

# ANY Security Printing Company

# Buy

Transfer of coverage

Price: HUF 1,170

Price target: HUF 1,424

## Presses to restart, followed by dividends and growth

In this report, we transfer coverage of ANY Security Printing Company, trim our price target (PT) slightly, to HUF 1,424/share, and upgrade the stock to BUY, as we see upside of c.22%. We have cut our forecasts for this year, to include the effect of the health and economic crisis, but believe that a portion of the lost revenues from ANY's key business segments has shifted in time, rather than being lost completely. Thus, we anticipate a recovery next year. The company could generate growth even in the longer term, due especially to its exposure to the speciality printing services segment and geographies with growth potential. We also expect the dividend payments to return next year and pencil in 100% payouts over our forecast period. This is also likely to result in superior dividends yields vs. its peers. Finally, we also highlight the company's strong cash generation characteristics, and we believe the recent increase in the absolute and relative leverage is only temporary. At our EV/EBITDA of 8.0x for 2020E, ANY is trading at a premium vs. its peers, but its growth potential, top-line diversification, and superior dividend yields help to explain this premium, in our view.

**Relatively quick recovery expected.** While we expect the top line to decline by 15.3% yoy in 2020E, we forecast the revenues in 2021E and 2022E to record growth of 12.0% and 9.2%, respectively, before returning to the levels seen in the past. The high growth rates are the result of: i) the delayed revenues from ID card and passport production that we expect to be recorded in 2021E; ii) election ballots to be produced for the parliamentary election in Hungary in 2022E; and iii) the growth potential of the countries in which ANY conducts its business, especially Bulgaria, Romania, and certain export markets, such as Africa. Our anticipated 2020-28E top-line CAGR is 4.5%. We expect the EPS CAGR for the same period to be c.14%.

**Dividends likely to return next year.** ANY's management has decided to cancel the dividend from the 2019 profit. However, we believe the dividends could return as early as next year. We are also of the opinion that there is a chance that ANY could pay out a portion of its 2019 profit, as a special dividend, next year, as well. Between 2021E and 2028E, we do not expect ANY to yield less than 5.5%; our average yield between 2021E and 2028E is 8.1%.

**We expect the leverage to decline.** The company's net debt to EBITDA increased to 2.25x at the end of 2Q20, largely on the back of loans taken out, while lower EBITDA levels played a role as well. As we expect profitability to return next year and cash generation to remain strong, the company's leverage ratios should decline gradually over the next few years to levels near 1.5x. We do not consider the current debt levels as high enough to change our view.

**Premium vs. peers is justified.** It is difficult to find comparable peers due to ANY's diversified top line, but we have found some peers that are active in several areas of the printing industry. At our EV/EBITDAs of 8.0x for 2021E and 6.4x for 2022E, ANY trades at premiums of 61.9% and 38.8%, respectively, vs. its peers. We admit that such premiums may look overstretched but, given ANY's exposure to prospective growth regions and segments vs. the decline of the industry globally, its expected superior dividend yields, and top-line diversification, we believe the premiums are justified.

### Expected events

3Q20 results 20 November

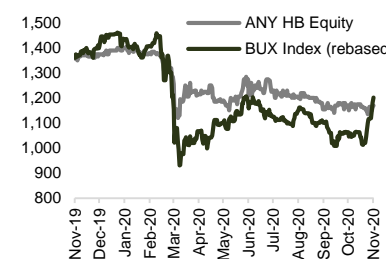
### Key data

Market Cap	USD 57m
Free float	52%
3M ADTV	USD 0.01m
Shares outstanding	14.79m
Major Shareholder	Erdős Family – c.22%
Bloomberg Code	ANY HB Equity
BUX Index	38,045.80

### Price performance

52-w range	HUF 1,120-1,405
52-w performance	-14.0%
Relative performance	-2.4%

### 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
2017	26,181	3,068	1,998	1,040	70.3	19.0	8.3	84.0	6.3%
2018	30,527	2,986	1,853	1,140	77.1	16.8	8.8	79.0	6.1%
2019	34,130	3,372	2,083	1,273	86.0	16.2	8.1	77.1	5.5%
2020E	28,892	2,345	1,058	635	43.0	27.2	10.6	0.0	0.0%
2021E	32,349	2,998	1,693	1,033	69.8	16.8	8.0	64.4	5.5%
2022E	35,320	3,739	2,415	1,510	102.1	11.5	6.4	69.8	6.0%

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## Closing Prices as of 11 November 2020

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# Company snapshot – BUY, PT HUF 1,424

ANY Security Printing Company							
BUY		SHARE PRICE PERFORMANCE					COMPANY DESCRIPTION
Bloomberg ticker	ANY HB	1,500				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 2015-18, ANY has grown by almost 13% per annum, reaching sales of HUF 30.5bn, with a significant part of its business (37%) being in countries outside of Hungary, particularly Romania.	
Closing price (HUF)		1,400					
Price target (HUF)		1,424					
Upside to PT		22%					
Shares outstanding (m)		14.79					
Market cap (USD m)		57					
Free float		53%					
Average daily turnover (USD '000)		10					
52 Week performance		-14.0%					
52 Week relative performance		-2.4%					
52 Week Range (HUF)		1,120-1,405					
RATIOS							
PER SHARE RATIOS (HUF)							
EPS	2017	2018	2019	2020E	2021E	2022E	
BVPS	70.3	77.1	86.0	43.0	69.8	102.1	
DPS	408.8	411.7	418.6	461.6	466.9	499.2	
FINANCIAL RATIOS							
EBITDA margin	2017	2018	2019	2020E	2021E	2022E	
EBIT margin	11.7%	9.8%	9.9%	8.1%	9.3%	10.6%	
Net margin	7.6%	6.1%	6.1%	3.7%	5.2%	6.8%	
ROE	4.0%	3.7%	3.7%	2.2%	3.2%	4.3%	
Net debt/EBITDA	17.2%	18.7%	20.6%	9.3%	15.0%	20.4%	
Capex/depreciation	1.4x	2.0x	1.6x	2.7x	1.7x	1.4x	
Growth	2017	2018	2019	2020E	2021E	2022E	
Revenues	5.1%	16.6%	11.8%	-15.3%	12.0%	9.2%	
EBITDA	3.1%	-2.7%	12.9%	-30.4%	27.8%	24.7%	
COMPANY FINANCIALS							
INCOME STATEMENT, HUFm							
Revenues	2017	2018	2019	2020E	2021E	2022E	
Costs	26,181	30,527	34,130	28,892	32,349	35,320	
EBITDA	-23,113	-27,541	-30,759	-26,546	-29,351	-31,581	
EBIT	-17,270	-21,590	-22,848	-19,341	-21,656	-23,644	
Net income for shareholders	1,040	1,140	1,273	635	1,033	1,510	
CASH FLOW STATEMENT, HUFm							
CF from operations	2017	2018	2019	2020E	2021E	2022E	
CF from investments	1,257	2,259	4,557	744	3,572	2,729	
CF from fin. activities	-1,394	-2,195	-2,812	-1,416	-1,436	-1,390	
Cash balance	867	1,020	1,287	2,191	2,025	2,390	
BALANCE SHEET, HUFm							
PPE	2017	2018	2019	2020E	2021E	2022E	
Total current assets	7,571	8,550	9,162	9,291	9,421	9,488	
Total assets	17,673	19,305	20,473	22,037	21,872	23,086	
OPERATIONS							
Revenues	2017	2018	2019	2020E	2021E	2022E	
as % of revenues	26,181	30,527	34,130	28,892	32,349	35,320	
Export revenues	11,120	11,071	12,638	11,418	13,160	14,386	
Revenue split (HUF m)							
Adjusted EBITDA							

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## Investment case

We have trimmed our price target (PT) only marginally, to HUF 1,424/share, but upgraded the stock to BUY (and transferred coverage), following the stock's decline from c.HUF 1,400/share to the current levels. We appreciate its quite straightforward investment thesis and, in this report, we have adjusted our estimates for the COVID-19 related crisis. The company was not spared the economic difficulties related to the pandemic, but we believe that some of these "lost" revenues have only been delayed and should be reported eventually, over time. Furthermore, the company is present in markets that can be considered growth regions. The dividend from its 2019 profit was cancelled, but we anticipate the payments to return in 2021E. We forecast 100% dividend payout ratios over our forecast period and believe that ANY could pay out part of the 2019 profit as a special dividend next year. Despite the leverage ratios and the absolute amount of debt increasing recently, ANY has the capacity to make this increase only temporary and we pencil in gradual declines in its leverage. Despite the rich valuation and premium vs. its peers, we believe our BUY recommendation is justified, mostly on the back of the high dividend yields, growth opportunities in Eastern Europe, and exposure to the more resilient securities and card printing segments.

**The business lost during the pandemic should return, most likely in 2021E, when we anticipate higher growth rates.** Prior to the pandemic, the company continued to report business growth and had quite a successful first quarter for the year. The pandemic has taken its toll, however, and the net income for 2Q was reported at a mere HUF 9m. ANY took out a loan to ensure liquidity and decided to cancel the dividend payment from the 2019 profit. In our view, given the characteristics of the company's strategic revenue sources, such as ID card production, passport printing, and form production, we believe that most of the business has shifted in time, rather than been lost completely. We anticipate the delayed business to return over time and believe that most of it could be recorded in 2021E. We expect the growth rates in 2022E to be supported by the parliamentary elections, for which the company produces ballots. In our model, we have thus pencilled in growth rates of -15.3%, 12.0% and 9.2% for 2020E, 2021E and 2022E, respectively. Going forward, we expect the top-line growth to subside, supported by regular one-offs, from such things as elections. Our top-line 2020-28E CAGR expectation is at 4.5%. We note that these growth rates are also higher because of the lower base in 2020E.

**ANY's geographies, as well as certain segments, showing growth characteristics.** The traditional printing services market is on a downward path, but the speciality printing industry is driven by a different set of factors and is thus less affected by the growing number of digital devices. 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 than the EU average in ANY's geographies. On this perspective, Romania (43 card transactions per capita, on average, in 2019) and Bulgaria (29) stand out compared to the average in the EU (168). The situation is similar in terms of number of cards per capita, where Hungary, Romania and Bulgaria rank low, in a range of 0.8x to 1.1x cards per capita, compared to the EU average of 1.7x.

**Despite the cancelled dividend payment in 2020, the company remains a strong dividend payer, in our view.** We anticipate dividends to return next year and we believe there is even room for the company to pay out part of the 2019 profit, in the form of a special dividend payment, together with the dividend from this year. This should support the dividend yield next year, in our view, and bring it to 5.5%. We expect higher levels already for 2022E (6.0%). Prior to the current crisis, the company used to pay out 100% of its profits as dividends and we expect this policy to continue going forward. For the rest of our forecast period (2023-28E), we anticipate the dividend yields, implied by the current share price, to be higher than 7.7%.

**Net debt to EBITDA has increased significantly this year, but the company still on the safe side.** Over the course of the year, the company's debt load has grown, as the company wanted to ensure liquidity and increased the amount of its long-term loans on the balance sheet by c.HUF 1.6bn. The increase of the TTM net debt to EBITDA to 2.25x by the end of June 2020 was the result not only of the borrowing build up, but also the decline in the EBITDA levels due to the pandemic. We expect the ratio to increase further, to 2.6x, by the end of the year, but on the back of strong cash generation, which should allow the company to start repaying its debt gradually, and EBITDA earnings returning to their previous levels, the net debt to EBITDA ratio could decline to 1.7x in 2021E and 1.4x in 2022E. The declining trend should continue over our forecast period, but we expect the leverage ratio to remain above 1.1x.

**At our EV/EBITDAs of 8.0x for 2021E and 6.4x for 2022E, ANY trades at premiums of 61.9% and 38.8% vs. its peers, respectively.** While trading at high premiums to its peers, we believe that some premium is justified, especially given its superior dividend yields, promising growth prospects, and quite diversified revenue sources. On this perspective, we believe the upside of 22% and our BUY recommendation is justified.

## Valuation

### Valuation summary – BUY, PT HUF 1,424

We employ two different methods in order to arrive at our fair value for ANY Security Printing Company: a DCF model and a dividend discount model. Based on these models, we have increased our PT to HUF 1,424/share and upgraded our recommendation to BUY.

#### ANY Security Printing Company: valuation summary

	Equity value (HUF m)	Per share
DCF	21,361	1,444
DDM	20,784	1,405
<b>12-month PT (HUF)</b>	<b>21,073</b>	<b>1,424</b>
Current price (HUF)		1,170
<b>Upside</b>		<b>22%</b>
Difference between methods		3%

Source: WOOD Research

### WACC estimate

We estimate the WACC for ANY using the following assumptions:

- ✓ A weight of 57% for Hungary and 43% for Romania, based on the forecast domestic/export revenue split for 2019-28E. We note that, in 2019, both countries accounted for 85% of the total revenue stream.
- ✓ A risk free rate of 4% for Hungary and 5% for Romania.
- ✓ An equity risk premium of 4.5% for Hungary and 5% for Romania.
- ✓ A debt risk premium of 1.5% for the company.
- ✓ An unlevered beta of 0.70x, given the company's lower sensitivity to economic cycle, implying a 1.01-1.02x levered beta, using ANY's D/E ratio.

#### ANY Security Printing Company: estimated WACC

	Hungary	Romania
Risk free rate	4.0%	5.0%
Unlevered beta	0.70	0.70
Levered beta	1.01	1.02
Equity risk premium	4.5%	5.0%
<b>Cost of equity</b>	<b>8.5%</b>	<b>10.1%</b>
Risk free rate	4.0%	5.0%
Debt risk premium	1.5%	1.5%
Tax rate	9.0%	16.0%
<b>After-tax cost of debt</b>	<b>5.0%</b>	<b>5.5%</b>
%D	36%	36%
%E	64%	64%
<b>WACC</b>	<b>7.3%</b>	<b>8.4%</b>
Weight	57%	43%
<b>Cost of equity Blended</b>	<b>9.2%</b>	
<b>WACC Blended</b>	<b>7.8%</b>	

Source: WOOD Research

## DCF method: 12M PT 1,444/share

We base our DCF valuation on the following assumptions:

- ✓ A blended WACC of 7.8%.
- ✓ A terminal growth rate of 2%, in line with the digitalisation dynamics of the industry in the long term, as well as with the long-term slowdown of ANY's top-line growth that we pencil into our model.
- ✓ An average cash conversion cycle of 55 days for our forecast period, more conservative than the historical average of 51.

### ANY Security Printing Company: WOOD's DCF model

(HUF m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	28,892	32,349	35,320	35,409	37,538	37,483	39,435	39,291	41,056
EBIT	1,058	1,693	2,415	2,148	2,632	2,389	2,879	2,587	2,977
Cash taxes on EBIT	199	319	455	407	499	455	549	496	570
<b>NOPAT</b>	<b>859</b>	<b>1,374</b>	<b>1,960</b>	<b>1,741</b>	<b>2,133</b>	<b>1,934</b>	<b>2,330</b>	<b>2,091</b>	<b>2,406</b>
Depreciation	1,287	1,305	1,324	1,333	1,342	1,352	1,361	1,371	1,380
Change in operating WC	-1,335	970	-491	-37	-477	-183	-409	151	-224
CAPEX	-1,416	-1,436	-1,390	-1,400	-1,409	-1,419	-1,429	-1,439	-1,449
<b>Net investment</b>	<b>-1,464</b>	<b>840</b>	<b>-557</b>	<b>-104</b>	<b>-545</b>	<b>-250</b>	<b>-477</b>	<b>82</b>	<b>-293</b>
<b>FCF</b>	<b>-604</b>	<b>2,214</b>	<b>1,403</b>	<b>1,637</b>	<b>1,589</b>	<b>1,684</b>	<b>1,853</b>	<b>2,173</b>	<b>2,113</b>
Discount factor	0.99	0.92	0.85	0.79	0.73	0.68	0.63	0.59	0.54
PV of FCF	-598	2,033	1,195	1,295	1,166	1,147	1,172	1,275	1,150
<b>SUM of PV FCF</b>	<b>9,835</b>								
LT FCF growth rate	2.0%								
Residual value at horizon	37,434								
<b>PV of Residual value</b>	<b>20,378</b>								
Net debt	6,340								
Minorities (BV weighted)	4,314								
<b>Equity value</b>	<b>19,559</b>								
Number of shares (m)	14.79								
Equity value per share	1,322								
<b>12M price target</b>	<b>1,444</b>								
<b>% upside</b>	<b>23%</b>								

Source: WOOD Research

## DDM method: 12M PT 1,405/share

We base our DDM valuation on the following assumptions:

- ✓ A blended cost of equity of 9.2%.
- ✓ A terminal growth rate of 2%, in line with the digitalisation dynamics of the industry in the long term, as well as with the long-term slowdown of ANY's top-line growth that we pencil into our model.
- ✓ A payout ratio of 100% over our forecast period. The 150% payout ratio in 2021E consists of a 100% payout from the 2020E profit and part of the 2019 profit in the form of special dividend.

### ANY Security Printing Company: WOOD's DDM model

(HUF m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net income to shareholders	635	1,033	1,510	1,325	1,635	1,463	1,769	1,570	1,813
<b>Dividend</b>	<b>0</b>	<b>953</b>	<b>1,033</b>	<b>1,510</b>	<b>1,325</b>	<b>1,635</b>	<b>1,463</b>	<b>1,769</b>	<b>1,570</b>
Payout ratio	0%	150%	100%	100%	100%	100%	100%	100%	100%
Discount factor	0.94	0.94	0.86	0.79	0.73	0.66	0.61	0.56	0.51
PV of Dividend	0	900	893	1,196	961	1,085	890	985	800
<b>SUM of PV Dividend</b>	<b>7,710</b>								
Long term FCF growth rate	2.0%								
Residual value at horizon	22,212								
<b>PV of residual value</b>	<b>11,322</b>								
<b>Equity value</b>	<b>19,031</b>								
Number of shares (m)	14.79								
Equity value per share	1,286								
<b>12M price target</b>	<b>1,405</b>								
<b>% upside</b>	<b>20%</b>								

Source: WOOD Research

## Peer valuation

As ANY combines both traditional printing services and direct mail services with more specialised niche services, such as cards and securities printing, we cannot find a perfect peer for the company. We have found peers that are active throughout several areas of the printing industry, with different proportions of these services in their turnovers.

At our 2021E P/E of 16.8x and 2022E P/E of 11.5x, ANY trades at premiums of 7.7% and 27.1%, respectively, vs. its peers. At EV/EBITDAs of 8.0x for 2021E and 6.4x for 2022E, the company trades at premiums of 61.5% and 38.8%, respectively, vs. its peers. Also, ANY could offer dividend yields of 5.5% and 6.0% on our 2021E and 2022E numbers, respectively, higher than its peers by 1.5ppts and 1.2ppts, respectively.

As the result of its higher dividend yield and its exposure to the securities and card printing industries, which offer some protection against the global decline in the printing industry and even growth opportunities in Eastern European countries, where the demand for such services is increasing, we believe that ANY deserves to trade at a premium to its peers. We also note that we expect superior dividend yields even after 2022E when, in our view, the yields should remain north of 7.7% (implied by the current share price).

### ANY Security Printing Company: peer valuation table as of 11 November 2020

	Last px Icl	Mkt cap (USD m)	P/E			EV/EBITDA			Div Yield		
			2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Transcontinental Inc	16.6	1,111	7.5x	8.3x	7.8x	4.9x	4.9x	4.6x	5.4%	5.5%	6.0%
Tungkong Inc	10.1	834	21.7x	19.1x	15.3x	n.a.	n.a.	n.a.	2.9%	3.0%	3.9%
Elanders AB (Class B)	85.5	349	10.8x	7.5x	6.7x	4.9x	4.1x	3.7x	1.7%	4.0%	4.7%
RR Donnelley & Sons Co	1.4	103	-2.4x	3.6x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Valid Solucoes SA	9.0	119	-12.1x	19.1x	5.2x	10.0x	6.5x	1.0x	1.7%	3.4%	4.0%
Orell Fuessli Holding AG	97.8	209	16.5x	23.5x	23.5x	4.7x	4.9x	4.9x	5.6%	5.6%	5.6%
De La Rue Plc	157.6	406	29.0x	15.6x	10.3x	10.6x	7.4x	5.9x	n.a.	n.a.	n.a.
<b>Median</b>			<b>10.8x</b>	<b>15.6x</b>	<b>9.0x</b>	<b>4.9x</b>	<b>4.9x</b>	<b>4.6x</b>	<b>2.9%</b>	<b>4.0%</b>	<b>4.7%</b>
<b>ANY PLC</b>	<b>1,170.0</b>	<b>57</b>	<b>27.2x</b>	<b>16.8x</b>	<b>11.5x</b>	<b>10.6x</b>	<b>8.0x</b>	<b>6.4x</b>	<b>0.0%</b>	<b>5.5%</b>	<b>6.0%</b>
Discount/premium			151.2%	7.7%	27.1%	113.7%	61.9%	38.8%	-2.9ppts	1.5ppts	1.2ppts

Source: WOOD Research, Bloomberg

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## Risks

**Macroeconomic, health risks and COVID-19.** Our investment thesis is built around a relatively quick recovery. However, should further lockdowns be introduced for a longer period than we expect, or some of the revenues that have shifted in time not return, there would be downside risk for our estimates, price target and, thus, investor returns. However, we see ANY and some of its key business lines, apart from card production, as being more resilient to the economic cycle.

**Digitalisation.** We see digitalisation as a risk, especially for ANY's form production, as well as its traditional printing business lines. These two accounted for as much as 35% of total sales in 2019 and their share of total sales has been declining since at least 2015, especially on the back of the stronger growth rates in its other segments. Although the penetration rate of the electronic delivery of invoices is still very low in ANY's core markets, convergence to the more developed markets would result in a shrinking size of the overall market. We have taken this into account and we expect traditional printing services to report a 2020-28E CAGR of 3.1% vs. a 5.9% CAGR for the same period in the card production segment. We note that these growth rates are affected by the lower revenues we expect for 2020E. Calculating the same CAGRs, but between 2019 and 2028E, we arrive at 2.1% and 1.8%, respectively. 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. On the other hand, ANY also offers electronic invoices delivery services to its clients, which are have lower value, but higher profitability. Similarly, the company offers electronic archiving services at its own data warehouse, which could help mitigate the impact of digitalisation.

**A large dependency on government-related sources of revenue.** The government accounts for as much as half of the company's revenue sources. While this is not one government source, but multiple ones, we still believe it is worth highlighting as a risk. We note that ANY has a long tradition of working with the Hungarian government, and that these types of contracts require significant local presence and expertise in order to be executed.

**Geographical diversification creates FX exposure and risks.** The company does not have much FX exposure due to its operations, given that most of its debt is in HUF; and, while some 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.

**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 an effective tax higher than the corporate tax rate in Hungary, we highlight this as a risk, particularly as the company has a dividend payout ratio of 100%.

**Leverage has increased recently.** We do not consider ANY as being in an uncomfortable position with regards to its leverage. Its leverage ratios have increased recently, but the company holds enough cash, and it has agreed with its banks to increase the overdraft on its accounts in case more liquidity is needed to run the operations. We see a scenario when the company would need to tap its overdraft as unlikely now, however. We also believe that ANY should remain cash generating. Part of the increase in leverage is due to the lower base of the EBITDA level, which we see growing next year. This should help to reduce ANY's leverage.



## Adjustments in our financial forecasts

We have updated our forecasts to reflect the COVID-19 pandemic, as well as the related crisis. While we are quite bearish vs. our previous forecasts for its 2020E performance, we remain bullish with regards to the subsequent growth, reflecting our view that part of the lost revenue from early-2020E has only shifted in time and the company should be compensated by strong growth of revenues in 2021E, as well as in 2022E, when the growth rate should be partly supported by the production and distribution of election ballots, however (this should be a one-off effect only).

### ANY Security Printing Company: forecasts changes (2020-22E)

(HUF bn)	2020E			2021E			2022E		
	New	Old	% change	New	Old	% change	New	Old	% change
<b>Revenues</b>	<b>28.9</b>	<b>32.5</b>	<b>-11%</b>	<b>32.3</b>	<b>33.7</b>	<b>-4%</b>	<b>35.3</b>	<b>36.0</b>	<b>-2%</b>
Materials expenses	-19.3	-22.1	-12%	-21.7	-22.8	-5%	-23.6	-24.4	-3%
Personnel expenses	-7.6	-7.8	-2%	-8.0	-8.1	-1%	-8.3	-8.6	-4%
Other expenses	0.4	0.5	-13%	0.3	0.5	-42%	0.3	0.5	-40%
<b>EBITDA</b>	<b>2.3</b>	<b>3.2</b>	<b>-27%</b>	<b>3.0</b>	<b>3.3</b>	<b>-9%</b>	<b>3.7</b>	<b>3.5</b>	<b>8%</b>
D&A	-1.3	-1.3	-1%	-1.3	-1.3	0%	-1.3	-1.3	1%
<b>EBIT</b>	<b>1.1</b>	<b>1.9</b>	<b>-44%</b>	<b>1.7</b>	<b>2.0</b>	<b>-15%</b>	<b>2.4</b>	<b>2.2</b>	<b>12%</b>
Net finance income/(expense)	-0.1	-0.1	-17%	-0.1	-0.1	-5%	-0.1	-0.1	-35%
Profit before tax	1.0	1.8	-46%	1.6	1.9	-16%	2.3	2.0	15%
Tax	-0.2	-0.3	-39%	-0.3	-0.3	0%	-0.4	-0.4	22%
Net income	0.8	1.5	-47%	1.3	1.5	-14%	1.9	1.7	13%
Minorities	0.2	0.3	-48%	0.3	0.3	-12%	0.4	0.3	20%
<b>Net income for shareholders</b>	<b>0.6</b>	<b>1.2</b>	<b>-47%</b>	<b>1.0</b>	<b>1.2</b>	<b>-14%</b>	<b>1.5</b>	<b>1.4</b>	<b>11%</b>
Materials expenses % of sales	66.9%	68.0%	-1.1pp.	66.9%	67.7%	-0.7pp.	66.9%	67.9%	-1.0pp.
Personnel expenses % of sales	26.4%	24.0%	2.4pp.	24.7%	24.0%	0.6pp.	23.4%	24.0%	-0.6pp.
EBITDA margin	8.1%	9.8%	-1.7pp.	9.3%	9.8%	-0.5pp.	10.6%	9.7%	0.9pp.
Net Income for shareholders margin	2.2%	3.7%	-1.5pp.	3.2%	3.6%	-0.4pp.	4.3%	3.8%	0.5pp.

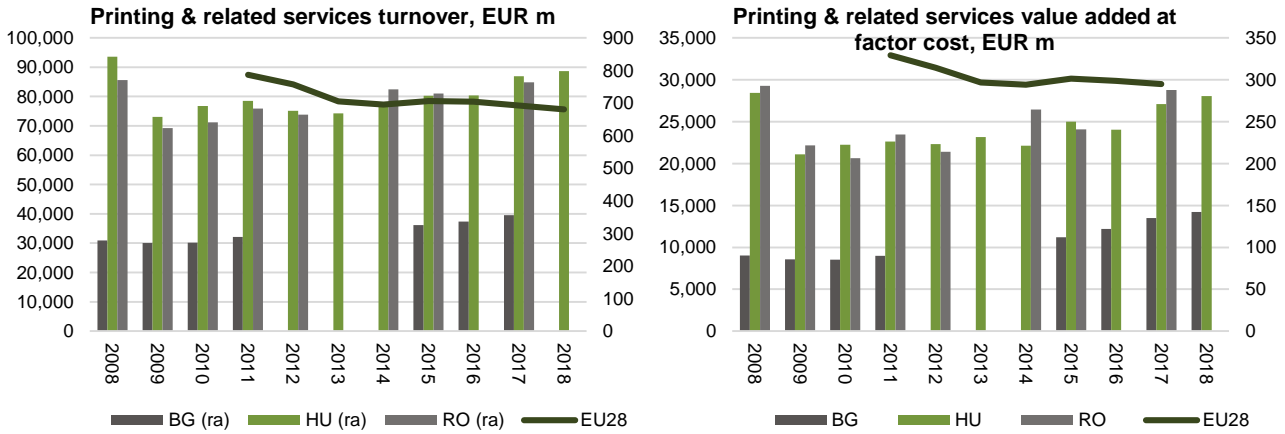
Source: WOOD Research

Below the top line, most of the changes come from lower materials expenses, a factor of the declining top line, as well as lighter upward pressure from personnel costs, especially in 2022E vs. our previous forecasts. We assume that a portion of the savings the company has found this year could be transferred into future periods, resulting in a faster recovery, as well as higher margins than we expected previously for 2022E. Otherwise, our forecast for ANY's costs remain more or less the same, with the lower margins being a result of the weaker top line.

# The case for ANY's growth potential

With increasing digitalisation and the higher penetration of digital media overall, traditional printing services have seen a downward trend. In the EU, the downward trend has been far from abrupt so far and, more importantly, in the regions where ANY conducts its business, the trends seem to be the opposite of what we see in the EU as a whole. This resilience is a factor in our forecasts for ANY's traditional printing business line, which we expect to continue to grow, albeit at slower rates than the remaining lines, especially the security products and card production.

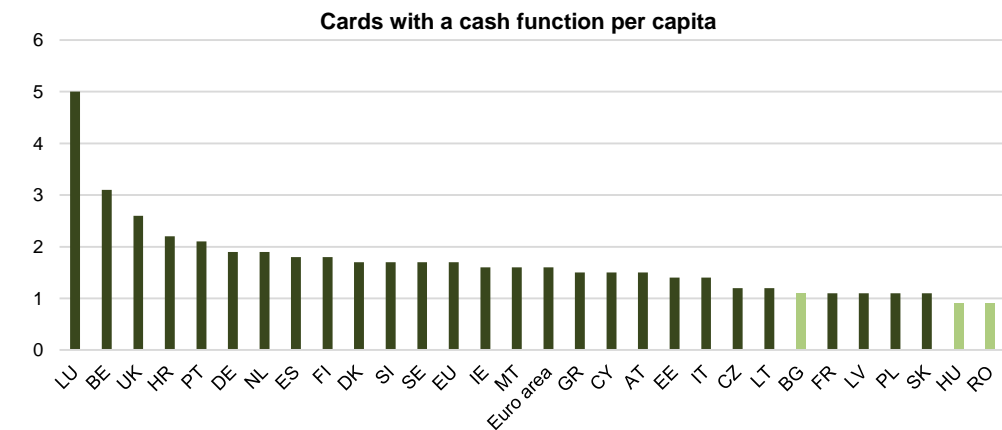
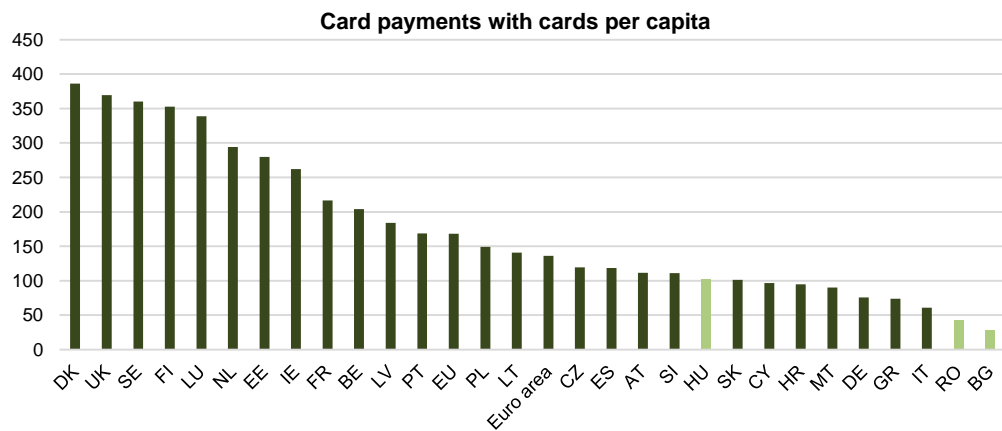
## Printing and related services\*



Source: WOOD Research, Eurostat; \*some years are missing in the Eurostat database; we have decided to use the data nevertheless, as we believe the trends still can be seen

Speciality printing should be the largest factor behind ANY's growth growing forward, in our view. Not only are these business lines the largest in absolute terms, but their potential in Eastern Europe is high.

## Card and card payments in the EU (2019)



Source: WOOD Research, Eurostat

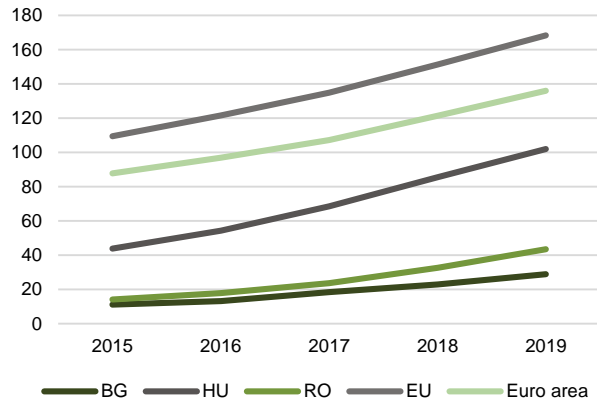
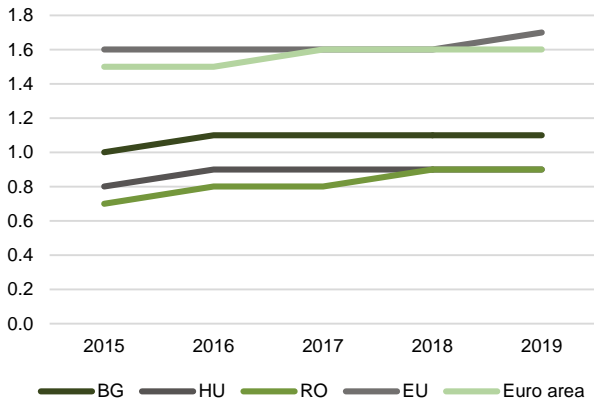
While we admit that the number of cards is also heavily reliant on the infrastructure and the availability of such a payment method at vendors, restaurants, shops, etc., we believe the upside is clear. As a

proxy for the overall card payment infrastructure, we looked at the number of payments per capita in the EU. The countries where ANY is present, especially Romania and Bulgaria, are clearly lagging behind the rest of the EU, which only suggests that the growth opportunities are higher in these countries. We thus anticipate card production in general to increase, together with the demand for card payments.

We have plotted the same indicators over time and compared the trends in Hungary, Bulgaria and Romania with the EU average. In our view, the number of cards per capita and the number of card payments per capita are likely increase going forward. In terms of the number of payments, Hungary is the closest to its EU peers, while Bulgaria and Romania seem to be picking up now.

**Cards per capita in ANY's countries of business vs. EU**

**Card payments per capita in ANY's countries vs. EU**



Source: WOOD Research, Eurostat

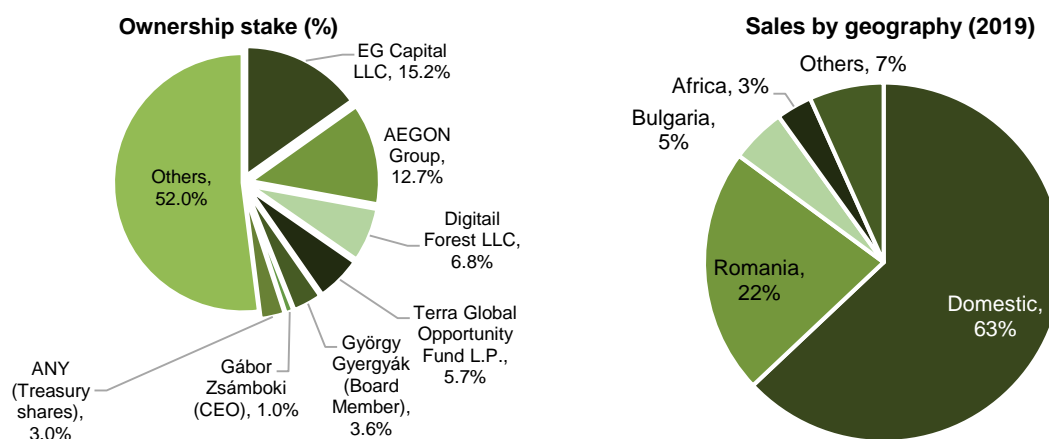
## Company description – a refresher

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 2011-19, ANY grew by almost 9% annually, on average, reaching sales of HUF 34.1.9bn, whilst its exports business has grown in significance as well, representing 37% of sales in 2019, 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. Ákos Erdős, its current Chairman of the Board, who still owns a 15.2% stake through EG Capital LLC. Since then, it has become the main supplier of security products for 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.

ANY has a dispersed shareholding structure, with the largest shareholder being the aforementioned Dr. Ákos Erdős, with a c.15% stake, held through EG Capital LLC. Other significant shareholders are: Aegon Group (12.7%); Digital Forest LLC, owned by Dr Erdős' son, (6.8%); Terra Global Opportunity Fund (5.7%); György Gyergyák (3.6%), a Member of the Board of Directors; and Gábor Zsámboki (1.0%), ANY's current CEO. The company holds 3% of shares as treasury shares.

### ANY Security Printing Company: shareholder structure and geographical breakdown of the top line



Source: WOOD Research, ANY Security Printing Company

In terms of customer base, ANY has an approximately equal split between the government and private sector. The revenue from the government is further diversified between several different sources such as printing ID cards, lottery, the company won a tender to print the election ballots, tax stamps, etc. From the private sectors, the largest customers of ANY are banks, insurance companies as well as utilities.

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.

While 63% of its revenues from Hungary, ANY has been expanding abroad continuously. 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 around 3% at the moment, it could lead to future growth in fast-developing markets. As of 2019, 70% of its export revenues came from form production and personalisation and data processing, which is a significantly export-dedicated category, with 87% of revenues exports driven and 13% domestic. Over 2011-19, ANY experienced faster growth in its export markets than at home, 13% vs. 7% 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, Bulgarian and Moldovan subsidiaries; hence, its bottom line is diluted by minorities.

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

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the value chain, ranging from planning/consultancy, printing and logistics to verification and monitoring/scanning using its proprietary scanning devices.

## **Key people at ANY Security Printing Company**

### **Dr. Ákos Erdős, Chairman of the Board of Directors**

Dr Erdős earned his degree at the Faculty of Law of the Janus Pannonius University. He is the majority owner of and an executive at EG Capital SA, through which he holds a stake in ANY. He is also the founder, as well as the editor in chief of a local political and economic weekly – Ötlet. He worked as a journalist previously.

### **Gábor Zsámboki, CEO and Vice-Chairman of the Board of Directors**

Mr. Zsámboki has been the Member of the Board of Directors of ANY since 2005 and its CEO since 2008. He graduated from the Technical College of Transport and Telecommunications as an engineer. He also holds an economic degree from the Budapest College of Foreign Trade. Prior to joining ANY, Mr. Zsámboki held positions in various institutions, such as the International Telephone Centre of the Hungarian Post, Domestic and International Telephone Centre, as well as Matáv Rt.

### **Other members of management**

**Tamás Karakó – Chief Financial Officer**

**Dr. István Ignác – Chief Security Officer**

**Gábor Péter – Chief Information Officer**

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

**Zoltán Tóth Chief – Technical and Production Officer**

# Financials

## Income statement

(HUF m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Revenue	24,911	26,181	30,527	34,130	28,892	32,349	35,320	35,409
Materials expenses	-16,145	-17,270	-21,590	-22,848	-19,341	-21,656	-23,644	-23,705
Personnel expenses	-5,601	-5,957	-6,505	-7,716	-7,639	-7,983	-8,262	-8,551
Other expenses	-188	114	554	-195	434	288	326	327
<b>EBITDA</b>	<b>2,977</b>	<b>3,068</b>	<b>2,986</b>	<b>3,372</b>	<b>2,345</b>	<b>2,998</b>	<b>3,739</b>	<b>3,481</b>
D&A	-1,008	-1,070	-1,133	-1,289	-1,287	-1,305	-1,324	-1,333
<b>EBIT</b>	<b>1,969</b>	<b>1,998</b>	<b>1,853</b>	<b>2,083</b>	<b>1,058</b>	<b>1,693</b>	<b>2,415</b>	<b>2,148</b>
Net finance income/(expense)	-103	-94	-101	-102	-83	-95	-79	-76
Profit before tax	1,866	1,904	1,752	1,981	975	1,598	2,336	2,072
Tax	-281	-458	-362	-459	-183	-301	-440	-393
Net income	1,585	1,446	1,391	1,522	792	1,297	1,896	1,679
Minorities	383	406	251	249	156	264	386	354
<b>Net income for shareholders</b>	<b>1,202</b>	<b>1,040</b>	<b>1,140</b>	<b>1,273</b>	<b>635</b>	<b>1,033</b>	<b>1,510</b>	<b>1,325</b>

Source: WOOD Research, company data

## Balance sheet

(HUF m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
<b>Current assets</b>	<b>7,754</b>	<b>9,724</b>	<b>10,289</b>	<b>9,920</b>	<b>11,355</b>	<b>11,059</b>	<b>12,207</b>	<b>11,847</b>
Cash and cash equivalents	865	867	1,020	1,287	2,191	2,025	2,390	2,000
Trade receivables	3,445	4,659	4,737	5,042	4,419	4,762	5,209	5,226
Inventories	2,144	2,804	3,519	2,961	3,562	3,088	3,425	3,438
Other ST assets	1,299	1,395	1,013	630	1,183	1,183	1,183	1,183
<b>Fixed assets</b>	<b>7,620</b>	<b>7,949</b>	<b>9,016</b>	<b>10,554</b>	<b>10,682</b>	<b>10,813</b>	<b>10,879</b>	<b>10,946</b>
PPE	7,230	7,571	8,550	9,162	9,291	9,421	9,488	9,554
Intangibles	50	37	125	13	13	13	13	13
Goodwill	335	336	336	336	336	336	336	336
Other LT assets	5	5	5	11	11	11	11	11
<b>Total assets</b>	<b>15,374</b>	<b>17,673</b>	<b>19,305</b>	<b>20,473</b>	<b>22,037</b>	<b>21,872</b>	<b>23,086</b>	<b>22,793</b>
<b>Current liabilities</b>	<b>5,426</b>	<b>8,227</b>	<b>10,060</b>	<b>11,317</b>	<b>10,613</b>	<b>10,482</b>	<b>11,265</b>	<b>11,296</b>
ST debt	1,036	3,160	4,888	4,896	4,996	4,025	4,516	4,554
ST lease liabilities	264	324	386	513	513	513	513	513
trade payables	2,467	2,659	3,372	3,337	2,533	3,373	3,664	3,658
other payables	966	1,565	730	1,878	1,878	1,878	1,878	1,878
other s/t liabilities	693	520	686	693	693	693	693	693
<b>Long-term liabilities</b>	<b>2,573</b>	<b>2,231</b>	<b>2,102</b>	<b>1,858</b>	<b>3,458</b>	<b>3,158</b>	<b>2,858</b>	<b>2,558</b>
LT debt	1,633	1,445	1,253	1,046	2,646	2,346	2,046	1,746
LT lease liabilities	515	376	482	376	376	376	376	376
Deferred tax	302	315	328	342	342	342	342	342
Other LT liabilities	122	95	39	39	39	39	39	39
<b>Shareholders' equity</b>	<b>7,374</b>	<b>7,215</b>	<b>7,142</b>	<b>7,299</b>	<b>7,966</b>	<b>8,231</b>	<b>8,962</b>	<b>8,939</b>
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	5,005	4,904	4,875	4,988	5,623	5,703	6,180	5,995
Treasury shares	-455	-455	-455	-455	-455	-455	-455	-455
Minority interest	1,124	1,167	1,052	1,106	1,137	1,323	1,577	1,738
<b>Total equity and liabilities</b>	<b>15,374</b>	<b>17,673</b>	<b>19,305</b>	<b>20,473</b>	<b>22,037</b>	<b>21,872</b>	<b>23,086</b>	<b>22,793</b>
Net debt	2,583	4,438	5,988	5,544	6,340	5,234	5,060	5,188
Net debt/EBITDA	0.9	1.4	2.0	1.6	2.7	1.7	1.4	1.5
Net debt/equity	0.4	0.6	0.8	0.8	0.8	0.6	0.6	0.6

Source: WOOD Research, company data

## Cash flow statement

(HUF m)	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Net income	1,866	1,904	1,752	1,981	975	1,598	2,336	2,072
D&A	1,008	1,070	1,133	1,289	1,287	1,305	1,324	1,333
other	35	113	15	229	83	95	79	76
changes in WC, o/w	-261	-1,441	-204	1,614	-1,335	970	-491	-37
Receivables	-240	-1,360	291	78	70	-343	-447	-17
Inventories	-220	-701	-537	416	-601	474	-336	-13
Payables	199	620	42	1,120	-804	840	292	-7
<b>Cash from operations</b>	<b>2,648</b>	<b>1,646</b>	<b>2,696</b>	<b>5,114</b>	<b>1,010</b>	<b>3,969</b>	<b>3,248</b>	<b>3,444</b>
Interest paid	-105	-86	-96	-110	-83	-95	-79	-76
Income tax paid	-267	-304	-341	-466	-183	-301	-440	-393
<b>Operating cash flow</b>	<b>2,276</b>	<b>1,257</b>	<b>2,259</b>	<b>4,557</b>	<b>744</b>	<b>3,572</b>	<b>2,729</b>	<b>2,975</b>
Capex	-4,429	-1,426	-2,200	-2,821	-1,416	-1,436	-1,390	-1,400
Other invs/divest.	89	31	5	16	0	0	0	0
<b>Investment cash flow</b>	<b>-4,340</b>	<b>-1,394</b>	<b>-2,195</b>	<b>-2,812</b>	<b>-1,416</b>	<b>-1,436</b>	<b>-1,390</b>	<b>-1,400</b>
Borrowings	2,747	1,821	1,480	-145	1,700	-1,270	191	-263
Dividends	-962	-1,243	-1,169	-1,161	0	-953	-1,033	-1,510
Other	329	-440	-223	-174	-125	-78	-132	-193
<b>Financing cash flow</b>	<b>2,114</b>	<b>139</b>	<b>89</b>	<b>-1,479</b>	<b>1,576</b>	<b>-2,302</b>	<b>-974</b>	<b>-1,966</b>
Net change in cash and equivalents	51	1	154	266	904	-165	365	-390
Beginning cash and equivalents	815	866	867	1,020	1,287	2,191	2,025	2,390
Ending cash and equivalents	865	867	1,020	1,287	2,191	2,025	2,390	2,000

Source: WOOD Research, company data

## Margins & growth rates

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Materials expenses % of sales	-64.8%	-66.0%	-70.7%	-66.9%	-66.9%	-66.9%	-66.9%	-66.9%
Personnel expenses % of sales	-22.5%	-22.8%	-21.3%	-22.6%	-26.4%	-24.7%	-23.4%	-24.1%
EBITDA margin	12.0%	11.7%	9.8%	9.9%	8.1%	9.3%	10.6%	9.8%
EBIT margin	7.9%	7.6%	6.1%	6.1%	3.7%	5.2%	6.8%	6.1%
Pre-tax margin	7.5%	7.3%	5.7%	5.8%	3.4%	4.9%	6.6%	5.9%
Tax rate	15.1%	24.0%	20.6%	23.2%	18.8%	18.8%	18.9%	19.0%
Net Income margin	6.4%	5.5%	4.6%	4.5%	2.7%	4.0%	5.4%	4.7%
Net Income for shareholders margin	4.8%	4.0%	3.7%	3.7%	2.2%	3.2%	4.3%	3.7%
Sales growth	16.6%	5.1%	16.6%	11.8%	-15.3%	12.0%	9.2%	0.3%
EBITDA growth	30.7%	3.1%	-2.7%	12.9%	-30.4%	27.8%	24.7%	-6.9%
Operating profit growth	44.2%	1.4%	-7.3%	12.4%	-49.2%	60.0%	42.6%	-11.0%
Pre-tax profit growth	37.8%	2.0%	-8.0%	13.1%	-50.8%	63.9%	46.2%	-11.3%
Net income growth	25.2%	-8.8%	-3.9%	9.4%	-48.0%	63.7%	46.2%	-11.4%
Net income for shareholders growth	29.1%	-13.5%	9.6%	11.7%	-50.1%	62.6%	46.2%	-12.2%

Source: WOOD Research, company data

**Ratios and other data**

	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Number of shares (m)	14.79	14.79	14.79	14.79	14.79	14.79	14.79	14.79
Price eop (HUF)	1,069	1,335	1,295	1,390	1,170	1,170	1,170	1,170
Market cap (HUF m)	15,814	19,751	19,159	20,565	17,310	17,310	17,310	17,310
EV (HUF m)	19,521	25,356	26,199	27,214	24,787	23,867	23,947	24,236
EPS (HUF)	81.3	70.3	77.1	86.0	43.0	69.8	102.1	89.6
- EPS growth	29%	-13%	10%	12%	-50%	63%	46%	-12%
Dividend (HUF m)	962	1,243	1,169	1,140	-	953	1,033	1,510
DPS (HUF)	65.00	84.00	79.02	77.05	0.00	64.43	69.82	102.06
- Payout Ratio	103%	103%	112%	100%	0%	150%	100%	100%
Dividend yield	6.1%	6.3%	6.1%	5.5%	0.0%	5.5%	6.0%	8.7%
BVPS (HUF)	422	409	412	419	462	467	499	487
ROE	19.2%	17.2%	18.7%	20.6%	9.3%	15.0%	20.4%	18.4%
P/E (x)	13.2	19.0	16.8	16.2	27.2	16.8	11.5	13.1
EV/EBITDA (x)	6.56	8.26	8.77	8.07	10.57	7.96	6.41	6.96
EV/EBIT (x)	9.91	12.69	14.14	13.06	23.43	14.10	9.92	11.28
EV/Sales (x)	0.78	0.97	0.86	0.80	0.86	0.74	0.68	0.68
P/FCF (x)	-8.3	-135.5	93.6	12.2	-28.7	7.8	12.3	10.6
P/BV (x)	2.5	3.3	3.1	3.3	2.5	2.5	2.3	2.4

Source: WOOD Research, company data



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