MARKET UPDATE

ESPIRITO SANTO INVESTMENT BANK
Research

Poland | Technology | Small & Mid Cap | 13-February-2013

Sygnity

New strategy, same hopes

We maintain our BUY rating on Sygnity but lower our FV by 25% to PLN 20.9 (from PLN 28) having lowered our forecasts (2013-15E EBITDA down by 38%/35%/37%, respectively) owing to lower than expected revenues and delays in signing contracts (see p10 for details). On 6th December 2012, the recently elected management presented a strategy for 2013-15 with, in our view, no material differences to the last one presented in June 2010. Strategy targets assume an increase in the top-line (avg level of PLN 550m over 2013-15 vs PLN 534m over 2011-12), higher profitability (avg gross/EBIT margin of 21.1%/6.1% in 2013-15 vs 16.6%/-2.5% over 2010-12, respectively) and de-leveraging. The company says this should be achieved by focusing on key segments (public/utilities/banking), better IT contract management and further streamlining of the organization. Sygnity has been constantly restructuring since 2007 and has often failed to deliver on its targets/meet expectations. While it is too soon to say whether it will achieve its targets without difficulty, we believe it is in a better position now than it was. Firstly, SG&A costs look to have been stabilized. Secondly, Sygnity is steadily but gradually improving the gross margin and operating cash flow. Thirdly, the recently signed eTax contract worth PLN 232m should help reverse the top-line deterioration.

The power of operating leverage: In our view, the decline in Sygnity's top-line has already bottomed at ca. PLN 450-500m a year. The CEO estimates there are still ca. 5% of revenues (PLN 20-25m) loaded with unprofitable contracts but as Sygnity's backlog will soon include an eTax contract worth PLN 232m, this should help the top-line pick up. On the other hand, we believe the SG&A costs base has already stabilized at PLN 20-25m a quarter with no visible fluctuations owing to revenue seasonality. From our analysis, it looks like PLN 110m of quarterly revenues is the minimum needed for Sygnity to break even on the EBIT line. We calculate that the EBIT margin from incremental revenues above the PLN 100-110m level is around 18% (ie every PLN 10m increase in quarterly revenues above PLN 100-110m could deliver around PLN 1.8m of incremental EBIT). This shows the power of Sygnity´s operating leverage provided its SG&A cost base is under control.

1Q13* results – one swallow does not a summer make but …: Sygnity reported good 1Q13 results with a visible gross margin improvement to 19% (vs 14.6% in 1Q12) and reduced SG&A cost to PLN 20m (vs PLN 26m a year ago). The biggest positive surprise came in operating cash flow which reached PLN 56m (vs PLN -7m in 1Q12), driven by working capital (PLN +42m vs PLN -17m in 1Q12). While we do not expect such good cash generation and income numbers to be maintained owing to seasonality issues, the improvement is gradual and steady.

eTax contract: on 1st Feb 2013 Sygnity signed a long-awaited eTax contract worth PLN 232m gross to be executed within 96 months. It is the biggest contract in Sygnity's history with the majority linked to higher margin software&services works. We would expect the avg. EBIT margin to be 5-10%. Sygnity expects eTax to deliver ca. PLN 7m of revenues in 2013 with ca. 60% of total contract revenues (PLN 110m net) within the next 3 years. It implies ca. PLN 50m a year in 2014/15 and should help the top line to pick up.

**Note: Sygnity has changed its financial year and now it starts in October. The 2011 financial year has been combined with 2012, counted as '7Q' and finished in September 2012. 1Q13 results reported on 4th February covered Oct-Dec 2012.*

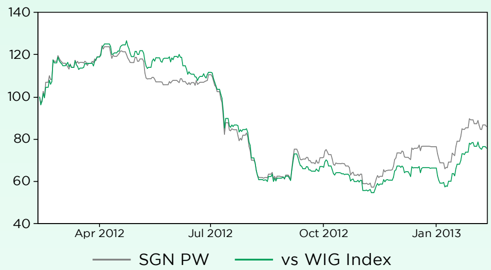
BUY 29% upside

Fair Value	PLN 20.90
Bloomberg ticker	**SGN PW**
Share Price	PLN 16.25
Market Capitalisation	PLN 188.31m
Free Float	100%

PLN m Y/E 30-Sep	2010A	2011A	2013E	2014E
Revenues	524,0	870,6	480,3	514,4
EBITDA	(7,5)	26,4	30,3	36,8
EBIT	(34,3)	(1,2)	12,6	19,0
Net income	(42,6)	(11,5)	8,6	12,7
Net debt	7,3	16,5	43,9	35,2

Y/E 30-Sep	2010A	2011A	2013E	2014E
P/E	(4,2)	(13,7)	22,0	14,8
EV/EBITDA	(24,8)	6,5	7,7	6,1
net debt/EBITDA	(1,0)	0,6	1,4	1,0
EBIT margin	(6,5%)	(0,1%)	2,6%	3,7%
Net margin	(8,1%)	(1,3%)	1,8%	2,5%

Share Price Performance



All share price data as at close on 11-Feb-2013

Source: Espirito Santo Investment Bank Research, Company Data, Bloomberg

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Summary Financial Information

Sygnity

Rating	**BUY**
Fair Value (PLN):	**20,9**
Share Price (11/02/2013, PLN):	16,3
Upside / Downside potential	29%
Previous Fair Value (PLN):	28,0
% change to fair value	-25%
Bloomberg	SGN PW
Reuters	COMW.WA

Shares in Issue (Less Treasury)(m)	11,6
Market Cap (PLN m)	**188**
2011/12 Net Debt (PLN m)	17
Adjustments for Associates & Minorities (PLN m)	2
Enterprise Value (PLN m)	**207**

Forthcoming Catalysts

Maturing/Roll-over of PLN 65m bonds	end March 2013
2Q13 results	31st May 2013

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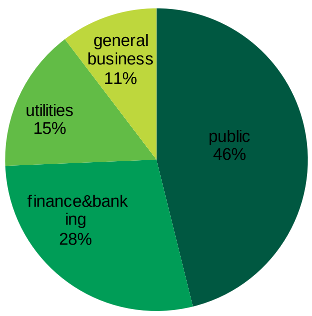
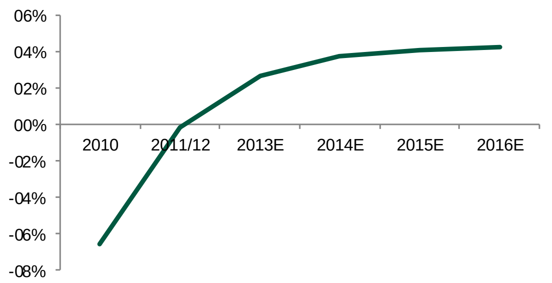
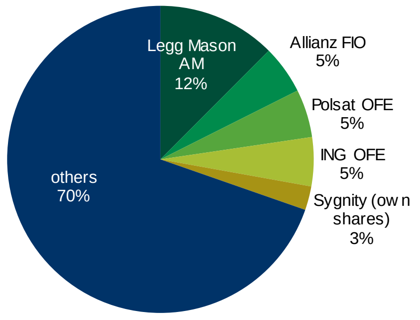
Revenues Breakdown (2011/12)



EBIT margin



Shareholder structure (December 2012)



Valuation Metrics	**2010**	**2011/12**	**2013E**	**2014E**	**2015E**
Recurrent P/E (x)	(4,7)	(13,7)	22,0	14,8	11,1
Reported P/E (x)	(4,2)	(13,7)	22,0	14,8	11,1
EV / Sales (x)	0,4	0,2	0,5	0,4	0,4
EV / EBITDA (x)	(24,8)	6,5	7,7	6,1	5,3
EV / EBIT (x)	(5,4)	(144,5)	18,4	11,7	9,5
FCF Yield (%)	-2,7%	6,7%	-14,5%	4,6%	6,9%
Dividend yield (%)	0,0%	0,0%	0,0%	0,0%	0,0%

Key Ratios	**2010**	**2011/12**	**2013E**	**2014E**	**2015E**
EBITDA margin	-1,4%	3,0%	6,3%	7,2%	7,3%
EBIT margin	-6,5%	-0,1%	2,6%	3,7%	4,1%
Capex / Revenue (x)	1,9%	3,2%	3,9%	3,7%	3,5%
Capex / Depreciation (x)	0,4	1,1	1,1	1,1	1,1
Net Debt / EBITDA (x)	(1,0)	0,6	1,4	1,0	0,6
ROA	-8,7%	-2,9%	2,2%	3,2%	4,2%
ROE	-18,9%	-5,6%	4,5%	6,3%	8,0%

P&L Summary (PLN m, unless stated)	**2010**	**2011/12**	**2013E**	**2014E**	**2015E**
Revenue	**524**	**871**	**480**	**514**	**547**
% change	-8%	66%	-45%	7%	6%
EBITDA	**(7)**	**26**	**30**	**37**	**40**
% change	-87,6%	-453,2%	14,6%	21,5%	8,8%
% margin	-1,4%	3,0%	6,3%	7,2%	7,3%
Depreciation & Amortisation	(27)	(26)	(18)	(18)	(18)
EBIT reported	**(34)**	**(1)**	**13**	**19**	**22**
EBIT adjusted	-29	-1	13	19	22
% margin	-5,6%	-0,1%	2,6%	3,7%	4,1%
Net Financials	(9)	(13)	(4)	(5)	(3)
Other Pre-tax Income	(0,4)	(0,0)	0,0	0,0	0,0
Pre-Tax Profit	**(44)**	**(14)**	**9**	**14**	**19**
Income Tax Expense	1	3	0	1	2
Discontinued Operations	0,0	0,0	0,0	0,0	0,0
Minority Interests	0,0	0,0	0,0	0,0	0,0
Net Income	**(43)**	**(11)**	**9**	**13**	**17**
Recurrent Net Income	(38)	(11)	9	13	17
Reported EPS (PLN)	(3,6)	(1,0)	0,7	1,1	1,5
Recurrent EPS (PLN)	**(3,2)**	**(1,0)**	**0,7**	**1,1**	**1,5**
DPS (PLN)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Payout Ratio	0%	0%	0%	0%	100%
Shares in Issue (Less Treasury) (m)	11,9	11,6	11,6	11,6	11,6

Cash Flow Summary (PLN m)	**2010**	**2011/12**	**2013E**	**2014E**	**2015E**
Net income	(44)	(14)	9	13	17
D&A	27	26	18	18	18
Change in Working Capital	(22)	11	(35)	(3)	(3)
Other Operating Cash Flow	11	14	0	0	0
Operating Cash Flow	**5**	**39**	**(9)**	**28**	**32**
Capital Expenditure	(10)	(28)	(19)	(19)	(19)
Free Cash Flow	**(5)**	**11**	**(27)**	**9**	**13**
Acquisitions & Disposals	3	3	0	0	0
Dividend Paid to Shareholders	0	0	0	0	0
Equity Raised / Bought Back	0	(5)	0	0	0
Other Financing Cash Flow	(4)	(29)	(3)	(10)	(15)
Net Cash Flow	**(5)**	**(21)**	**(30)**	**(1)**	**(2)**

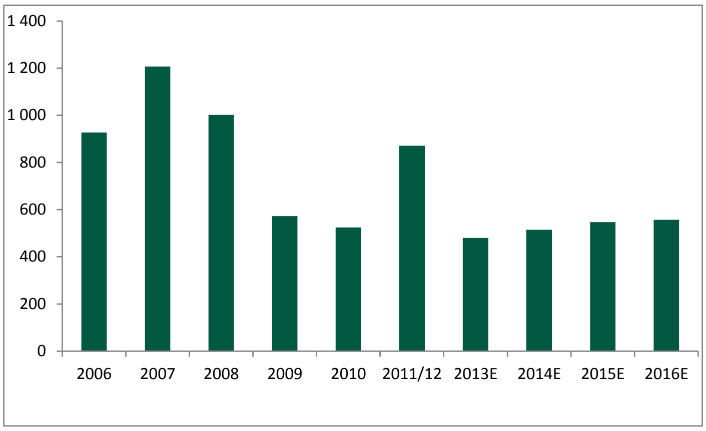
Balance Sheet Summary (PLN m)	**2010**	**2011/12**	**2013E**	**2014E**	**2015E**
Cash & Equivalents	71	50	20	19	17
Fixed Assets	224	239	239	240	241
Associates & Financial Investments	2	1	0	0	0
Other Assets	193	129	145	153	160
Total Assets	**488**	**398**	**388**	**395**	**401**
Interest Bearing Debt	74	63	60	50	35
Other Liabilities	186	130	134	142	151
Total Liabilities	**260**	**193**	**194**	**192**	**186**
Shareholders' Equity	225	203	192	200	213
Minority Interests	2	2	2	2	2
Total Equity	**227**	**206**	**194**	**203**	**215**
Net Debt	7	17	44	35	22

Source: Company data, Reuters, Bloomberg, Espirito Santo Investment Bank Research for estimates. Fianancial year 2011/12 and onwards ends in September

Top-line pick up needed

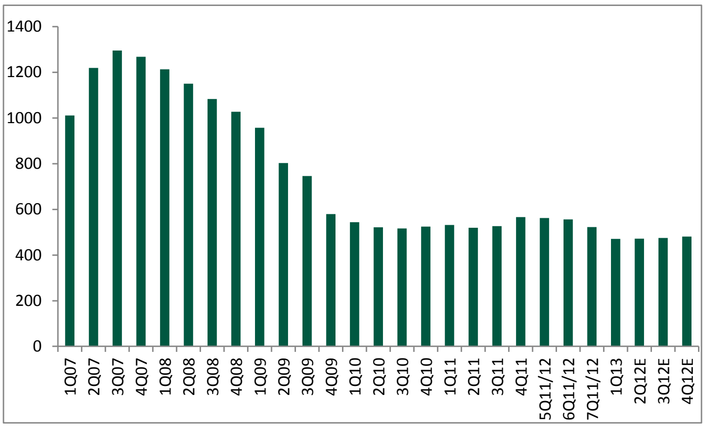
In our view, a pick up in the top-line is one of the vital elements for a successful turnaround at Sygnity as we think the cost base has been more or less stabilised. Since the ComputerLand and Emax merger in 2007, its revenue base has more than halved and we believe this decline has now bottomed.

Figure 1 Sygnity – revenues, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

Figure 2 Sygnity – 4Q trailing revenues, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

But can they pick up? The general macro environment for the IT business is not favourable as a slowing economy means postponed IT spending or cuts as they are still seen by many enterprises as low hanging fruit in the cost cutting process. Despite this gloomy outlook, we think Sygnity's top-line should start to pick up, mostly thanks to its strong presence in the public segment, which is not as vulnerable to cyclical trends but also is not that predictable. However, the timing looks to be supportive for Sygnity with a few substantial IT projects either already won (eTax worth PLN 232m, eHealth worth PLN 65m) or to be soon announced and where Sygnity could potentially win (ZUS worth ca. PLN 700m for example).

Below we present a table with signed and announced contracts won by Sygnity. 2013 augurs well, as the eTax system worth PLN 232m gross is the biggest in its history (Sygnity plans to book ca. PLN 7m in 2013 from eTax but it is likely to be non-cash revenues). Among the big tenders in 2013 is the Polish Insurer (ZUS), which recently announced the framework of the tender. It is going to be divided into six modules: (1) development of the KSI core system worth ca. PLN 300m; (2) maintenance of the KSI system worth ca. PLN 200m; (3) development of an information portal worth ca. PLN 50-60m; (4) development of EPWD and client register worth ca. PLN 50-60m; (5) electronic and paper archive worth ca. PLN 50-60m; and a (6) data warehouse worth ca. PLN 50-60m. Among the IT companies with the necessary skills ZUS mentioned Sygnity together with Asseco Poland, Comarch, IBM and HP. Sygnity already has a relationship with ZUS having developed its information portal. From this point of view, it could have a very good chance of placing the best bid. There is also a pl.ID contract with a budget of PLN 370m in the pipeline for which Sygnity had already placed a bid but the tender was cancelled. Other than that, Sygnity should book extra revenues (ca. PLN 10m) from the merger of BZWBK and Kredyt Bank.

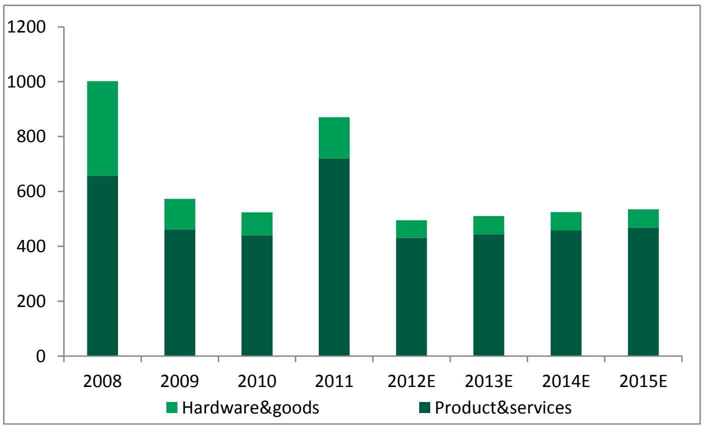
Figure 3 Sygnity – contracts signed and announced, 2011-2013

Date	Client	Contract	Value (PLN m)
1.02.2013	Ministry of Finance	eTax contract	232,1
TOTAL 2013			**232,1**
27.12.2012	KSG	In consortium with MGGP (20% stake), IT infrastructure management	6,1
21.12.2012	Ministry of Labour	sale of SAP license	10,5
7.11.2012	Inspektorat Uzbrojenia	in consortium with Comp (75% stake)	24,5
22.10.2012	Energa Operator	Maintenance & devlopment of IT systems	7,7
4.10.2012	ZUS	KSI	8,5
4.10.2012	TVP	server and core architecture	3,0
2.10.2012	Ministry of Labour	maintenance of POMOST system	21,9
15.06.2012	Ministry of Health	eHealth	64,6
9.05.2012	Dell	co-operation agreement	50,0
02.04.2012	NBP	maintenance accounting system	35,7
29.02.2012	TU Inter Polska	installation of TIA Solution insurance system	10,0
TOTAL 2012			**242,4**
30.12.2011	Tauron	Microsoft Corporation license and maintenance	36,2
21.12.2011	Ministry of Justice	maintenance of Register	8,5
8.11.2011	PFRON	maintenance of SODiR system	18,0
3.11.2011	Lubuskie county	development of eGov office for Lubuskie county	22,4
	NFZ	Oracle license with maintenance	5,7
6.09.2011	State Treasury	Network hardware	80,0
10.08.2011	Ministry of Interior Affairs	pl.ID	19,9
08.08.2011	City of Wroclaw	construction of IT education system	15,0
15.07.2011	Ministry of Labour	Syriusz	30,6
	BZWBK, Lukas Bank, Invest I	multiple contracts for banking sector	20,0
28.06.2011	Post Office	ZST system	16,7
20.01.2011	Social Security (ZUS)	development and installation of info portal	18,1
TOTAL 2011			**291,1**
8.12.2010	Ministry of Interior Affairs	ePUAP	5,0
23.11.2010	PSE	SIRE system	18,9
2.11.2010	NFZ	server and software installation	2,8
29.07.2010	Ministry fo labour	maintenance of "Pomost" system	14,0
29.06.2010	NGB	mainenance & modernization of network systems	4,8
21.06.2010	BGK	anti-fraud system	1,6
20.05.2010	Poznan Transport System	integrated IT system	6,7
10.05.2010	Statistic Office	development of IT system	18,0
20.04.2010	Statistic Office	in consortium with TPSA, to develop mobile solutions	46,5
21.01.2010	Ministry of Interior Affairs	ZMOKU system	31,8
TOTAL 2010			**150,1**

Source: Espirito Santo Investment Bank Research, Company Data

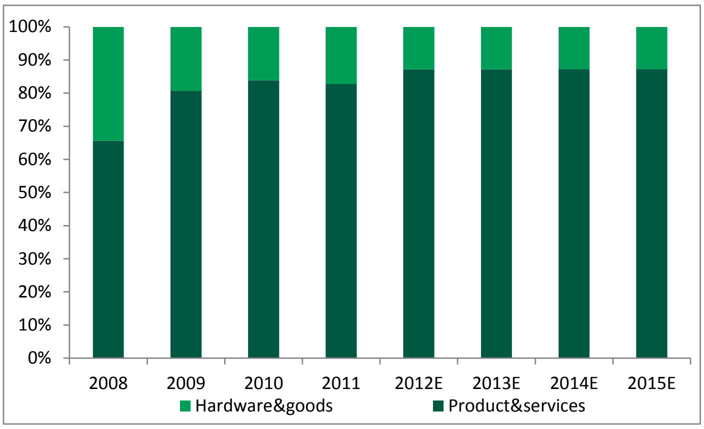
Overall, we believe the decline in Sygnity's top line should have bottomed now. However, some revenues still come from unprofitable contracts (CEO estimates ca. 5% of total revenues), so we would expect part of the top-line growth from recently signed contracts to be offset by these unprofitable contracts. As a result, we are slightly more conservative than management regarding average revenues level in 2013-15 - we estimate PLN 515m versus PLN 550m by management.

Figure 4 Sygnity – revenues by type (PLN m)



Source: Company data, Espirito Santo Investment Bank Research for estimates

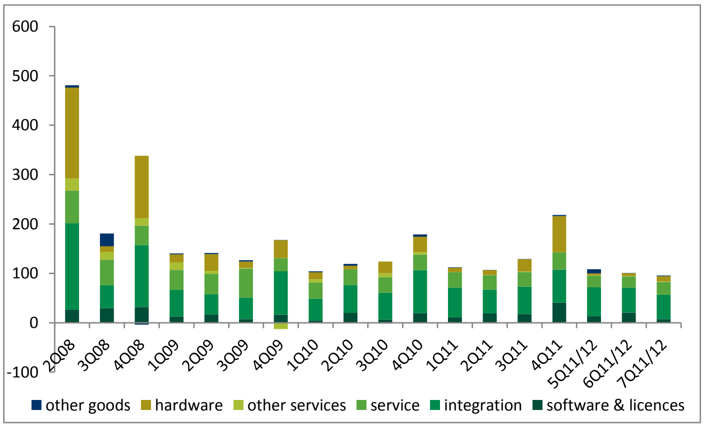
Figure 5 Sygnity – revenues by type (%)



Source: Company data, Espirito Santo Investment Bank Research for estimates

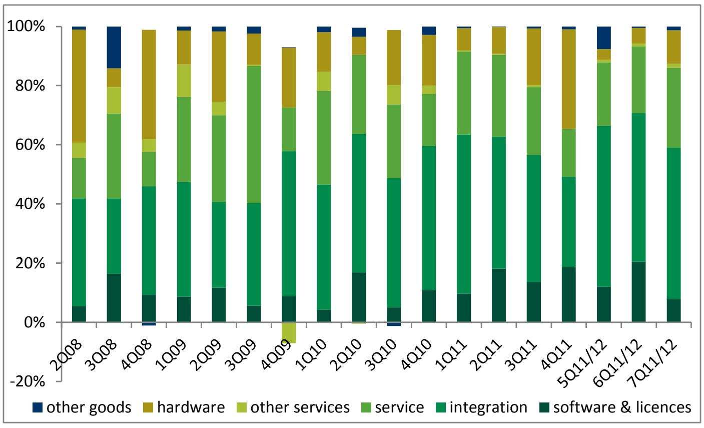
However, not only the quantity but also the quality of revenue matters and this is very visible in the structure of revenues. The quality of revenues was one of Sygnity's Achilles' heels as a high proportion came from low margin hardware&goods while parts of software&services were unprofitable because of unfavorable conditions in the contracts.

Figure 6 Sygnity – type of revenues (PLN m)



Source: Espirito Santo Investment Bank Research, Company Data

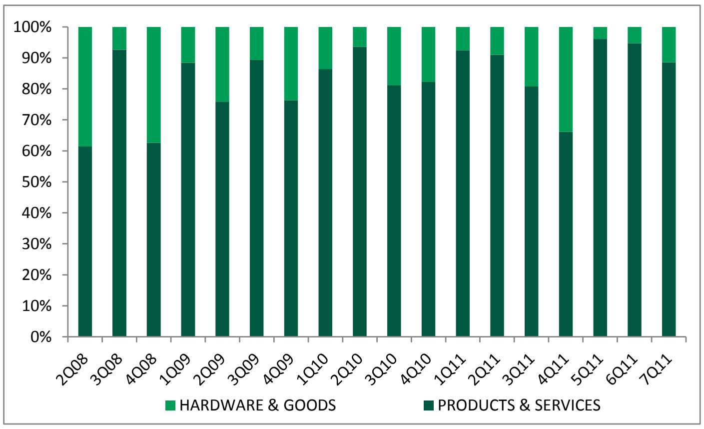
Figure 7 Sygnity – type of revenues (%)



Source: Espirito Santo Investment Bank Research, Company Data

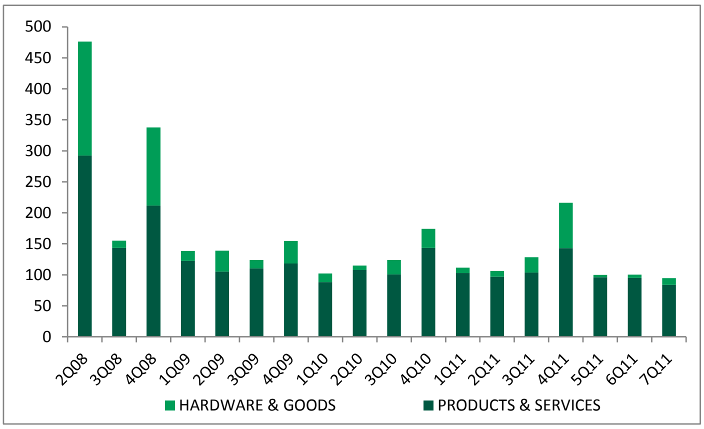
Following the announcement of the new strategy, the CEO stated that around 5% of revenues related to unprofitable contracts. We cannot track the ratio of unprofitable contracts within the revenue base to confirm this. A different measure of top-line quality, which is easy to track, is to divide them into product&services (by definition higher margin) and hardware&goods (lower margin). Here, the ratio is slightly but constantly improving.

Figure 8 Sygnity – revenue structure (%)



Source: Espirito Santo Investment Bank Research, Company Data

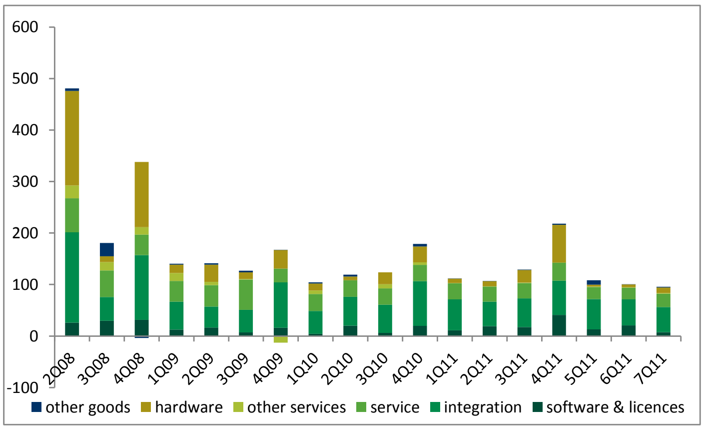
Figure 9 Sygnity – revenue structure (PLN m)



Source: Espirito Santo Investment Bank Research, Company Data

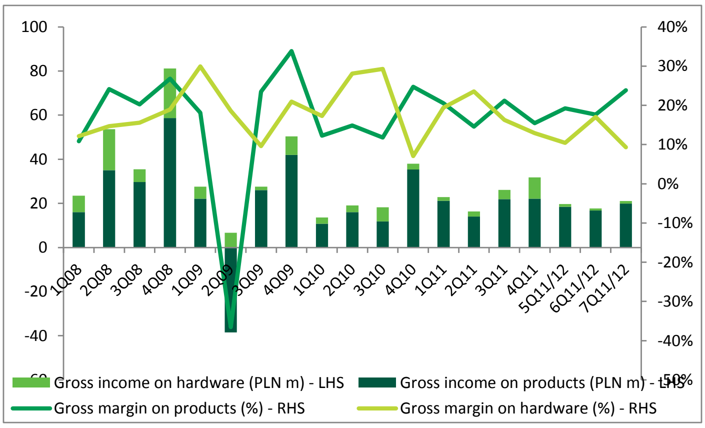
The revenue structure could also partially answer the question what drove the revenue slump over last few years. It was driven mostly by the hardware&goods segment while product&services generated a stable PLN 100-120m a quarter.

Figure 10 Sygnity – revenues by type (PLN m)



Source: Espirito Santo Investment Bank Research, Company Data

Figure 11 Sygnity – gross income&margins by type

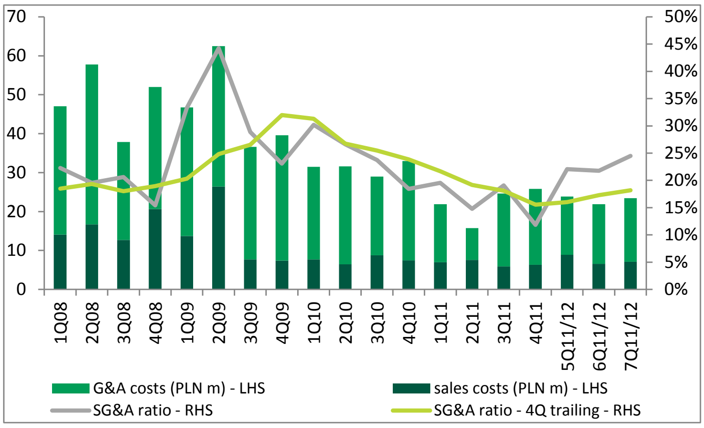


Source: Espirito Santo Investment Bank Research, Company Data

The power of operating leverage

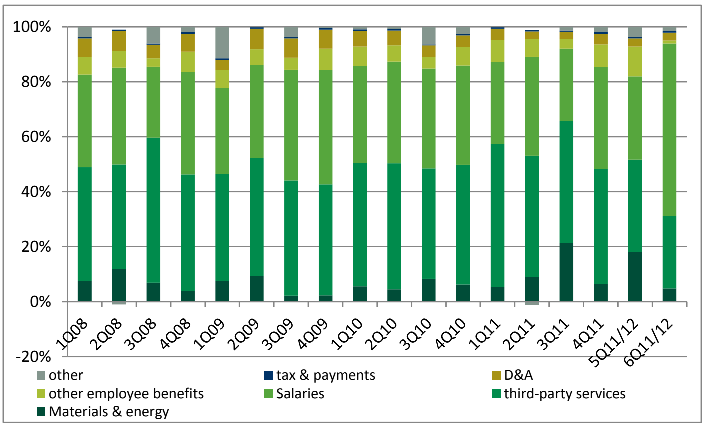
The last two restructuring programs (especially the last one introduced by the previous management) have substantially reduced the cost base. It has now stabilized and leaves little room for further cuts in our view. Costs have been stable at PLN 20-25m for the past few quarters with no visible fluctuations owing to revenue seasonality. This, in our view, supports our view that Sygnity has high operating leverage with an EBIT increase coming directly from a revenue increase.

Figure 12 Sygnity – SG&A costs



Source: Espirito Santo Investment Bank Research, Company Data

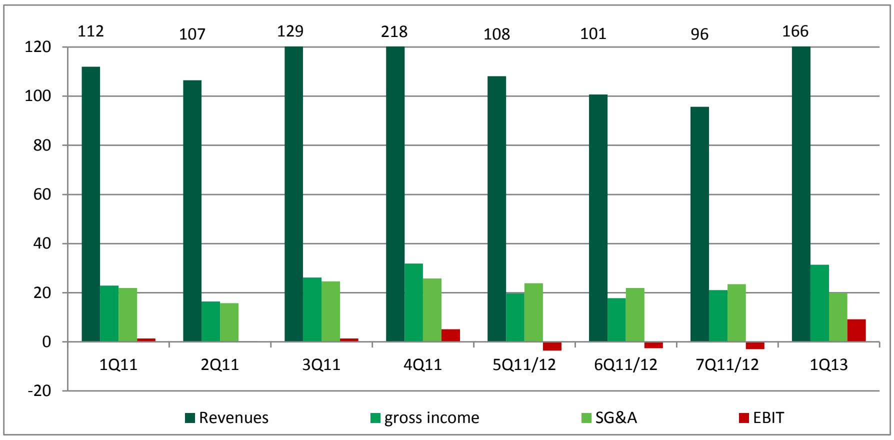
Figure 13 Sygnity – costs by type



Source: Espirito Santo Investment Bank Research, Company Data

The chart below shows that over the past eight months PLN 110m of quarterly revenues is the minimum level for Sygnity to break-even on EBIT line. For example, in 5Q11/12, 6Q11/12 and 7Q11/12 revenues amounted to PLN 108m, PLN 101m and PLN 96m respectively while EBIT in the same period amounted to PLN -3.6m, PLN -2.7m and PLN -3m respectively. 1Q13 (4Q12 calendar) brought a seasonal increase in revenues to PLN 166m (by PLN +70m qoq) and an EBIT increase to PLN 9.1m. The average revenue base within 5-7Q11/12 was PLN 102m with EBIT of PLN -3.1m. 1Q13 brought a ca. PLN 60-65m incremental increase and with a stable qoq SG&A cost base it enabled the EBIT line to grow to PLN 9m (by ca. PLN 12m qoq). A simple calculation shows that the EBIT margin from incremental revenues above PLN 100-110m is around 18%. Hence, every PLN 10m increase in the quarterly revenue base above PLN 100-110m could deliver around PLN 1.8m in incremental EBIT. This shows the operating leverage that is possible provided the SG&A cost base is under control.

Figure 14 Sygnity – Revenues, gross income, SG&A and EBIT (PLN m)

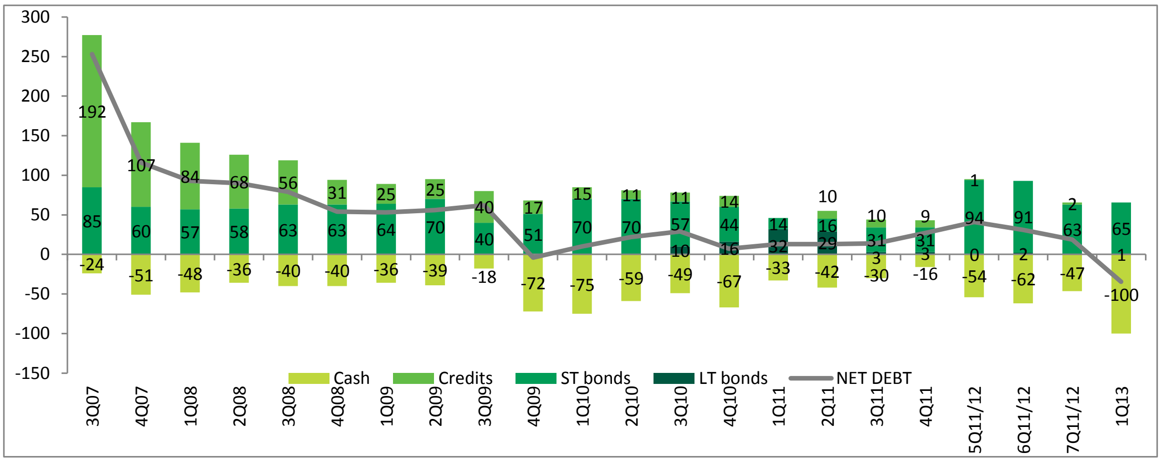


Source: Espirito Santo Investment Bank Research, Company Data

Liquidity risk looks to have diminished slightly

In our view, liquidity and insolvency risk were and probably still are investors' most important concerns, especially after the unsuccessful merger of ComputerLand and Emax back in 2007. However, continuous restructuring and deleveraging meant net debt dropped from PLN 252m (equal to Sygnity's market cap) at the end of 2007 to PLN 19m at the end of 2011/2012 and even turned into PLN 35m in net cash (17% of market cap) as reported in the recent 1Q13 results release.

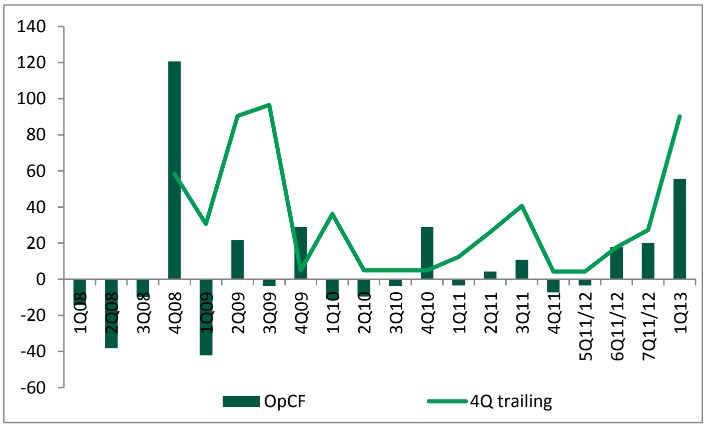
Figure 15 Sygnity – net debt structure, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

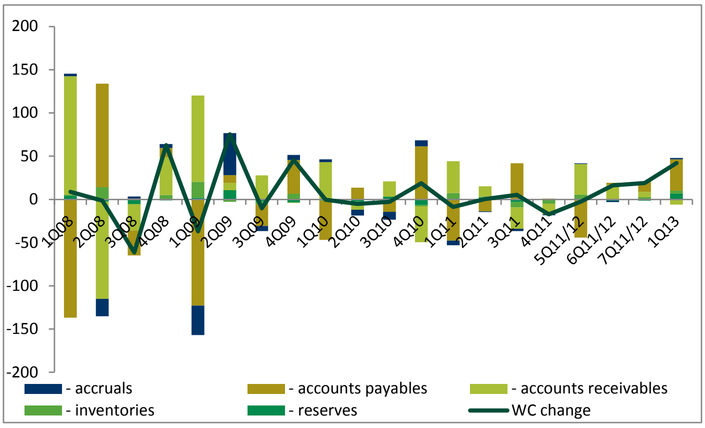
The constant restructuring does not help investor perception. However, we do not believe the company is on the point of experiencing severe financial difficulties. Granted the cash flow could be stronger, but weak CF is generally to be expected during a restructuring phase. The cash balance at the end of 1Q13 (December 2012) amounted to PLN 100m with total debt of PLN 66m, of which PLN 65m related to bonds maturing in March 2013. For the first time since 4Q09, Sygnity had net cash of PLN 35m (17% of market cap) versus PLN 19m net debt a quarter ago. The main reason behind such a visible improvement in the cash position comes from working capital which amounted to PLN +42m in 1Q13, out of which PLN +36m was accounts payables, PLN -6m for accounts receivables and the remaining inventories, reserves and others.

Figure 16 Sygnity – Operating Cash Flow, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

Figure 17 Sygnity – structure and qoq changes in working capital, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

When looking at operating cash flow, it varies with the lowest level in the 1-2Q calendar quarters and the most in the 4Q calendar quarters. This results from the seasonality of the IT business where the most revenues and invoices are booked at the end of the year.

CFO expects operating cash flow to be zero in 2Q13 (1Q13 calendar). We are more cautious than this as: (a) we expect the majority of accounts payables to reverse as delays in payment of invoices from 1Q13 cannot last forever; and (b) we expect Sygnity to report a net loss as we expect revenues of around PLN 100m level in 2Q13, which in our view is not enough to cover costs and break even.

In our view the risk of insolvency looks limited. Sygnity's cash balance was PLN 100m at the end of December 2012. Its cash position is also supported by a PLN 50m credit line recently renewed for 12 months with ING Bank. Sygnity plans to issue PLN 40m bonds to partially roll over existing ones. We expect the PLN 40m bond issue to be successful but the restructuring and deteriorating sentiment during 2012 means we also expect the cost of financing to be high at a 700bp premium over the WIBOR rate.

New strategy, same hopes

On 6th December 2012, Sygnity launched its new strategy for 2013-2015. Management wants to focus on: 1) the development of its own products; 2) gaining strength in key segments (public, utilities); 3) improving its profitability and financial health; 4) implementing new management systems, continuing the reorganisation of the group and improve the consistency of its revenues.

Management highlighted key focus points for 2013 which are: (a) revenue increase due to focus on public, banking and utilities segments; (b) increase in the gross margin thanks to the reduction in unprofitable contracts, changes in control and risk management; (c) EBIT margin increase thanks to streamlining of cost structure to market standards in the backoffice and office space; (d) increase in net margin thanks to better financing structure.

Sygnity's strategy also assumes gradual deleveraging with a cash balance of PLN 59m at the end of 2015 and a zero bond balance. The company says all those targets should be delivered with a gradual improvement in the financial figures. During 2013-2015 Sygnity expects revenues to reach an average of PLN 550m versus PLN 534m in 2010-2012; an average gross margin of 21.1% (vs an average of 16.6% in 2010-2012), average EBIT margin of 6.2% (vs an average of -2.5% in 2010-12), and average net margin of 4.8% (vs avg of -3.4% in 2010-2012).

The strategy sounds familiar to us as it mentions many points from the previous strategy such as the cancellation of unprofitable contracts, backoffice streamlining, office space reduction and development in key and potentially attractive new areas. Having in mind that Sygnity has previously not met expectations/targets, we prefer to take a cautious stance and expect lower financial targets than management.

Incentive plan

On 10th December 2012, the General Meeting approved an incentive plan for Sygnity's management which targets Sygnity generating PLN 15m of net income in FY 2013 (calendar 4Q12-3Q13). If the target is delivered, incentive plan participants will receive 150k shares at PLN 15 per share. The PLN 15m net income target will exclude any financial effects not related to its core activity like the revaluation of its assets, the sale of assets, and costs related to setting up the incentive plan. The plan also assumes Sygnity buys back up to 150k of its own shares including 88k already acquired. The CEO commented that the PLN 15m net income target is challenging but possible to achieve. In our view, although Sygnity reported PLN 7.2m net income in 1Q13 (4Q12 calendar), we would not expect this trend to be sustained in the following quarters, as the 4Q (CY) is usually the strongest quarter for the IT business. Sygnity's cost base does not leave much room for further cuts, while revenues are still not growing, especially in more profitable the area of software and services.

1Q12/13 results published on 4th February 2013 - review

Table 1 Sygnity – quarterly results

(PLN m)	1Q11	2Q11	3Q11	4Q11	5Q11/12	6Q11/12	7Q11/12	1Q13	% YoY	Cons	ESIBR
Revenues	**112,0**	**106,5**	**129,2**	**218,3**	**108,1**	**100,7**	**95,7**	**165,6**	-24%	**175,0**	**174,5**
software&services	102,9	96,7	103,6	142,9	96,0	94,9	83,7	134,8	-6%		
hardware&goods	9,1	9,8	25,6	75,4	12,2	5,8	12,1	30,8	-59%		
Gross income	**22,9**	**16,4**	**26,1**	**31,8**	**19,7**	**17,7**	**21,1**	**31,4**			
gross margin	*20,4%*	*15,4%*	*20,2%*	*14,6%*	*18,2%*	*17,6%*	*22,0%*	*19,0%*			
EBITDA	**5,9**	**4,2**	**4,4**	**8,9**	**0,4**	**0,3**	**1,2**	**13,6**	54%	**-0,1**	**9,3**
EBITDA margin	*5,2%*	*4,0%*	*3,4%*	*4,1%*	*0,3%*	*0,3%*	*1,3%*	*8,2%*		*-0,1%*	*5,3%*
D&A	4,5	4,0	3,1	3,8	3,9	2,9	4,2	4,5	19%		4,2
EBIT	**1,4**	**0,2**	**1,4**	**5,1**	**-3,6**	**-2,7**	**-3,0**	**9,1**	**79%**	**8,0**	**5,1**
EBIT margin	*1,2%*	*0,2%*	*1,1%*	*2,3%*	*-3,3%*	*-2,6%*	*-3,1%*	*5,5%*		*4,6%*	*2,9%*
Net financial income/(expenses)	-2,3	-1,0	-0,8	-1,7	-2,1	-2,8	-2,0	-1,9	8%		-1,3
Income before taxes (EBT)	-0,9	-1,1	0,6	3,4	-5,4	-2,8	-2,1	7,3	115%		3,9
Income tax	-0,2	2,4	0,7	3,3	-0,9	-0,7	-2,1	-0,1	-103%		0,4
effective tax rate	*22%*	*-229%*	*122%*	*97%*	*17%*	*24%*	*99%*	*-1%*			*10%*
minorities	0	0	0	0	0	0	0	0			0
Net income	**-1,2**	**1,4**	**1,3**	**6,7**	**-6,3**	**-3,5**	**-4,2**	**7,2**	7%	**5,7**	**4,3**
Net profit margin	*-1,0%*	*1,3%*	*1,0%*	*3,1%*	*-5,8%*	*-3,5%*	*-4,4%*	*4,3%*		*3,3%*	*2,4%*

Source: Espirito Santo Investment Bank Research, Company Data, Bloomberg consensus

Revenues fell by 24% yoy to PLN 165m versus PLN 218m a year ago. This resulted from a much lower contribution from hardware of PLN 30.8m vs PLN 75.4m a year ago when Sygnity booked two substantial hardware contracts for the Ministry of Defence and Tauron.

Figure 18 Sygnity – revenue structure & efficiency ratios

	1Q11	2Q11	3Q11	4Q11	5Q11/12	6Q11/12	7Q11/12	1Q13	YoY
Revenues by segments (PLN m)	**112,0**	**106,5**	**129,2**	**218,3**	**108,1**	**100,7**	**95,7**	**165,6**	-24%
SOFTWARE & SERVICES	102,9	96,7	103,6	142,9	96,0	94,9	83,7	134,8	-6%
software & licences	*10,9*	*19,3*	*17,6*	*40,8*	*13,0*	*20,6*	*7,6*	*37,7*	-8%
integration	*60,2*	*47,6*	*55,4*	*66,6*	*58,8*	*50,6*	*48,9*	*70,8*	6%
service	*31,4*	*29,4*	*29,7*	*35,3*	*23,3*	*22,7*	*25,8*	*25,7*	-27%
other services	*0,5*	*0,4*	*0,8*	*0,2*	*0,9*	*1,0*	*1,4*	*0,6*	199%
HARDWARE & GOODS	9,1	9,8	25,6	75,4	12,2	5,8	12,1	30,8	-59%
hardware	*8,4*	*9,6*	*24,7*	*73,2*	*3,9*	*5,3*	*10,8*	*30,1*	-59%
other goods	*0,6*	*0,2*	*0,9*	*2,1*	*8,3*	*0,5*	*1,2*	*0,7*	-68%
Efficiency ratios (%)									
Gross margin	20,4%	15,4%	20,2%	14,6%	18,2%	17,6%	22,0%	19,0%	
SG&A ratio	19,5%	14,8%	19,1%	11,8%	22,1%	21,7%	24,5%	12,0%	

Source: Espirito Santo Investment Bank Research, Company Data

The Gross margin improved to 19% from 14.6% a year ago. This mainly resulted from a better revenue mix with a higher proportion of higher margin software&services (81% vs 66% in 4Q11). Apart from that, Sygnity improved its profitability in both software&services and hardware&goods. The gross margin for software&services was 20% (vs 15.5% a year ago) while hardware was 14.4% (vs 12.9% a year ago). Part of the reason behind this could be, as already highlighted by the management, better project management and cancellation of unprofitable contracts in the revenue mix.

The backlog for 2013 calendar year amounts to PLN 166m and is comparable yoy. The backlog for 2014 (calendar year) amounts to PLN 110m. It does not include the eTax contract worth PLN 232m gross which Sygnity signed on 1st February. Management expects eTax to deliver around PLN 7m of revenues in 2013 (reporting year).

Operating cash flow was very strong at PLN 56m vs PLN -7.2m a year ago. It was driven mainly by working capital (PLN +42m) and specifically accounts payables (PLN +36m). Sygnity's cash balance improved to PLN 100m vs PLN 47m a quarter ago and PLN 16m a year ago. As a result, net debt of PLN 19m a quarter ago turned into net cash of PLN 35m (18% of market cap). We expect accounts payables to partially reverse in 1Q13 (calendar).

Financial Forecasts

Changes to our estimates

We have cut our top-line forecasts for Sygnity for 2013-15E by 26%/25%/23% respectively as a result of: (a) the negative effect the recent unsuccessful hostile takeover bid had on Sygnity´s ability to sign new contracts; (b) lower than expected revenues from its co-operation agreement with Huawei which when signed in October 2011 was meant to deliver PLN 100m of revenues in 2013 and ended up being completely unsuccessful. The co-operation with Huawei will most likely end, in our view, and we do not expect any further revenues from that area; (c) lower than expected revenues from the Quatra product line which when launched in February 2012 was meant to deliver PLN 20m of revenues in 2013 2013 but we now forecast it to deliver a low single digit PLN m; (d) postponement in signing the eTax contract which will start to contribute visibly to the top-line from 2014. Due to the high operational leverage, a cut in the top-line leads to a stronger fall in the EBIT and the bottom-line.

Figure 19 Sygnity – changes in estimates

	2013E			2014E			2015E		
(PLN m)	New	Old	Change	New	Old	Change	New	Old	Change
Revenues	480	648	-26%	514	688	-25%	547	712	-23%
EBITDA	30	49	-38%	37	57	-35%	40	64	-37%
EBIT	13	34	-63%	19	42	-55%	22	49	-55%
Net income	9	27	-68%	13	35	-64%	17	37	-54%

Source: Espirito Santo Investment Bank Research for estimates

ESIBR versus Bloomberg consensus

Following the downward revisions to our estimates we are below consensus on the top line for 2013-15E. We believe this could come from consensus figures still not adjusting to the new revenue and cost base.

Figure 20 Sygnity – ESIBR vs Bloomberg consensus

	2013E			2014E			2015E		
(PLN m)	ESIBR	BBG	% diff	ESIBR	BBG	% diff	ESIBR	BBG	% diff
Revenues	480	550	-13%	514	555	-7%	547	614	-11%
EBITDA	30	34	-11%	37	40	-8%	40	48	-17%
EBIT	19	16	18%	22	19	16%	23	27	-13%
Net income	9	7	26%	13	8	72%	17	14	26%

Source: Espirito Santo Investment Bank Research for estimates, Bloomberg consensus

VALUATION

Valuation summary

We use an average of two methods to value Sygnity: DCF and peer multiples (each with a 50% weighting). Based on a DCF we derive a fair value of PLN 21 per share while based on a peer valuation we derive PLN 20.8 per share. Our fair value is PLN 20.9, implying 29% potential upside to the current share price.

DCF

We use a 10-year forecast free cash flow period. The main assumptions in our DCF model are as follows:

- The valuation is based on FCF forecasts for 2013-2022E;
- Net debt at the end of 2013
- Risk free rate during FCF projections is set at 4% vs 5.7% before, as result of recent interest rate cuts,
- Terminal growth rate of FCF at 3% which is the average of the last three years of FCF forecasts (vs 2% before) and a beta of 1.2 (vs 1.1 before) to reflect Sygnity's above-average risk profile related to strategy execution;

- Credit premium in 2013 and onwards at 700bps vs 500bps before to reflect the still above-average liquidity risk related to the company. As a result, we do not expect Sygnity to manage to reduce its credit premium substantially when rolling over PLN 65m in bonds maturing in March 2013.

Figure 21 Sygnity – DCF

(PLN m)	2011/12	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	>2022
EBIT	-1,2	12,6	19,0	22,2	23,4	23,5	24,2	24,9	25,7	26,4	27,2	
tax rate	18%	0%	-10%	-10%	-19%	-19%	-19%	-19%	-19%	-19%	-19%	
NOPAT	-1,0	12,6	20,9	24,4	27,9	27,9	28,8	29,7	30,5	31,4	32,4	
Depreciation	26,4	17,7	17,8	17,9	18,0	18,1	18,2	18,3	18,3	18,4	18,5	
CAPEX	-28,3	-18,8	-18,9	-19,0	-19,1	-19,2	-19,3	-19,4	-19,5	-19,6	-19,7	
Change of Working Capital	4,5	-34,8	-2,9	-2,9	-1,2	-0,9	-1,0	-1,0	-1,0	-1,0	-1,0	
FCF	1,6	-23,3	16,9	20,4	25,5	25,8	26,7	27,5	28,4	29,3	30,2	
FCF change	-93%	-1549%	-173%	21%	25%	1%	3%	3%	3%	3%	3%	3%
WACC Calculation												
debt/equity	15,8%	15,5%	12,7%	8,8%	5,0%	1,3%	1,2%	1,2%	1,2%	1,1%	1,1%	1,1%
risk free rate	5,5%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
credit premium	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
market premium	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%	5,0%
beta	1,1	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2	1,2
cost of debt	10,2%	11,0%	12,1%	12,1%	13,1%	13,1%	13,1%	13,1%	13,1%	13,1%	13,1%	13,1%
cost of capital	11,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
WACC	**10,9%**	**10,2%**	**10,3%**	**10,2%**	**10,2%**	**10,0%**	**10,0%**	**10,0%**	**10,0%**	**10,0%**	**10,0%**	**10,0%**
PV (FCF)	1,6	(21,9)	14,4	15,8	18,0	16,6	15,5	14,6	13,7	12,8	12,0	
PV (FCF)												111
PV (RV)												176
net debt, end 2013E												44
Fair Value												243
# of shares												11,6
Fair Value/share												**21,0**

Source: Company data, Espirito Santo Investment Bank Research for estimates

Sensitivity analysis

Figure 22 Sygnity – sensitivity table

Sensivity Table

		WACC									WACC						
		8,0%	8,5%	9,0%	10,0%	11,0%	12,0%	13,0%			8,0%	8,5%	9,0%	10,0%	11,0%	12,0%	13,0%
	0%	18,7	18,0	17,3	16,2	15,2	14,4	13,8		0%	-11%	-14%	-18%	-23%	-28%	-31%	-34%
	1%	20,7	19,7	18,9	17,4	16,3	15,3	14,5		1%	-1%	-6%	-10%	-17%	-23%	-27%	-31%
TGR	3%	27,1	25,1	23,5	21,0	19,1	17,7	16,5	TGR	3%	29%	20%	12%	0%	-9%	-16%	-22%
	3%	27,1	25,1	23,5	21,0	19,1	17,7	16,5		3%	29%	20%	12%	0%	-9%	-16%	-22%
	4%	32,6	29,6	27,3	23,7	21,2	19,3	17,8		4%	55%	41%	30%	13%	1%	-8%	-15%

Source: Espirito Santo Investment Bank Research for estimates

Figure 23 Sygnity – sensitivity table

Sensitivity table

		EBIT margin change vs ESIB est								EBIT margin change vs ESIB est						
		-1,5%	**-1,0%**	**-0,5%**	**0,0%**	**0,5%**	**1,0%**	**1,5%**		**-1,5%**	**-1,0%**	**-0,5%**	**0,0%**	**0,5%**	**1,0%**	**1,5%**
Sales growth rate change vs ESIB est	**-3%**	6,2	8,9	11,5	14,2	16,9	19,5	22,2	**-3%**	-70%	-58%	-45%	-32%	-20%	-7%	6%
	-2%	7,6	10,5	13,4	16,3	19,2	22,1	25,0	**-2%**	-64%	-50%	-36%	-22%	-9%	5%	19%
	-1%	9,1	12,3	15,4	18,5	21,7	24,8	28,0	**-1%**	-57%	-42%	-27%	-12%	3%	18%	33%
	0%	10,8	14,2	17,6	21,0	24,4	27,8	31,2	**0%**	-49%	-32%	-16%	0%	16%	32%	49%
	1%	12,6	16,3	20,0	23,7	27,4	31,1	34,8	**1%**	-40%	-23%	-5%	13%	30%	48%	66%
	2%	14,5	18,5	22,5	26,6	30,6	34,6	38,6	**2%**	-31%	-12%	7%	27%	46%	65%	84%
	3%	16,6	21,0	25,4	29,7	34,1	38,4	42,8	**3%**	-21%	0%	21%	42%	62%	83%	104%

Source: Espirito Santo Investment Bank Research for estimates

Peer valuation

Figure 24 Sygnity - peer valuation, as of 11/02/2013

Company	Ticker	CAGR 3YF		EV/EBITDA			P/E			EBITDA margin		
		revenues	EBITDA	1YF	2YF	3YF	1YF	2YF	3YF	1YF	2YF	3YF
Microsoft	msft us	7,5%	7,1%	5,5	5,1	4,7	9,7	8,9	8,3	44,5%	44,3%	30,5%
Oracle	orcl us	5,1%	9,5%	8,2	7,5	6,8	12,5	11,6	10,8	52,9%	55,0%	32,6%
SAP	sap gr	9,8%	17,3%	11,8	10,4	9,4	17,9	15,7	13,8	40,0%	40,2%	18,9%
Accenture	acn us	3,5%	6,5%	9,6	9,0	8,4	17,2	15,9	15,3	17,3%	17,3%	11,7%
IBM	ibm us	2,0%	7,9%	8,7	8,3	7,9	12,3	11,7	11,3	28,1%	29,0%	18,4%
Atos Origin	ato fp	10,7%	15,2%	5,3	4,7	4,5	13,5	11,3	10,5	11,3%	11,7%	4,6%
Cap Gemini	cap fp	3,8%	6,9%	6,1	5,7	5,3	13,0	12,1	11,0	10,0%	10,5%	6,6%
Indra Sistemas	idr sm	4,6%	0,9%	7,6	7,0	6,5	10,3	9,6	8,3	10,6%	11,2%	8,7%
Tieto	tie1v fh	-0,5%	11,4%	5,3	5,0	4,8	11,4	10,4	9,7	13,6%	13,9%	3,4%
Gemalto	gto fp	10,2%	19,4%	15,5	13,0	11,2	22,9	18,6	15,9	19,2%	20,3%	7,3%
Software AG	sow gr	4,5%	4,3%	8,9	8,1	7,5	14,6	13,1	11,9	30,1%	30,8%	21,6%
Dassault Systemes	dsy fp	8,6%	14,8%	13,0	11,4	10,3	22,6	20,0	17,6	37,7%	37,9%	19,2%
Sage	sge ln	3,9%	4,4%	10,3	9,8	9,5	16,0	15,1	14,2	30,8%	30,8%	22,9%
Hewlett-Packard	hpq us	-3,9%	-2,3%	3,7	3,6	3,8	5,1	4,7	5,3	12,4%	12,0%	8,7%
Wincor Nixdorf	win gr	3,3%	13,3%	7,4	6,5	5,8	14,8	12,6	10,9	9,0%	9,7%	3,9%
Unit4	unit4 na	5,4%	8,3%	9,5	8,4	7,5	19,6	15,5	13,0	21,5%	22,6%	7,5%
Sopra Group	sop fp	7,2%	8,7%	8,3	7,7	7,2	11,1	9,8	9,0	10,5%	10,8%	7,1%
Temenos	temn sw	1,4%	16,9%	16,1	13,0	11,7	34,9	19,9	16,7	28,9%	30,7%	-0,4%
Swisslog Holding	slog sw	5,2%	14,0%	7,6	6,3	6,0	22,9	15,4	14,5	6,0%	6,2%	2,9%
Cognizant Tech Solution	ctsh us	15,9%	15,9%	11,6	10,0	8,6	17,6	15,1	13,2	24,0%	23,6%	11,8%
Intuit	intu us	10,0%	14,1%	10,3	9,4	8,7	17,9	16,0	14,2	42,4%	42,1%	21,3%
Infosys	infy us	11,0%	6,6%	12,7	11,7	10,9	0,3	0,3	0,3	31,1%	30,2%	21,2%
Fiserv	fisv us	0,0%	0,0%	8,5	8,1	7,8	14,2	12,9	12,1	34,4%	34,4%	19,7%
International Median		**5,1%**	**8,7%**	**8,7**	**8,1**	**7,5**	**14,6**	**12,9**	**11,9**	**26,1%**	**24,4%**	**10,2%**
International Average		***5,6%***	***9,6%***	***9,2***	***8,2***	***7,6***	***15,3***	***12,9***	***11,6***	***24,8%***	***25,0%***	***13,2%***
Asseco Poland (cons)	acp pw	4,8%	1,6%	6,6	6,5	6,6	10,3	10,1	10,4	16,0%	15,7%	15,3%
ABS (cons)	abs pw	-1,3%	-0,7%	8,4	7,9	7,8	14,7	13,7	13,5	27,2%	28,5%	28,1%
ASEE (cons)	ase pw	2,7%	2,5%	7,3	6,8	6,6	10,5	9,9	9,6	13,6%	13,9%	13,9%
ACE (cons)	ace pw	2,4%	-0,5%	3,3	3,1	3,1	31,5	30,9	30,2	19,8%	20,4%	20,1%
Comarch (cons)	cmr pw	4,0%	10,8%	8,0	6,7	6,1	17,2	15,1	11,4	10,5%	11,6%	12,2%
Comp (cons)	cmp pw	1,0%	-1,5%	25,5	9,1	9,1	-37,0	16,3	16,3	4,1%	10,6%	10,6%
Sygnity (cons)	sgn pw	n.a.	n.a.	5,2	4,3	3,5	65,2	25,3	14,1	6,2%	7,2%	7,9%
Domestic Median				**7,3**	**6,7**	**6,6**	**14,7**	**15,1**	**13,5**	**13,6%**	**13,9%**	**13,9%**
Domestic Average				***9,2***	***6,3***	***6,1***	***16,1***	***17,3***	***15,1***	***13,9%***	***15,4%***	***15,4%***
MEDIAN				**8,0**	**7,5**	**7,8**	**14,7**	**13,5**	**12,0**	**18,2%**	**18,7%**	**11,8%**
AVERAGE				***9,2***	***7,8***	***7,2***	***15,5***	***13,9***	***12,4***	***22,3%***	***22,8%***	***13,7%***
Sygnity				7,7	6,1	5,3	22,0	14,8	11,1	6,3%	7,2%	7,3%
Sygnity vs peers				-4%	-19%	-32%	50%	10%	-7%	-65%	-62%	-38%
Valuation (PLN m)							241					
Fair value/share (PLN)							**20,8**					

Source: Espirito Santo Investment Bank Research for Sygnity estimates, Bloomberg for other ESIB rated and not rated stocks

FINANCIALS

Income Statement

Figure 25 Sygnity – P&L

Sygnity - P&L (PLN m)	2009	2010	2011/12	2013E	2014E	2015E	2016E	2017E
Revenues	**573**	**524**	**871**	**480**	**514**	**547**	**557**	**548**
% YoY change	*-43%*	*-8%*	*66%*	*-45%*	*7%*	*6%*	*2%*	*-2%*
- softw are&services	462	440	721	419	453	484	494	484
- hardw are&goods	111	84	150	61	62	62	63	64
Gross income	**74**	**89**	**156**	**94**	**104**	**112**	**115**	**114**
Gross margin	*12,9%*	*16,9%*	*17,9%*	*19,6%*	*20,2%*	*20,6%*	*20,7%*	*20,8%*
Sales costs	55	30	49	26	28	30	31	30
as % of revenues	*9,7%*	*5,8%*	*5,7%*	*5,4%*	*5,5%*	*5,5%*	*5,5%*	*5,5%*
G&A costs	130	95	108	53	57	60	61	60
as % of revenues	*22,7%*	*18,1%*	*12,4%*	*11,1%*	*11,0%*	*11,0%*	*11,0%*	*11,0%*
SG&A ratio	*32,4%*	*23,9%*	*18,1%*	*16,5%*	*16,5%*	*16,5%*	*16,5%*	*16,5%*
EBIT	**-95**	**-34**	**-1**	**13**	**19**	**22**	**23**	**23**
% YoY change	*0%*	*-64%*	*-97%*	*-1153%*	*51%*	*17%*	*6%*	*0%*
% EBIT margin	*-16,6%*	*-6,5%*	*-0,1%*	*2,6%*	*3,7%*	*4,1%*	*4,2%*	*4,3%*
Depreciation	-34	-27	-26	-18	-18	-18	-18	-18
EBITDA	**-60**	**-7**	**26**	**30**	**37**	**40**	**41**	**42**
% YoY change	*-204%*	*-88%*	*-453%*	*15%*	*22%*	*9%*	*3%*	*0%*
% EBITDA margin	*-10,5%*	*-1,4%*	*3,0%*	*6,3%*	*7,2%*	*7,3%*	*7,4%*	*7,6%*
Financial income/(expense), net	-8	-9	-13	-4	-5	-3	-2	0
Income tax	-14	1	3	0	1	2	4	4
Minority interest in earnings	0	0	0	0	0	0	0	0
Net income	**-89**	**-43**	**-11**	**9**	**13**	**17**	**18**	**19**
% YoY change		*-52%*	*-73%*	*-175%*	*48%*	*33%*	*4%*	*6%*
% net margin	*-15,6%*	*-8,1%*	*-1,3%*	*1,8%*	*2,5%*	*3,1%*	*3,2%*	*3,4%*
Recurrent Net Income	**-46**	**-38**	**-11**	**9**	**13**	**17**	**18**	**19**
% YoY change	*295%*	*-19%*	*-70%*	*-175%*	*48%*	*33%*	*4%*	*6%*
EPS (PLN)	**-7,5**	**-3,6**	**-1,0**	**0,7**	**1,1**	**1,5**	**1,5**	**1,6**
% YoY change		*-52%*	*-72%*	*-175%*	*48%*	*33%*	*4%*	*6%*
Recurrent EPS (PLN)	**-3,9**	**-3,2**	**-1,0**	**0,7**	**1,1**	**1,5**	**1,5**	**1,6**
% YoY change	*295%*	*-19%*	*-69%*	*-175%*	*48%*	*33%*	*4%*	*6%*

Source: Company data, Espirito Santo Investment Bank Research for estimates

Profitability ratios

Figure 26 Sygnity – profitability ratios

Profitability Ratios	2009	2010	2011/12	2013E	2014E	2015E	2016E	2017E
EBITDA margin	-10,5%	-1,4%	3,0%	6,3%	7,2%	7,3%	7,4%	7,6%
EBIT margin	-16,6%	-6,5%	-0,1%	2,6%	3,7%	4,1%	4,2%	4,3%
Net margin	-15,6%	-8,1%	-1,3%	1,8%	2,5%	3,1%	3,2%	3,4%
Effective Income Tax Rate	-13,5%	2,6%	18,2%	-2,0%	-10,0%	-10,0%	-19,0%	-19,0%
ROA	-16,2%	-8,7%	-2,9%	2,2%	3,2%	4,2%	4,3%	4,7%
ROE	-31,5%	-18,9%	-5,6%	4,5%	6,3%	8,0%	7,7%	7,8%

Source: Company data, Espirito Santo Investment Bank Research for estimates

Balance sheet

Figure 27 Sygnity – balance sheet

Sygnity - Balance sheet (PLN m)	2009	2010	2011/12	2013E	2014E	2015E	2016E	2017E
Total fixed assets	**260**	**224**	**239**	**239**	**240**	**241**	**242**	**243**
PP & E, and intangibles	229	209	221	223	224	225	226	227
Other fixed assets	32	15	18	16	16	16	16	16
Total current assets	**291**	**264**	**159**	**149**	**155**	**160**	**164**	**159**
Inventory	24	24	24	26	27	29	29	30
Trade and other receivables	171	156	88	103	109	115	117	119
Other current assets	24	17	1	4	4	4	4	4
Cash and equivalents	72	67	47	16	15	13	13	6
Total assets	**552**	**488**	**398**	**388**	**395**	**401**	**406**	**402**
Total stockholders equity	**283**	**225**	**203**	**192**	**200**	**213**	**230**	**239**
Including minority interest	2	2	2	2	2	2	2	2
Long-term liabilities	**3**	**19**	**9**	**31**	**35**	**39**	**40**	**41**
Long-term debt	0	16	0	0	0	0	0	0
Other long-term liabilities	3	2	9	31	35	39	40	41
Short-Term Liabilities	**176**	**202**	**161**	**140**	**134**	**123**	**110**	**97**
Accounts payable	98	137	95	77	82	86	88	89
Short-term debt	68	58	63	60	50	35	20	5
Other short-term liabilities	98	46	25	25	25	25	25	25
Total equity & liabilities	**552**	**488**	**398**	**388**	**395**	**401**	**406**	**402**
BVPS (PLN)	**23,8**	**18,9**	**17,5**	**16,5**	**17,3**	**18,4**	**19,8**	**20,6**

Source: Company data, Espirito Santo Investment Bank Research for estimates

Leverage Indicators

Figure 28 Sygnity – leverage indicators

Leverage Indicators	2009	2010	2011/12	2013E	2014E	2015E	2016E	2017E
Net Debt (PLN m)	-5	7	17	44	35	22	7	-1
Net Debt / EBITDA (x)	0,1x	-1,0x	0,6x	1,4x	1,0x	0,6x	0,2x	0,0x
Debt / Assets (%)	12,3%	15,2%	15,8%	15,5%	12,7%	8,8%	5,0%	1,3%
Leverage ratio (Assets / Equity) (x)	1,9x	2,2x	2,0x	2,0x	2,0x	1,9x	1,8x	1,7x
EBITDA / Interest coverage (x)	-5,6x	-0,7x	1,8x	5,2x	6,7x	10,4x	18,7x	73,4x

Source: Company data, Espirito Santo Investment Bank Research for estimates

Cash Flow

Figure 29 Sygnity – Cash Flow

Sygnity - Cash Flow (PLN m)	2009	2010	2011/12	2013E	2014E	2015E	2016E	2017E
Net income	**-103**	**-44**	**-14**	**9**	**13**	**17**	**18**	**19**
Depreciation and Amortization	34	27	26	18	18	18	18	18
Change in Net Working Capital	134	-22	11	-35	-3	-3	-1	-1
Other	-5	11	14	0	0	0	0	0
Cash Flow from Operations	**2**	**5**	**39**	**-9**	**28**	**32**	**34**	**36**
Capital Expenditures	-6	-10	-28	-19	-19	-19	-19	-19
Other	30	3	3	0	0	0	0	0
Cash Flow from Investing Activities	**23**	**-7**	**-25**	**-19**	**-19**	**-19**	**-19**	**-19**
Change in Debt	-103	-1	-9	-3	-10	-15	-15	-15
Issue of shares	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	-9
Other	-8	-3	-25	0	0	0	0	0
Cash Flow from Financing Activities	**-42**	**-4**	**-35**	**-3**	**-10**	**-15**	**-15**	**-24**
Beginning cash	88	72	67	47	16	15	13	13
Increase/(decrease) in cash	-16	-5	-21	-30	-1	-2	0	-7
Ending cash	**72**	**67**	**47**	**16**	**15**	**13**	**13**	**6**
DPS (PLN)	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,8**

Source: Company data, Espirito Santo Investment Bank Research for estimates

Valuation Methodology

We value the stock using two methods: DCF and peer valuation. The final fair value is a weighted average of these two methods, where each has a 50% weight.

Risks to Fair Value

- Postponement or cancellation of IT contracts in the public sector;
- Further top-line decline
- delays in execution of eTax contract;
- Margin pressure in the market;
- Failure of bond rollover in March 2013 or more expensive than expected rollover of bond financing;
- salary pressure among IT specialists.

Sygnity *SGN PW*

Report date		Recommendation	Fair value	Share price
2012	March 28	Buy	PLN 28.00	PLN 22.00

Source: Bloomberg, Espirito Santo Investment Bank Research

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TRADING BUY	Analyst expects a positive short-term movement in the share price (max duration 2 months from the time Trading Buy is announced) and may move out of line with the fair value estimate during that period
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12 Month Rating:					
Buy	222	45.3%	29	53.%	5.9%
Neutral	171	34.9%	17	31.5%	3.5%
Sell	91	18.6%	5	9.3%	1.0%
Restricted	5	1.0%	3	5.6%	0.6%
Under Review	0	0.0%	0	0.0%	0.0%
Trading Rating:					
Trading Buy	1	0.2%	0	0.0%	0.0%
Trading Sell	0	0.0%	0	0.0%	0.0%
Total recommendations	490	100%	54	100%	11.0%

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