KBC Securities

Flash

Sygnity

31 August 2010

Light at the end of the tunnel

IT	
Poland	

Current price	PLN 12.75*	**Buy**
Fair value	PLN 20.00	Rating upgraded

Performance over	1M	3M	12M
Absolute %	-8%	-19%	-20%
Rel. WIG20 %	-5%	-18%	-27%
12m Hi/Lo	PLN 17.95 / 11.49		

Reuters	COMW.WA
Bloomberg	SGN PW
Market cap € m	38m
Next corporate event	
3Q10 results on 15 November 2010	
€ / PLN	3.99

FY/e 31.12., PLN m	2009A	2010F	2011F	2012F
Sales	563.2	502.3	531.4	600.7
EBITDA	-69.0	1.0	37.2	47.7
EBIT	-103.6	-27.6	12.6	25.1
Net profit	-104.5	-30.2	3.5	13.1
EPS (PLN)	-8.8	-2.5	0.3	1.1
P/E (x)	-	-	42.8	11.5
DPS (PLN)	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	-	156.7	4.1	3.3

Source: Company data, KBC Securities estimates

We have changed our view on Sygnity following the announcement of a new strategy and the positives seen in the 2Q10 results. We now expect the strategy announced in June 2010 to successfully heal the company, which should put an end to the firm's three-year fight for survival, with 2010 being the last year of losses. Our new DCF- and DDM-based valuation arrives at PLN 20.00 per share, which implies 57% upside from the current price. We upgrade the stock from Sell to Buy.

**Priced at COB 30 August 2010*

Upgraded to Buy

- **Positives in 2Q10 figures:** Sygnity delivered operating and net losses that were softer than expected in 2Q10. This was mainly a consequence of revenues coming in 14% above expectations, although there was also support from the costs side, which was positively influenced by the ongoing restructuring program.
- **Sales strategy:** The new sales strategy includes developing new business sectors (including solutions for small and medium-sized companies), the reorganization of the sales model of existing sectors and a focus on own-solutions-oriented business. We expect the new sectors to generate some 10% of the firm's total top line in 2012-2013. We expect overall revenues at a 2010-2012 CAGR of 9% after 11% y/y contraction in 2010.
- **More aggressive strategy for costs:** The restructuring process includes further disposal of loss-making business units, staff reductions, the incorporation of subsidiaries in order to reduce back-office expenses, and strong containment in all cost categories. The management expects the restructuring process to lower costs by PLN 30m in 2011.
- **Breakeven in 2011…:** A focus on own-solutions-oriented business, supported by more aggressive and braver restructuring process, should lead to the bottom line breaking even in 2011. We are more conservative than the management and expect total costs to shrink by PLN 10m in 2011, although we still expect the firm to deliver a positive bottom line with net profit at PLN 3.5m in 2011.
- **…but 2010 still in the red:** We believe the losses recorded by Sygnity in 1H10 are unlikely to be offset by net profit in 2H10, which we estimate at PLN 0.5m. We estimate a net loss of PLN 30.2m in full-year 2010, which is below the management's guidance of around PLN 20m.
- **Long-term guidance overly optimistic:** Sygnity's management reiterated its long-term guidance of revenues at PLN 650m-700m and an EBIT margin of 5-7% in full-year 2012. We are slightly less optimistic and expect revenues at PLN 600m and an EBIT margin of 4.2% in 2012.
- **Premium warranted:** Sygnity's stock price has fallen 11% since the start of the year, underperforming the WIG index by 15%. On a 2012F P/E of 11.5x the stock trades at a 14% premium to domestic peers. We believe an even higher premium is warranted given the prospects for a strong earnings recovery.

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Important Polish Disclosure

Belgian Banking and Finance Commission is exercising the Supervision over KBC Securities NV Branch in Poland.

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The definitions of terms applied in the publication:

EBITDA = EBIT + amortization and depreciation

EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

NBV per share = Net Book Value / No of shares outstanding

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

P/CF = Stock Price / (Net Profit + amortization and depreciation)

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

The list of recommendations concerning Sygnity issued by KBC Securities NV Branch in Poland during the last 6 months

	Valuation	Market price	Recommendation	The date of issuing
Sygnity	PLN 20.00	PLN 12.75	Buy	31 August 2010
Sygnity	PLN 12.00	PLN 14.35	Sell	6 January 2010

The recommendations published by KBC Securities NV Branch in Poland are valid for 12 months, unless it changed earlier. We predict a possibility of preparing a quarter actualization of the recommendation.

While preparing the publication and issuing the recommendation, KBC Securities NV Branch in Poland used the following valuation methods: Discounted Cash Flow (DCF) and peer group comparison. The advantage of DCF method is that future financial results are calculated; on the other hand, the disadvantage of the model is that prognoses for the future financial results are influenced by analyst judgment. Peer group comparison is more independent of analyst judgment but it is usually based on current financial results which may differ from the future performance

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Interpretation of the recommendation:

BUY – total return is expected to appreciate 10% or more **HOLD** – total return is expected to be between 10% and –10% **SELL** – total return is expected to depreciate 10% or more

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During the last quarter KBC Securities NV Branch in Warsaw issued recommendations on 46 companies:

22 BUY	48%
18 HOLD	39%
3 SELL	13%

The views expressed in this publication accurately reflect the personal view of the authors, in accordance with the state in time of the preparation.

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