

Sygnity

27 October 2008

Weaker outlook

IT, integrator

Current price PLN 16.8*

Hold

Poland

Fair Value PLN 18.4

Rating downgraded

| Performance over | 1M | 3M | 12M |
|-------------------------------|---------------|-----|------|
| Absolute % | -23% | 4% | -46% |
| Rel. WIG20 % | 13% | 69% | -4% |
| 12M Hi/Lo | PLN 43.5/14.9 | | |
| Reuters | COMW.WA | | |
| Bloomberg | SGN PW | | |
| Market Cap € | 48.0m | | |
| Next corporate event | | | |
| 3Q08 figures 13 November 2008 | | | |
| PLN / € | 3.79 | | |

| FY/e 31.12., PLN m | 2007A | 2008F | 2009F | 2010F |
|--------------------|---------|---------|---------|---------|
| Sales | 1 265.8 | 1 018.8 | 1 092.6 | 1 171.7 |
| EBITDA | -16.6 | 56.8 | 73.8 | 80.9 |
| Adj. EBIT ** | -53.8 | 23.8 | 40.7 | 44.9 |
| Adj. net profit ** | -50.6 | 14.9 | 29.1 | 32.8 |
| Adj. EPS (PLN) ** | -4.68 | 1.24 | 2.42 | 2.73 |
| Adj. P/E (x) ** | n.m. | 13.6 | 6.9 | 6.2 |
| DPS (PLN) | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/EBITDA (x) | n.m. | 3.9 | 2.9 | 2.7 |

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

We have downgraded our rating on Sygnity from Buy to Hold to reflect the disappointing outlook for 2H08 and the years ahead. We expect the 3Q08 results (due on 13 November) to bring another set of weak figures. We forecast the reported bottom line at PLN 8.2m in 3Q08 versus a loss of PLN 50.1m in 3Q07. Net earnings should benefit from the inclusion of a one-off gain on the sale of medical assets. Excluding this one-off item, however, we forecast an adjusted net loss of PLN 1.1m in 3Q08. This contrasts with management guidance for the adjusted bottom line to be in the black starting from 3Q08. In our view, the disappointment will stem from weak revenues and a still unsatisfactory improvement in SG&A costs, which is likely to offset the high gross profit margin on sales. We also expect the bottom line to be negatively affected by a financial loss related to the company's debt position. We expect net financial costs to lower the company's results by PLN 1.9m in 3Q08. Mainly as a result of weaker revenue expectations but also factoring in the outlook for higher SG&A costs, we have cut our full-year forecasts for Sygnity's reported bottom line by 90.2% to PLN 2.7m for 2008 (up from a PLN 65.6m loss in 2007), 41.4% to PLN 18.5m (+597.1% y/y) for 2009 and 47.6% to PLN 22.5m (+21.6% y/y) for 2010. We have cut our fair value estimate for Sygnity by 56% to PLN 18.4 per share, which implies 9.5% upside.

*Priced at COB 24/10/08

Downgraded to Hold

- Disappointing outlook for 2H08:** Although we forecast Sygnity's 2H08 results to show a significant year-on-year improvement from the depressed base of 2H07, our new outlook for the remainder of 2008 is massively below our original expectations.
- Management margin guidance not feasible:** Management's guidance for a full-year reported EBIT margin of 3-4% is no longer feasible in our opinion. Reflecting the lack of progress in the sale of non-core assets and a weaker outlook for 2H08, we forecast a 2008 EBIT margin of 0.9%.
- Consensus estimates likely to fall:** We believe the weaker outlook for the years ahead has not been discounted in analysts' estimates, which we expect to be downgraded. Our new estimates for Sygnity's bottom line are below consensus estimates by 79% for 2008, 36% for 2009, and 45% for 2010.
- Discount warranted:** On a 2009F P/E of 6.9x, Sygnity trades at a 10% discount to Poland's IT sector. Given the weak outlook for 2H08, the risk embedded in the turnaround process and the valuation upside of Poland's other IT stocks, we believe an even larger discount is justified.

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