KBC Securities

Flash

Sygnity

25 March 2009

Restructuring priced-in

IT, integrator

Poland

Performance over	1M	3M	12M
Absolute %	-2%	-28%	-51%
Rel. WIG20 %	-14%	-19%	-10%
12M Hi/Lo	PLN 35.99 / 14.91		

Reuters	COMW.WA
Bloomberg	SGN PW
Market Cap €	41.3m
Next corporate event	1Q09 results – 14 May 2009
PLN / €	4.54

Current price PLN 17.36*

Fair Value PLN 18.00

Hold

Rating maintained

FY/e 31.12., PLN m	2008A	2009F	2010F	2011F
Sales	1001.8	883.2	897.6	956.4
EBITDA	58.0	69.7	72.7	77.9
Adj. EBIT **	27.7	37.0	38.7	41.2
Adj. net profit **	12.1	26.6	30.1	32.2
Adj. EPS (PLN) **	1.0	2.2	2.5	2.7
Adj. P/E (x) **	17.2	7.8	6.9	6.5
DPS (PLN)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	4.8	2.7	2.4	2.1

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

Incorporating the weaker outlook for Sygnity's top line, mostly at the level of hardware sales, we have revised our reported net earnings forecasts for Sygnity down 12% to PLN 16.0m for 2009 (up from a small loss in 2008) and down 21% to PLN 19.8m (+24% y/y) for 2010. We forecast Sygnity's bottom line to come in at PLN 22.8m (+15% y/y) for 2011. No consensus is available on the stock. These revisions have lowered our fair value for Sygnity by 16% to PLN 18.00 per share. As our new fair value implies 4% upside, we reiterate our Hold rating on the stock.

**Priced at COB 24/03/09*

Hold rating maintained

- **Another weak year ahead:** We forecast another year of falling revenues at Sygnity. Following a 17.0% y/y decline in 2008, we project revenues to fall 11.8% y/y in 2009. We expect the biggest decline in the finance (-20% y/y) and telecommunications (-15% y/y) sectors. Also, after the recent reductions in ministries' budgets, we believe public sector revenues are set to fall by a further 10% y/y. We forecast utilities to grow 10% y/y in 2009, the only business line to show growth, albeit from a low base. We forecast flat sales at Sygnity in 2010.
- **Top-line downgrades, mostly at the level of hardware:** We believe the economic downturn will prompt Sygnity's clients to reduce their budgets to the absolute minimum required for their operations (i.e. expenditures on urgent upgrades or maintenance only). We therefore expect most orders related to hardware to be postponed or cancelled. As a result, we forecast Sygnity's hardware sales to fall 44% y/y, reducing the segment's share in the total top line from 34% in 2008 to 22% in 2009.
- **Bond rollover – a key short-term issue:** In July 2009, the company will have to rollover or repurchase bonds worth PLN 50m. Although we see some risk attached to the rollover, we believe the company will be able to repurchase 100% of bonds using cash surpluses generated by operating activity and proceeds from the expected disposal of non-core assets.
- **One-offs could boost 2009 earnings:** Management estimates that asset disposals scheduled for 2009 could boost the company's operating line by PLN 15m. However, due to the risks attached to this forecast, our model does not incorporate any one-off gains from these planned asset divestments.
- **Recovery priced-in:** On a 2009F P/E of 7.8x Sygnity trades at a 9% discount to the IT sector average of 8.6x. We believe the market has fully discounted the positive impacts of the restructuring program and values the stock fairly. In our opinion, Sygnity's large exposure to the public and banking sectors and low share of revenues from long-term contracts warrants some discount to the sector average.

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