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Special comment


**IT**  
 Poland

# Asseco Poland

SOBK.WA; ACP.PW

**Buy**

(Reiterated)

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## Excellent Start to the Year

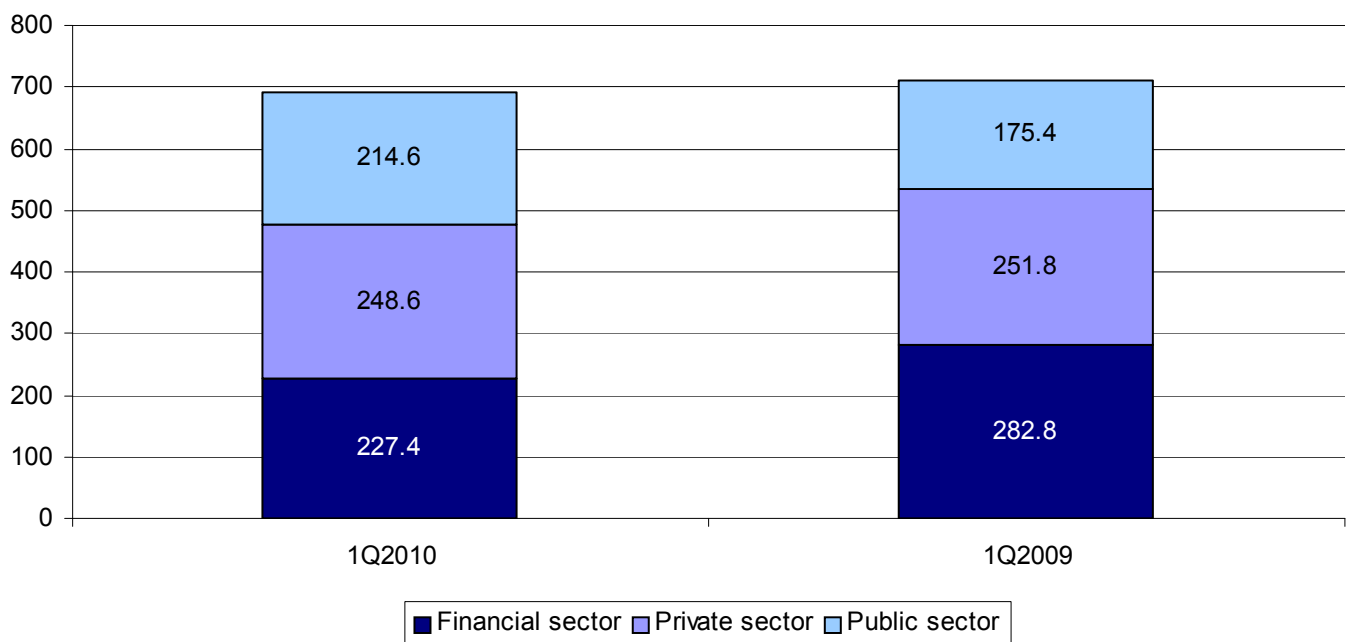
**Current price: PLN 53.60; Target price: PLN 72.10**

Asseco Poland's Q1 2010 results came ahead of our expectations and consensus estimates. The Company was also able to successfully sell 3.88m I-stock shares for PLN 204.5m (net). Investors should welcome the fact that the issue of additional supply of shares has been resolved. According to our forecasts, the Company is trading at a P/E of 12.3, i.e. with a 10.5% discount to peers. Also, the Company has 5.43m treasury shares, i.e. ca. 7.0% of its share capital, which further increases this discount. After the share offering, net cash has increased to PLN 316m, with an additional PLN 291m in treasury shares (at market value). We are reiterating a buy rating.

### Surprise Stemming from Good Earnings at the Parent

Asseco Poland's Q1 2010 results came ahead of our expectations and consensus estimates, thanks, above all, to the excellent showing of the parent company, which generated an EBIT of PLN 86.6m on a revenue of PLN 291.0m. The increase in the parent's revenues is partially due to the merger with ABG, and partially due to its making up for delays in contract execution which affected Q4'09 earnings. As far as costs are concerned, the parent company's earnings were boosted by a PLN 4.6m refund of salary expenses stemming from the PLN 36m EU subsidy for the IT Service Center (the subsidy covers two years and will continue to be visible in the earnings of the following quarters). Net income was also affected by the repayment of a PLN 21m loan by Prokom Investment (which was made in real property and which had been factored into our forecasts) and the unexpected PLN 9.4m goodwill impairment charge at Gladstone.

### Revenue by segment



Source: Asseco Poland

Asseco's consolidated revenue amounted to PLN 690.6m (we expected PLN 715.0m), marking a decrease from PLN 710.0m reported a year earlier due to a decline in sales in the Balkans (-PLN 23.7m) and in Slovakia (-PLN 18.0m), which was partially offset by increased business activity in Western Europe, where Asseco started consolidating its Spanish and Danish acquisitions (+PLN 24.1m, booked as "other markets").

Gross profit margin was higher than expected (34.3% vs. 32.2%), the discrepancy stemming on the one hand from higher-than-expected sales of the parent company's products, which are more profitable, and on the other hand from higher-than-expected profitability at the parent (41.7% vs. 40.5%), which was not harmed by the merger with the less profitable ABG. SG&A expenses of PLN 127.3m were PLN 1.7m lower than we predicted. The Company recorded other net operating profit of PLN 1.7m instead of a PLN 1.0m loss. As a result, EBIT figured to PLN 121.3m, exceeding our expectations by 10.1% and market consensus by 10.2%.

### Actual vs. forecasted earnings

(PLN m)	Q1 2010	Q1 2009	Change	Q1 2010F	Difference	Consensus	Difference
Revenue	690.6	710.0	-2.7%	715.0	-3.4%	709.4	-2.6%
EBITDA	151.3	141.6	6.8%	148.2	2.0%	145.6	3.9%
margin	21.9%	19.9%	-	20.7%		-	
EBIT	121.3	114.6	5.9%	110.2	10.1%	110.1	10.2%
Pre-tax profit	133.9	104.7	27.9%	129.5	3.4%	-	-
Net profit	95.5	75.0	27.2%	88.9	7.4%	87.9	8.6%

Source: Asseco Poland, BRE Bank Securities, PAP

### Revenue by geography

(PLN m)	Q1 2010	Q1 2009	Change
Poland	416.0	413.4	0.63%
Balkans	92.3	115.0	-19.73%
Germany	36.1	36.4	-0.85%
Slovakia	115.5	133.0	-13.15%
Other	57.6	33.5	71.79%
Eliminations	-26.9	-21.3	

Source: Asseco Poland

The Company reported finance gains of PLN 11.4m, which, as discussed above, was affected by the repayment of a loan by Prokom Investment (previously written off). These gains were slightly lower than our expected (PLN 19.0m), due to asset impairment charges of PLN 11.2m (including PLN 9.4m goodwill impairment at Gladstone).

Tax amounted to PLN 26.9m (at an effective tax rate of 20.1%), vs. PLN 24.6m we expected. Minority interests were lower than expected (PLN 11.5m vs. PLN 16.0m), leading to a first-quarter net profit of PLN 95.5m vs. PLN 88.9 forecasted.

### I-Stock Share Offering

The Company issued 3.88m I-stock shares, all of which were acquired by investors. Offer price was PLN 54 per share, which gave Asseco Poland net gains of PLN 204.5m. The Company is planning to use these funds in future acquisitions. The success of this share offering reduces the impact of the issue of additional supply of shares, which we believe has brought about a discount to peers. In our last research report, we assumed a 15% discount to the market value of treasury shares (PLN 49.0 per share). Thus, the price the Company was able to get constituted a positive surprise vs. our assumptions.



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**List of abbreviations and ratios contained in the report.**

**EV** – net debt + market value (EV – economic value)  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**PBA** – Profit on Banking Activity  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
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Recommendations are updated at least once every nine months.

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