EDISON

4iG

Company outlook

Executing at pace on its five-year plan

IT services

In FY20 and into H121, 4iG has continued to execute at pace, with a series of acquisitions that will transform the group once the acquisition of DIGI Group, a leading telecoms services provider, closes in Q321. 4iG's strategy is focused on three pillars: IT services; telecoms & infrastructure; and space & defence. The group continues to scale in Hungary, with a target to become the market leader, but we also expect 4iG to develop a more diversified regional footprint in FY21 and FY22. On top of 39% revenue growth in FY20, we estimate 44% revenue growth in FY21, even before considering the contribution from DIGI Group (FY20 revenues HUF70bn, EBITDA HUF19bn). 4iG is fast growing, with a likely step-up in margins post DIGI Group, and offers an attractive dividend yield, yet trades on an FY21e P/E of 10.5x, a 40%+ discount to its peer group.

Year end	Revenue (HUFbn)	PBT* (HUFbn)	Adjusted EPS* (HUF)	DPS (HUF)	P/E (x)	Yield (%)
12/19	41.1	3.3	31.5	22.0	19.8	3.5
12/20	57.3	4.2	37.2	24.0	16.8	3.8
12/21e	82.7	7.3	59.2	41.4	10.5	6.6
12/22e	93.0	8.9	72.4	50.0	8.6	8.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Three-pillar strategy for market leadership

In FY18, a new management team launched its five-year plan to transform 4iG to become the number one IT systems integrator in Hungary by the end of FY22. As part of this growth plan, 4iG completed three acquisitions in FY20 (TRC, INNObyte and DTSM) and has already announced five acquisitions in FY21, four of which have completed (Rotors & Cams, Poli PC, SpaceNET and HDT). Together with its CarpathiaSat JV, these six deals lay the ground for 4iG's strategy focused on three areas: IT services; telecoms & infrastructure; and space & defence.

FY21: 44% y-o-y revenue growth pre-DIGI Group

Reflecting 4iG's seven FY20 and H121 deals (adding HUF12bn to FY21 revenues and HUF2bn in EBITDA), we have increased our FY21 revenue estimate by 33% to HUF82.7bn, adding a contribution from HDT and Poli to 4iG's stated target, and raised our FY21e EBITDA estimate by 59% to HUF8.9bn, a 10.8% EBITDA margin. Based on FY20 figures, DIGI Group would add a further HUF70bn of revenues and HUF19bn of EBITDA (27% margin), implying pro forma group FY21 revenues of HUF153bn and EBITDA of HUF28bn (c 18% margin). While the terms of the potential deal have not been disclosed, 4iG had net debt of HUF4.2bn at 31 March 2021, following a HUF15.45bn bond issue in March 2021 to support M&A.

Undervalued before considering DIGI Group

At an FY21 P/E of 10.5x and EV/EBITDA of 6.1x, 4iG's valuation neither reflects the transformation the business has already achieved nor its future prospects as management executes on its plan for market leadership in Hungary. Even pre-DIGI Group, the stock remains at a substantial discount to regional peers, as well as a material discount to our NPV estimate of HUF1,237 per share (WACC of 8.2%).

14 June 2021

Price	**HUF623**
Market cap	**HUF57.5bn**
	HUF348/€
Net debt (HUFbn) at 31 March 2021	4.2
Shares in issue	92.3m
Free float	37.1%
Code	4iG
Primary exchange	Budapest
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.2	(1.7)	(2.4)
Rel (local)	(9.1)	(11.9)	(26.8)
52-week high/low		HUF674	HUF505

Business description

4iG is one of the leading IT services and systems integrators in Hungary, working with public sector clients, large corporates and SMEs. Management is focused on becoming the market leader in Hungary by FY22, as well as targeting expansion in Central and Eastern Europe.

Next events

H121 results	31 August 2021
Q3 update	November 2021

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Edison profile page

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Investment summary

A leading Hungarian IT systems integrator

4iG is a leading provider of IT services and systems integration in Hungary and aims to become the largest IT systems integrator domestically by the end of FY22, both by revenue and engineering headcount. With the group's acquisitions in FY20 and H121, 4iG has laid out a roadmap to become a leading Hungarian telecoms services business, as well as developing a major presence in space and defence. Having consolidated its position in its home market, the group intends to expand regionally to become a major player in Central and Eastern Europe (CEE) and the Balkans.

4iG acts as the main contractor on large-scale IT projects for both public sector and private clients across multiple sectors, but with special expertise in education, the pharmaceutical industry, healthcare, logistics, the automotive industry and transport. The group's services include hardware and software reselling, development, infrastructure maintenance and IT security.

Three-pillar strategy for market leadership

In FY18, 4iG's new management team launched a five-year plan to transform 4iG from a sleepy IT services business, to become the number one IT systems integrator in Hungary by the end of FY22, as well as a significant regional player across the CEE and the Balkans. Having repositioned the company for growth through a reorganisation and investment in group systems, management has actively targeted a more solution-oriented approach, based around new technologies to increase margins and revenue visibility. In FY21, management unveiled a three-pillar group structure, based on: 1) IT systems; 2) telecoms and infrastructure; and 3) space and defence, updating the group's prior focus only on IT services. This revised strategy accelerates 4iG's move away from a lower-margin software and hardware reselling business model towards the higher margins and longer-term contracts available in telecoms services.

Q121 update: Continuing drive for market leadership

In its Q121 results, 4iG's revenues rose 77% y-o-y to HUF15.3bn, with EBITDA rising 74% y-o-y to HUF1.0bn, a 6.6% margin and a touch below the 6.7% margin in Q120. Net debt rose to HUF4.2bn, from net cash of HUF0.2bn in Q120, leaving plenty of firepower for M&A. Following the acquisitions of Rotors & Cams and Spacenet in Q121, the Poli Computer and HDT deals both completed in June 2021. In Q121, the group saw absolute growth in revenues for all service lines, with development, operations, consulting and other services now representing 44% of revenues, with recurring revenues 18% of total sales. With a backlog of HUF36bn, in addition to Q121 revenues, 4iG is expecting FY21 revenue growth of 25%+, with 10%+ growth expected in FY22 and beyond. However, factoring in the contributions from Poli Computer and HDT (together, with an estimated FY21 revenue contribution of HUF3bn, EBITDA of HUF1.5bn), we believe FY21 revenue growth should be in excess of 40% with blended EBITDA margins of c 11%.

M&A round-up: Seven deals in the last 12 months

Based on 4iG's disclosure, the three acquisitions 4iG completed in FY20 (TRC, INNObyte (70% stake) and DTSM) should contribute over HUF5bn of revenues in FY21 and HUF0.6bn of EBITDA. In addition, 4iG's CarpathiaSat joint venture (JV) with its strategic partner, Antenna Hungária, announced in August 2020, laid the groundwork for 4iG's ambitions in space. In FY21, 4iG has already announced five acquisitions, of which four have completed (Rotors & Cams (24% stake), Poli PC, SpaceNET (70% stake) and HDT (75% stake)), adding a further HUF7bn to FY21 revenues. HDT represents the next step in 4iG's strategic relationship with Antenna Hungária (which retains a 25% holding), with the acquisition establishing 4iG's presence in the telecoms and infrastructure sector.

Assuming DIGI Group receives competition clearance, the acquisition would add a further HUF70bn of revenues to the group (with a part-year contribution in FY21). Although 4iG has yet to provide any details of the structure or consideration for DIGI Group, given a relatively ungeared balance sheet with significant additional debt capacity, we would not be surprised if 4iG went back to the bond markets to part-fund its acquisition with a further bond issue. Based on 2–3x pro forma FY22 EBITDA, 4iG might be able to support an additional HUF50–70bn of debt.

Edison estimates raised, driven by robust trading and M&A

Having reported 39% revenue growth in FY20, through a blend of organic and M&A-driven growth, 4iG has set a revenue target for FY21 of HUF79.8bn, 39% up on FY20, with EBITDA of at least HUF6.5bn. The seven deals 4iG completed in FY20 and H121 are expected to add HUF12bn to FY21 revenues, with DIGI Group yet to complete. We have increased our FY21 revenue estimate by 33% to HUF82.7bn (4iG's stated revenue target adjusted to include a HUF3bn contribution from HDT and Poli PC) and raised our FY21 EBITDA estimate by 59% to HUF8.9bn, a 10.8% EBITDA margin (including a HUF1.5bn contribution from HDT and Poli PC). Based on FY20 figures, DIGI Group would add a further HUF70bn of revenues and HUF19bn of EBITDA (c 27% margin), implying pro forma group FY21 revenues of c HUF153bn and EBITDA of HUF28bn (c 18% margin).

Valuation: Undervalued, ahead of a potential step change

At an FY21 P/E of 10.5x and EV/EBITDA of 6.1x, 4iG's valuation neither reflects the transformation the business has already achieved nor its future growth prospects as 4iG consolidates market leadership in Hungary. Based on our two primary valuation approaches (peer group multiples and DCF), the stock remains at a substantial discount to regional peers, as well as a material discount to our NPV estimate of HUF1,237 per share, with lower medium term-growth and EBITDA margins, offset by a reduced WACC of 8.2%. Given its size, the potential acquisition of DIGI Group (expected to complete in Q321) will affect both 4iG's capital structure and valuation, with a likely step-up in EBITDA and EBITDA margins. The acquisition should also offer a platform for regional expansion across the CEE and the Balkans and raise 4iG's capital markets profile.

Sensitivities: Growth on plan, a lot on management's plate

Over FY20/21, 4iG is rapidly expanding from its core IT services and integration business into telecoms services, space and defence. This three-pillar strategy has been fuelled by M&A, with seven acquisitions, a maiden bond issue and a JV completed in the last 12 months, and the largest transformative deal (DIGI Group) expected to close in Q321, subject to competition clearance, funding and due diligence. This follows from a bold five-year strategy established in 2018 by Gellért Jászai (chairman and CEO), 4iG's majority shareholder, who currently holds c 63% of the equity, leaving a 37% free float. Acqui-hires (acquisitions targeted at increasing headcount) have been a way to navigate a tight domestic jobs market, but the scale and diversity of acquisitions will be challenging to integrate. The group remains very dependent on Gellért Jászai as its principal.

Company description: A leading IT systems integrator

4iG was founded in 1995 as FreeSoft and has been operating as a leading provider of IT services and systems integration in Hungary for almost 30 years. The group listed on the Budapest Stock Exchange in 2004, before the current management team bought in in 2018.

4iG acts as the main contractor on large-scale IT projects for both public sector and private clients, with special expertise in education, the pharmaceutical industry, healthcare, logistics, the automotive industry and air transport. The group's services include hardware and software reselling, infrastructure maintenance and IT security.

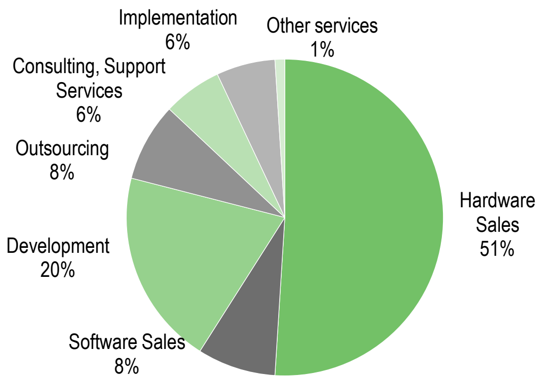
4iG aims to become the largest IT systems integrator domestically in Hungary by the end of FY22, both in terms of revenue and engineering headcount. Having consolidated its position in its home market, the group intends to expand regionally to become a major player in CEE and the Balkans. With the group's acquisitions in FY20 and FY21, as well as the pending acquisition of DIGI Group, 4iG has also set out a roadmap to become a leading Hungarian telecoms services business, as well as developing a leading presence in the space and defence sector.

Headcount at 4iG rose by over 50% in FY20, from 600 at the start of the year to 944 direct employees and freelancers on 31 March 2021.

Segmental breakdown

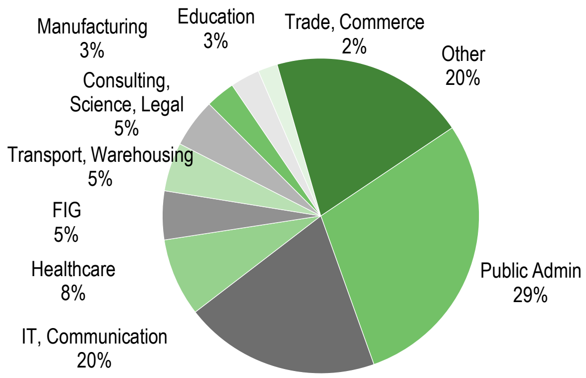
The service mix (Exhibit 1) has not changed significantly from that reported in the H120 results. However, it is worth noting that the proportion of overall sales from the lower-margin hardware and software reselling segments has fallen significantly in FY20 from FY19, from 73% of revenues to 59% in FY20 (and further to 56% in Q121), to the benefit of higher-margin development, consulting and implementation services.

Exhibit 1: FY20 sales by service line



Source: 4iG, Edison Investment Research

Exhibit 2: FY20 sales by sector



Source: 4iG, Edison Investment Research

Looking at the balance of revenues by client type, public sector clients represented 73% of revenues in FY20, up from 69% in Q320 and 62% in FY19, with the proportion of revenues from large corporates falling from 22% in FY19 to 11% in FY20 – with SMEs representing the 16% balance. In terms of the sector split (Exhibit 2), it is apparent that the proportion of revenues from public administration increased materially, from 15% in FY19 to 29% in FY20, with the proportion of revenues from the education, IT and communications sectors falling in compensation.

The proportion of recurring revenues also took a step backwards in Q420, representing 14% of FY20 sales versus 16% in Q320, but still an increase from 10% in FY19. In the latest Q121results, recurring revenues increased to 18%.

Outlook: FY21 sales of HUF82.7bn, 10.8% EBITDA margin

Having reported 39% revenue growth in FY20, with net revenues of HUF57.3bn, through a blend of organic and M&A-driven growth, 4iG set a revenue target for FY21 of HUF79.8bn (pre HDT and Poli PC acquisitions), 39% up on FY20. In terms of EBITDA, 4iG reported HUF5.05bn in FY20, an 8.8% margin versus management guidance of c 8% at the start of the year and medium-term guidance of 8–10%. We have assumed an FY21e EBITDA of HUF8.9bn, comprising an underlying margin of 9%, together with an additional c HUF1.5bn from the HDT and Poli PC acquisitions, implying a blended FY21e EBITDA margin of 10.8%.

Management guidance remains for 10%+ overall annual revenue growth from FY22 onwards, with EBITDA margins of 8–10%, dependent on the margins of acquired businesses. With the group expanding its presence through vertical integration in the telecoms & infrastructure and the space & defence sector, future margins are subject to a degree of uncertainty, particularly given the looming DIGI Group deal.

On 29 March 2021, 4iG announced the conditional acquisition of DIGI Group, a leading Hungarian telecoms services provider (FY20 revenues HUF70bn, adjusted EBITDA of HUF19bn, 27% EBITDA margin). This is clearly a transformative acquisition that would help 4iG become one of the leading domestic Hungarian telecoms services companies when it completes. The deal is subject to due diligence and regulatory approvals, but is expected to complete in Q321. Consideration was not disclosed, but we envisage that funding will be supported by future debt and equity issuance.

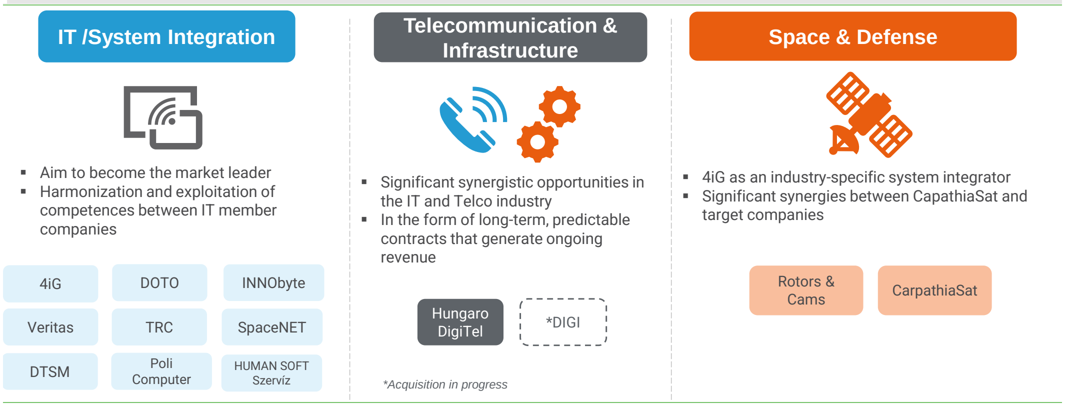
Strategic outlook: Three pillars of growth

Management intends for 4iG to become a diversified technology holding company in Hungary and a major IT services and telecoms business in the CEE and the Balkans. To fulfil this vision, the company has identified three pillars of future growth:

- **Technologies:** future-proofing the business by offering new technologies relevant to its client base – these will include: AI, blockchain, cybersecurity, digitalisation, fintech and Industry 4.0.
- **Market segments:** expansion of 4iG's sectoral presence to include transportation, banking, healthcare, agriculture and the energy sector.
- **Product strategy:** management also wants 4iG to diversify away from its reliance on lower-margin product reselling, increasingly moving towards higher-margin development and implementation of client-relevant solutions on an annualised recurring basis.

4iG is developing new technologies and products, but where the skillset does not exist internally it expects to hire or acquire expertise through acquisitions. Broadening the company's sector footprint is also expected to be M&A driven, with clients, contracts and a sector track record to be acquired through complementary acquisitions.

Exhibit 3: Recent acquisitions have accelerated new focus sectors



Source: 4iG.

4iG's CarpathiaSat JV (August 2020) with its strategic partner, Antenna Hungária, laid the groundwork for 4iG's ambitions in space, further consolidated by its FY21 minority investment in Rotors & Cams. 4iG's Q121 majority investment in Hungaro DigiTel (HDT) represented the next step in 4iG's strategic relationship with Antenna Hungária (which retains a 25% minority holding in HDT), diversifying 4iG's presence in the telecoms and infrastructure sector, offering better revenue visibility through longer-term contracts and higher EBITDA margins than IT services. HDT would be complemented by the acquisition of DIGI Group, strengthening the group's position as a leading Hungarian telecoms services provider.

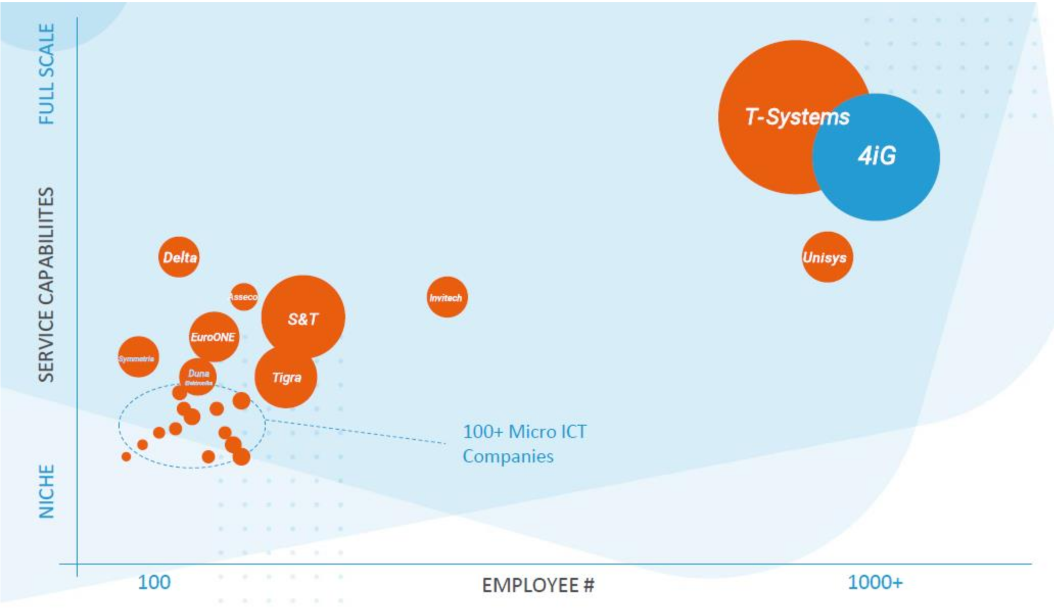
Together with its investment in group-wide IT systems, management expects these pillars to continue to drive growth well above local market levels for the foreseeable future.

Competition: Market landscape remains fragmented

Despite a fall in market share in FY20 with fewer public sector implementation projects, T-Systems Hungary remains the domestic market leader in Hungary's IT sector, with 4iG now the clear number two in the market. Management's ambition remains to overtake T-Systems Hungary to become the market leader by the end of FY22, both in terms of headcount and revenue.

4iG is already of a scale in Hungary that means it is invited to tender for all major contracts. With the group's investment in IT systems and processes, together with its skilled and motivated full-time workforce, management believes it also has a real competitive advantage over T-Systems Hungary that will mean it can continue to take market share.

Exhibit 4: 4iG building towards market leadership



Source: 4iG

In what remains a fragmented IT services market, no other group has the expertise or manpower to compete with 4iG and T-Systems Hungary across a broad range of sectors.

M&A strategy: Domestic focus before CEE expansion

4iG continues to consolidate a fragmented market, targeting smaller players with an attractive client base or sector focus and a proven track record to support 4iG's growth and build out its headcount and capabilities.

4iG's headcount increased significantly over the course of the year, driven principally by the four acquisitions announced in H220. Headcount increased from just over 600 employees at the start of the year to almost 700 staff by 30 September 2020, including more than 500 engineers, reaching a headcount of 944 (including contractors) by 31 March 2021 with more than 700 engineers.

As well as the most recent acquisition of HDT announced in February 2021, 4iG completed the acquisition of DTSM in Q420, adding to the two transactions completed in Q320 (TRC and INNObyte), as well as the CarpathiaSat strategic JV. The three acquisitions completed in FY20 (TR

Consult (TRC), INNObyte and DTSM) are expected to contribute more than HUF5bn of IT services revenues in FY21 and over HUF0.6bn in EBITDA.

Exhibit 5: Impact of FY20 M&A deals

HUF'000	4iG holding	Completion date	FY20 revenue contribution	FY20 EBITDA contribution	Pro forma revenues*	Pro forma EBITDA*	EBITDA margins
TR Consulting	100%	09/07/2020	435,030	57,640	647,000	30,000	5%
INNObyte	70%	14/10/2020	1,068,048	279,713	3,224,000	527,000	16%
DTSM	100%	07/12/2020	83,803	(5,745)	1,173,000	70,000	6%
Total			**1,586,881**	**331,608**	**5,044,000**	**627,000**	**12%**
Reported FY20 net revenues (4iG)		57,299,644					
Pro forma FY20 revenues (4iG)		61,129,858					
Pro forma FY20 M&A revenues (4iG)		3,597,887					

Source: 4iG accounts, Edison Investment Research. Note: *Based on FY20 disclosure.

In FY21, 4iG has already announced five acquisitions, of which four have completed: Poli Computer PC (Poli PC) and SpaceNET in IT services, as well as Rotors & Cams in space and defence and HDT in telecoms services, together adding a further HUF7bn to FY21 revenues and HUF1.8bn to EBITDA.

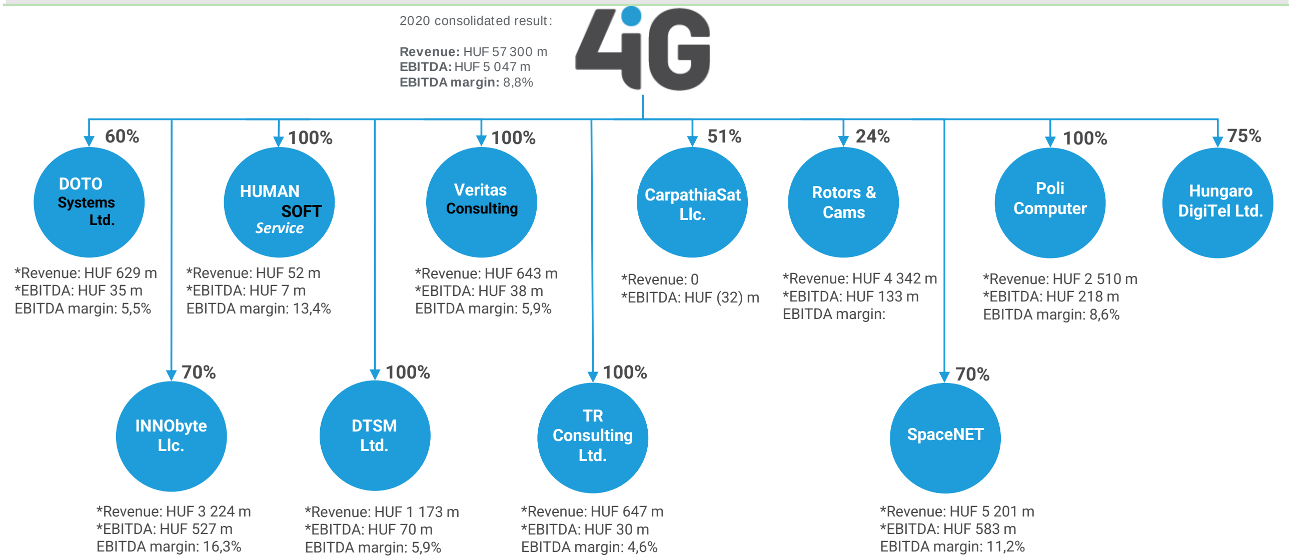
Exhibit 6: Impact of FY21 M&A deals

HUF'000	4iG holding	Completion date	FY20 revenues	FY20 EBITDA	FY21 revenue contribution*	FY21 EBITDA contribution*	EBITDA margins
Rotors & Cams	24%	26/01/2021	4,342,000	133,000	967,850	29,646	3%
Spacenet	70%	14/04/2021	5,201,000	583,000	2,603,350	291,819	11%
Poli Computer PC	100%	01/06/2021	2,510,000	218,000	1,464,740	127,216	9%
Hungaro DigiTel Kft.	75%	01/06/2021	4,896,000	3,101,000	2,142,838	1,357,218	63%
Total (completed)			**16,949,000**	**4,035,000**	**7,178,778**	**1,805,901**	**25%**
DIGI Group (pending)	100%	30/09/2021	70,000,000	19,000,000	17,500,000	4,789,041	27%
Total (including pending)			**86,949,000**	**23,035,000**	**24,678,778**	**6,594,942**	**27%**
Pro forma FY20 revenues (4iG)		61,129,858					
FY21 M&A revenue contribution (est.)		7,178,778					
FY21 consolidated revenues (est.)		68,308,636					
Implied revenue growth (est.)		16.8%					
FY21 revenue target (4iG)		79,800,000	(Note: This figure excludes HDT and Poli PC, which had yet to complete)				
Pro forma FY21 revenues (est.)		78,078,858					

Source: 4iG accounts, Edison Investment Research. Note: *Based on FY20 disclosure and completion dates.

Assuming that the acquisition of DIGI Távközlési Szolgáltató and its subsidiaries, Invitel and I TV (DIGI Group), receives competition clearance and completes, this would add a further HUF70bn of revenues to the group (with a part-year contribution in FY21), almost doubling the FY21 year-end revenue run rate. Consideration and acquisition multiples have not been disclosed.

Exhibit 7: Acquisitions remain a mainstay of 4iG's expansion strategy



Source: 4iG presentation

Management expects single-digit organic growth in the Hungarian IT services market (IDC has estimated 3.5% market growth in 202024), complemented by acquisitions. By our calculations, to become the market leader in Hungary 4iG will need to reach c HUF90bn of revenues by FY22, implying a further c HUF5–10bn in acquired revenues needed to supplement organic growth and market share gains in FY21/22.

Ongoing M&A anticipated in FY21

4iG's M&A strategy remains aligned with its growth strategy, where management expects continued robust organic growth to be complemented by acquisitions in the coming years. Management also remains open to considering strategic partnerships and JVs (eg 4iG's CarpathiaSat strategic JV with Antenna Hungária), including long-term cooperation with European or other international groups with complementary resources.

With the Hungarian market still highly fragmented and with not all IT services companies performing as strongly as 4iG, management continues to review M&A opportunities, although it will remain bandwidth constrained pending completion of the DIGI Group acquisition. Regionally, we expect 4iG to follow a low-risk opportunistic expansion strategy, building on client contracts to land and expand in nearby or adjacent markets.

4iG reported net debt of HUF4.2bn as at 31 March 2021 (HUF2.7bn net cash as at 31 December 2020), reflecting its HUF15.45bn (c €43m) 10-year bond, less cash spent on its Q121 acquisitions. Given its relatively ungeared balance sheet, 4iG retains funding capacity for further expansion.

Credit rating: 4iG rated BB- by Scope Ratings

Scope Ratings gave 4iG a BB-/Stable issuer rating ahead of its acquisition of HDT and the issue of the group's initial 10-year bond as part of the Central Bank of Hungary's (MNB) Growth Bond Programme (NKP). 4iG issued the HUF15.45bn (c €43m) bond on 29 March 2021, with a 10-year maturity and offering a 2.9% coupon. The proceeds were to be used for domestic and regional expansion, with the bond registered on the Budapest Stock Exchange's Xbond multilateral trading system. Scope Ratings noted the group's robust interest cover and stipulated that Scope-adjusted debt (SaD)/EBITDA should remain below 3x, with free operating cash flow/SaD remaining below 20% for FY21 and FY22.

Subsequently, on 4 March 2021, Scope Ratings placed 4iG's BB- issuer rating under review for a possible upgrade, assessing that the acquisition of HDT would likely improve its business and financial risk profile, as 4iG would benefit from HDT's long-term contract structure, meaningful diversification into a new industry (telecoms services) and higher EBITDA margins. Additionally, with a major part of the acquisition financed by way of equity, the deal structure would result in materially lower leverage than Scope Ratings had previously anticipated.

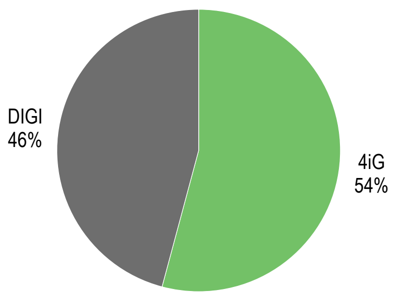
DIGI Group, a transformative acquisition (subject to clearance)

On 29 March 2021, 4iG signed a preliminary, non-binding agreement with Romanian companies RCS and RDS to acquire the Hungarian telecoms services business, DIGI Távközlési Szolgáltató and its subsidiaries (DIGI Group). The acquisition is subject to due diligence and competition authority approvals, but is expected to complete in Q321. DIGI Group reported FY20 revenue of HUF70bn (c €195m), with adjusted EBITDA of HUF19bn (c €53m).

DIGI Group is a leading telecoms service provider in Hungary, employing over 3,000 people, serving more than 1.1 million subscribers and operating over 2.5m revenue-generating units (RGUs). Together with the acquisition of HDT, the potential acquisition of DIGI Group builds on the telecoms market expansion plans announced jointly between 4iG and Antenna Hungária, with the establishment of CarpathiaSat in August 2020.

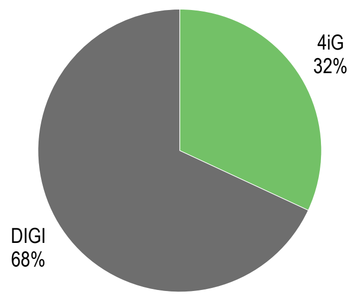
This is a transformative acquisition that would help 4iG become one of the leading domestic Hungarian telecoms services companies in a single step. Based on FY20 figures, DIGI Group would add a further HUF70bn of revenues and HUF19bn of EBITDA (27% margin), implying pro forma group FY21 revenues of HUF153bn and EBITDA of HUF28bn (c 18% margin).

Exhibit 8: Pro forma revenues



Source: 4iG FY20 DIGI Group data, Edison FY21 estimates for 4iG

Exhibit 9: Pro forma EBITDA



Source: 4iG FY20 DIGI Group data, Edison FY21 estimates for 4iG

Although consideration and acquisition multiples have not been disclosed, given the size of the company, we would expect that 4iG is likely to need to have recourse to the equity and bond markets to finance the acquisition.

Management

Gellért Jászai became chairman of 4iG in July 2018 and CEO in March 2019, with a five-year plan to transform the business. Having strengthened the existing management team with outside expertise to help drive the required strategic transformation, he (as chairman and CEO) has led a transformation programme that delivered record financial performances in FY19 and FY20, but is not expected to deliver its full benefits until FY22.

Gellért Jászai, chairman and CEO: Prior to joining 4iG, Mr Jászai was the chairman of Konzum Nyrt between April 2015 and 2019. He graduated from the Corvinus University of Budapest with a Master's in public administration.

Aladin Linczényi, COO: Mr Linczényi is a board member and the COO of 4iG. Prior to joining 4iG, he was a board member of Konzum Nyrt and the CEO of Konzum Asset Management. Earlier in his career, he spent over 11 years at Raiffeisen Bank in Hungary focusing on diverse corporate finance and financing activities. He has a Master's in economics from the Corvinus University of Budapest.

Csaba Thurzó, CFO: Mr Thurzó is deputy CEO and CFO, and responsible for the accounting, finance, tax, controlling and HR activities of 4iG and its group (DOTO, Veritas, Humánsoft Service). Prior to joining 4iG, he was CFO for Magyar Post for 13 years. He is a graduate from the Budapest Business School and Eötvös Loránd University.

Péter Farkas, CTO: Mr Farkas is the deputy CEO of 4iG and is responsible for client service delivery. In 2001 he joined Humansoft, one of 4iG's subsidiaries, progressing to CTO of Humansoft between 2012–17 before being appointed CTO for 4iG. He has a master's in engineering from the Miskolc University of Engineering.

Gábor Radó, CSO: Mr Radó is responsible for all sales and commercial activities of the company. He joined Humansoft, a subsidiary of 4iG, in 2004 and worked his way up to chief sales officer. Prior to this, Mr. Radó worked for multinational companies including SAS Institute and Microsoft. He holds a degree in technology from Ort Braude Collage of Technology in Israel, Karmiel.

Péter Fekete, head of strategy and corporate governance: Mr Fekete is deputy CEO for strategy and corporate governance and leads the company's M&A, capital markets and international activities. Prior to 4iG, he served as the deputy CEO of Konzum Nyrt, having previously spent 12 years working in investment banking for UBS, Jefferies and Houlihan Lokey in London. He graduated with a master's in economics from the Corvinus University of Budapest.

Sensitivities

There are a number of factors that investors should bear in mind when considering investing in 4iG:

- **Limited free float:** Gellért Jászai (chairman and CEO) is the majority shareholder in 4iG, currently holding c 62.9% of the equity (ex treasury shares), leaving a free float of 37.1%.
- **Key person exposure:** we believe that 4iG's share price and potentially its operations could be affected by the loss of key management, particularly Gellért Jászai, CEO.
- **COVID-19**: the COVID-19 pandemic represents an evolving scenario in Hungary, with night-time curfews still in place despite relatively high vaccination rates. 4iG successfully transitioned to remote working and with its base of public sector contracts, appears to have weathered the pandemic well. Although the Hungarian IT market is still highly fragmented, the pandemic has accelerated consolidation, with 4iG well-placed to benefit.
- **Recruitment and retention**: management recognises that 4iG's most important assets are its staff. With its goal to become the number one IT systems integrator by the end of FY22, headcount continues to grow (largely through M&A) with a focus on flagship technologies, relevant to the future development of the market. The recruitment market remains tight and finding suitably qualified staff in Hungary (and across CEE) remains a challenge.
- **Consolidation and integration**: having completed three acquisitions in 2020 and four (to date) in 2021, together with the pending acquisition of DIGI Group, there is a risk of management over-stretch and a failure to integrate acquisitions and drive the expected benefits.

- **M&A**: acquisitions remain integral to 4iG's growth strategy. The success of a buy-and-build strategy hinges on the company's ability to select the right acquisitions, maintain price discipline and retain its reputation as an attractive acquirer and employer.
- **Interest rates and stock market rating**: the macroeconomic environment remains supportive for 4iG, with low interest rates and volatile stock market valuations. The environment would become more challenging if interest rates were to rise materially or if 4iG's shares were to be de-rated or lose their attraction as an acquisition currency.
- **Foreign exchange risk:** 4iG deals with customers and suppliers of different nationalities. However, we understand that there is little foreign exchange exposure to the group as contracts are typically denominated in a currency to provide a natural hedge to costs and liabilities.

Valuation

We have looked at 4iG on the basis of peer valuations, cross-referenced against a more fundamental discounted cash flow (DCF) approach. We have included all completed acquisitions from FY20 and H121, but with limited disclosure on, for example, consideration and structure of consideration, we have had to make certain assumptions in our modelling. Our valuation currently excludes DIGI Group as the acquisition has not yet completed, with an undisclosed consideration and deal structure. However, we note that it would have a material impact on the valuation once the deal completes.

Valuation: DCF approach

Firstly, looking at the net present value (NPV) of future cash flows, we have derived a core value of HUF1,237 per share (from HUF1,005), 99% above the current share price of HUF623, with lower medium term-growth and EBITDA margins than at our initiation, offset by a reduced WACC of 8.2% (vs 10.2%). This valuation is based on an explicit forecast period from 2020–29, before adding a perpetuity calculation. Our key valuation assumptions are set out in Exhibit 11, with the sensitivity to different WACC assumptions in Exhibit 10.

Exhibit 10: NPV sensitivities (HUF/share)

		Weighted average cost of capital (WACC)				
		6%	7%	8.2%	9%	10%
Long-term growth rate	0.5%	1,699	1,418	1,174	1,058	937
	1.0%	1,840	1,513	1,237	1,108	974
	1.5%	2,014	1,626	1,309	1,164	1,017
	2.0%	2,231	1,761	1,393	1,229	1,064

Source: Edison Investment Research

Exhibit 11: Valuation assumptions

Risk free rate	2.8%	Target debt/EV ratio	30.0%
Beta	100.0%	Target equity/EV ratio	70.0%
Market risk premium	8.0%	WACC	8.2%
Marginal tax rate	20.0%	Growth rate assumption	0.0%
Pre-tax cost of debt	2.7%	Sustainable long-term growth rate	1.0%
Cost of equity	10.8%		

Source: Edison Investment Research

Valuation: European and regional peer group

In terms of 4iG's quoted peer group, in the absence of directly comparable domestic peers, we have looked at regional and European companies offering IT services of a similar nature (eg Atos, Tieto, Adesso), international companies with a presence in the Hungarian market (eg S&T) as well as CEE based peers Comarch and the Asseco Group (considering two separately quoted entities, Asseco Poland and Asseco South Eastern Europe; Exhibit 12).

We will review the peer group once the acquisition of DIGI Group completes.

The peer table offers a fairly consistent set of multiples, with an average current financial year EV/sales multiple of 1.1x, against 0.7x for 4iG. The peer group average current year EV/EBITDA is 9.7x with a mean P/E multiple of 19.2x. 4iG trades at a material discount to these metrics, with the discount ranging from 38% to 45%.

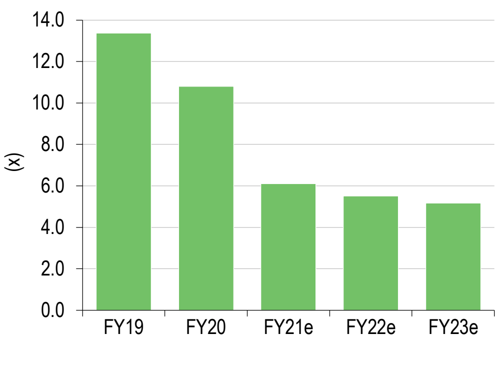
Exhibit 12: Peer group comparison

Name	Share price (ccy)	Quoted ccy	Market cap (€m)	Sales growth 1FY (%)	Gross margin 1FY (%)	EBITDA margin 1FY (%)	EBIT margin 1FY (%)	EV/ sales 1FY (x)	EV/ sales 2FY (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Atos SE	53.8	EUR	6,053	1.5	53.2	14.2	7.9	0.7	0.7	4.8	4.5	7.8	7.0
Softcat PLC	1819	GBp	4,295	15.4	21.3	9.7	9.3	2.9	2.6	29.5	28.9	38.8	38.4
Computacenter	2632.0	GBp	3,831	15.9	13.3	4.7	3.5	0.5	0.5	10.7	10.5	19.7	19.3
TietoEVRY Corp	26.7	EUR	3,236	0.5	64.4	18.5	12.5	1.4	1.4	7.7	7.5	11.5	10.8
Sopra Steria Group	150.6	EUR	3,165	7.2	42.3	11.2	7.0	0.8	0.8	7.6	6.8	14.6	12.4
Cancom SE	48.1	EUR	1,895	1.4	29.2	8.6	5.4	0.9	0.8	10.6	9.3	29.1	24.5
S&T AG	20.8	EUR	1,406	15.0	37.4	10.2	6.0	1.1	1.0	10.4	9.0	20.1	16.3
Indra Sistemas SA	7.6	EUR	1,368	4.1	42.6	10.1	6.7	0.6	0.6	5.8	5.2	11.1	9.3
Asseco Poland SA	71.0	PLN	1,348	1.3	22.8	15.6	9.9	0.7	0.7	4.8	4.7	14.7	14.2
ePlus inc	90.8	USD	1,031	4.8	24.8	7.8	7.5	0.7	0.7	9.1	8.4	14.0	13.1
adesso SE	135.2	EUR	856	21.6	88.7	14.6	9.6	1.4	1.3	9.8	11.0	20.4	24.9
Datagroup SE	68.3	EUR	584	24.1	68.4	13.8	6.1	1.4	1.3	10.5	9.1	33.5	26.0
Asseco SEE SA	39.3	PLN	467	7.7	27.2	21.5	14.2	1.7	1.7	8.0	7.8	15.7	NM
Comarch SA	250.0	PLN	465	3.9	27.6	15.8	10.2	1.1	1.0	6.9	6.8	18.4	17.9
Mean				**8.9**	**40.2**	**12.6**	**8.3**	**1.1**	**1.1**	**9.7**	**9.2**	**19.2**	**18.0**
Median				**6.0**	**33.3**	**12.5**	**7.7**	**1.0**	**0.9**	**8.6**	**8.1**	**17.1**	**16.3**
4iG*	623.0	HUF	165	44.3	30.2	10.8	9.7	0.7	0.6	6.1	5.5	10.5	8.7
Discount/(premium) to mean								43%	46%	38%	41%	45%	52%
Discount/(premium) to median								33%	34%	29%	33%	38%	47%

Source: Refinitiv data (11 June 2021), Edison Investment Research. Note: *Edison forecasts used for 4iG.

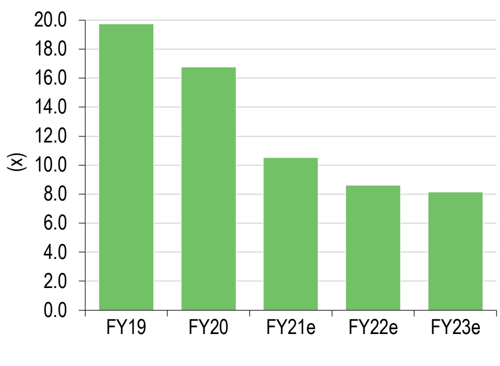
Factors behind 4iG's low relative valuation may include the group's: 1) low market capitalisation and related illiquidity; 2) singular exposure to the Hungarian market, with a lack of direct peers; 3) reliance on M&A to supplement market growth; and 4) perceived governance risk and low free float. As 4iG builds investor credibility and establishes itself regionally, we would expect the peer group discount to narrow.

Exhibit 13: 4iG EV/EBITDA multiples



Source: 4iG, Edison Investment Research

Exhibit 14: 4iG P/E multiples



Source: 4iG, Edison Investment Research

Focusing on EV/EBITDA and P/E (Exhibits 13 and 14), both sets of multiples show a steeply falling trend as the management team has consistently delivered on the group's growth targets and looks set to continue to execute successfully, as part of 4iG's five-year plan, driving sales growth both organically and through M&A as well as realising cost efficiencies.

Financials

Record FY20, as momentum maintained through Q420

Despite the far-reaching impact of the COVID-19 pandemic, 4iG reported no perceptible slowdown in the Hungarian IT and ICT sectors in FY20. The pandemic even acted as a catalyst in certain segments, accelerating the digital transformation in both private and public sectors, with increased demand for home-working and cybersecurity solutions. With a flexible operating model, 4iG was able to respond effectively to the operational challenges of the pandemic, allowing it to sustain growth across its main areas of strategic focus in FY20.

4iG confirmed a notably strong Q420 (beyond normal seasonality), with an unusual volume of contracts signed. Q420 revenues were up 74% from Q320 (48% y-o-y), driving FY20 revenues of HUF57.3bn, a 39% increase on FY19 and 6% ahead of our upgraded estimates following 4iG's Q320 report. EBITDA rose 24% to HUF5.0bn, a 24% y-o-y increase (FY19: HUF4.1bn) and PAT rose 21% to HUF3.4bn with the implied tax rate rising from 14.7% to 17.6%.

The group reported HUF31.7bn of contracted backlog (incremental to recorded sales) as at 14 April 2021, a 38% increase compared to the HUF23bn backlog reported with the FY19 results. This had risen further to HUF36bn by 31 May 2021, the time of the Q121 update.

FY21e estimates raised, driven by robust trading and M&A

Having reported 39% revenue growth in FY20, through a blend of organic and M&A driven growth, 4iG set a revenue target for FY21 of HUF79.8bn, 39% up on FY20 (pre HDT and Poli PC). In terms of EBITDA, 4iG reported HUF5.0bn in FY20, an 8.8% margin versus management guidance of c 8% at the start of the year and medium-term guidance of 8–10%.

The seven deals 4iG completed in FY20 and H121 are expected to add approximately HUF12bn to FY21 revenues and HUF2.5bn of EBITDA. Assuming DIGI Group receives competition clearance, it would add a further HUF70bn of revenues (with a part-year contribution in FY21), almost doubling the year-end revenue run-rate and underpinning growth in FY22.

Based on the seven completed deals, together with 4iG's resilient trading throughout the pandemic, we have increased our FY21 revenue estimate by 33% to HUF82.7bn (4iG's stated revenue target adjusted to include a HUF3bn contribution from HDT and Poli PC) and raised our FY21e EBITDA estimate by 59% to HUF8.9bn, reflecting a c 9% underlying margin, which together with a HUF1.5bn contribution from HDT and Poli PC results in a blended EBITDA margin of 10.8%.

From FY22, 4iG's management team is guiding towards revenue growth of 10%+ and EBITDA margins of 8–10%. We have assumed 12.5% revenue growth in FY22 (prior to any contribution from DIGI Group) and 10% in FY23. EBITDA margins in FY22 and FY23 decline gently towards the top end of management's medium-term range, leading to our EBITDA estimates for FY22 of HUF9.9bn and HUF10.6bn in FY23.

Exhibit 15: Edison's revised estimates

HUFm	2020 Actual	2021e Old	2021e New	Change	Y-o-y growth	2022e Old	2022e New	Change	Y-o-y growth	2023e New	Y-o-y growth
Revenues	57,300	62,076	82,710	33%	44%	70,261	93,048	32%	13%	102,353	10%
Gross profit	15,928	18,907	24,987	32%	57%	21,638	28,112	30%	13%	31,641	13%
Gross margin	*27.8%*	30.5%	30.2%			30.8%	30.2%			30.9%	
EBITDA	5,047	5,614	8,916	59%	77%	6,955	9,903	42%	11%	10,560	7%
EBITDA margin	*8.8%*	9.0%	10.8%			9.9%	10.6%			10.3%	
Normalised PBT	4,175	4,632	7,332	58%	76%	5,883	8,934	52%	22%	9,524	7%
Normalised net income	3,393	3,984	5,462	37%	61%	5,001	6,685	34%	22%	7,066	6%
Reported basic EPS (HUF)	37.7	43.1	59.2	37%	59%	54.2	72.4	34%	22%	76.5	6%
Net debt/(cash)	(2.7)	(2.4)	(5.2)			(2.5)	(6.9)			(8.5)	

Source: 4iG accounts, Edison Investment Research

We will revisit our estimates once the DIGI Group acquisition completes.

Cash flow: Strong cash generation, 3.8% dividend yield

4iG remains cash-generative, with net operating cash flow of HUF3.6bn in FY20 (FY19: HUF7.2bn), and HUF9.1bn forecast for FY21. In FY20, the company spent capex of HUF1.2bn (FY19: HUF1.5bn) to cover the investment and integration of its IT systems. From FY21 and for the remainder of the forecast period, we see capex stabilising at c 2% of revenues.

The board of directors declared a dividend of HUF2.2bn for FY20, equating to HUF24 per share, offering a dividend yield of 3.8%. This represents a pay-out ratio of 65% of post-tax profits, and for FY21 and beyond, we have assumed dividends are maintained at a similar level of pay-out, although we would note that cash may instead be reserved for acquisitions (eg DIGI Group).

Balance sheet: Significant capacity for gearing-up

As at 31 December 2020, 4iG had an ungeared balance sheet with c HUF2.7bn of net cash, no long-term borrowings, FY20 EBITDA of HUF5.0bn and net assets of HUF7.7bn. Post year end, on 25 March 2021, 4iG issued a HUF15.45bn (c €43m) 10-year bond offering a 2.9% coupon, with the proceeds from the issue to be used for domestic and regional expansion. At 31 March 2021, 4iG reported net debt of HUF4.2bn suggesting that the balance sheet remains still relatively ungeared.

On 4 March 2021, Scope Ratings placed 4iG's BB- issuer rating under review for a possible upgrade, noting that the acquisition of HDT would likely improve 4iG's business and financial risk profile with 4iG set to benefit from HDT's long-term contract structure, sector diversification (telecoms services) and higher EBITDA margins.

Although 4iG has yet to provide any details of the structure of the consideration for DIGI Group, given a relatively ungeared balance sheet with significant additional debt capacity, we would not be surprised if 4iG went back to the bond markets to part-fund its acquisition with a further bond issue.

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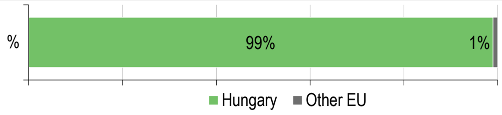
Exhibit 16: Financial summary

HUF'm	2019	2020	2021e	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	41,129	57,300	82,710	93,048	102,353
Cost of Sales	(30,126)	(41,372)	(57,723)	(64,936)	(70,713)
Gross Profit	11,003	15,928	24,987	28,112	31,641
EBITDA	4,075	5,047	8,916	9,903	10,560
Normalised operating profit	3,332	4,211	8,000	8,897	9,452
Amortisation of acquired intangibles	0	0	(133)	(133)	(133)
Exceptionals	0	0	0	0	0
Share-based payments	0	0	0	0	0
Reported operating profit	3,332	4,211	7,867	8,764	9,319
Net Interest	(18)	(36)	(669)	37	72
Joint ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	3,314	4,175	7,332	8,934	9,524
Profit Before Tax (reported)	3,314	4,175	7,198	8,801	9,390
Reported tax	(488)	(736)	(1,320)	(1,697)	(1,905)
Profit After Tax (norm)	2,827	3,439	5,988	7,211	7,592
Profit After Tax (reported)	2,827	3,439	5,879	7,103	7,486
Minority interests	66	(46)	(526)	(526)	(526)
Discontinued operations	0	0	0	0	0
Net income (normalised)	2,893	3,393	5,462	6,685	7,066
Net income (reported)	2,893	3,393	5,353	6,578	6,960
Basic average number of shares outstanding (m)	91.7	91.3	92.3	92.3	92.3
EPS - basic normalised (HUF)	31.54	37.17	59.16	72.41	76.53
EPS - diluted normalised (HUF)	30.77	36.09	58.11	71.12	75.17
EPS - basic reported (HUF)	30.82	37.68	63.67	76.93	81.07
Dividend (HUF)	22.00	23.96	41.40	50.00	53.00
Revenue growth (%)	193.6	39.3	44.3	12.5	10.0
Gross Margin (%)	26.8	27.8	30.2	30.2	30.9
EBITDA Margin (%)	9.9	8.8	10.8	10.6	10.3
Normalised Operating Margin	8.1	7.3	9.7	9.6	9.2
BALANCE SHEET					
Fixed Assets	1,948	3,989	9,247	11,274	13,502
Intangible Assets	890	2,043	4,857	6,406	8,142
Tangible Assets	322	777	1,221	1,699	2,190
Lease rights	636	966	966	966	966
Investments & other	101	203	2,203	2,203	2,203
Current Assets	22,161	33,874	54,852	59,490	62,856
Stocks	523	3,360	4,041	5,195	5,657
Debtors	12,892	17,494	22,745	25,588	28,147
Cash & cash equivalents	6,238	7,205	22,251	22,892	23,236
Other	2,508	5,815	5,815	5,815	5,815
Current Liabilities	(18,225)	(29,117)	(36,580)	(39,872)	(42,038)
Creditors	(16,361)	(25,628)	(33,091)	(36,383)	(39,020)
Tax and social security	0	0	0	0	0
Short term borrowings	(1,500)	(3,019)	(3,019)	(3,019)	(3,019)
Other (including finance lease liabilities)	(364)	(470)	(470)	(470)	0
Long Term Liabilities	(392)	(1,067)	(16,517)	(16,517)	(15,993)
Long term borrowings	0	0	(15,450)	(15,450)	(15,450)
Other long term liabilities	(392)	(1,067)	(1,067)	(1,067)	(543)
Net Assets	5,493	7,679	11,002	14,375	18,326
Minority interests	64	(376)	(462)	(462)	(462)
Shareholders' equity	5,556	7,303	10,541	13,913	17,864
CASH FLOW					
Op Cash Flow before WC and tax	4,075	5,047	8,916	9,903	10,560
Working capital	3,587	(797)	1,531	(705)	(384)
Exceptional & other	(5)	91	0	0	0
Tax	(415)	(773)	(1,320)	(1,697)	(1,905)
Net operating cash flow	7,243	3,568	9,128	7,500	8,270
Capex	(1,471)	(1,230)	(1,776)	(1,998)	(2,197)
Acquisitions/disposals	3	(383)	(2,000)	0	0
Net interest	(13)	(42)	(669)	37	72
Equity financing	185	(495)	0	0	0
Change in finance lease	(356)	28	0	0	0
Dividends	0	(2,001)	(2,212)	(3,823)	(4,616)
Other	36	(323)	0	0	0
Net Cash Flow	5,626	(878)	2,472	1,716	1,528
Opening net debt/(cash)	1,587	(4,039)	(2,740)	(5,212)	(6,928)
FX	0	30	0	0	0
Other non-cash movements	0	(451)	0	0	0
Closing net debt/(cash)	(4,039)	(2,740)	(5,212)	(6,928)	(8,457)

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
H-1037 Budapest Montevideo St. 8. Hungary +36 1 270 7600 www.4ig.hu/en/Home.html	

Management team

Chairman and CEO: Gellért Jászai	COO: Aladin Linczényi
Mr Jászai was appointed chairman of 4iG in July 2018 then CEO in March 2019, leading the company's transformation programme, as well as expansion in Hungary and internationally. Prior to 4iG, he served as the chairman of Konzum Nyrt from 2015–19. Mr Jászai graduated from the Corvinus University of Budapest with a master's in public administration.	Prior to joining 4iG, Mr Linczényi was a board member of Konzum Nyrt and served as the CEO of Konzum Asset Mgmt. Prior to this, he spent 11 years at Raiffeisen Bank in Hungary focusing on corporate finance and broader financing activities. He has a master's in economics from the Corvinus University of Budapest.
CFO: Csaba Thurzó	**Head of Strategy and Corporate Governance: Péter Fekete**
Mr Thurzó is responsible for the accounting, finance, tax, controlling and HR activities of 4iG and its subsidiaries (DOTO, Veritas, Humánsoft Service). Prior to joining 4iG, he worked as CFO for Magyar Post for 13 years. He is a graduate from the Budapest Business School and Eötvos Loránd University.	Mr Fekete is deputy CEO for Strategy and Corporate Governance and leads the company's M&A, capital markets and international activities. Prior to 4iG, he served as the deputy CEO of Konzum Nyrt, having previously spent 12 years working in investment banking for UBS, Jefferies and Houlihan Lokey in London. He graduated with a master's in economics from the Corvinus University of Budapest.

Principal shareholders	(%)
Investment vehicles controlled by Gellért Jászai (Chairman) (KZF, Manhattan)	61.79
4iG treasury shares	1.78
Free float	36.43

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