

# Sygnity

17 August 2009

## Competence off?

IT		Current price	PLN 16.32*	Sell
Poland		Fair value	PLN 14.40	Rating maintained
<b>Performance over</b>	<b>1M 3M 12M</b>	<b>FY/e 31.12, PLN m</b>	<b>2008A 2009F 2010F 2011F</b>	
Absolute %	8% -22% -19%	Sales	995.7 772.6 828.3 885.6	
Rel. WIG20 %	-4% -32% 1%	EBITDA	56.6 34.5 38.8 45.0	
12M Hi/Lo	PLN 26.94 / 15.05	Adj. EBIT **	26.6 7.9 12.8 18.7	
		Adj. net profit **	10.7 3.1 8.3 12.4	
Reuters	COMW.WA	Adj. EPS (PLN) **	0.9 0.3 0.7 1.0	
Bloomberg	SGN PW	Adj. P/E (x) **	18.1 62.5 23.4 15.6	
Market cap €	42.8m	DPS (PLN)	0.0 0.0 0.0 0.0	
Next corporate event		Yield (%)	0.0% 0.0% 0.0% 0.0%	
2Q09 results – 27 August 2009		EV/EBITDA (x)	4.7 9.1 5.4 4.9	
PLN / €	4.12			

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

**We have further lowered our full-year expectations for Sygnity's bottom line to reflect the weaker revenue outlook due to the absence of profitable contracts. We expect the firm's adjusted bottom line to come in at PLN 3.1m profit for 2009 but at a loss of PLN 17.3m once only adjusted for the one-off gains on assets disposal. We have also cut our adjusted bottom line forecasts by 65.1% to PLN 8.3m for 2010 (up 167% y/y) and by 53.1% to PLN 12.4m (up 53% y/y) for 2011. This has lowered our fair value by 9.3% to PLN 14.40 per share, which implies 12% downside. We maintain our Sell recommendation.**

\*Priced at COB 14 August 2009

### Sell rating maintained

- **In the red despite one-off gains in 2Q09:** We expect Sygnity to disappoint the market once again with an operating loss of PLN 3.6m in 2Q09 despite a one-off gain of PLN 9.0m from the sale of assets. The consensus expects operating profit of PLN 3.3m for the period.
- **EBIT in 2H09 unlikely to cover 1H09 losses:** We expect the firm's net earnings in the black in 2H09 although this is unlikely to offset the 1H09 losses. We expect a further revenue contraction in 2H09 with limited room for further cost containment. We forecast an operating loss of PLN 5.1m and an unadjusted net loss of PLN 7.5m for 2009.
- **Debt position no longer an issue...:** Despite remaining in the red in 2Q09, we project further progress in debt restructuring. We expect the firm's debt to contract to PLN 34.6m at the end of 2009 from PLN 103.5m at the end of last year. Sygnity bought back PLN 30m of bonds and rolled over further PLN 20m in July.
- **...the problem lies in low revenues:** We see very limited room for further improvement in costs at Sygnity. In our view the company will continue to disappoint the market with quarterly losses until revenues rebound. However, this will only arrive once the broader IT market rebounds, what we expect for 2011. As a result Sygnity also looks set to book uninspiring results in 2010.
- **Share dilution is a risk:** Sygnity currently has a list of companies that could be acquired using the proceeds from a potential new share issue. We would see any share issue as a serious downside risk for the stock's price. In our opinion Sygnity will only be able to place new shares with a significant discount to the current stock price. We believe the management should present an improvement in core business results before concentrating on M&A activities.
- **Better value elsewhere:** On a 2011F P/E (adjusted for additional goodwill amortization) the stock trades at a 28% premium to Poland's IT sector. Given its poor earnings outlook we see no reason why Sygnity should trade at a premium to firms that outperform in the crisis (i.e. Asseco).

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EBITDA = EBIT + amortization and depreciation  
EPS = Net profit / No of shares outstanding

DPS = Dividend per Share

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

EBITDA margin = EBITDA / Revenue

EBIT margin = EBIT / Revenue

CFPS = Cash flow / No of shares outstanding

Net Financial Debt = Financial debt – Cash equivalents

ROE = Net profit / Average Equity

EV = Market Capitalization + Net Financial Debt

P/E = Stock Price / EPS

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

P/BV = Stock Price / NBV per share

P/S = Market Capitalization / Revenue

Gross Dividend Yield = Dividend per share / Stock

### The list of recommendations concerning Sygnity issued by KBC Securities NV Branch in Poland

	Valuation	Market price	Recommendation	The date of issuing
Sygnity	39.0	20.9	Buy	12 June 2008
Sygnity	41.7	20.2	Buy	18 August 2008
Sygnity	18.4	16.8	Hold	27 October 2008
Sygnity	18.0	26.9	Sell	25 November 2008
Sygnity	21.5	20.0	Hold	9 February 2009
Sygnity	18.0	17.4	Hold	25 March 2009
Sygnity	15.9	21.8	Sell	6 May 2009
Sygnity	14.4	16.3	Sell	17 August 2009

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13 BUY	31%
14 HOLD	33%
15 SELL	36%

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