

Asseco Business Solutions (ABS)

Quarterly results corner; 1Q08E preview

Forecasting 1Q08 financial results of ABS (to be released on May 9) constitutes some challenge, as the Company's 1Q07 base period numbers have not been publicly released yet. We, however, very roughly estimate (on the basis of 1H07 and January-May 2007 numbers) that:

- ▲ ABS's 1Q07 sales and operating profit might have come out at c. PLN 7-8 million and app. PLN 1 million, respectively (please note that at that time ABS encompassed only the outsourcing and e-learning business of Incenti), and
- ▲ the ERP-segment companies (Safco, Wa-Pro and Softlab) – merged at the end of May last year with Incenti to form ABS – might have generated jointly c. PLN 14-16 million of revenues and app. PLN 2.0-2.5 million of EBIT in 1Q07.

These tentative estimates constitute the base for our projections of ABS's 1Q08E numbers, which we present in *Figure 1*. We forecast the parent company to post c. PLN 27 million of revenues in 1Q08 (app. 20% growth yoy against our estimate of the 1Q07 pro-forma base) and expect the SFA solutions subsidiary Anica (acquired in December last year) to add c. PLN 12 million to the quarterly consolidated top line. Margin-wise, we assume c. 17% EBIT margin both at the parent company (contingent upon our assumption that the share of the low-margin integration revenues – typically hiking in 4Q – was relatively low in 1Q08) and Anica (below the FY level of 21% for 2007 and 2008E), which implies c. PLN 4.5 million 1Q08E unconsolidated operating profit (c. 25% up yoy, against our 1Q07 pro-forma base estimate) and app. PLN 6.5 million of quarterly consolidated EBIT. Assuming lack of material one-offs in the quarter and effective CIT rate significantly lower than the statutory one (consequence of utilization of c. PLN 4 million of tax-loss-carry-forwards at the parent company), we forecast ABS's 1Q08 consolidated bottom line at c. PLN 5.5 million.

Should ABS's actual results for 1Q08 prove close to our expectations, we would perceive such posting as reasonably strong, well boding for the accomplishment of our FY targets for the Company on one hand, yet – on the other – rather unlikely to spur major positive reaction of the market.

Investment story

Asseco Business Solutions (ABS) commands a unique position among local ERP players in terms of the combination of (i) the scope of ERP-complementary products/services, (ii) data base technologies' coverage, (iii) width of target customer

22/2008/RP (81) April 8, 2008

Analyst: Sobiesław Pająk, CFA, s.pajak@idmsa.pl, +48 (22) 489 94 70

Sector: IT
Fundamental rating: Hold (→)
Market relative: Neutral (→)
Price: PLN 12.66
12M EFV: PLN 14.0 (→)

Market Cap.: US\$ 165 m
Reuters code: ABSUWA
Av. daily turnover: US\$ 0.05 m
Free float: 20%
12M range: PLN 11.00-13.75

Guide to adjusted profits

No factors necessitating adjustments of reported numbers.

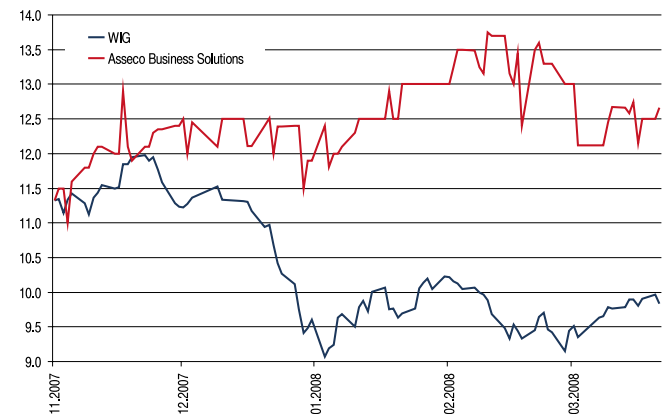
Key data

IFRS consolidated		2007	2008E	2009E	2010E
Sales	PLN m	96.0	338.4	503.7	579.0
EBITDA	PLN m	19.8	47.3	60.2	66.6
EBIT	PLN m	15.4	37.8	48.6	54.7
Net income	PLN m	13.6	30.7	41.1	46.6
EPS	PLN	0.47	0.74	0.99	1.11
EPS yoy chng	%	n.m.	55	34	13
Net debt	PLN m	-17.8	-36.7	-57.6	-82.7
P/E	x	26.7	17.2	12.9	11.4
P/CE	x	20.3	13.3	10.0	9.0
EV/EBITDA	x	18.4	11.1	7.8	6.7
EV/EBIT	x	23.9	13.9	9.7	8.1
Dividend yield	%	0.0	0.0	1.2	1.5
No. of shares (eop)	ths.	28,6134	41,752	41,752	41,752

Multiples calculated on the basis of proportional consolidation of not wholly-controlled subsidiaries

Source: Company, DM IDMSA estimates

Stock performance



Source: www.money.pl

Upcoming events

1. EGM to vote the share issues to current owners of Asseco Systems and of 39% stake in Anica: April 22, 2008
2. 1Q08 results release: May 9, 2008
3. Contribution of 100% stake in Asseco Systems to ABS: mid-2008
4. Acquisition of a 39% stake in Anica boosting ABS's share to 100%: mid-2008

Catalysts

1. Low penetration of ERP packages among domestic enterprises: a plenty of room to expand (especially in a sound macro environment) for ABS and other strong ERP vendors
2. Expected strong organic earnings growth in the coming quarters on the back of growing economy, to be supported by M&A fuelling
3. Potential synergies stemming from the co-operation with other ERP members of Asseco Poland capital group
2. Global ERP vendors' increasing interest in the SME segment: could heat up the competition is Company's target segments
3. Wage pressures in the IT industry: could put a pressure on margins, especially in weaker macro environment
4. Pure commercial sector play with no public exposure: means that expected pick up of public sector's IT demand is irrelevant for ABS
5. Competitor's (BPSC's) prospective WSE-listing: may attract the investors' attention away from the Company
6. Major M&A-driven shareholder value creation does not constitute a theme, at least for the short- to mid-term
7. Following the acquisition of Asseco Systems (low margin, low value-added system integrator) ABS should be priced at markedly lower multiples than before

Risk factors

1. Major slowdown of GDP: would cap the new license sales (SMEs' IT demand shows strong cyclicality)

spectrum, (iv) ability to keep the customers via migrating them from one proprietary application to another and (v) profound R&D synergies potential stemming from the Asseco Poland Group membership. Even though the mid-term outlook for strong local ERP players seems favorable and we are pleased to see that the Company will pay materially lower than formerly signaled price for Asseco Systems (and slightly lower for the remaining 39% stake in Anica), after accounting for the looming share-issue-resultant dilution of the Company's current business per share value, we find the net effect of the prospective takeovers to be roughly neutral from the shareholders' value perspective. While this does not exhaust ABS's appetite for further non-organic growth, more distant M&As (planned for 2H08) will be rather small (expected transaction values below PLN 10 million) and are too vague at the moment to constitute a theme.

Financial forecast

The Company's EGM (to be held on April 22) will most likely approve the share issue aimed at acquiring Asseco Systems and the 39% stake in Anica; consequently, our financial forecast for ABS continues to include the consequences of these pending takeovers (regarding the details on the envisaged incremental contribution of the prospective targets, please refer to our research report *25/2008/FN (68)* of March 13, 2008). Following the release of the audited FY2007 financial results, we have fine-tuned our financial projections for the Company, however with no resultant meaningful forecast changes (not exceeding 1-2%).

Valuation

Our absolute-value-based 12M EFV for ABS (encompassing already the estimated incremental per share impact of the prospective M&A transactions) remains unchanged at PLN 14.0.

We would like to reiterate our view that following the acquisition of Asseco Systems (an integrator), ABS should no longer be benchmarked against software houses, but against a weighted benchmark encompassing both software houses (priced at higher multiples) and system integrators (priced at lower multiples). Adopting such a stance (EBITDA-contribution-weighted) in the international peer context, we arrive at implied EFVs of ABS slightly below the current market price; we, however, believe that a case could be made for ABS being priced with some premium on near-term forward multiples against such benchmark, due to the Company's faster-than-peers expected mid-term growth (the size of the premiums declines in time).

Recommendation

Despite favorable outlook for the ERP sector and the Company's strong market position, we maintain our LT Hold rating for Asseco Business Solutions' equities, as at current level of market share price fundamentally-justified upside appears limited (both from the absolute-value and peer-relative angle), and the Company's planned near-term M&As (Asseco Systems, remaining stake in Anica) appear to be only roughly value-neutral from the Company's shareholders perspective (on a per share basis). For the very same reason, we maintain our ST market-relative neutral stance towards the equities of ABS. As of now our preferences in terms of the expected absolute and market-relative performance continue to clearly rest with ABS's parent company – Asseco Poland (regarding the rationale for this stance, please refer to our research report *3/2008/FN(5)* of February 3, 2008).

BASIC DEFINITIONS

A/R turnover (in days) = 365/(sales/average A/R)
Inventory turnover (in days) = 365/(COGS/average inventory)
A/P turnover (in days) = 365/(COGS/average A/P)
Current ratio = (current assets – ST deferred assets)/current liabilities
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable)/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;

Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;

Sell – fundamentally overvalued (12M EFV < current share price) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms

Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms

Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

LT fundamental recommendation tracker

Recommendation	Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)
Asseco Business Solutions (ABS)							
Hold	07.02.2008	-	Not later than 07.02.2009	1%	0%	12.5	13.2
-	→	21.02.2008	-	-	-	13.5	14.2
-	→	13.03.2008	-	-	-	13.3	14.1
-	→	30.03.2008	-	-	-	12.67	14.0
-	→	08.04.2008	-	-	-	12.66	14.0

Market-relative recommendation tracker

Relative recommendation	Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
Asseco Business Solutions (ABS)					
Overweight	07.02.2008	-	21.02.2008	12.50	4%
Neutral	21.02.2008	-	Not later than 21.02.2009	13.50	-3%
-	→	13.03.2008	-	13.30	-
-	→	30.03.2008	-	12.67	-
-	→	08.04.2008	-	12.66	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	20	15	5	0	0
Percentage	50%	38%	13%	0%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	15	17	8	0	0
Percentage	38%	43%	20%	0%	0%

Banks

Net Interest Margin (NIM) = net interest income/average assets

NIM Adjusted = (net interest income adjusted for SWAPs)/average assets

Non interest income = fees&commissions + result on financial operations (trading gains) + FX gains

Interest Spread = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)

Cost/Income = (general costs + depreciation + other operating costs)/ (profit on banking activity + other operating income)

ROE = net profit/average equity

ROA = net income/average assets

Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories

NPL coverage ratio = loan loss provisions/NPL

Net provision charge = provisions created – provisions released

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Banks

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;

Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;

Sell – fundamentally overvalued (12M EFV < current share price) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms

Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms

Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

LT fundamental recommendation tracker

Recommendation	Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/reiteration (PLN)	12M EFV (PLN)
Asseco Business Solutions (ABS)							
Hold	07.02.2008	-	Not later than 07.02.2009	1%	0%	12.5	13.2
-	→	21.02.2008	-	-	-	13.5	14.2
-	→	13.03.2008	-	-	-	13.3	14.1
-	→	30.03.2008	-	-	-	12.67	14.0
-	→	08.04.2008	-	-	-	12.66	14.0

Market-relative recommendation tracker

Relative recommendation	Issue date	Reiteration date	Expiry date	Price at issue/reiteration (PLN)	Relative performance
Asseco Business Solutions (ABS)					
Overweight	07.02.2008	-	21.02.2008	12.50	4%
Neutral	21.02.2008	-	Not later than 21.02.2009	13.50	-3%
-	→	13.03.2008	-	13.30	-
-	→	30.03.2008	-	12.67	-
-	→	08.04.2008	-	12.66	-

Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	2	1	0	0
Percentage	40%	40%	20%	0%	0%

Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	2	2	1	0	0
Percentage	40%	40%	20%	0%	0%

Institutional sales

Director – **Dariusz Wareluk**
tel.: +48 (22) 489 94 12
d.wareluk@idmsa.pl

Leszek Mackiewicz
tel.: +48 (22) 489 94 23
l.mackiewicz@idmsa.pl

Maciej Bąk
tel.: +48 (22) 489 94 14
m.bak@idmsa.pl

Bartosz Zieliński
tel.: +48 (22) 489 94 13
b.zielinski@idmsa.pl

Research

Sobiesław Pająk, CFA
(IT, Media)
tel.: +48 (22) 489 94 70
s.pajak@idmsa.pl

Sylwia Jaśkiewicz, CFA
(Construction materials, Retail, Mid-caps)
tel.: +48 (22) 489 94 78
s.jaskiewicz@idmsa.pl

Maciej Wewiórski
(Commodities, Construction, Real estate)
tel.: +48 (22) 489 94 62
m.wewiorski@idmsa.pl

Michał Sobolewski
(Banks)
tel.: +48 (22) 489 94 77
m.sobolewski@idmsa.pl

Jakub Viscardi
(Telco, Retail)
tel.: +48 (22) 489 94 69
j.viscardi@idmsa.pl

Adrian Kyrzczak
(Associate)
tel.: +48 (22) 489 94 74
a.kyrzczak@idmsa.pl

Łukasz Prokopiuk
(Associate)
tel.: +48 (22) 489 94 72
l.prokopiuk@idmsa.pl

This report is for information purposes only. Neither the information nor the opinions expressed in the report constitute a solicitation or an offer to buy or sell any securities referred herein. The opinions expressed in the report reflect independent, current judgement of DM IDM S.A. Securities. This report was prepared with due diligence and scrutiny. The information used in the report is based on all public sources such as press and branch publications, company's financial statements, current and periodic reports, as well as meetings and telephone conversations with company's representatives. We believe the above mentioned sources of information to be reliable, however we do not guarantee their accuracy and completeness. All estimates and opinions included in the report represent our judgment as of the date of the issue. The legal entity supervising DM IDM S.A. is Financial Supervision Commission in Warsaw (KNF in Polish abbreviation).

IDM does not take any responsibility for decisions taken on the basis of this report and opinions stated in it. Investors bear all responsibility for investment decisions taken on the basis of the contents of this report. The report is intended exclusively for private use of investors – customers of IDM. No part or excerpt of the report may be redistributed, reproduced or conveyed in any manner or form written or oral without the prior written consent of IDM. This report is released to customers the moment it is issued and the whole report is made available to the public one month after the issuance.

The analyst(s) responsible for covering the securities in this report receives compensation based upon the overall profitability of IDM which includes profits derived from investment banking activities, although the analyst compensation is not directly related thereto.

IDM releases analytical reports via mail or electronic mail to selected clients (professional clients).

Apart from mentioned above, there are no ties of any kind between DM IDM S.A., the analyst/analysts involved in the preparation of the report and his/her relatives and the company/ companies analyzed in this publication, especially in the form of: i) offering of financial instruments in the primary market or/and Initial Public Offer within 12 months preceding the issue of this report, ii) purchasing and selling of financial instruments for own account due to tasks connected with organization of the regulated market, iii) purchasing and selling of financial instruments due to underwriting agreements and iv) the role of a market maker for securities analysed by IDM. The analysed company/companies does/do not possess DM IDM S.A. shares.

IDM has not signed with the company/companies any contracts for recommendation writing. Investors should assume that DM IDM S.A. is seeking or will seek business relationships with the company/companies described in this report. The report was not shown to the analyzed company/companies before the distribution of the report to clients.