

Sygnity

25 November 2008

Overvalued

IT, integrator

Current price PLN 26.9*

Sell

Poland

Fair Value PLN 18.0

Rating downgraded

Performance over	1M	3M	12M
Absolute %	40%	37%	1%
Rel. WIG20 %	61%	121%	124%
12M Hi/Lo	PLN 43.1 / 14.9		
Reuters	COMW.WA		
Bloomberg	SGN PW		
Market Cap €	75.4		
Next corporate event	4Q08 results – February 2009		
PLN / €	3.86		

FY/e 31.12., PLN m	2007A	2008F	2009F	2010F
Sales	1 265.8	994.9	1 068.4	1 147.9
EBITDA	-16.6	56.4	72.6	79.6
Adj. EBIT **	-53.8	23.4	39.5	43.6
Adj. net profit **	-50.6	13.8	27.7	31.1
Adj. EPS (PLN) **	-4.68	1.15	2.31	2.59
Adj. P/E (x) **	n.m.	23.5	11.7	10.4
DPS (PLN)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n.m.	6.1	4.6	4.3

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

We have downgraded our rating on Sygnity from Hold to Sell, following the recent price increase. The stock has risen 28.9% in the past week, outperforming the WIG IT index by 35.9% and the WIG20 by 38.7%. We do not believe this jump in the stock price is fundamentally justified. Instead, we believe that the rise in the stock's price has been driven primarily by speculation that Sygnity might be taken over by a foreign investor, who could be willing to announce a public tender at a price materially above the current market valuation. In our view, this speculation is unfounded. In addition, we have adjusted our forecasts to reflect the 3Q08 results, which came in below both our estimates and the consensus on sales and net profit. As a result of a minor cut in our expectations for EBIT and an increase in financial costs, we have revised our reported net profit forecast down 41.9% to PLN 1.6m for 2008 (up from a loss of PLN 65.6m booked in 2007), 7.4% to PLN 17.1m (+991.8% y/y) for 2009, and 7.4% to PLN 20.8m (+21.6% y/y) for 2010. We have also cut our fair value estimate for Sygnity by 2.1% to PLN 18.0 per share, which implies 33.1% downside.

*Priced at COB 21/11/08

Rating downgraded to Sell

- **Takeover not likely:** As management has officially denied press speculation concerning the possible takeover of Sygnity by its business partner Ness Technologies, we apply a low probability to this scenario. However, we believe the recent rise in the stock price has been mainly attributable to this press speculation.
- **Management guidance lowered:** Management has lowered its official guidance for the 2008 EBIT margin from 3-4% to 1-2%, and reiterated guidance for the top line, which is expected to come in close to PLN 1.0bn. EBIT excluding one-offs (gains on disposal of non-core assets) is expected to come in only at breakeven. We see new guidance as more realistic.
- **Consensus too optimistic:** Our forecast of the company's EBIT line stands below the consensus estimate by 53% for 2008, 25% for 2009 and 37% for 2010. While the market may factor in further gains on non-core assets disposal for 2008, absent in our forecasts, in our opinion, the consensus overestimates the positive influence of the company's restructuring program in 2009-2010.
- **Overvalued:** Following the recent jump in the stock price, Sygnity trades on a 2009F P/E of 11.7x, at a 44% premium to Poland's IT sector. Given the risk embedded in the turnaround process, we believe the premium is not justified.

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