

Sygnity

12 June 2008

Looking beyond the sentiment

IT, integrator

Current price PLN 20.9*

Buy

Poland

Fair Value PLN 39.0

Rating maintained

Performance over	1m	3m	12m
Absolute %	-31%	-44%	-72%
Rel. WIG20 %	-23%	-39%	-61%
12m Hi/Lo	PLN 89.2/20.6		

Reuters	COMW.WA
Bloomberg	SGN PW
Market Cap €	68.0m
Next corporate event	
2Q08 figures 12 August 2008	
PLN / €	3.37

FY/e 31.12., PLN m	2007A	2008F	2009F	2010F
Sales	1,265.8	1,157.8	1,247.2	1,341.3
EBITDA	-16.6	74.8	93.1	107.3
Adj. EBIT **	-53.8	36.3	55.1	69.1
Adj. Net Profit **	-50.6	22.6	40.0	52.0
Adj. EPS (PLN) **	-4.68	1.88	3.34	4.33
Adj. P/E (x) **	n.m.	11.1	6.2	4.8
DPS (PLN)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	n.m.	4.0	2.9	2.2

Source: Sygnity, KBCS; ** Figures adjusted for additional depreciation

We have revised our forecasts to reflect the ongoing restructuring program at Sygnity but also a weaker revenue outlook. We expect staff to be cut from 2,800 in 1Q08 to 2,600 by year-end 2008. We also expect the disposal of non-core business units to have a pre-tax impact of PLN 12m in 2008, including PLN 2m in 1Q08 and PLN 10m for 2Q08. As a result of lower forecast revenues, offset by gains from non-core asset sales, we have revised our reported net profit expectations upwards by 11.5% to PLN 10.4m for 2008 and downwards by 38.6% to PLN 29.5m (+184% y/y) for 2009. Excluding additional depreciation, our adjusted net profit estimates have been revised up 5.0% to PLN 22.6m for 2008 and down 31.6% to PLN 40.0m for 2009. Our reported EBIT margin expectation for 2008 of 1.8% is below management's recently reiterated guidance of 3%-4% and our reported net profit forecasts are now below consensus by 38% for 2008 and 22% for 2009. However, we believe the market is even more pessimistic and hasn't adequately priced in the potential positive impact of restructuring. Though we have cut our fair value estimate by 30% to PLN 39.0 per share, this implies 87% upside.

*Priced at COB 11/06/08

Buy maintained

- Market overreaction:** We believe the recent Sygnity stock price collapse was the result of disappointing 1Q08 results combined with a loss of confidence in management, due to the sale of shares by BBI Investment. In our opinion the market has overreacted. The current stock price doesn't adequately reflect the potential positive impact of the company's restructuring program.
- More positive newsflow expected:** After announcing an agreement with Microsoft, we expect Sygnity to provide more positive newsflow over the next few weeks, which should improve sentiment towards the stock. We expect this news to include the sale of non-core assets and a long-term financing agreement with banks.
- EBIT seen in the black in 2Q08:** We expect Sygnity's EBIT to be in the black in 2Q08, even without the expected gains from the disposal of non-core assets in the period. This should be the result of better gross profit margin (thanks to a more selective approach to revenues) and costs restructuring.
- Full-year EBIT margin guidance overly ambitious:** We view management guidance for a 2008 EBIT margin at 3-4% as overly ambitious. Factoring-in a PLN 10m gain from the sale of non-core assets we forecast PLN 21.2m of reported EBIT, implying a margin of 1.8%.
- Discount too wide:** We recognise that Sygnity should trade at a wide discount to peers on near-term multiples, reflecting the risk embedded in its turnaround process. However, trading at a 2009F P/E of 6.2x, Sygnity is at a 44% discount to its peers, which we find excessive.

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