

Delivering profits

BUY. TP at PLN 42

The pace of Sygnity's recovery has seemingly decelerated a bit due to clients' cautiousness related to the global economy downturn. However, the company keeps delivering on its promises, with a long-unseen streak of three consecutive quarters of EBIT profits on core operations. Moreover, Sygnity's debt will almost vanish in 2009, thus relieving investors of their prolonged key concern. It should be noted that the recent and planned ownership changes in the Polish power segment pose a decent growth opportunity for Sygnity, being in possession of unique skills & ready-to-use solutions for the sector. The company's share price grew 35% over last two weeks, but as our DCF-based end-2009 TP of PLN 42 still offers 63% upside, we issue a Buy recommendation.

The company delivered below-consensus 3Q'08 top line at PLN 183m, down 22.4% y/y, chiefly due to underperformance of both its utility and banking segments. Fortunately, Sygnity came through on its promise to deliver core business operating profit for the second consecutive quarter, additionally supported in 3Q by a PLN 12m gain on asset disposals. The company's net debt improved by PLN 174m y/y to 3Q's PLN 79m, and a high quarterly tax rate depressed the bottom line to PLN 6.4m (9M's PLN 18m loss).

The management's update on 2008/2009 remains somewhat distressing. Revenues are to reach PLN 1bn this year, a level only partially explainable by asset disposals. Although 1H'08 wage hikes added PLN 12m in extra costs, the ongoing restructuring will yield FY profit on operating activities, the latter implying PLN 27m of organic EBIT in 4Q'08 alone. All in all, with the assistance of potentially one more disposal this year, 2008 EBIT margin is to settle close to 2%. With respect to 2009, ~PLN 10m profit on 1H's disposals and the pledge to cut debt to the low tens of millions of zloty will add significantly to the bottom line.

Our forecast for Sygnity's EBITDA margin to remain below the 8% threshold until 2010, coupled with dozens of millions of zloty in non-cash amortization depressing the bottom line, does not allow for a share-price supportive comparable valuation outcome. However, the achievements in cost and debt cutting have cured the company, making it ripe to reap the advantages of operating leverage once any large contract is won. We set our 2009-end TP at PLN 42 per share and recommend the stock as a Buy.

Sygnity: Financial summary

PLN in millions, unless otherwise stated

	2006	2007	2008E	2009E	2010E	2011E
Revenues	927.1	1,265.8	1,004.5	974.1	1,013.9	1,065.2
EBITDA	50.7	-16.6	64.3	75.0	73.8	90.8
EBIT	-13.4	-72.3	16.6	31.2	32.8	55.4
Net profit	-27.6	-65.6	8.7	23.1	25.6	44.2
EPS (PLN)	-2.94	-5.52	0.74	1.95	2.15	3.72
P/E (x)	-8.7	-4.6	34.8	13.2	11.9	6.9
EV/EBITDA (x)	6.8	-25.2	5.7	4.2	3.7	2.4

Source: Company data, DM BZ WBK estimates

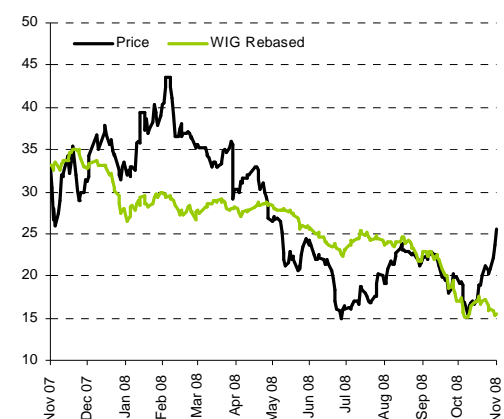
Recommendation

BUY

Portfolio weighting

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Price (PLN, 19 November 2008)	25.6
Target price (PLN, 2009-end)	42.0
Market cap. (PLN m)	304.5
Free float (%)	100.0
Number of shares (m)	11.9
Average daily turnover 3M (shares)	38.3k
EURPLN	3.86
USDPLN	3.06



The chart measures performance against the WIG index. On 19/11/2008, the WIG index closed at 26,109.

Main shareholders	% of votes
Legg Mason Asset Management	10.3
BB Investment	8.6
Pioneer Pekao Investment Management	5.8
Aviva Investors Poland	5.4
DWS mutual fund	5.1
AIG mutual fund	5.0

Company description

Sygnity provides computer services, produces, designs, services and markets computer systems and trades computer hardware and software products. Products are sold for use in government, education, business and other areas.

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