

05 March 2024

AROBS Transilvania Software (AROBS RO)

BUY

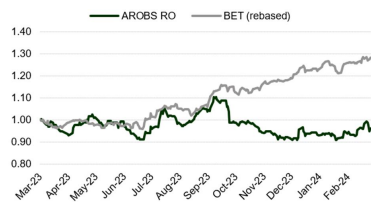
AROBS Transilvania Software: FY23 results – awaiting the calming of IT spending headwinds

AROBS RO	
Market Cap (USD mil)	182
Price	0.959
Price target	1.43
Upside (%)	49.1

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AROBS presented its preliminary FY23 IFRS results yesterday (4 March), providing colour on the split of organic and nonorganic revenues, and IFRS adjustments compared to Romanian standards (e.g., the quarterly reports presented last year). Management deferred in guiding for 2024E until it has published its budget for the year (the AGM is scheduled for 29 April, so it should be available no less than 30 days before).

2023 was, above all, about: 1) the slowdown in spending for software services and, we believe, integrated services, as clients deferred projects; 2) the rising cost of IT professionals; and 3) the integration of acquisitions. Deferred spending complicated efforts to pass on higher personnel costs, we believe, squeezing gross margins; compared to our August **initiation**, it was revenues that challenged the business in 2H23, not costs. As the signed projects resume, we see significant operating leverage for the margins to rebound, with the synergies to be realised this year only adding upside. As we await the FY24E guidance, to fine tune our model, we are still comfortable with our near-term earnings trajectory of a mid-teens 2023-26E revenue CAGR, and reiterate our BUY rating. The stock trades at a 2024-25E adjusted EV/EBITDA of c.6x, vs. a median of 7.5x for its peers, a discount of c.20%.

NEUTRAL

Key points from the presentation

- Compared to the RAS earnings, the revenues from integrated services (RON 12m) are RON 28.1m lower, as the company recognises only the margin generated. Costs are lower, by the same amount, so the operating profit is unchanged. Adjusted for this, the 4Q23 revenues under RAS would have been RON 106m, or +15% yoy (+67% in 9M23, but we note that the 9M22 revenues included only one-quarter of earnings from acquisitions).
- The companies acquired in 2022-23 generated c.26% of the group's revenues, around RON 111m, versus c.72% from the organic business (RON 308m), with the remaining c.2% being greenfield projects, we assume.
- Total FY23 revenues include RON 74.5m of nonorganic revenues, with the difference from the figure above representing revenues from the businesses acquired in 2022, which were also consolidated in 2H22. This implies, on our calculations, FY23 yoy growth from the organic business of c.33% (to RON 353m) vs. the total yoy growth of 43%.
- FY23 software services revenues of RON 345m include nonorganic revenues of RON 67.9m (so organic revenues RON 277.3m, or +36% yoy), and the nonorganic revenues in software revenues were RON 6.6m (organic revenues RON 63.9m, or +9% yoy).
- Practically all of the increase in COGS – by RON 139m, to RON 333.2m – was attributable to: 1) personnel costs; 2) ESOP; and 3) D&A
- The amortisation of customer relationships (over 10 years) added RON 3.7m to the total D&A last year.
- AROBS' first ESOP programme granted 4.855m shares in 4Q23. ESOP 2 and 3, ending in September 2024 and April 2025, respectively, promise 14.314m and 20.779m shares, respectively.
- The net debt/adjusted EBITDA at end-2023 was 0.2x (vs. net cash of 0.18x at end-2022).

2023 earnings review

On 28 February, after the market closed, AROBS reported, under IFRS, 2023 adjusted net profit of RON 51.7m (-3% yoy) on revenues of RON 427.7m (+43% yoy) and adjusted EBITDA of RON 92.7m (+22% yoy). The reported net profit, excluding non-cash share options and goodwill amortisation, came in at RON 31.7m, or 33% lower yoy, and the reported EBITDA at RON 73.5m, or +5% yoy. For the full year, the adjustments for share options totalled RON 19.1m and RON 12.3m for goodwill amortisation (in 2022, this was at RON 6.0m and RON 0.1m, respectively).

Compared to our August **initiation**, using the IFRS reporting format, the FY23 software service and software revenues were fully in line, at RON 345.2m (+44% yoy) and RON 70.5 (+20% yoy), respectively. We had pencilled in, however, RON 35m of revenues from integrated services; these came in at RON 12m. The cost of sales for software services and software were, on the other hand, 10% and 2% higher, respectively. Despite the lower-than-expected opex, the combination of lower integrated services revenues and higher COGS adjusted resulted in an adjusted EBITDA miss of some 11%.

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Regarding the comparison for 4Q23 alone, we note that the 9M23 numbers were reported under RAS, while FY23 under IFRS. In our view, subtracting the two does not yield a meaningful result. Starting from 1Q24E, however, the company will start presenting “apples for apples” IFRS comparisons on a quarterly basis.

AROB: FY23 results

RON m	2023	2022	yoy	WOOD	vs. WOOD
Software services revenues	345.2	240.1	44%	342.0	1%
Software revenues	70.5	58.7	20%	69.0	2%
Integrated systems	40.1	n.m.	n.m.	35.0	15%
Total revenues	455.8	299.8	52%	446.5	2%
Cost of sales from software services	-258.9	-164.6	57%	-234.9	10%
Cost of sales from software products	-34.2	-28.0	22%	-33.5	2%
Cost of sales from integrated systems	-38.0	n.m.	n.m.	29.4	29%
Cost of goods sold	-333.2	-194.3	72%	-298.2	12%
Sales and marketing expenses	-14.9	-9.0	65%	-19.1	-22%
Admin and general expenses	-62.9	-41.5	52%	-71.6	-12%
Other revenues / expenses	-3.0	-1.9	54%	0.0	n.m.
Operating profit	44.0	53.2	-17%	57.7	-24%
Financial income / (expenses), net	-0.3	0.1	n.a.	-1.1	-72%
Profit before tax	43.7	53.3	-18%	56.6	-23%
Income tax	-11.1	-6.2	79%	-8.1	37%
Minority interest	-0.9	0.1	n.m.	0.0	n.m.
Net profit	31.7	47.0	-33%	48.5	-35%
Normalised net profit	51.7	53.1	-3%	n.a.	
EBITDA	73.5	70.1	5%	86.5	-15%
Depreciation and amortisation	-29.6	-16.9	75%	-28.7	3%
Adjusted EBITDA	92.7	76.1	22%	104.5	-11%
Adjusted EBITDA margin	20.3%	25.4%		23.4%	

Source: Company data, WOOD Research

Year	Sales RON m	Adj EBITDA RON m	Net profit RON m	EPS RON	EPS % yoy	P/E (x)	EV/EBITDA (x)	FCF yield %	Div yield %
2021	186.6	56.8	45.8	0.10	n/a	9.2	5.9	10%	n.m.
2022	299.8	76.1	47.0	0.05	-49%	18.3	11.1	-6%	n.m.
2023	427.7	92.7	31.7	0.04	-31%	27.1	9.5	-2%	n.m.
2024E	527.7	116.1	56.0	0.06	81%	14.9	7.0	4%	n.m.
2025E	585.6	132.3	68.8	0.08	23%	12.2	5.6	9%	n.m.

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