

Sygnity

Moving in the right direction

We maintain our BUY rating on Sygnity and increase our FV to PLN 24 (from PLN 20.9) due to better than previously expected profitability and cost control (we estimate an avg 2013E-15E gross margin of 20.8% vs 20.1% previously and a SG&A ratio of 15.3% vs 16.5% prev.), which we see as sustainable. We think the 2Q13 results published on May 20th demonstrated that Sygnity is moving in the right direction and has managed to optimize costs and improve its revenue mix, resulting in higher profitability. In our view, it should be able to monetize through operating leverage when top line growth starts to pick up, which could happen when the eTax project enters its peak phase in 2014-15. Additionally, we see Sygnity as a real competitor and potential candidate to win at least one module worth ca. PLN 50-60m in the ZUS tender. Last but not least, with the recent issuance of PLN 40m in bonds, we think Sygnity should not be seen as a company with potential liquidity problems. We believe that the 2013-15 metrics presented in Sygnity's updated strategy in Autumn 2012 (avg annual revenues of PLN 550m, avg gross margin at 21.1%, avg EBIT margin at 6.2%, and avg net margin at 4.8%) still look demanding, but not as challenging as on the day of their announcement.

2Q13 results - another quarter with gradual improvement in costs & margins: Sygnity's 2Q13 results (20th May) were 4% below our forecasts and market expectations on the top line, but above on EBITDA, EBIT and the bottom line. This was mostly due to the better revenue mix (increased contribution from higher-margin software) and low cost base (SG&A ratio at 17.3% vs 22% a year ago). The current backlog stands at PLN 140m for 2013 and PLN 185m for 2014. The CEO commented that the PLN 15m net income target for 2013 looks challenging (we exp. PLN 11m).

eTax contract to bring top-line recovery in 2014E/15E: On 1st Feb 2013, Sygnity signed an eTax contract worth PLN 232m gross to be executed within 96 months. We estimate an avg. EBIT margin for the project of 5-10%. The contract is on track and while management previously expected to book ca. PLN 7-8m in revenues in 2013, Sygnity now expects to double that amount. Sygnity also expects to book ca. 60% of total contract revenues (PLN 110m out of PLN 180m net) within the next 3 years, which would imply ca. PLN 50m per year in 2014/15 and gives ca. 10% of incremental pre-eTax top-line base.

ZUS to be a potential trigger: The ZUS tender is currently the biggest in the Polish IT market, with a total budget of ca. PLN 700m divided into five modules. The biggest are for the maintenance & development of KSI core IT system and amount to PLN 200m and PLN 300m, respectively, while the remaining four modules are each worth PLN 50-60m. Sygnity placed bids for the development of KSI and three smaller modules. As the contract is very big and lucrative for the IT sector, there is also stiff competition. However, we think that Sygnity has an advantage because it co-operates with a big international player (Indra Sistemas, IDR SM, Eur 10.5, NEUTRAL, FV Eur 8.6) and already has experience with one module - the development of an information portal worth PLN 50-60m (Sygnity created the portal). We expect Sygnity to win at least one out of the three smaller modules and note that winning the contract for the development of KSI (budget of PLN 300m) would be a real revenue booster within the next four years.

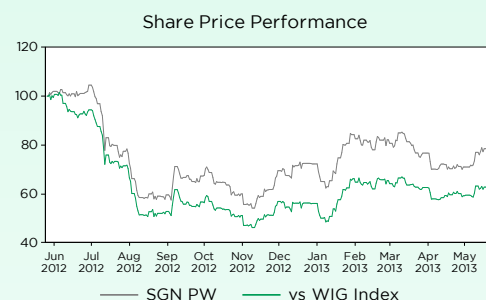
**Note: Sygnity has changed its financial year and now it starts in October. The 2011 financial year has been combined with 2012, counted as '7Q' and finished in September 2012. 2Q13 results reported on 20th May*

BUY 48% upside
Fair Value PLN 24.00

Bloomberg ticker **SGN PW**
Share Price PLN 16.20
Market Capitalisation PLN 187.73m
Free Float 100%

PLN m Y/E 30-Sep	2010A	2011A	2013E	2014E
Revenues	524.0	870.6	457.0	513.0
EBITDA	(7.5)	26.4	37.2	45.9
EBIT	(34.3)	(1.2)	19.5	28.5
Net income	(42.6)	(11.5)	11.2	18.7
Net debt	7.3	16.5	29.6	25.1

Y/E 30-Sep	2010A	2011A	2013E	2014E
P/E	(4.2)	(13.7)	16.7	10.0
EV/EBITDA	(24.8)	6.5	5.8	4.6
net debt/EBITDA	(1.0)	0.6	0.8	0.5
EBIT margin	(6.5%)	(0.1%)	4.3%	5.6%
Net margin	(8.1%)	(1.3%)	2.5%	3.6%



All share price data as at close on 24-May-2013

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

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Summary Financial Information

Sygnity

Rating	BUY
Fair Value (PLN):	24.0
Share Price (24/05/2013, PLN):	16.2
Upside / Downside potential	48%
Previous Fair Value (PLN):	20.9
% change to fair value	15%

Bloomberg	SGN PW
Reuters	COMM.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

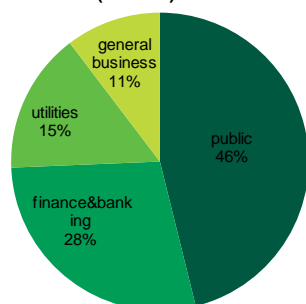
Forthcoming Catalysts

Shortlist announcement on ZUS tender	Jun-13
3Q13 results	14th August 2013

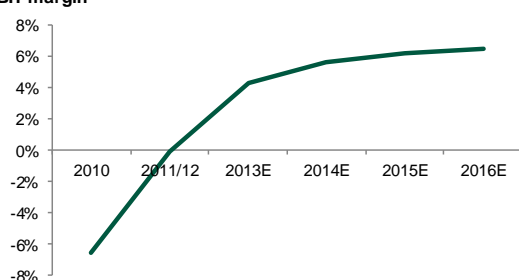
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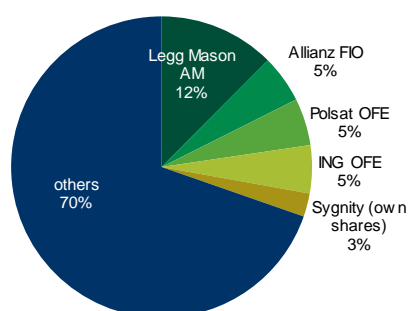
Revenues Breakdown (2011/12)



EBIT margin



Shareholder structure (March 2013)



Valuation Metrics	2010	2011/12	2013E	2014E	2015E	2016E
Recurrent P/E (x)	(4.7)	(13.7)	16.7	10.0	7.1	6.7
Reported P/E (x)	(4.2)	(13.7)	16.7	10.0	7.1	6.7
EV / Sales (x)	0.4	0.2	0.5	0.4	0.4	0.3
EV / EBITDA (x)	(24.8)	6.5	5.8	4.6	3.8	3.0
EV / EBIT (x)	(5.4)	(144.5)	11.1	7.5	5.7	4.4
FCF Yield (%)	-2.7%	6.7%	-7.0%	2.4%	9.0%	22.5%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Key Ratios	2010	2011/12	2013E	2014E	2015E	2016E
EBITDA margin	-1.4%	3.0%	8.1%	9.0%	9.3%	9.7%
EBIT margin	-6.5%	-0.1%	4.3%	5.6%	6.2%	6.5%
Capex / Revenue (x)	1.9%	3.2%	3.0%	3.0%	3.0%	3.0%
Capex / Depreciation (x)	0.4	1.1	0.8	0.9	1.0	0.9
Net Debt / EBITDA (x)	(1.0)	0.6	0.8	0.5	0.2	(0.7)
ROA	-8.7%	-2.9%	2.9%	4.4%	6.3%	6.4%
ROE	-18.9%	-5.6%	5.9%	9.2%	12.0%	11.3%

P&L Summary (PLN m, unless stated)

	2010	2011/12	2013E	2014E	2015E	2016E
Revenue	524	871	457	513	550	535
% change	-8%	66%	-48%	12%	7%	-3%
EBITDA	(7)	26	37	46	51	52
% change	-87.6%	-453.2%	40.8%	23.3%	11.8%	1.0%
% margin	-1.4%	3.0%	8.1%	9.0%	9.3%	9.7%
Depreciation & Amortisation	(27)	(26)	(18)	(17)	(17)	(17)
EBIT reported	(34)	(1)	20	29	34	35
EBIT adjusted	-29	-1	20	29	34	35
% margin	-5.6%	-0.1%	4.3%	5.6%	6.2%	6.5%
Net Financials	(9)	(13)	(7)	(5)	(1)	(0)
Other Pre-tax Income	(0.4)	(0.0)	0.0	0.0	0.0	0.0
Pre-Tax Profit	(44)	(14)	13	23	33	35
Income Tax Expense	1	3	2	4	6	7
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(43)	(11)	11	19	27	28
Recurrent Net Income	(38)	(11)	11	19	27	28
Reported EPS (PLN)	(3.6)	(1.0)	1.0	1.6	2.3	2.4
Recurrent EPS (PLN)	(3.2)	(1.0)	1.0	1.6	2.3	2.4
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0
Payout Ratio	0%	0%	0%	0%	100%	200%
Shares in Issue (Less Treasury) (m)	11.9	11.6	11.6	11.6	11.6	11.6

Cash Flow Summary (PLN m)

	2010	2011/12	2013E	2014E	2015E	2016E
Net income	(44)	(14)	11	19	27	28
D&A	27	26	18	17	17	17
Change in Working Capital	(22)	11	(28)	(16)	(10)	13
Other Operating Cash Flow	11	14	0	0	0	0
Operating Cash Flow	5	39	1	20	33	58
Capital Expenditure	(10)	(28)	(14)	(15)	(16)	(16)
Free Cash Flow	(5)	11	(13)	5	17	42
Acquisitions & Disposals	3	3	0	0	0	0
Dividend Paid to Shareholders	0	0	0	0	0	0
Equity Raised / Bought Back	0	(5)	0	0	0	0
Other Financing Cash Flow	(4)	(29)	(13)	10	(40)	(10)
Net Cash Flow	(5)	(21)	(26)	15	(23)	32

Balance Sheet Summary (PLN m)

	2010	2011/12	2013E	2014E	2015E	2016E
Cash & Equivalents	71	50	24	39	16	48
Fixed Assets	224	239	234	232	231	230
Associates & Financial Investments	2	1	0	0	0	0
Other Assets	193	129	152	173	189	178
Total Assets	488	398	394	427	419	439
Interest Bearing Debt	74	63	50	60	20	10
Other Liabilities	186	130	149	162	175	178
Total Liabilities	260	193	199	222	195	188
Shareholders' Equity	225	203	192	203	222	248
Minority Interests	2	2	2	2	2	2
Total Equity	227	206	194	205	224	251
Net Debt	7	17	30	25	8	(34)

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



2Q13 results review – seeing positive trends

Sygnity's 2Q13 results (reported on May 20th) were 4% below our estimates and market expectations on the top line, but above on EBITDA, EBIT and the bottom line. This was mostly due to a better revenue mix (higher contribution from higher-margin software) and low cost base (SG&A ratio at 17.3% vs 22% a year ago). Sygnity's management says it is happy with the development of the eTax contract and expects 60-65% of total revenues (PLN 110-120m out of PLN 180m) to be booked by the end of 2015. The current backlog for 2013 stands at PLN 140m and for 2014 it stands at PLN 185m. The CEO commented that the PLN 15m net income target for 2013 looks challenging (we expect PLN 11m).

Figure 1 Sygnity – quarterly results

(PLN m)	1Q11	2Q11	3Q11	4Q11	5Q11/12	6Q11/12	7Q11/12	1Q13	2Q13	% YoY	Cons	ESIBR
Revenues	112.0	106.5	129.2	218.3	108.1	100.7	95.7	165.6	96.7	-11%	108.8	101.9
Gross income	22.9	16.4	26.1	31.8	19.7	17.7	21.1	31.4	20.1	2%		19.4
gross margin	20.4%	15.4%	20.2%	14.6%	18.2%	17.6%	22.0%	19.0%	20.8%			19.0%
EBITDA	5.9	4.2	4.4	8.9	0.4	0.3	1.2	13.6	8.0	2159%		6.0
EBITDA margin	5.2%	4.0%	3.4%	4.1%	0.3%	0.3%	1.3%	8.2%	8.3%			5.9%
D&A	4.5	4.0	3.1	3.8	3.9	2.9	4.2	4.5	4.4	12%		4.5
EBIT	1.4	0.2	1.4	5.1	-3.6	-2.7	-3.0	9.1	3.7	n.a.	1.2	1.5
EBIT margin	1.2%	0.2%	1.1%	2.3%	-3.3%	-2.6%	-3.1%	5.5%	3.8%		1.1%	1.5%
Net income	-1.2	1.4	1.3	6.7	-6.3	-3.5	-4.2	7.2	1.1	-117%	-0.5	0.8
Net profit margin	-1.0%	1.3%	1.0%	3.1%	-5.8%	-3.5%	-4.4%	4.3%	1.1%		-0.5%	0.8%

Source: Espirito Santo Investment Bank Research for estimates, Company Data, PAP for consensus estimates

Key points from 2Q13 results

- Sygnity's revenues dropped by 11% yoy and reached PLN 97m as a result of the company's strategy of exiting from low-margin contracts. Software&services revenues reached PLN 84m and accounted for 87% of total revenues. When looking at the revenue breakdown by client, the public segment was the biggest, delivering 55% of total revenues, followed by Finance & Banking with 30% and utilities with 16%. The backlog for 2013 amounts to PLN 140m and to PLN 185m for 2014 (a substantial part of the 2014 backlog is related to eTax).
- As a result of the improving revenue mix (higher contribution from software), the gross margin improved yoy and reached 20.8% in 2Q13 versus 18.2% a year ago. Additionally, Sygnity continued to optimize its cost base and SG&A costs reached PLN 17.5m with a SG&A ratio of 17.3% vs 22% a year ago.
- The cash balance reached PLN 18.5m while net debt was PLN 36m. As we expected, operating cash flow in 2Q13 was strongly in the red, at PLN -47m, as a result of a qoq change in working capital of PLN -55m from high base last quarter.

Figure 2 Sygnity - revenue structure & efficiency ratios

	1Q11	2Q11	3Q11	4Q11	5Q11/12	6Q11/12	7Q11/12	1Q13	2Q13	YoY
Revenues by segments (PLN m)	112.0	106.5	129.2	218.3	108.1	100.7	95.7	165.6	96.7	-11%
SOFTWARE & SERVICES	102.9	96.7	103.6	142.9	96.0	94.9	83.7	134.8	84.1	-12%
<i>software & licences</i>	10.9	19.3	17.6	40.8	13.0	20.6	7.6	37.7	7.9	-40%
<i>integration</i>	60.2	47.6	55.4	66.6	58.8	50.6	48.9	70.8	51.2	-13%
<i>service</i>	31.4	29.4	29.7	35.3	23.3	22.7	25.8	25.7	24.6	6%
<i>other services</i>	0.5	0.4	0.8	0.2	0.9	1.0	1.4	0.6	0.5	-44%
HARDWARE & GOODS	9.1	9.8	25.6	75.4	12.2	5.8	12.1	30.8	12.6	3%
<i>hardware</i>	8.4	9.6	24.7	73.2	3.9	5.3	10.8	30.1	12.1	210%
<i>other goods</i>	0.6	0.2	0.9	2.1	8.3	0.5	1.2	0.7	0.5	-94%
Efficiency ratios (%)										
Gross margin	20.4%	15.4%	20.2%	14.6%	18.2%	17.6%	22.0%	19.0%	20.8%	
SG&A ratio	19.5%	14.8%	19.1%	11.8%	22.1%	21.7%	24.5%	12.0%	17.3%	

Source: Espirito Santo Investment Bank Research, Company Data

Key takeaways from 2Q13 results and the analyst conference call:

- On cost cutting - Sygnity still sees some room for further optimization, especially in the area of office space, which could potentially bring a few hundred-thousand PLN in annual savings, according to management. In terms of headcount, management sees the current level as adequate for Sygnity's needs. If there are short-term needs related to peak season for the eTax contract, they will be managed through outsourcing.
- On the eTax contract - The project is on track and Sygnity says that the cooperation with the Ministry of Finance is going well and it expects to book more revenues in 2013 than previously anticipated (ca. PLN 15m vs the initial target of PLN 8m). However, the invoice for the first stage in eTax will be issued in December 2013 and cash inflow is within 30 days. Hence, the cash impact will be recognized in 2014 while in 2013 eTax will be cash negative for Sygnity. The CFO believes that the eTax contract will be cash positive starting from 2014. Around 60-65% of total revenues (ca. PLN 110-120m out of PLN 180m) should be booked by the end of 2015. Sygnity is working currently to prolong payment agreements with eTax suppliers, which would improve its cash management related to eTax.
- On 2013-2015 financial targets - Sygnity is still below the 2013-15 financial targets presented in its strategy plan. However, the CFO believes that visible improvement in profitability is sustainable and the company should be able to deliver on all metrics (avg 2013-15 revenues of PLN 550m, avg gross margin at 21.1%, avg EBIT margin at 6.2% and avg net margin at 4.8%).
- On the stock option program - the CEO thinks that the PLN 15m net income target for 2013 written into the stock option plan looks challenging for Sygnity. Management does not plan to launch a share buyback program for the stock option plan.
- On the ZUS tender - Sygnity says it is determined to compete and succeed in the ZUS tender. Out of six announced modules, Sygnity says it feels the strongest in three smaller modules (Information portal, data warehouse and central registry of clients), each worth PLN 50-60m, but Sygnity has placed a bid for all modules. The announcement of shortlisted candidates is expected in June

The continued erosion of the revenue base should not be cause for concern, in our view, as it is mainly due to lower margin contracts, as can be seen in the growing gross margin. We appreciate Sygnity's ability to further optimize its cost base which should monetize in the future through operating leverage when the top line starts to pick up (also from the eTax



contract and the potential win of at least one module in the ZUS contract). We also note that current management (in contrast with the previous management team) seems to prefer a strategy of small steps, which should bring slower but gradual and long-lasting improvement, in our view. As we think the cost base looks well optimized already, the only factor for visible improvement in financials is to build up the revenue base. Among potential short-term catalysts for the stock, we see the announcement of ZUS contract winners as one of the most important. In our view, 2Q13 results offered further proof to the market (after good 1Q13 results and the rollover of PLN 63m in bonds) that Sygnity's turnaround is really on track.

The rest of 2013 should be comparable with a pick up in 2014

We believe that the positive trends that have been observed in 1-2Q13 will continue in the coming quarters in 2013. We expect Sygnity to continue keeping costs under control and improving its revenue mix. However, as the eTax contract will not contribute visibly in 2013 (exp PLN 15m) and some of the old revenues still need restructuring, we expect the top-line to remain around PLN 100m in 3-4Q13 but with continued improving profitability and efficiency.

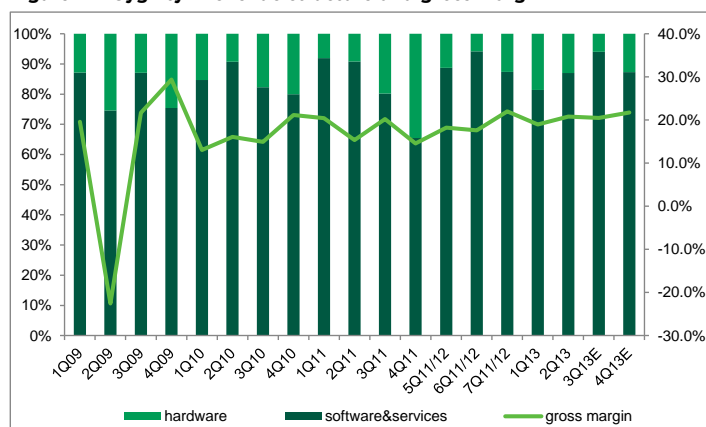
Figure 3 Sygnity – quarterly results

(PLN m)	1Q11	2Q11	3Q11	4Q11	5Q11/12	6Q11/12	7Q11/12	1Q13	2Q13	3Q13E	4Q13E
Revenues	112.0	106.5	129.2	218.3	108.1	100.7	95.7	165.6	96.7	98.9	95.8
Gross income	22.9	16.4	26.1	31.8	19.7	17.7	21.1	31.4	20.1	20.2	20.8
gross margin	20.4%	15.4%	20.2%	14.6%	18.2%	17.6%	22.0%	19.0%	20.8%	20.5%	21.7%
EBITDA	5.9	4.2	4.4	8.9	0.4	0.3	1.2	13.6	8.0	7.5	7.9
EBITDA margin	5.2%	4.0%	3.4%	4.1%	0.3%	0.3%	1.3%	8.2%	8.3%	7.6%	8.3%
D&A	4.5	4.0	3.1	3.8	3.9	2.9	4.2	4.5	4.4	4.3	4.3
EBIT	1.4	0.2	1.4	5.1	-3.6	-2.7	-3.0	9.1	3.7	3.1	3.6
EBIT margin	1.2%	0.2%	1.1%	2.3%	-3.3%	-2.6%	-3.1%	5.5%	3.8%	3.2%	3.7%
Net income	-1.2	1.4	1.3	6.7	-6.3	-3.5	-4.2	7.2	1.1	1.4	1.7
Net profit margin	-1.0%	1.3%	1.0%	3.1%	-5.8%	-3.5%	-4.4%	4.3%	1.1%	1.4%	1.7%

Source: Espirito Santo Investment Bank Research, Company Data

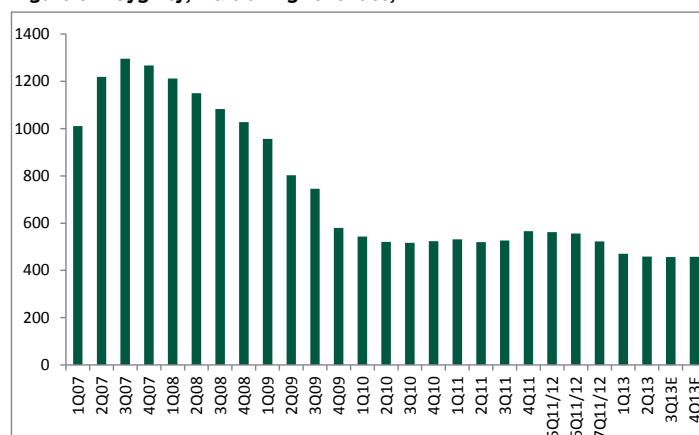
As we already pointed out, optimized opex and backoffice costs should allow for a top-line pick up in 2014 and earnings expansion through operating leverage.

Figure 4 Sygnity – revenue structure and gross margin



Source: Espirito Santo Investment Bank Research, Company Data

Figure 5 Sygnity, 4Q trailing revenues, PLN m



Source: Espirito Santo Investment Bank Research, Company Data



ZUS tender - Sygnity is in the game

In January 2013, ZUS (Polish Social Insurer) announced tenders for its IT systems. ZUS plans to divide IT spending into five tenders (modules): development of KSI, maintenance of KSI, data warehouse, development of document archive and client registry and development of a new information portal. ZUS estimates that the contract for development of the KSI system could be worth ca. PLN 300m, maintenance of KSI ca. PLN 200m, while remaining modules are ca. PLN 50-60m each. In total, based on this the total tenders to be announced by ZUS could hypothetically be worth ca. PLN 700m. On the day of the announcement, ZUS commented that of the IT companies with the requisite skills are Asseco Poland, Comarch, Sygnity, HP and IBM. The ZUS tender is currently the biggest in the Polish IT market and therefore the competition is expected to be quite strong. However, we believe that Sygnity is in a good position and a potential candidate to win at least one small module (PLN 50-60m).

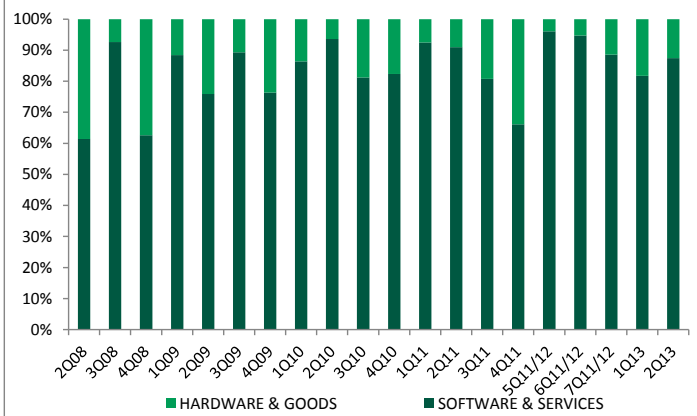
Below we provide more details about ZUS' IT tenders that are to be announced:

- Development of KSI core IT system - ZUS estimates it could be worth around PLN 300m and will last 48 months (ca. PLN 75m a year). ZUS plans to sign a contract with a minimum of three companies. Assessment criteria are: 40% - price and 60% - quality. Companies interested need to place a guarantee of PLN 8.8m. 5 bidders have currently submitted offers: (1) Asseco Poland, (2) consortium of Sygnity and Indra Sistemas, (3) consortium of AMG.net, Bull and Betacom, (4) consortium of HP and Kamssoft, and (5) Capgemini.
- Maintenance of KSI core IT system - the value of the contract is estimated at PLN 200m per year. Currently maintenance of KSI is carried out by Asseco Poland (based on an agreement signed in October 2010). ZUS hopes to finish it before October 2013, but if not, it will annex the existing agreement with Asseco Poland. Asseco Poland has placed the sole bid in the tender.
- Development of information portal - estimated value of contract at PLN 50-60m over 4 years. 6 bidders have submitted offers: (1) Asseco Poland, (2) Comarch, (3) Sygnity, (4) Infovide-Matrix, (5) HP, (6) consortium of AMG.net and Bull.
- Development of document archive and client registry - estimated value of contract at PLN 50-60m over 3 years. 7 bidders have submitted offers: (1) Asseco Poland, (2) consortium of Sygnity, Indra Sistemas and Ericpol, (3) HP, (4) consortium of AMG.net, Bull and Betacom, (5) Infovide-Matrix, (6) Comarch, (7) IBM.
- Data warehouse - Estimated value of ca. PLN 50-60m over 4 years. Sygnity is one of the 12 bidders.

Sygnity has placed bids in 4 out of 5 modules, including the development of KSI worth PLN 300m. However, we see Sygnity as one of the strongest competitors in the module for development of the information portal in which it already has experience (Sygnity created that portal). The shortlisted bidders are expected to be announced in June and the winners sometime in Autumn. If Sygnity wins at least one smaller module, we estimate it could potentially increase annual yearly revenues by ca. PLN 12-15m (ca. 3% incremental revenues on top).

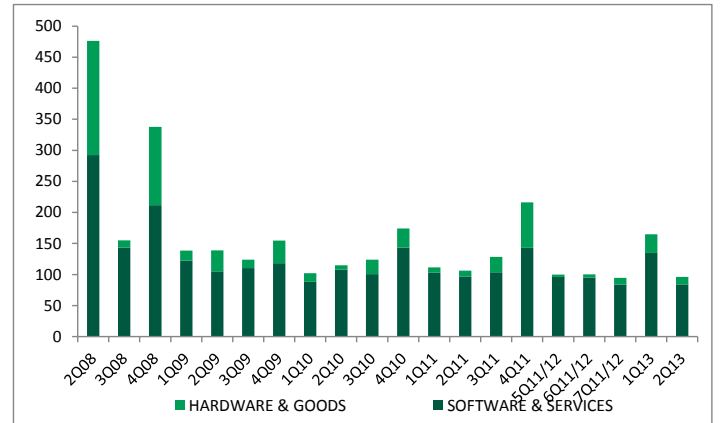


Figure 6 Sygnity - revenue structure by products (%)



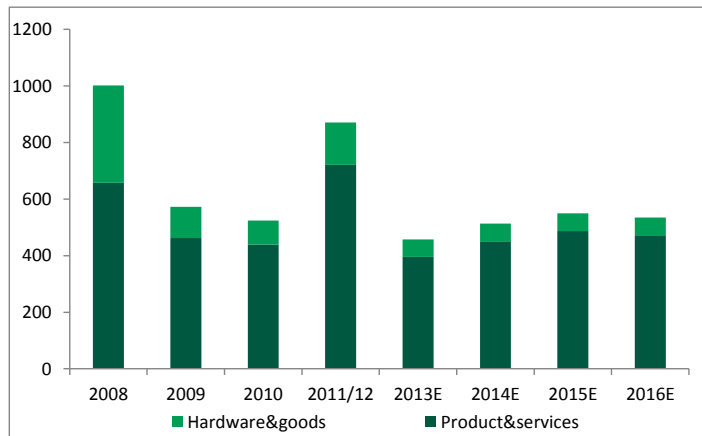
Source: Espirito Santo Investment Bank Research, Company Data

Figure 7 Sygnity - revenue structure by products, PLN m



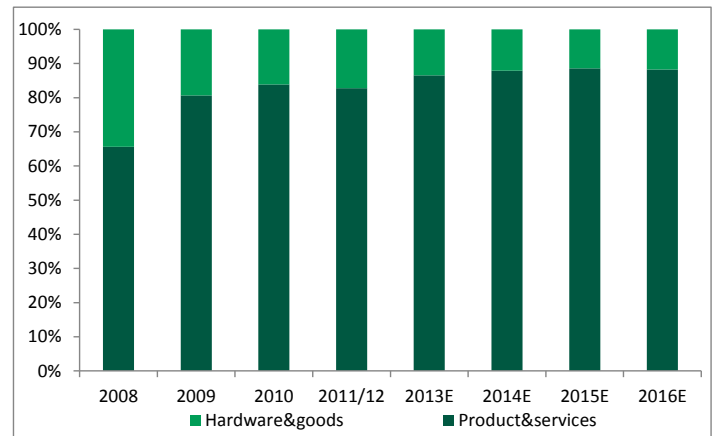
Source: Espirito Santo Investment Bank Research, Company Data

Figure 8 Sygnity - revenue structure by products, PLN m



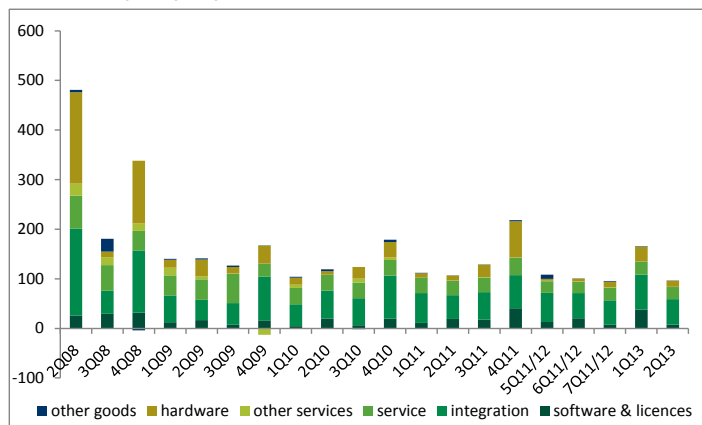
Source: Espirito Santo Investment Bank Research, Company Data

Figure 9 Sygnity - revenue structure by products (%)



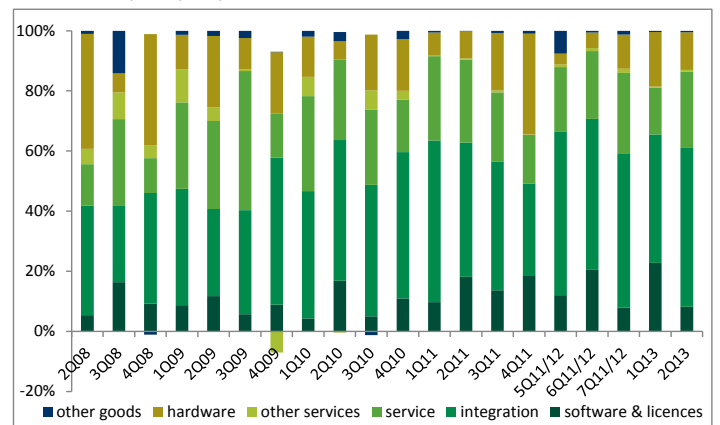
Source: Espirito Santo Investment Bank Research, Company Data

Figure 10 Sygnity - type of revenues, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

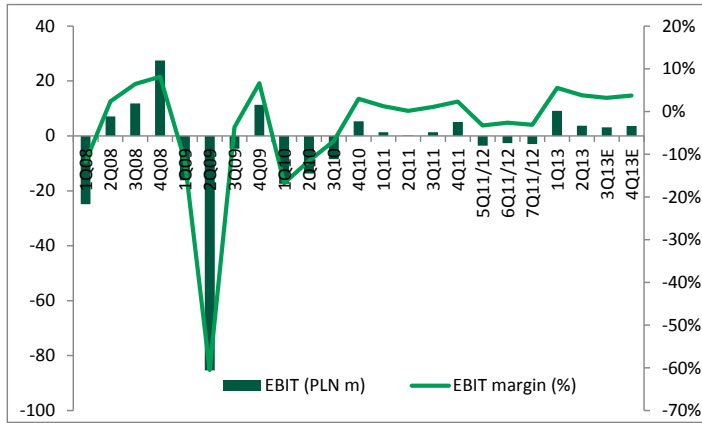
Figure 11 Sygnity - type of revenues (%)



Source: Espirito Santo Investment Bank Research, Company Data

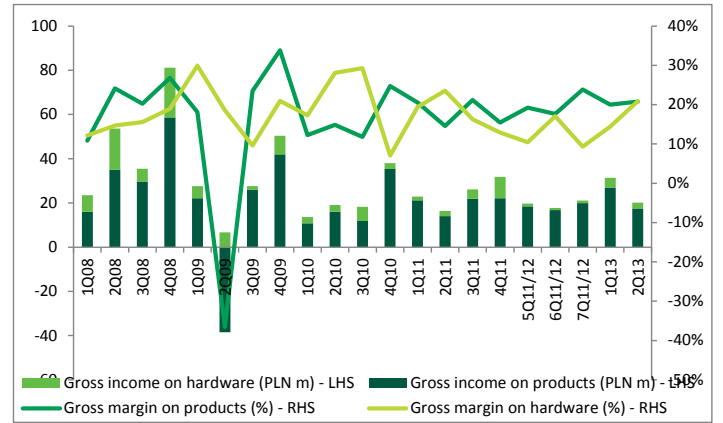


Figure 12 Sygnyty - EBIT & EBIT margin



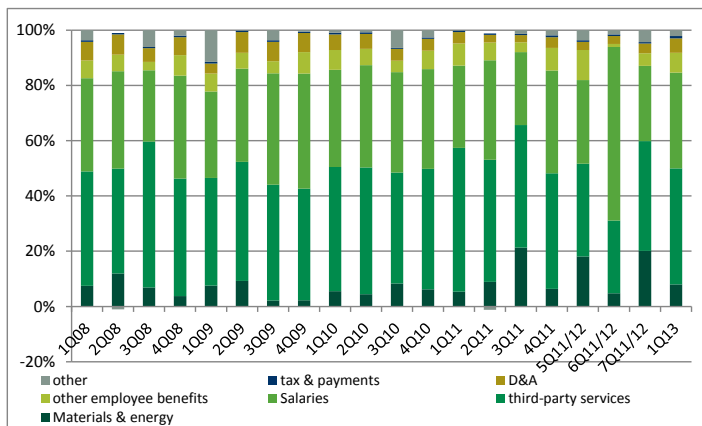
Source: Espirito Santo Investment Bank Research, Company Data

Figure 13 Sygnyty - gross income & margins by type



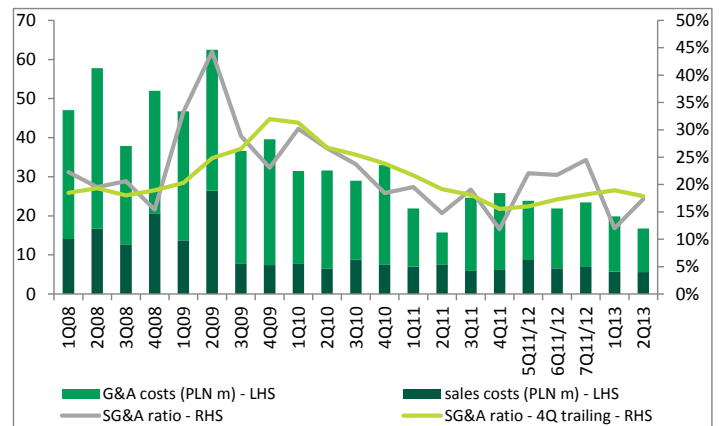
Source: Espirito Santo Investment Bank Research, Company Data

Figure 14 Sygnyty - costs by type



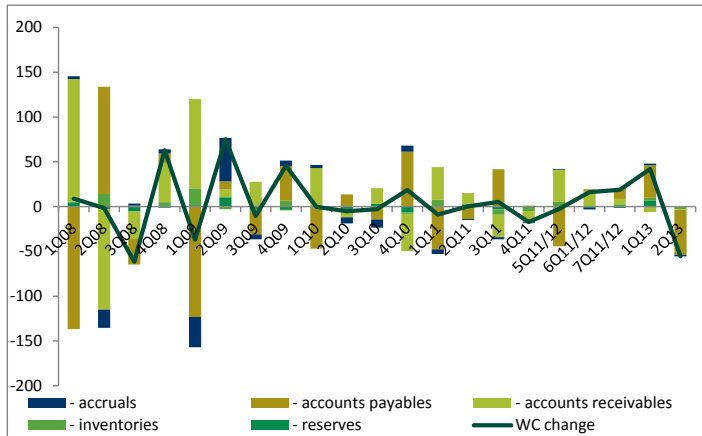
Source: Espirito Santo Investment Bank Research, Company Data

Figure 15 Sygnyty - SG&A costs



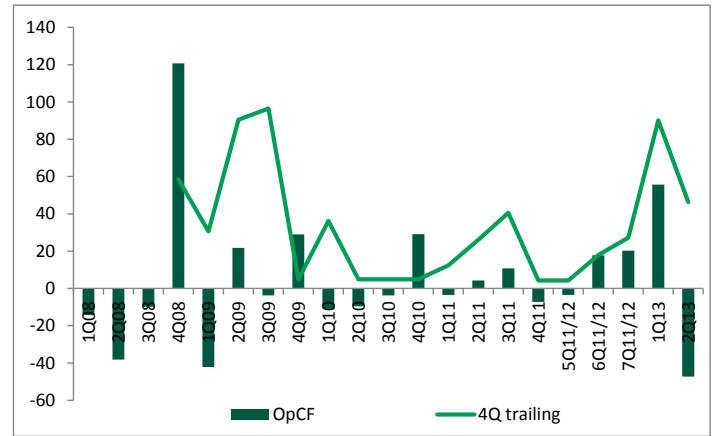
Source: Espirito Santo Investment Bank Research, Company Data

Figure 16 Sygnyty - structure and qoq changes in working capital, PLN m



Source: Espirito Santo Investment Bank Research, Company Data

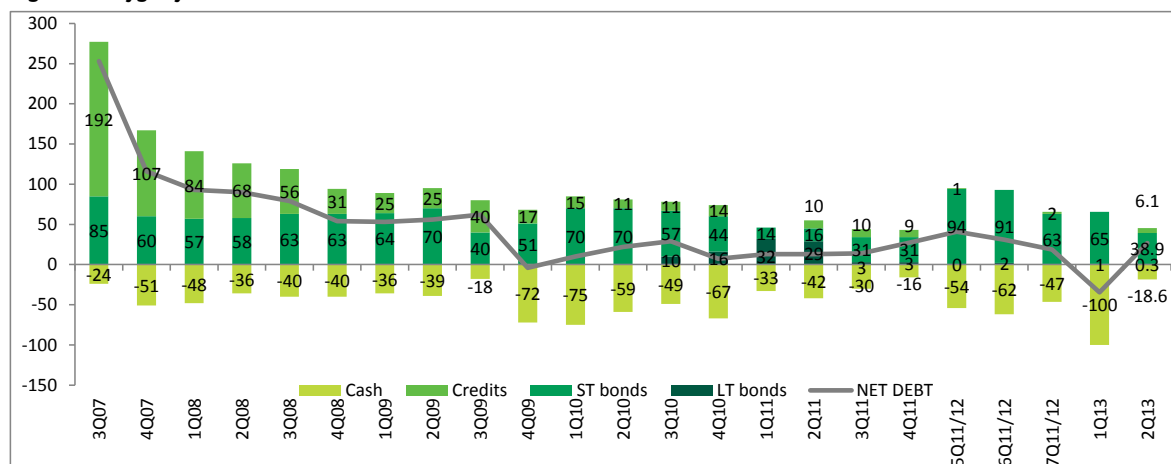
Figure 17 Sygnyty - Operating Cash Flow, PLN m



Source: Espirito Santo Investment Bank Research, Company Data



Figure 18 Sygnity - net debt. PLN m



Source: Espirito Santo Investment Bank Research, Company Data

Financial Forecasts

Changes to our estimates

Figure 19 Sygnity - changes to estimates

(PLN m)	2013E			2014E			2015E		
	New	Old	Change	New	Old	Change	New	Old	Change
Revenues	457	480	-5%	513	514	0%	550	547	0%
EBITDA	37	30	24%	46	37	24%	51	40	28%
EBIT	20	13	50%	29	19	50%	34	22	55%
Net income	11	9	25%	19	13	44%	27	17	56%

Source: Espirito Santo Investment Bank Research for estimates

ESIBR versus Bloomberg consensus

We believe there is potential for consensus estimate upgrades on the back of solid 2Q13 results, a gradual improvement in costs and margins and potential incremental revenues from the ZUS contract if it is won.

Figure 20 Sygnity - ESIBR vs Bloomberg consensus

(PLN m)	2013E			2014E			2015E		
	ESIBR	BBG	% diff	ESIBR	BBG	% diff	ESIBR	BBG	% diff
Revenues	457	486	-6%	513	535	-4%	550	581	-5%
EBITDA	37	32	18%	46	38	19%	51	44	16%
EBIT	20	13	53%	29	19	49%	34	24	40%
Net income	11	6	94%	19	10	84%	27	15	73%

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

VALUATION

Valuation summary

We value Sygnity using two methods: DCF and peer multiples versus Polish and international peers. The final value is an average of three with equal 33% weightings for each (previously it was 50% DCF/50% peers). Based on a DCF we derive a fair value of PLN 22.8 per share while based on a Polish IT peer the valuation is PLN 23.2 per share while on international peers it is PLN 26.7 per share. Our fair value is PLN 24.0, implying 48% 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 2013E-2022E;
- Net debt at the end of 2013E
- Risk free rate during FCF projections is set at 3.8% vs 4% before, as result of recent interest rate cuts,



- Terminal growth rate of FCF at 1% (vs 3% before) and a beta of 1.2 to reflect Sygny's above-average risk profile related to strategy execution;

Figure 21 Sygny - DCF

DCF Valuation												
(PLN m)	2011/12	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	>2022
EBIT	-1.2	19.5	28.5	34.1	34.7	36.6	37.4	38.2	39.1	39.4	39.8	
tax rate	18%	13%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
NOPAT	-1.0	17.0	23.1	27.6	28.1	29.6	30.3	31.0	31.7	32.0	32.2	
Depreciation	26.4	17.7	17.4	17.2	17.2	17.1	17.0	17.0	16.9	16.9	16.9	
CAPEX	-28.3	-13.7	-15.4	-16.5	-16.1	-16.2	-16.3	-16.5	-16.6	-16.8	-16.9	
Change of Working Capital	4.5	-28.3	-16.2	-10.4	13.1	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	
FCF	1.6	-7.3	8.9	18.0	42.3	29.6	30.0	30.5	30.9	31.1	31.2	
FCF change	-93%	n.a.	n.a.	101%	136%	-30%	1%	2%	2%	0%	0%	1%
WACC Calculation												
debt/equity	15.8%	12.7%	14.1%	4.8%	2.3%	2.2%	2.1%	2.1%	2.0%	1.9%	1.8%	1.8%
risk free rate	5.5%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
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%	9.4%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%	8.7%
cost of capital	11.0%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
WACC	10.9%	9.8%	9.7%	9.7%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
PV (FCF)	1.6	(7.1)	7.9	14.4	31.0	19.7	18.2	16.8	15.6	14.2	13.0	
PV (FCF)												144
PV (RV)												150
net debt, end 2013E												30
Fair Value												264
# of shares												11.6
Fair Value/share												22.8

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

Sensitivity analysis

Figure 22 Sygny - sensitivity table

Sensitivity Table																
		WACC							WACC							
		7.8%	8.3%	8.8%	9.8%	10.8%	11.8%	12.8%	7.8%	8.3%	8.8%	9.8%	10.8%	11.8%	12.8%	
TGR	-1%	22.6	21.9	21.3	20.2	19.3	18.6	17.9	-1%	-1%	-4%	-7%	-11%	-15%	-19%	-21%
	0%	24.4	23.5	22.7	21.4	20.3	19.4	18.7	0%	7%	3%	-1%	-6%	-11%	-15%	-18%
	1%	26.7	25.5	24.5	22.8	21.5	20.4	19.5	1%	17%	12%	7%	0%	-6%	-11%	-14%
	2%	29.8	28.2	26.8	24.6	23.0	21.6	20.5	2%	30%	23%	18%	8%	1%	-5%	-10%
	3%	34.2	31.9	30.0	27.0	24.8	23.1	21.7	3%	50%	40%	31%	18%	9%	1%	-5%

Source: Espirito Santo Investment Bank Research for estimates

Figure 23 Sygny - 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%	11.4	13.1	14.8	16.5	18.3	20.0	21.7	-3%	-50%	-43%	-35%	-27%	-20%	-12%	-5%
	-2%	12.9	14.7	16.6	18.5	20.3	22.2	24.0	-2%	-44%	-35%	-27%	-19%	-11%	-3%	6%
	-1%	14.5	16.5	18.5	20.5	22.5	24.6	26.6	-1%	-36%	-28%	-19%	-10%	-1%	8%	17%
	0%	16.2	18.4	20.6	22.8	25.0	27.1	29.3	0%	-29%	-19%	-10%	0%	10%	19%	29%
	1%	18.2	20.5	22.9	25.2	27.6	30.0	32.3	1%	-20%	-10%	0%	11%	21%	31%	42%
	2%	20.2	22.8	25.3	27.9	30.4	33.0	35.5	2%	-11%	0%	11%	22%	34%	45%	56%
	3%	22.5	25.3	28.0	30.8	33.5	36.3	39.0	3%	-1%	11%	23%	35%	47%	59%	71%

Source: Espirito Santo Investment Bank Research for estimates



Peer valuation

Figure 24 Sygnyty - peer valuation, as of 24/05/2013

Company	Ticker	CAGR 3YF		EV/EBITDA			P/E			EBITDA margin		
		revenues	EBITDA	1YE	2YE	3YE	1YE	2YE	3YE	1YE	2YE	3YE
Microsoft	msft us	6.8%	6.8%	7.0	6.4	5.9	12.2	11.1	10.4	40.9%	41.6%	42.0%
Oracle	orcl us	3.8%	8.2%	7.9	7.2	6.7	12.1	11.3	10.6	48.9%	50.7%	51.9%
SAP	sap gr	9.5%	16.8%	11.8	10.4	9.1	18.2	15.9	14.0	34.9%	36.0%	37.6%
Accenture	acn us	3.5%	6.4%	10.5	10.1	9.5	18.3	17.7	16.6	16.7%	16.3%	16.3%
IBM	ibm us	1.5%	7.8%	8.9	8.5	7.9	12.4	11.8	11.1	26.9%	27.6%	28.8%
Atos Origin	ato fp	1.8%	6.9%	4.5	4.2	4.0	11.3	10.2	9.5	11.3%	11.7%	12.0%
Cap Gemini	cap fp	0.0%	0.0%	5.3	4.9	4.6	12.7	11.4	10.4	10.0%	10.3%	10.7%
Indra Sistemas	idr sm	2.7%	9.0%	8.3	7.6	7.2	12.4	10.8	10.0	9.6%	10.2%	10.4%
Tieto	tie1v fh	-0.9%	7.4%	5.1	4.8	4.6	11.0	10.0	9.5	12.9%	13.8%	13.9%
Software AG	sow gr	3.4%	4.3%	8.2	7.5	6.7	14.6	13.2	11.7	26.6%	27.5%	28.6%
Dassault Systemes	dsy fp	8.6%	15.9%	14.3	12.5	11.0	26.0	22.8	20.7	33.4%	34.8%	35.7%
Sage	sge ln	3.7%	4.7%	10.8	10.4	9.8	16.4	15.6	14.7	29.6%	30.0%	30.1%
Hewlett-Packard	hpq us	-3.5%	-1.2%	4.4	4.4	4.4	6.9	6.8	6.6	12.6%	12.8%	12.8%
Wincor Nixdorf	w in gr	3.7%	12.5%	7.8	7.0	6.5	17.0	13.7	12.2	8.0%	8.6%	9.0%
Unit4	unit4 na	6.2%	8.5%	9.3	8.2	7.3	17.9	14.5	11.9	20.1%	21.4%	22.4%
Sopra Group	sop fp	6.2%	9.1%	6.6	6.0	5.5	9.1	8.2	7.4	9.9%	10.3%	10.6%
Temenos	temn sw	7.4%	19.6%	12.0	10.6	9.3	21.1	17.2	14.3	30.1%	31.8%	33.3%
Swisslog Holding	slog sw	2.7%	18.6%	6.7	6.1	5.6	16.8	15.1	13.6	5.9%	6.1%	6.5%
Cognizant Tech Solution	ctsh us	16.1%	15.5%	9.3	8.0	7.0	14.7	12.8	11.2	20.4%	20.4%	20.3%
Intuit	intu us	8.7%	12.3%	9.4	8.5	7.8	16.9	15.5	13.9	36.8%	37.5%	37.7%
Infosys	infy us	9.1%	4.0%	9.5	8.9	8.7	0.3	0.2	0.2	26.7%	26.7%	24.8%
Fiserv	fisv us	5.5%	7.8%	9.8	9.1	8.7	15.7	14.2	12.8	32.3%	33.2%	33.5%
International Median		3.7%	8.0%	8.6	7.8	7.1	14.6	13.0	11.4	23.5%	24.0%	23.0%
International Average		4.8%	9.1%	8.5	7.8	7.2	14.3	12.7	11.5	22.8%	23.5%	23.8%
Sygnyty	sgn pw	n.a.	n.a.	5.3	4.3	3.8	32.6	18.5	12.3	6.5%	7.2%	7.6%
Comarch	cmr pw	1.4%	11.7%	6.4	6.0	5.5	19.4	12.1	11.1	11.6%	12.0%	12.8%
Asseco Poland	acp pw	2.5%	1.3%	6.0	6.0	5.9	9.5	9.9	9.5	15.6%	15.4%	15.3%
Asseco Central Europe	ace pw	3.6%	1.3%	2.9	2.9	2.9	32.9	31.8	33.2	20.4%	20.0%	19.2%
Comp	cmp pw	7.5%	70.1%	9.2	9.1	6.1	17.4	17.0	8.8	10.7%	10.8%	14.3%
ASEE	ase pw	3.6%	3.9%	5.6	5.5	5.4	9.1	9.0	8.8	14.0%	13.8%	13.7%
ABS	abs pw	2.7%	1.0%	8.0	7.6	7.9	15.1	13.8	14.4	29.8%	29.9%	27.6%
Domestic Median				6.0	6.0	5.5	17.4	13.8	11.1	14.0%	13.8%	14.3%
Domestic Average				6.2	5.9	5.3	19.4	16.0	14.0	15.5%	15.6%	15.8%
MEDIAN				7.7	6.7	7.2	14.9	12.5	11.2	16.5%	16.9%	19.2%
AVERAGE				8.0	7.3	6.7	15.5	13.5	12.1	21.2%	21.7%	22.0%
Sygnyty				5.8	4.6	3.8	16.7	10.0	7.1	8.1%	9.0%	9.3%
Sygnyty vs peers				-24%	-31%	-47%	12%	-20%	-37%	-51%	-47%	-51%

Source: Espirito Santo Investment Bank Research for Sygnyty 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	457	513	550	535	540
% YoY change	-43%	-8%	66%	-48%	12%	7%	-3%	1%
- software&services	462	440	721	396	451	487	472	477
- hardware&goods	111	84	150	61	62	63	63	63
Gross income	74	89	156	93	107	117	114	115
Gross margin	12.9%	16.9%	17.9%	20.3%	20.9%	21.2%	21.3%	21.4%
Sales costs	55	30	49	23	27	29	28	28
as % of revenues	9.7%	5.8%	5.7%	5.0%	5.3%	5.2%	5.2%	5.2%
G&A costs	130	95	108	48	51	54	51	51
as % of revenues	22.7%	18.1%	12.4%	10.5%	10.0%	9.8%	9.6%	9.4%
EBITDA	-60	-7	26	37	46	51	52	54
% YoY change	-204%	-88%	-453%	41%	23%	12%	1%	3%
% EBITDA margin	-10.5%	-1.4%	3.0%	8.1%	9.0%	9.3%	9.7%	9.9%
Financial income/(expense), net	-8	-9	-13	-7	-5	-1	0	1
Income tax	-14	1	3	2	4	6	7	7
Minority interest in earnings	0	0	0	0	0	0	0	0
Net income	-89	-43	-11	11	19	27	28	30
% YoY change		-52%	-73%	-198%	66%	42%	6%	8%
% net margin	-15.6%	-8.1%	-1.3%	2.5%	3.6%	4.8%	5.2%	5.6%
Recurrent Net Income	-46	-38	-11	11	19	27	28	30
% YoY change	295%	-19%	-70%	-198%	66%	42%	6%	8%
EPS (PLN)	-7.5	-3.6	-1.0	1.0	1.6	2.3	2.4	2.6
% YoY change		-52%	-72%	-198%	66%	42%	6%	8%
Recurrent EPS (PLN)	-3.9	-3.2	-1.0	1.0	1.6	2.3	2.4	2.6
% YoY change	295%	-19%	-69%	-198%	66%	42%	6%	8%

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%	8.1%	9.0%	9.3%	9.7%	9.9%
EBIT margin	-16.6%	-6.5%	-0.1%	4.3%	5.6%	6.2%	6.5%	6.8%
Net margin	-15.6%	-8.1%	-1.3%	2.5%	3.6%	4.8%	5.2%	5.6%
Effective Income Tax Rate	-13.5%	2.6%	18.2%	-12.9%	-19.0%	-19.0%	-19.0%	-19.0%
ROA	-16.2%	-8.7%	-2.9%	2.9%	4.4%	6.3%	6.4%	6.6%
ROE	-31.5%	-18.9%	-5.6%	5.9%	9.2%	12.0%	11.3%	11.6%

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	234	232	231	230	229
PP & E, and intangibles	229	209	221	217	215	215	214	213
Other fixed assets	32	15	18	16	16	16	16	16
Total current assets	291	264	159	160	196	188	209	228
Inventory	24	24	24	26	27	29	29	30
Trade and other receivables	171	156	88	110	129	143	132	134
Other current assets	24	17	1	4	4	4	4	4
Cash and equivalents	72	67	47	21	35	12	44	61
Total assets	552	488	398	394	427	419	439	457
Total stockholders equity	283	225	203	192	203	222	248	262
Including minority interest	2	2	2	2	2	2	2	2
Long-term liabilities	3	19	9	34	41	49	51	53
Long-term debt	0	16	0	0	0	0	0	0
Other long-term liabilities	3	2	9	34	41	49	51	53
Short-Term Liabilities	176	202	161	143	158	123	115	117
Accounts payable	98	137	95	90	95	100	102	104
Short-term debt	68	58	63	50	60	20	10	10
Other short-term liabilities	98	46	25	25	25	25	25	25
Total equity & liabilities	552	488	398	394	427	419	439	457
BVPS (PLN)	23.8	18.9	17.5	16.5	17.5	19.1	21.4	22.6

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	30	25	8	-34	-50
Net Debt / EBITDA (x)	0.1x	-1.0x	0.6x	0.8x	0.5x	0.2x	-0.7x	-0.9x
Debt / Assets (%)	12.3%	15.2%	15.8%	12.7%	14.1%	4.8%	2.3%	2.2%
Leverage ratio (Assets / Equity) (x)	1.9x	2.2x	2.0x	2.1x	2.1x	1.9x	1.8x	1.7x
EBITDA / Interest coverage (x)	-5.6x	-0.7x	1.8x	4.6x	7.1x	23.6x	47.4x	49.0x

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	11	19	27	28	30
Depreciation and Amortization	34	27	26	18	17	17	17	17
Change in Net Working Capital	134	-22	11	-28	-16	-10	13	-1
Other	-5	11	14	0	0	0	0	0
Cash Flow from Operations	2	5	39	1	20	33	58	46
Capital Expenditures	-6	-10	-28	-14	-15	-16	-16	-16
Other	30	3	3	0	0	0	0	0
Cash Flow from Investing Activities	23	-7	-25	-14	-15	-16	-16	-16
Change in Debt	-103	-1	-9	-13	10	-40	-10	0
Issue of shares	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	-14
Other	-8	-3	-25	0	0	0	0	0
Cash Flow from Financing Activities	-42	-4	-35	-13	10	-40	-10	-14
Beginning cash	88	72	67	47	21	35	12	44
Increase/(decrease) in cash	-16	-5	-21	-26	15	-23	32	16
Ending cash	72	67	47	21	35	12	44	61
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2

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

Valuation Methodology

We value the stock using a DCF and Polish and international peer valuations. The final fair value is a weighted average of these three methods, where each has a 33% weighting. Previously we used the average of two methods to value Sygnity: DCF and peer multiples, each with 50% weighting, where the peer valuation was the combined value of Polish and international peers. As Sygnity is purely a Polish-based IT company, we have now decided to split the peer valuation into Polish and international groups.

Risks to Fair Value

- Postponement or cancellation of IT contracts in the public sector;
- Further top-line decline;
- Delays in execution of the eTax contract;
- Margin pressure in the market;
- Salary pressure among IT specialists.
- Failure in execution of 2013-2015 strategy

Sygnity SGN PW



Report date	Recommendation	Fair value	Share price
2013 February 13	Buy	PLN 20.90	PLN 16.25
2012 March 28	Buy	PLN 28.00	PLN 22.00

Source: Bloomberg, Espirito Santo Investment Bank Research

Please visit our website at www.EspiritoSantoIB.co.uk for up to date recommendation charts.



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BUY	Analyst expects at least 10% upside potential to fair value, which should be realized in the next 12 months
NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months
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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	229	44.4%	28	60.9%	5.4%
Neutral	181	35.1%	14	30.4%	2.7%
Sell	99	19.2%	0	0.0%	0.0%
Restricted	5	1.0%	4	8.7%	0.8%
Under Review	1	0.2%	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	516	100%	46	100%	8.9%

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