

PLN 17.60

Hold

(Downgrade from Buy)

Target price: PLN 18.4

WIG index

38,071

of shares

15.0m

MCAP

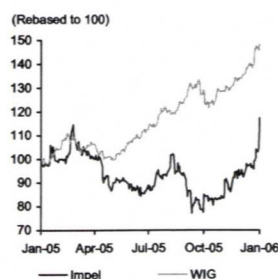
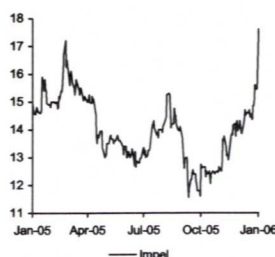
PLN 265m

US\$ 84m

Free float

PLN 109m

US\$ 35m

IMPL.WA / IPL.PW**Analyst**

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Impel Support Services Poland

No changes in regulations of subsidies before 2008? Down to HOLD.

	2003	2004	2005E	2006E	2007E
Revenues (PLNm)	449.1	569.0	624.3	721.4	751.0
EBITDA (PLNm)	44.3	23.0	44.1	49.9	53.4
EBIT (PLNm)	25.6	3.7	23.8	27.7	29.7
Net profit (PLNm)	22.0	(6.3)	19.3	22.5	23.4
EPS (PLN)	1.33	(0.42)	1.28	1.50	1.56
CEPS (PLN)	2.47	0.86	2.63	2.97	3.13
BVPS (PLN)	15.50	13.71	16.05	17.02	17.60
P/E (x)	13.2	(41.8)	13.7	11.8	11.3
P/CE (x)	7.1	20.5	6.7	5.9	5.6
P/BV (x)	1.1	1.3	1.1	1.0	1.0
EV/Sales (x)	0.5	0.3	0.3	0.3	0.3
EV/EBITDA (x)	5.1	8.6	4.5	4.0	3.7

Shareholder Structure: Grzegorz Dzik (CEO Impel Cleaning) 33.5%, Jozef Biegaj (CEO of Impel Security) 25.3%, ML IM 7.8%, Pioneer IM 5.4%

Investment case: In line with our expectations, there were no changes in the Protected Labour Enterprises (PLE) regulations in 2005 and, according to Impel's announcement, the coming significant changes will not become due before 2008. The current Polish government seems to be more reluctant to cut social spending than we expected before the elections. Thus, the probability of a severe subsidies cut is relatively lower, in our view. We have increased the long-term assumptions on the proportion of subsidies to sales from 2.0% to 2.5%. Consequently, we upgrade our target price for Impel to PLN 18.4 from PLN 16.1/share. At our target price, the stock would trade at 2006E P/E of 10x plus 80% weight of its net cash and 2006E EV/EBITDA of 4.3x. However, following 49% rally since our last Buy call dated 12 October 2005 we believe the stock price already reflects the upside/risk potential. We downgrade Impel from Buy to HOLD.

Recent developments: In recent months, Impel has continued the process of restructuring. The company has changed its organisation structure into the holding structure, spinning the operating activities into six subsidiaries. On 10 January, Impel announced, that it had launched a management incentive scheme issuing 150,000 bonds with a face value of PLN 0.1 convertible into one company share each at the strike price of PLN 13.0 with 1-year lockup. Moreover, together with German partner Perfekta the company has created a joint venture that will offer laundry services, mainly to German hospitals and industrial customers. The company expects the project to start operations in 4Q 2006.

4Q Results preview and outlook: In our view, the basis of 4Q 2004 results is extremely difficult to beat. Recall that in December 2004 the regulations governing PLE-related subsidies changed in a very positive way for Impel. Consequently, Impel booked a PLN 27.7m subsidies gain compared to our forecast PLN 14.3m in 4Q 2005E. Thus, while we anticipate 9% growth YoY in revenues to PLN 167m in 4Q 2005, we are looking for a YoY drop in EBIT to PLN 5m and net profit to PLN 3m.

Valuation: Impel trades at a reasonable earnings multiple of 11.8x and EV/EBITDA of 4.0x for 2006. Following the 49% rally since our last Buy call, our increased target price of PLN 18.4/share offers only 4.6% upside potential. We believe the current stock price reflects the upside/risk potential of the company. We downgrade Impel from Buy to HOLD.

Please note that the information at the back forms an integral part of this report.

Table 178: Preliminary 3Q 2005 (IFRS, consolidated)

PLNm	4Q 2005E	4Q 2004	Ch. %	FY 2005E	FY 2004	Ch. %
Net revenue	167	153.0	9	624.3	569.0	10
EBIT	5	20	(73)	23.8	3.7	537
Net profit	3	9	(68)	19.3	(6.3)	n.m.
Subsidies	14.3	27.7	(48)	55.0	67.0	(18)

Source: Impel, CA IB estimates

Preliminary 4Q 2005 preview

In our view, the basis of 4Q 2004 results is extremely difficult to beat for Impel. Recall that in December 2004 the regulations governing PLE-related subsidies changed for the third time in 2004. The change was very positive for Impel, as it practically meant a return to its high initial levels. As a result, Impel booked PLN 27.7m subsidies gain in the other operating revenues, compared to PLN 67.0m in FY 2004 and our forecast of PLN 55.0m in FY 2005E and PLN 14.3m in 4Q 2005E. Consequently, while we anticipate 9% growth YoY in revenues to PLN 167m in 4Q 2005, we are looking for a YoY drop in EBIT to PLN 5m and net profit to PLN 3m.

Table 179: Earnings statement (IFRS, consolidated)

PLNm	2004	2005E	2006E	2007E
Net revenue	569.0	624.3	721.4	751.0
Subsidiaries	67.0	55.0	46.0	31.3
Gross profit	24.8	52.4	69.5	75.6
SG&A	77.4	85.0	98.2	102.2
EBITDA	23.0	44.1	49.9	53.4
Depreciation	19.3	20.2	22.2	23.7
EBIT	3.7	23.8	27.7	29.7
Net financials	2.6	0.2	0.5	0.7
Pre-tax profit	0.5	24.1	28.1	30.4
Minorities	(1.0)	(1.0)	(1.1)	(1.2)
Tax	5.8	3.9	4.5	5.8
Net profit	(6.3)	19.3	22.5	23.4

Source: Impel, CA IB estimates

Table 180: Cash flow (IFRS, consolidated)

PLNm	2004	2005E	2006E	2007E
Cash flow from operations	15.3	33.0	32.7	44.3
Cash flow from investment	(39.9)	(22.3)	(19.5)	(24.3)
Cash flow from financing	(53.7)	12.9	(11.0)	(14.7)
Net change in cash	(78.3)	23.6	2.2	5.3
Beginning cash	160.0	81.7	105.3	107.5
Ending cash	81.7	105.3	107.5	112.8

Source: Impel, CA IB estimates

Table 181: Balance sheet (IFRS, consolidated)

PLNm	2004	2005E	2006E	2007E
Current assets	234.0	271.3	297.6	310.3
Fixed assets	103.8	110.8	116.8	120.1
LT deferred charges	13.6	15.0	17.3	18.0
Total assets	351.5	397.1	431.7	448.4
Current liabilities	104.7	110.7	123.4	128.2
Deferred income	25.8	28.4	32.8	34.1
Long-term liabilities	2.8	2.8	2.8	2.8
Provisions	10.9	12.0	13.8	14.4
Equity	206.2	241.4	255.9	264.6
Minority Interest	0.9	1.9	3.0	4.2
Total liabilities and equity	351.5	397.1	431.7	448.4
Net debt (cash)	(66.1)	(92.7)	(97.9)	(103.2)

Source: Impel, CA IB estimates

Table 182: Key ratios

	2004	2005E	2006E	2007E
EBIT margin (%)	0.7	3.8	3.8	4.0
Net margin (%)	n.m.	3.1	3.1	3.1
Subsidies/net sales (%)	11.8	8.8	6.4	4.2
Net debt (cash)/equity (%)	(32.1)	(38.4)	(38.3)	(39.0)
ROE (%)	n.m.	8.6	9.1	9.0

Source: Impel, CA IB estimates