

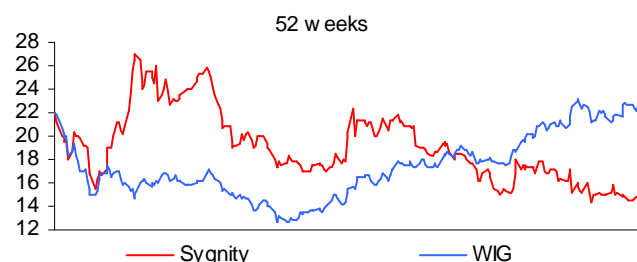
Company Report – IT Services – Poland – October 6, 2009

Sygnity

from Under review to Hold

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PLN mn	2008	2009e	2010e	2011e
Net sales	995.7	707.0	773.7	810.6
EBITDA	58.4	-64.4	31.6	33.4
EBIT	11.5	-94.2	5.5	8.8
Net result after min.	-1.5	-80.1	1.6	5.7
EPS (PLN)	-0.13	-6.74	0.14	0.48
CEPS (PLN)	3.91	-5.63	2.83	2.84
BVPS (PLN)	31.31	24.43	24.57	25.06
Div./share (PLN)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	5.5	-2.5	6.3	5.6
P/E (x)	nm	nm	108.3	30.6
P/CE (x)	6.5	-2.6	5.2	5.2
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in PLN	-33.2%	-25.7%	-8.1%	2.1%
in EUR	-45.9%	-22.5%	-5.1%	0.5%

Share price (PLN)	14.70	Reuters	COMW.WA	Free float	47.2%
Number of shares (mn)	11.9	Bloomberg	CPL PW	Shareholders	Legg Mason (12.5%)
Market capitalization (PLN mn / EUR mn)	175 / 41	Div. Ex-date			BB Investment (6.7305%)
Enterprise value (PLN mn / EUR mn)	160 / 38	Target price	16.2	Homepage:	www.sygnity.com

Is Sicknity to get well again?

- We assign Sygnity a Hold recommendation, following the strong profit warning in 2Q09 and given the company's lack of a strategy. Our new target price is PLN 16.2.
- Sygnity has been restructuring and streamlining the company for more than three years now and it has not really shown sustainable results. The profit warning (provisions and write-downs of PLN 66.3mn, incl. in 1H09) was issued after the company had confirmed in April this year that it would reach EBIT of around zero in 1H09 and positive EBIT in FY09.
- At the EGM on October 20, Sygnity's management will seek approval to issue 10% new shares. We would expect an SPO to happen this year, in order to improve the financial ratios at YE09.
- Sygnity definitely has upside potential, which it has also had over the last few years. We would finally like to see a sustainable operating improvement before increasing our estimates again.
- Our new EPS estimates for 2009-11e are PLN -6.74 (PLN 0.61), PLN 0.14 (PLN 1.18) and PLN 0.48 (PLN 2.67), respectively. The adjusted EPS incorporate the write-downs in 1H09 as well as the goodwill amortization from the merger with Emax, which will impact Sygnity until 2013. We have not incorporated the potential capital increase in our estimates so far.

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Sygnity disappointing market

Sygnity's management has lost a lot of credit by issuing a strong profit warning shortly ahead of the 2Q09 figures in August. The 2Q09 figures were burdened by write-offs and provisions amounting to PLN 66.3mn, leading to an EBIT loss of PLN 87.6mn instead of an EBIT at around zero (incl. book gains of PLN 11mn), as has still been communicated in April. The disappointment was big given the fact that the management, which has had a positive track record in sticking to its guidance since taking over Sygnity in 3Q07, hence building up confidence of the market following years of hollow promises of the preceding management.

Overview of provisions and write-offs in 2Q09

PLNmn	Provisions & write-offs	Description
38.3	Unprofitable projects	provision for costs related for unprofitable IT contracts signed in 2004-2006, contractual penalties
11.4	Overdue receivables	write-offs for receivables overdue for 6months
10.0	Inventory	overestimated value of inventory, licences and copyrights
5.7	Holiday pay and bonuses	bonuses & holiday in 1H09
0.9	Others	mainly deferred costs
66.3		

Source: company data

Some covenants broken, but banks sticking to Sygnity

Despite having broken its loan covenants with its 2H09 results, the company's banks will continue to provide it with the granted credit lines, at least until March 2010. The decision to prolong these credit lines further will also depend on the quality of the full-year results. Credit lines granted to the whole group amount to PLN 66.2mn, of which the unused part summed up to PLN 18.8mn as of the end of August. In addition to these credit lines, Sygnity has PLN 42.5mn of short-term bonds outstanding, which can be rolled over, if necessary. In the last two years, Sygnity has significantly reduced its indebtedness, using cash from operating activities and the sale of non-core assets.

Bonds outstanding

Date of issue	maturity	Nominal value (PLN mn)
3/10/2009	5/20/2009	2.44
2/18/2009	6/17/2009	4.63
1/21/2009	6/26/2009	1.5
3/18/2009	7/15/2009	3.53
7/27/2007	7/27/2009	50
4/8/2009	10/10/2009	3.730
4/16/2009	10/22/2009	2.660
4/16/2009	11/18/2009	2.140
4/17/2009	10/22/2009	0.200
5/20/2009	2/20/2010	3.340
6/7/2009	6/17/2010	3.970
6/26/2009	3/26/2010	1.500
7/1/2009	4/1/2010	7.000
7/10/2009	7/9/2010	7.000
7/10/2009	7/11/2010	8.000
9/16/2009	6/24/2010	1.120
9/24/2009	3/10/2010	0.700
9/30/2009	12/29/2009	0.600
10/1/2009	1/20/2010	0.500
Total bonds value outstanding		42.460

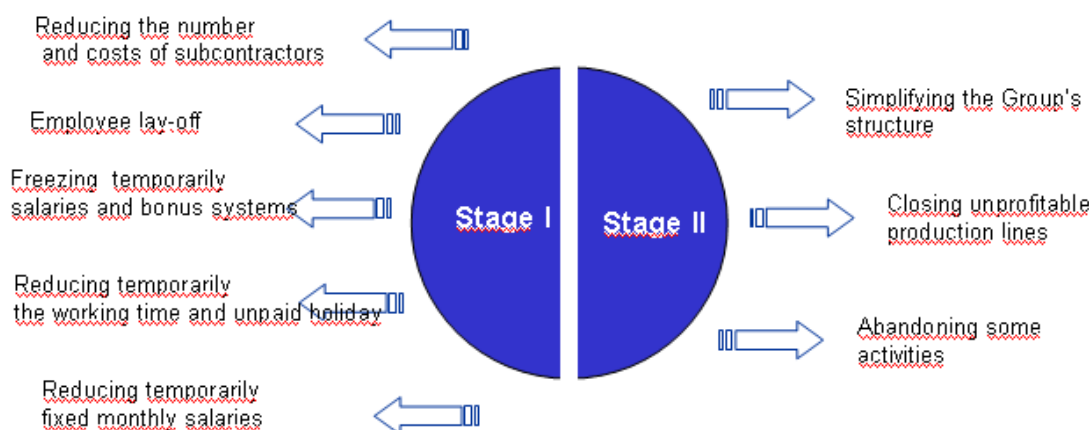
Source: company data

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Another savings program

Following the weak financial development, Sygnity has launched another streamlining initiative, this time in two stages. The value of this program in terms of targeted savings has not been disclosed yet. Despite these savings, there is currently no clear strategy visible for what Sygnity defines as its core activity and core market. A clear strategy is said to be revealed in 4Q09. CEO Piotr Kardach has confirmed that no further provisions should be necessary regarding the savings program.

Savings program: Stage 1 Q3-Q4 2009, stage 2: Q4 2009 – Q1 2010



Source: company data

Capital increase probable

Sygnity is to hold an EGM on October 20 at which management hopes to obtain approval for the issue of up to 10% new shares (subscription rights should be limited or excluded). The timeframe for this SPO has not been revealed yet, but we think that it could still be around the end of this year, in order to improve the company's financial ratios on the FY09 balance sheet date.

Outlook for 2H09

Sygnity's management targets FY09 revenues of at least PLN 700mn (i.e. 2H09: PLN >418mn) and EBIT of at least PLN 17mn in 2H09, excluding further non-core asset sales. The company's backlog for 2009 (as of August 31) amounted to PLN 487mn; it should already be somewhat higher, reflecting new contracts with a total value of slightly above PLN 100mn - although not all of this amount is attributable to 2009.

Waiting for clear strategy

We have adapted our estimates to reflect the facts learned in 1H09. Consequently, we have reduced our estimates for the current year and - due to the lack of a visible strategy - for the years to come, as well. On one hand, Sygnity has shown that it can still win large contracts (even abroad). On the other hand, there have been too many negative surprises in the past.

Change in estimates

Consolidated, IFRS (PLN, mn)	2009e			2010e			2011e		
	Now	Before	Change	Now	Before	Change	Now	Before	Change
Revenues	707.0	997.4	-29.1%	773.7	1,053.7	-26.6%	810.6	1,100.8	-26.4%
EBITDA	-64.4	53.0	-221.5%	31.6	47.9	-34.1%	33.4	50.5	-33.9%
EBITDA margin	-9.1%	5.3%	-271.4%	4.1%	4.5%	-10.2%	4.1%	4.6%	-10.2%
EBIT	-94.2	16.0	-689.6%	5.5	16.1	-65.9%	8.8	23.4	-62.3%
EBIT margin	-13.3%	1.6%	-931.7%	0.7%	1.5%	-53.6%	1.1%	2.1%	-48.8%
Net profit	-80.1	7.2	nm	1.6	14.1	-88.5%	5.7	20.3	-71.8%
Net margin	-11.3%	0.7%	nm	0.2%	1.3%	-84.4%	0.7%	1.8%	-61.8%
EPS	-6.74	0.61	nm	0.14	1.18	-88.5%	0.48	1.71	-71.8%
EPS adjusted	-2.11	1.44	-246.9%	1.00	2.25	-55.6%	1.27	2.67	-52.7%

Source: Erste Group Research

The 2H09 results should be significantly better than those seen in 1H09, mainly given the provisions built for loss-making contracts. However, we would see a capital increase as rather negative, as it would prove that the company has not managed to substantially improve after

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more than three years of restructuring. The adjusted EPS incorporate the write-downs in 1H09 as well as the goodwill amortization from the merger with Emax, which will impact Sygnity until 2013.

Valuation and target price

Valuation-wise, we are sticking solely to the DCF target value, as the multiple valuation derived a higher target value. Overall, we have to point out that there is definitely upside to our estimates and hence the target price. Before increasing our estimates again, we would like to see a positive development indicating that the business model is finally streamlined and delivering added value. We have incorporated the non-core assets for sale at book value in deriving our target price.

Target price composition

	DCF	Multiple	Weight	12-month target price	act shareprice	upside to target price	Recommendation
Sygnity	16.2	20.0	100/0	16.2	14.7	10.2%	Hold

Source: FactSet, Erste Group estimates

WACC calculation

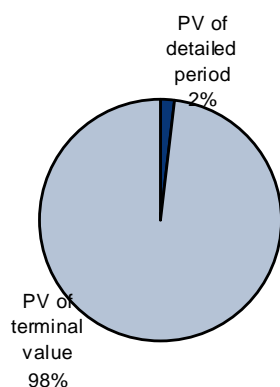
	2010e	2011e	2012e	2013e	2014e	2015e (TV)
Risk free rate	6.3%	6.3%	6.3%	6.3%	6.3%	5.5%
Equity risk premium	5.8%	5.8%	5.8%	5.8%	5.8%	5.5%
Beta	1.3	1.3	1.3	1.3	1.3	1.0
Cost of equity	13.8%	13.8%	13.8%	13.8%	13.8%	11.0%
Cost of debt	8.8%	8.8%	8.8%	8.8%	8.8%	8.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
After-tax cost of debt	7.1%	7.1%	7.1%	7.1%	7.1%	6.5%
Equity weight	100%	100%	100%	100%	100%	100%
WACC	13.8%	13.8%	13.8%	13.8%	13.8%	11.0%

DCF valuation

(PLN mn)	2010e	2011e	2012e	2013e	2014e	2015e (TV)
<i>Sales growth</i>	9.4%	4.8%	3.1%	3.1%	3.1%	2.0%
EBITA	5.5	8.8	20.1	24.4	28.7	29.0
<i>EBITA margin</i>	0.7%	1.1%	2.4%	2.8%	3.2%	3.2%
<i>Tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Taxes on EBITA	-1.0	-1.7	-3.8	-4.6	-5.4	-5.5
NOPLAT	4.4	7.2	16.3	19.7	23.2	23.5
+ Depreciation	13.5	13.1	11.4	9.8	8.7	8.7
<i>Capital expenditures / Depreciation</i>	89.1%	101.1%	96.4%	91.7%	103.6%	102.0%
+/- Change in working capital	-57.0	-5.1	10.6	7.0	-1.5	0.0
<i>Chg. working capital / chg. Sales</i>	-85.5%	-13.9%	41.6%	26.8%	-5.5%	0.0%
- Capital expenditures	-12.0	-13.2	-11.0	-9.0	-9.0	-8.9
Free cash flow to the firm	-51.1	1.9	27.3	27.5	21.4	23.3
<i>Terminal value growth</i>						2.0%
Terminal value						265.8
Discounted free cash flow - Dec 31 2009	-44.9	1.4	18.5	16.4	11.3	136.9
Enterprise value - Dec 31 2009	139.6					
Minorities	1.6					
Non-operating assets	5.7					
Net debt	-16.2					
Book value of assets for sale	13.1					
Equity value - Dec 31 2009	173.0					
Number of shares outstanding (mn)	11.9					
Cost of equity	13.8%					
12M target price per share (PLN)	16.2					
Current share price (PLN)	14.9					
<i>Up/Downside</i>	8.7%					

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Enterprise value breakdown



Sensitivity (per share)

		Terminal value EBITA margin				
		2.2%	2.7%	3.2%	3.7%	4.2%
WAC	10.0%	13.2	15.4	17.7	19.9	22.2
	10.5%	12.6	14.8	16.9	19.0	21.2
	11.0%	12.2	14.2	16.2	18.2	20.2
	11.5%	11.7	13.7	15.6	17.5	19.4
	12.0%	11.4	13.2	15.0	16.8	18.7
		Terminal value growth				
		1.0%	1.5%	2.0%	2.5%	3.0%
WAC	10.0%	16.1	16.8	17.7	18.6	19.7
	10.5%	15.5	16.1	16.9	17.7	18.7
	11.0%	14.9	15.5	16.2	17.0	17.8
	11.5%	14.4	15.0	15.6	16.3	17.0
	12.0%	14.0	14.5	15.0	15.6	16.3

Peer group comparison

	EV/sales			EV/EBITDA			EV/EBIT			P/E			P/CE			P/BV			
	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	
S&T	0.2	0.2	0.2	8.9	6.6	4.4	23.2	11.9	6.4	nm	15.1	6.2	6.6	4.5	3.1	0.9	0.9	0.8	
Atos Origin SA	0.5	0.5	0.4	5.8	5.0	4.1	11.3	8.4	6.6	15.7	12.1	10.2	8.2	6.4	5.4	1.4	1.3	1.2	
IDS Scheer AG	1.1	1.1	1.1	12.4	10.9	9.7	14.5	12.9	12.7	28.4	24.0	21.8	20.3	8.1	4.3	2.2	2.1	2.0	
Asseco Poland	1.5	1.4	1.2	7.2	6.4	5.8	8.7	7.7	6.8	11.6	11.4	10.9	8.9	8.8	8.5	1.1	1.0	1.0	
ComArch	0.6	0.5	0.5	10.5	6.2	5.1	459.3	11.7	8.9	64.8	15.6	13.1	10.7	8.1	7.4	1.1	1.0	0.9	
Computacenter	0.2	0.2	0.2	6.7	5.9	5.6	10.4	8.9	8.1	13.3	12.2	11.2	8.5	8.2	7.8	1.5	1.3	1.3	
TietoEnator Oyj	0.6	0.6	0.5	6.9	5.3	4.3	11.5	8.2	6.5	14.0	11.3	9.3	8.1	5.9	5.3	1.9	1.7	1.5	
Indra Sistemas SA	1.2	1.1	1.0	9.0	8.5	7.7	10.3	9.7	8.7	14.2	13.5	12.1	12.8	12.0	11.0	3.1	2.8	2.5	
Logica	0.6	0.6	0.6	7.8	7.0	6.4	10.6	9.4	8.1	11.6	10.8	9.8	10.0	9.1	8.0	1.0	1.0	0.9	
Median total	0.6	0.5	0.4	8.1	6.3	5.3	12.9	10.3	7.5	15.7	13.7	11.0	8.7	8.1	6.4	1.3	1.2	1.1	
Sygnity	0.2	0.3	0.2	-2.5	6.3	5.6	-1.7	36.5	21.2	nm	108.3	30.6	-2.6	5.2	5.2	0.6	0.6	0.6	
Premium/discount	-60%	-49%	-48%	nm	0%	5%	nm	255%	184%	nm	691%	177%	nm	-36%	-19%	-53%	-49%	-0.46	
Implied equity value per share	36.1	32.6	31.0	nm	16.3	15.5	nm	4.2	6.1	nm	1.9	5.3	nm	22.9	18.2	31.1	28.8	27.0	
Per Sygnity share (PLN) 2009*	33.6																		
Per Sygnity share (PLN) 2010	17.8																		
Per Sygnity share (PLN) 2011	17.2																		
Period weight	0%	80%	20%																
Net present value as of Oct 2009	17.7																		
Cost of Equity	13.1%																		
Net present value as of Oct 2010	20.0																		

* For calculating the 2009 median, we have only used the available positive ratios. Finally we have excluded it from the target price derivation"

Source: Factset, Erste Group Research

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Income Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010	31/12/2011
Net sales	927.06	1,201.93	995.67	706.98	773.68	810.61
Cost of goods sold	-713.43	-1,050.99	-809.63	-624.09	-621.01	-651.16
Gross profit	213.63	150.94	186.04	82.89	152.68	159.45
SG&A	-229.21	-234.71	-190.97	-193.19	-154.54	-157.51
Other operating revenues	10.75	29.45	19.94	18.54	10.06	9.73
Other operating expenses	-8.53	-17.68	-3.49	-2.48	-2.71	-2.84
EBITDA	55.13	-16.31	58.40	-64.44	31.59	33.40
Depreciation/amortization	-68.49	-55.69	-46.88	-29.79	-26.11	-24.57
EBIT	-13.35	-72.00	11.52	-94.23	5.48	8.83
Financial result	-7.33	-13.15	-8.72	-6.64	-3.45	-1.64
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	-20.68	-85.15	2.80	-100.88	2.03	7.19
Income taxes	0.08	4.02	-4.13	19.17	-0.39	-1.37
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-7.00	15.51	-0.16	1.63	-0.03	-0.12
Net result after minorities	-27.60	-65.62	-1.48	-80.07	1.61	5.71
Balance Sheet	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Intangible assets	284.86	250.16	227.20	211.67	198.81	189.00
Tangible assets	53.66	42.16	31.51	27.86	26.60	25.04
Financial assets	10.11	4.52	5.72	5.72	5.72	5.72
Total fixed assets	348.63	296.85	264.44	245.25	231.14	219.77
Inventories	53.52	71.57	42.73	30.34	33.20	34.78
Receivables and other current assets	397.48	408.49	346.41	201.35	258.47	268.76
Other assets	120.17	34.21	31.20	39.52	35.51	33.15
Cash and cash equivalents	59.77	51.32	87.81	87.81	28.21	28.21
Total current assets	630.94	565.59	508.15	359.02	355.39	364.90
TOTAL ASSETS	979.57	862.44	772.59	604.27	586.52	584.67
Shareholders' equity	304.72	343.51	372.15	290.44	292.08	297.91
Minorities	128.96	3.10	3.25	1.62	1.65	1.77
Hybrid capital and other reserves	0.00	0.00	0.00	0.00	0.00	0.00
Pension and other LT personnel accruals	1.42	1.19	2.75	1.95	2.13	2.24
Other LT provisions	0.00	0.00	0.00	0.00	0.00	0.00
Interest-bearing LT debts	4.69	3.84	4.98	4.98	4.98	4.98
Other LT liabilities	33.60	26.57	21.68	15.39	16.84	17.65
Total long-term liabilities	38.30	30.42	26.65	20.37	21.82	22.62
Interest-bearing ST debts	169.22	172.15	98.49	64.68	44.68	31.61
Other ST liabilities	414.30	373.72	332.38	258.28	237.23	228.53
Total short-term liabilities	501.83	483.88	367.03	289.35	268.24	259.51
TOTAL LIAB. , EQUITY	979.57	862.44	772.59	604.27	586.52	584.67
Cash Flow Statement	2006	2007	2008	2009e	2010e	2011e
(IAS, PLN mn, 31/12)						
Cash flow from operating activities	-84.84	-6.90	35.10	41.84	-28.20	25.44
Cash flow from investing activities	35.85	-6.36	26.89	-1.49	-6.39	-9.97
Cash flow from financing activities	2.20	4.81	-25.51	-40.34	-25.01	-15.47
CHANGE IN CASH , CASH EQU.	-46.80	-8.45	36.49	0.00	-59.60	0.00
Margins & Ratios	2006	2007	2008	2009e	2010e	2011e
Sales growth	8.0%	29.6%	-17.2%	-29.0%	9.4%	4.8%
EBITDA margin	5.9%	-1.4%	5.9%	-9.1%	4.1%	4.1%
EBIT margin	-1.4%	-6.0%	1.2%	-13.3%	0.7%	1.1%
Net profit margin	-2.2%	-6.7%	-0.1%	-11.6%	0.2%	0.7%
ROE	-10.6%	-20.2%	-0.4%	-24.2%	0.6%	1.9%
ROCE	-3.1%	-12.9%	-1.3%	-21.6%	1.4%	2.2%
Equity ratio	44.3%	40.2%	48.6%	48.3%	50.1%	51.3%
Net debt	115.6	125.9	18.4	-16.2	23.6	10.6
Working capital	8.9	47.5	109.9	30.1	51.6	72.2
Capital employed	582.8	499.0	415.5	291.2	334.2	327.9
Inventory turnover	15.9	16.8	14.2	17.1	19.5	19.2

Source: Company data, Erste Group estimates

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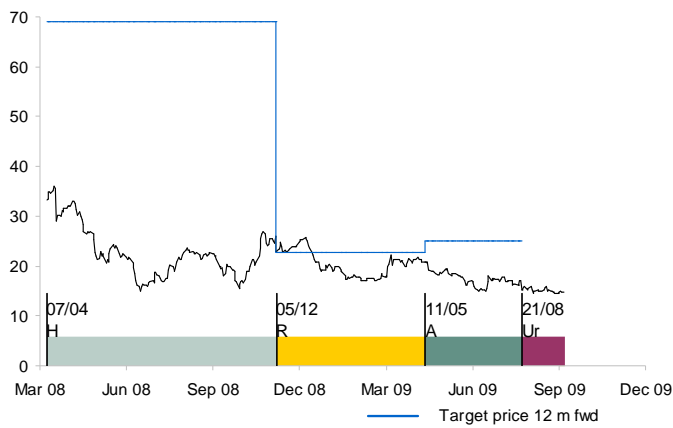
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Company Report – Sygnity

Sygnity



Rating history

Date	Rating	Price	Target Price
21. Aug 09	Under review	15.14	
11. May 09	Accumulate	20.80	25.13
05. Dec 08	Reduce	23.00	22.74
13. Aug 07	Hold	59.00	69.00
11. Apr 06	Buy	109.00	147.00
22. Sep 05	Accumulate	94.50	104.00
29. Nov 04	Hold	104.00	110.00
20. Apr 04	Reduce	110.00	95.40

Company

Disclosure

Sygnity

Important Disclosures

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

Recommendation	Coverage universe		Inv. banking-relationship	
	No.	in %	No.	in %
Buy	20	15.5	4	30.8
Accumulate	28	21.7	1	7.7
Hold	42	32.6	4	30.8
Reduce	15	11.6	3	23.1
Sell	9	7.0	0	0.0
N.R./UND.REV./RESTR.	15	11.6	1	7.7
Total	129	100.0	13	100.0

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