | -133 | -176 | -209 | -231 |
| Profit before tax | 1,429 | 1,355 | 1,866 | 1,619 | 1,645 | 1,756 | 1,717 | 1,908 |
| Tax | -204 | -88 | -281 | -193 | -195 | -207 | -206 | -229 |
| Net income | 1,225 | 1,266 | 1,585 | 1,427 | 1,450 | 1,549 | 1,512 | 1,679 |
| Minorities | 208 | 335 | 383 | 295 | 295 | 307 | 321 | 359 |
| **Net income for shareholders** | **1,017** | **932** | **1,202** | **1,132** | **1,155** | **1,243** | **1,190** | **1,321** |
| | | | | | | | | |
| EBITDA margin | 10.1% | 10.7% | 12.0% | 11.4% | 11.1% | 11.0% | 11.2% | 11.7% |
| EBIT margin | 6.3% | 6.4% | 7.9% | 7.0% | 6.9% | 6.9% | 7.1% | 7.6% |
| Pre-tax margin | 6.3% | 6.3% | 7.5% | 6.6% | 6.3% | 6.3% | 6.3% | 6.8% |
| Tax rate | 14.3% | 6.5% | 15.1% | 11.9% | 11.8% | 11.8% | 12.0% | 12.0% |
| Net Income margin | 5.4% | 5.9% | 6.4% | 5.8% | 5.6% | 5.6% | 5.5% | 6.0% |
| Net Income for shareholders margin | 4.5% | 4.4% | 4.8% | 4.6% | 4.5% | 4.5% | 4.4% | 4.7% |
| | | | | | | | | |
| Sales growth | 25.9% | -5.8% | 16.6% | -1.2% | 5.5% | 7.2% | -2.1% | 3.5% |
| EBITDA growth | 40.6% | -0.6% | 30.7% | -6.0% | 2.9% | 5.9% | 0.4% | 7.5% |
| Operating profit growth | 64.2% | -4.0% | 44.2% | -13.0% | 3.8% | 8.6% | -0.3% | 11.0% |
| Pre-tax profit growth | 58.6% | -5.2% | 37.8% | -13.2% | 1.6% | 6.8% | -2.2% | 11.1% |
| Net income growth | 51.2% | 3.4% | 25.2% | -10.0% | 1.6% | 6.8% | -2.4% | 11.1% |
| Net income for shareholders growth | 42.8% | -8.4% | 29.1% | -5.9% | 2.0% | 7.6% | -4.2% | 10.9% |

*Source: Company data, WOOD Research*

## Macro assumptions

| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| EUR/HUF (eop) | 316 | 316 | 310 | 308 | 303 | 295 | 295 | 295 |
| Hungary tax rate | | | | 9% | 9% | 9% | 9% | 9% |
| Romania tax rate | | | | 16% | 16% | 16% | 16% | 16% |
| Interest rate | | | | 3% | 3.4% | 4.2% | 4.9% | 5.6% |

*Source: WOOD Research*

## Balance sheet forecasts

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| **Current assets** | **6,900** | **7,239** | **7,754** | **8,542** | **9,198** | **9,743** | **9,462** | **9,827** |
| Cash and cash equivalents | 1,652 | 815 | 865 | 636 | 576 | 590 | 473 | 569 |
| Trade receivables | 2,757 | 2,992 | 3,445 | 4,382 | 4,977 | 5,337 | 5,225 | 5,409 |
| Inventories | 1,543 | 2,028 | 2,144 | 2,225 | 2,346 | 2,516 | 2,463 | 2,550 |
| Oher short-term assets | 948 | 1,403 | 1,299 | 1,299 | 1,299 | 1,299 | 1,299 | 1,299 |
| **Fixed assets** | **3,716** | **4,182** | **7,620** | **7,728** | **7,838** | **7,950** | **8,063** | **8,179** |
| PPE | 3,327 | 3,758 | 7,230 | 7,338 | 7,448 | 7,560 | 7,673 | 7,788 |
| Intangibles | 41 | 80 | 50 | 50 | 50 | 50 | 50 | 50 |
| Goodwill | 335 | 335 | 335 | 335 | 335 | 335 | 335 | 335 |
| Other long-term assets | 14 | 9 | 5 | 5 | 5 | 5 | 5 | 5 |
| **Total assets** | **10,616** | **11,421** | **15,374** | **16,270** | **17,036** | **17,693** | **17,525** | **18,005** |
| **Current liabilities** | **3,478** | **4,034** | **5,426** | **6,444** | **7,160** | **7,691** | **7,526** | **7,796** |
| Short-term debt | 45 | 0 | 1,036 | 2,027 | 2,607 | 2,946 | 2,841 | 3,014 |
| Short-term lease liabilities | 1 | 106 | 264 | 264 | 264 | 264 | 264 | 264 |
| trade payables | 2,052 | 2,878 | 2,467 | 2,494 | 2,631 | 2,821 | 2,762 | 2,859 |
| other payables | 1,150 | 709 | 966 | 966 | 966 | 966 | 966 | 966 |
| other s/t liabilities | 229 | 341 | 693 | 693 | 693 | 693 | 693 | 693 |
| **Long-term liabilities** | **300** | **495** | **2,573** | **2,423** | **2,273** | **2,123** | **1,973** | **1,823** |
| Long-term debt | 0 | 0 | 1,633 | 1,483 | 1,333 | 1,183 | 1,033 | 883 |
| Long-term lease liabilities | 1 | 208 | 515 | 515 | 515 | 515 | 515 | 515 |
| Deferred tax | 295 | 243 | 302 | 302 | 302 | 302 | 302 | 302 |
| Other long-term liabilities | 4 | 44 | 122 | 122 | 122 | 122 | 122 | 122 |
| **Shareholders' equity** | **6,838** | **6,892** | **7,374** | **7,403** | **7,603** | **7,880** | **8,026** | **8,386** |
| Share capital | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 | 1,450 |
| Capital reserve | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 |
| Retained earnings | 4,912 | 4,764 | 5,005 | 4,892 | 4,915 | 5,003 | 4,950 | 5,081 |
| Treasury shares | -455 | -455 | -455 | -455 | -455 | -455 | -455 | -455 |
| Minority interest | 681 | 883 | 1,124 | 1,266 | 1,443 | 1,632 | 1,830 | 2,060 |
| **Total equity and liabilities** | **10,616** | **11,421** | **15,374** | **16,270** | **17,036** | **17,693** | **17,525** | **18,005** |
| | | | | | | | | |
| Net debt | -1,604 | -501 | 2,583 | 3,653 | 4,143 | 4,318 | 4,180 | 4,108 |
| Net debt/EBITDA | -0.7 | -0.2 | 0.9 | 1.3 | 1.4 | 1.4 | 1.4 | 1.2 |
| Net debt/equity | -0.2 | -0.1 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| | | | | | | | | |
| Receivable days | 44.3 | 51.1 | 50.5 | 65.0 | 70.0 | 70.0 | 70.0 | 70.0 |
| Inventory days | 24.8 | 34.6 | 31.4 | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 |
| Payable days | 33.0 | 49.2 | 36.2 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 |

*Source: Company data, WOOD Research*

## Cash flow forecasts

| HUF m | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Net income | 1,429 | 1,355 | 1,866 | 1,619 | 1,645 | 1,756 | 1,717 | 1,908 |
| D&A | 868 | 911 | 1,008 | 1,084 | 1,101 | 1,117 | 1,134 | 1,151 |
| other | 80 | -10 | 35 | 94 | 133 | 176 | 209 | 231 |
| changes in WC, o/w | -139 | -667 | -261 | -991 | -580 | -340 | 105 | -173 |
| Receivables | -615 | -701 | -240 | -937 | -595 | -361 | 112 | -184 |
| Inventories | 81 | -462 | -220 | -81 | -122 | -170 | 53 | -87 |
| Payables | 394 | 496 | 199 | 27 | 136 | 191 | -59 | 97 |
| **Cash from operations** | **2,239** | **1,589** | **2,648** | **1,807** | **2,298** | **2,709** | **3,166** | **3,117** |
| Interest paid | 6 | -19 | -105 | -94 | -133 | -176 | -209 | -231 |
| Income tax paid | -143 | -120 | -267 | -193 | -195 | -207 | -206 | -229 |
| **Operating cash flow** | **2,102** | **1,451** | **2,276** | **1,521** | **1,971** | **2,326** | **2,751** | **2,657** |
| Capex | -1,208 | -1,320 | -4,429 | -1,193 | -1,211 | -1,229 | -1,247 | -1,266 |
| Other invs/divest. | 51 | -26 | 89 | 0 | 0 | 0 | 0 | 0 |
| **Investment cash flow** | **-1,157** | **-1,346** | **-4,340** | **-1,193** | **-1,211** | **-1,229** | **-1,247** | **-1,266** |
| Borrowings | -21 | -45 | 2,747 | 841 | 430 | 190 | -255 | 23 |
| Dividends | -814 | -1,080 | -962 | -1,245 | -1,132 | -1,155 | -1,243 | -1,190 |
| Other | -86 | 184 | 329 | -153 | -118 | -118 | -123 | -128 |
| **Financing cash flow** | **-921** | **-941** | **2,114** | **-557** | **-820** | **-1,083** | **-1,621** | **-1,296** |
| Net change in cash and equivalents | 23 | -837 | 51 | -229 | -60 | 15 | -117 | 95 |
| Beginning cash and equivalents | 1,629 | 1,652 | 815 | 865 | 636 | 576 | 590 | 473 |
| Ending cash and equivalents | 1,652 | 815 | 865 | 636 | 576 | 590 | 473 | 569 |

*Source: Company data, WOOD Research*

## Key ratios

| | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|
| Number of shares (m) | 14.79 | 14.79 | 14.79 | 14.79 | 14.79 | 14.79 | 14.79 | 14.79 |
| Price eop (HUF) | 725 | 902 | 1,069 | 1,319 | 1,319 | 1,319 | 1,319 | 1,319 |
| Market cap | 10,733 | 13,342 | 15,814 | 19,514 | 19,514 | 19,514 | 19,514 | 19,514 |
| EV | 9,809 | 13,724 | 19,521 | 24,433 | 25,100 | 25,464 | 25,524 | 25,682 |
| EPS (HUF) | 68.8 | 63.0 | 81.3 | 76.5 | 78.1 | 84.0 | 80.5 | 89.3 |
| - EPS growth | 43% | -8% | 29% | -6% | 2% | 8% | -4% | 11% |
| Dividend (HUF m) | 814 | 1,080 | 962 | 1,245 | 1,132 | 1,155 | 1,243 | 1,190 |
| DPS (HUF) | 55.00 | 73.00 | 65.00 | 84.12 | 76.52 | 78.06 | 83.99 | 80.46 |
| - Payout Ratio | 114% | 106% | 103% | 104% | 100% | 100% | 100% | 100% |
| **Dividend yield** | **7.6%** | **8.1%** | **6.1%** | **6.4%** | **5.8%** | **5.9%** | **6.4%** | **6.1%** |
| BVPS (HUF) | 416 | 406 | 422 | 415 | 416 | 422 | 419 | 428 |
| ROE | 16.5% | 15.5% | 19.2% | 18.4% | 18.7% | 19.9% | 19.2% | 20.9% |
| **PER (x)** | **10.6** | **14.3** | **13.2** | **17.2** | **16.9** | **15.7** | **16.4** | **14.8** |
| **EV/EBITDA (x)** | **4.28** | **6.03** | **6.56** | **8.73** | **8.72** | **8.35** | **8.34** | **7.81** |
| EV/EBIT | 6.90 | 10.05 | 9.91 | 14.26 | 14.12 | 13.18 | 13.25 | 12.01 |
| EV/Sales | 0.43 | 0.64 | 0.78 | 0.99 | 0.97 | 0.91 | 0.94 | 0.91 |
| P/FCF | 13.7 | 106.0 | -8.3 | 47.6 | 22.3 | 15.6 | 11.6 | 12.2 |
| P/BV | 1.7 | 2.2 | 2.5 | 3.2 | 3.2 | 3.1 | 3.1 | 3.1 |

*Source: WOOD Research*

# Annex 1

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| Rating | | Price target | |
|---|---|---|---|
| 14/12/2017 | HOLD – initiation of coverage | 14/12/2017 | HUF 1,406 |

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