

Sygnity

24 September 2007

New management, new hope

IT, integrator		Current price	PLN 54.05*	Hold
Poland		Fair Value	PLN 59.22	Rating upgraded
Performance over	1m	3m	12m	
Absolute %	27%	-30%	-47%	
Rel. WIG20 %	13%	-31%	-59%	
12m Hi/Lo	PLN 123.5/39.91			
Reuters	COMW.WA			
Bloomberg	CPL PW			
Market Cap €	98.9m			
Next corporate event	3Q07 figures on 14 th November			
PLN / €	3.7666			
	FY/e 31.12., PLN m	2006A	2007F	2008F
	Sales	927.1	1,230.4	1,274.9
	Fully Adj. EBITDA	51.9	-29.5	82.7
	Fully Adj. EBIT	24.4	-63.5	45.1
	Fully Adj. Net Profit	3.2	-62.5	27.5
	Fully Adj. EPS (PLN)	0.40	-5.73	2.50
	Fully Adj. P/E (x)	119.8	n.m.	21.6
	DPS (PLN)	1.0	1.0	1.2
	Yield (%)	1.9%	1.9%	2.2%
	Ful. Ad. EV/EBITDA (x)	9.4	n.m.	8.9

Source: Sygnity, KBCS; 4Q06-2Q07 Emax cons.; later merger; fully adj. figures

We expect Sygnity to announce a detailed restructuring plan this week. Despite the one-off costs expected to accompany the restructuring, we believe the announcement should improve investors' sentiment towards the stock. New management has already stated it will concentrate on the most profitable products and services. It will also optimise the structure of operating costs, resulting in at least 200 additional layoffs this year. We believe the restructuring plan is likely to be applied in three areas: back-office (i.e. cutting the overlapping functions remaining after the CL and Emax merger), front-office (i.e. eliminating doubled-up product lines and some of the employees related to them), and restructuring the capital group via streamlining operations and disposing of non-core assets. We estimate the level of one-off costs at some PLN 35m, most likely to be charged in 3Q07. We have also decreased the value of the underlying business, following mediocre sales and margins in 1H07, the outlook for a lack of rebound in public administration and energy markets, and problems with major customer TPSA. We have cut our fully adjusted estimates from a PLN 5.3m loss to a PLN 62.5m loss for 2007, and by 41.4% to PLN 27.5m for 2008 and 24% to PLN 45.5m (up 65.4% y/y) for 2009. The stock has fallen some 40% since our Sell rating on 18 July, and we therefore upgrade Sygnity to Hold. Our new fair value estimate, down 25% at PLN 59.22 per share, implies 9.5% upside.

*Priced at COB 20/09/07

Upgrade to Hold

- **Restructuring program to be announced shortly:** We expect Sygnity's new management to present its restructuring plan in the next few days. We believe the plan will concentrate on back-office cutbacks, the elimination of product overlap and streamlining of the group's structure (leading to at least 200 more layoffs).
- **In the red for 2007, rebound expected in 2008:** Due to the complexity of the company's problems, we believe that it may take a couple of quarters to fully recover, yet the first positives could start to emerge with the company showing a positive EBIT in 4Q07. A stronger recovery is likely to be visible on the adjusted bottom-line from 2008, due to the additional depreciation charge from the merger. Our forecasts for the bottom-line are lower than the consensus estimates and we believe some downgrades could still materialize.
- **Premium warranted:** Trading at a 2008F P/E of 21.6x, Sygnity is at a 14% premium to its peers, which we find high, despite the strong potential earnings recovery that should result from restructuring. Given the company is expected to report a loss for 3Q07, we believe that investors may wait for confirmation of an operating improvement before taking up positions in the stock, despite its limited liquidity (average daily trading volume of PLN 2.3m for the last three months).

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