

# Sygnity

9 February 2009

**The worst is over**

IT	Current price	PLN 20.0*	<b>Hold</b>					
Poland	Fair Value	PLN 21.5	Rating upgraded					
Performance over	1M	3M	12M	FY/e 31.12., PLN m	2007A	2008F	2009F	2010F
Absolute %	-22%	5%	-48%	Sales	1 265.8	978.0	981.4	1 044.6
Rel. WIG20 %	-2%	22%	0%	EBITDA	-16.6	59.9	71.5	77.8
12M Hi/Lo	PLN43.5 / 14.91			Adj. EBIT **	-53.8	26.9	38.3	41.9
Reuters	COMW.WA			Adj. net profit **	-50.6	16.4	28.4	33.5
Bloomberg	SGN PW			Adj. EPS (PLN) **	-4.68	1.37	2.37	2.79
Market Cap €	47.8m			Adj. P/E (x) **	n.m.	14.6	8.4	7.2
Next corporate event				DPS (PLN)	0.0	0.0	0.0	0.0
4Q08 results – 25 February 2009				Yield (%)	0.0%	0.0%	0.0%	0.0%
PLN / €	4.53			EV/EBITDA (x)	n.m.	4.6	3.3	2.7

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

**We have increased our net earnings estimates for Sygnity to reflect the stronger outlook for 4Q08, the improved visibility on the positive impacts of the cost-saving program and lower financial costs related to the firm's lower debt position. We have increased our earnings forecasts by 161.8% to PLN 4.2m for 2008 (versus a net loss of PLN 65.6m in 2007), 4.5% to PLN 17.9m (+326.8% y/y) for 2009 and 11.7% to PLN 23.2m (+29.9% y/y) for 2010. Combined with significantly lower interest rates, these revisions have boosted our fair value estimate by 17.2% to PLN 21.5 per share. As our new fair value implies 8% upside, we upgrade the stock from Sell to Hold.**

\*Priced at COB 06/02/09

## Rating upgraded to Hold

- Focus shifts from costs to revenues in 2009:** Structural changes introduced as part of the management's rescue strategy during 2008 (i.e. severe cost cuts, organizational changes) have helped to prepare Sygnity for the economic downturn. The main focus in 2009 is likely to be revenue growth. With banks and public institutions under pressure to cut IT budgets, Sygnity will be less selective about new business opportunities.
- 4Q08 results unlikely to move the stock price:** We expect Sygnity to deliver seasonally strong 4Q08 figures, with reported net earnings at PLN 22.6m, which should offset losses booked in the first three quarters of 2008. Our quarterly estimate is broadly in line with the consensus estimate and management guidance, which we believe has been fully priced-in by the market.
- Slowdown reflected in consensus estimates:** Our forecasts of the company's bottom line for 2008-2010 are in line with market expectations. We believe the consensus has already adjusted its forecast for Sygnity's inferior macroeconomic environment and we see little risk of downgrades on the market.
- Further sale of assets possible in 2009:** The disposal of non-core and redundant assets was successfully implemented in 2007-2008, bringing in cash of PLN 53m and pre-tax profit of PLN 41m. The management aims to continue this process in 2009, which could involve the sale of some real estate and GIS assets. As the visibility of these transactions is low, we do not include them in our projections.
- Reasonably valued:** Sygnity's stock price has fallen 21% year-to-date, underperforming the WIG IT index by 16%, in line with our view that the stock was overvalued. Sygnity currently trades on a 2009F P/F of 8.4x, in line with the sector. We believe some discount is justified, given the firm's large exposure to the public and banking sectors and very low share of revenues from long-term contracts.

Leszek Iwaszko, CFA	+48 22 581 08 08	leszek.iwaszko@kbcsecurities.pl
Piotr Janik	+48 22 581 09 19	piotr.janik@kbcsecurities.pl
Kamil Szlaga	+48 22 581 08 18	kamil.szlaga@kbcsecurities.pl

**Refer to important disclosures, disclaimers and analyst certifications at the end of the body of this research.**