

# Sygnity

18 August 2008

## On the road to recovery

IT, integrator

Current price PLN 20.2\*

**Buy**

Poland

Fair Value PLN 41.7

Rating maintained

Performance over	1M	3M	12M
Absolute %	28%	-31%	-60%
Rel. WIG20 %	23%	-20%	-47%
12M Hi/Lo	PLN 69.95/14.91		

Reuters	COMW.WA
Bloomberg	SGN PW
Market Cap €	67m
Next corporate event	
3Q08 figures 13 November 2008	
PLN / €	3.26

FY/e 31.12., PLN m	2007A	2008F	2009F	2010F
Sales	1 265.8	1 151.7	1 249.4	1 345.1
EBITDA	-16.6	80.9	80.9	100.1
Adj. EBIT **	-53.8	56.1	57.0	70.7
Adj. net profit **	-50.6	39.3	42.1	53.3
Adj. EPS (PLN) **	-4.68	3.27	3.51	4.44
Adj. P/E (x) **	n.m.	6.2	5.8	4.5
DPS (PLN)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n.m.	3.0	2.9	2.0

Source: Sygnity, KBC Securities; \*\* figures adjusted for additional depreciation

Sygnity's net earnings came in at PLN 8.3m for 2Q08, up from a PLN 42.9m loss in 2Q07. The bottom line was above the consensus estimate of PLN 2.8m and our forecast of PLN 3.8m. EBIT came in line with our forecast in 2Q08, thus the bottom line beat our estimates due to a lower-than-expected loss on financial activity (i.e. lower interest on lower debt) and a positive impact from the tax side (i.e. the creation of a tax asset). Gross profit margin improved significantly and came above our estimate, although this was offset by higher-than-expected administration costs. As expected, almost all of the positive EBIT in 2Q08 was generated by the sale of GIS and logistics assets, which brought a PLN 6.6m gain. Sygnity plans at least one additional sale of non-core assets in 3Q08, which should bring cash inflow of some PLN 30m. We assume a PLN 12m gain on this transaction, which combined with the sale of health assets should bring total profit from non-core assets disposal of PLN 20m in 2H08. We have increased our reported net profit forecasts by 160% to PLN 27.1m (up from a loss of PLN 65.6m in 2007) for 2008, 7% to PLN 31.6m (+17% y/y) for 2009 and 3% to PLN 43.0m (+36% y/y) for 2010. Our forecasts are above consensus by 36% for 2008 and below by 17% for 2009. In our view the market hasn't adequately priced-in the potential positive impact of restructuring. We have lifted our fair value by 7% to PLN 41.7 per share, which implies 106% upside. We reiterate our Buy rating.

\*Priced at COB 14/08/08

### Buy maintained

- **Bright outlook for 2H08:** On our revised forecasts Sygnity is expected to report net profit of PLN 45m in 2H08 (up from a PLN 7.9m loss in 2H07) and PLN 28.5m net profit excluding one-off gains on the sale of non-core activities (up from a PLN 30.0m loss in 2H07). In our opinion the current stock price does not adequately reflect this potential rebound.
- **High debt position no longer an issue:** While the signing of a final agreement with banks has been delayed, the company's debt position in 2Q08 was reduced by a further PLN 15m to PLN 126m. Taking into account expected cash inflow from assets disposal in 2H08, we expect this level to be further reduced.
- **Realistic full-year EBIT margin guidance:** After incorporating higher gains from the sale of non-core activities our reported EBIT margin of 3.6% is now in line with management guidance of 3-4%. We believe this margin level will be repeated in 2009, but without any one-off gains.
- **Discount too wide:** We recognize that Sygnity should trade at a discount to peers on near-term multiples, reflecting the risk embedded in its turnaround process. However, trading at a 2009F P/E of 5.8x puts Sygnity at a 48% discount to peers, which we find excessive.

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