

Sygnity

20 December 2007

Improving cash position

IT, integrator

Current price PLN 31.15*

Buy

Poland

Fair Value PLN 55.84

Rating upgraded

Performance over	1m	3m	12m
Absolute %	-6%	-41%	-70%
Rel. WIG20 %	-3%	-34%	-71%
12m Hi/Lo	PLN 123.5/26.0		

Reuters	COMW.WA
Bloomberg	SGN PW
Market Cap €	93.2m
Next corporate event	
4Q07 figures in February 2008	
PLN / €	3.6159

FY/e 31.12., PLN m	2006A	2007F	2008F	2009F
Sales	927.1	1,306.7	1,366.2	1,459.2
Fully Adj. EBITDA	10.9	-60.9	56.8	108.3
Fully Adj. EBIT	24.4	-75.7	36.9	82.3
Fully Adj. Net Profit	3.2	-70.8	21.7	58.6
Fully Adj. EPS (PLN)	0.40	-6.54	1.81	4.88
Fully Adj. P/E (x)	69.1	n.m.	17.2	6.4
DPS (PLN)	1.0	0.0	0.0	0.4
Yield (%)	3.2%	0.0%	0.0%	1.3%
Ful. Ad. EV/EBITDA (x)	29.7	n.m.	9.0	4.3

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

After recent positive developments we believe the chances of a successful turnaround at Sygnity have increased significantly. The SPO of a less than 10% stake appears to have been fully sold at an issuance price of PLN 29 per share, raising around PLN 30m for the company. This action, combined with an agreement with banks, the sale of non-core assets and the rolling of some corporate bonds should, in our opinion, strengthen the company's cash position in the seasonally best quarter. We believe these actions are likely to improve the sentiment towards the stock and that investors are now likely to be more optimistic about a probable rebound. Following the lower-than-anticipated 3Q07 figures but stronger outlook for 4Q07 and one-off gains, we have decreased our reported net loss to PLN 68.0m for 2007 from a loss of PLN 73.4m. Our 2007 figures are in line with 4Q07 guidance. On the back of the restructuring plan (announced at the end of September), we have increased our reported net earnings estimates to PLN 9.3m in 2008 (versus a loss of PLN 1.4m) and by 20.3% to PLN 48.0m (up 416% y/y) for 2009. Despite the dilution with the SPO, our reported EPS figures have been increased to PLN 0.77 (versus a negative PLN 0.13) for 2008 and by 10.5% to PLN 4.00 per share for 2009. With our new fair value estimate, down 5.7%, at PLN 55.84 per share, implying 79.3% upside, we upgrade Sygnity to Buy. After falling 70% year-to-date, we believe the stock has bottomed-out.

*Priced at COB 19/12/07

Upgrade to Buy

- Improving cash position:** We believe that Sygnity's cash position has improved recently and the company is on its way up. Sygnity not only managed to buy PLN 35m worth of bonds but also rolled PLN 10m worth of corporate bonds. Medical assets have been sold for PLN 28m (an attractive price), a cooperation agreement has been signed with banks and the SPO seems also to have been fully subscribed.
- Strong outlook for 4Q07...:** The outlook for the seasonally best fourth quarter is strong in our opinion. The management is likely to deliver on its PLN 56m EBIT forecast (with a PLN 23m gain on the sale of assets), as no additional one-off charges are likely to appear. We expect fully adjusted net earnings at PLN 25.3m, up 40% y/y, in 4Q07.
- ... but 1Q08 could still be in the red:** However, following the decision to shift some 250 job cuts to 1Q08, we believe that the overly high cost base compared to the scale of revenues is likely to result in Sygnity's bottom-line coming in the red, though a strong year-on-year improvement should be visible.
- Premium warranted:** Trading at a 2008F P/E of 17.2x, Sygnity is at a 7.8% discount to its peers, which we find unjustified. We believe that a premium is warranted due to the scale of improvement expected to be delivered by the current management and the gradual emergence of the company from liquidity problems.

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