

PLN 11.80

Buy

Target price: PLN 16.1

**WIG index**

32,701

**# of shares**

15.4m

**MCAP**

PLN 177m

US\$ 55m

**Free float**

PLN 73m

US\$ 23m

IMPL.WA / IPL.PW

# Impel

## Support Services

### Poland

## Turnaround story

	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)	8.8	(28.0)	9.2	7.9	7.6
P/CE (x)	4.8	13.7	4.5	4.0	3.8
P/BV (x)	0.8	0.9	0.7	0.7	0.7
EV/Sales (x)	0.3	0.2	0.2	0.2	0.1
EV/EBITDA (x)	2.9	4.8	2.5	2.2	2.1

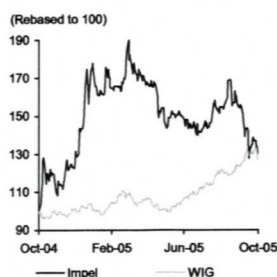
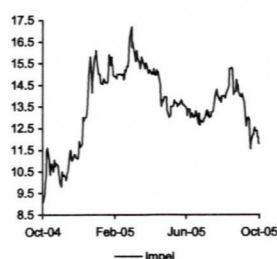
Shareholder structure: Grzegorz Dzik (CEO) 33.5%, Jozef Biegaj (CEO of Impel Security) 25.3%

**Investment case:** We believe there will be no changes in the Protected Labour Enterprises (PLE) regulations in 2005, which, in their present form, are favourable for Impel. Combined with the positive effects of restructuring, we expect a significant rebound in earnings in 2005 and double-digit growth in 2006. Our forecast implies attractive earnings multiples of 9x in 2005 and 8x in 2006. Importantly, at the end of 1H 2005 the company held PLN 62.8m in net cash, which we believe will be partially paid out to investors as a dividend/buyback. We rollout our target price for Impel to PLN 16.1 from PLN 15.5/share and reiterate our BUY rating on the stock. At our target price, the stock would trade at 2005E P/E of 10x plus 75% weight of its net cash.

**Recent developments:** On 28 September Impel management announced its FY 2005 earnings forecast upgrade, by 15% from PLN 17m to PLN 19.5m, 1% above our estimate of PLN 19.3m. Continuing the restructuring process, Impel transferred cleaning services from the parent company to the specially created subsidiary Impel Cleaning. In early October, Mrs Dagmara Sobolewska resigned from the post of Deputy HR CEO citing private reasons.

**Short-term outlook:** In our view, Impel holds an excessive pile of cash, which together with strong cash flow generation, is unlikely to be fully utilised via acquisitions. Based on our talks with management, we believe the company will likely pay out part of the excessive funds to its investors in the form of a dividend/buyback. As the buyback programme could negatively affect the stock's free float and liquidity, we would rather expect dividend. We believe Impel could pay out 100% of its parent company earnings, accounting for approximately 50% of consolidated net profit, i.e. approximately PLN 0.64/share, implying a decent dividend yield of 5.4%. We expect Impel will report another strong set of quarterly results after 3Q 2005. While we anticipate 9% YoY improvement in the top line (to approximately PLN 160m), we are looking for approximately PLN 6m in EBIT and ca. PLN 5m in earnings.

**Valuation:** According to our estimates, Impel trades at attractive earnings multiples of 9.2x in 2005 and 7.9x in 2006, and EV/EBITDA of 2.5x for 2005 and 2.2x for 2006. We reiterate our BUY recommendation on the stock with a 12-month target price of PLN 16.1/share (up from PLN 15.5/share), offering an upside potential of 35%.

**Analyst**

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12 October 2005

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

Member of HVB Group

Table 162: Preliminary 3Q 2005 (consolidated)

PLNm	3Q 2005E	3Q 2004	Ch. %	1-3Q 05E	1-3Q 04	Ch. %
Net revenue	160	147.3	9	459	416.3	10
EBIT	6	2.2	160	16	(15.6)	n.m.
Net profit	5	(2.3)	n.m.	14	(19.6)	n.m.

Source: Impel, CA IB estimates

### Preliminary 3Q 2005 preview

We expect Impel to report another strong set of quarterly results. Due to high provisions related to the PLE rule changes created in the respective period in 2004, the 3Q 2005 results will be much stronger on a YoY basis. Consequently, while we anticipate 9% improvement in the top line (to approximately PLN 160m), we are looking for approximately PLN 6m in EBIT (vs. PLN 2.2m in 3Q 2004) and ca. PLN 5m in earnings (vs. negative PLN 2.3m in 3Q 2004).

Table 163: Earnings statement (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
COGS	544.2	571.8	651.9	675.5
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 164: Cash flow (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 165: Balance sheet (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 166: Key ratios

	2004	2005E	2006E	2007E
EBITDA margin (%)	4.0	7.1	6.9	7.1
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