PLN 12.95

Buy

Target price: PLN 15.5

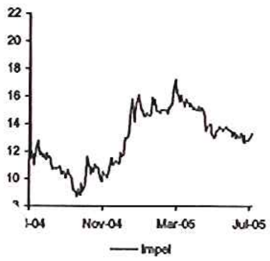
WIG Index
28,925.6

# of shares
15.4m

MCAP
PLN 195m
US$ 57m

Free float
PLN 80m
US$ 24m

IMPL.WA / IPL PW



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Company Update

Impel
Support Services
Poland

Trimming forecasts, BUY reiterated

	2003	2004	2005E	2006E
Revenues (PLNm)	449.1	569.0	630.3	734.6
EBITDA (PLNm)	44.3	23.0	44.3	51.1
EBIT (PLNm)	25.6	3.7	24.1	28.9
Net profit (PLNm)	22.0	(6.3)	19.3	23.5
EPS (PLN)	1.33	(0.42)	1.28	1.56
CEPS (PLN)	2.47	0.86	2.63	3.04
BVPS (PLN)	15.50	13.71	16.70	18.54
P/E (x)	9.7	(30.7)	10.1	8.3
P/CE (x)	5.2	15.1	4.9	4.3
P/BV (x)	0.8	0.9	0.8	0.7
EV/Sales (x)	0.3	0.2	0.2	0.2
EV/EBITDA (x)	3.3	5.6	2.9	2.5

Shareholder structure: Grzegorz Dzik (CEO) 33.5%, Józef Biegaj (CEO of Impel Security) 25.3%, Pioneer Pekao IM 5%

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. Moreover, any potential acquisitions may provide an additional upside to the company's performance. Our trimmed forecast implies attractive earnings multiples of 10x in 2005 and 8x in 2006. We decrease our target price for Impel to PLN 15.5 from PLN 19/share and reiterate our BUY rating on the stock.

Recent developments: Impel recently acquired a security services company, BDF, and disposed of a clothing manufacturer, Tailor. According to management, Impel should conclude approximately two additional acquisitions and sell one non-core business in 2H 2005. On 1 July, the Sejm decided to increase the minimum wage by 3% YoY in 2006, and perform an additional revaluation based on projected CPI and two-thirds of expected GDP growth. A positive vote on this bill by the Senat and the President's signature are very likely, in our view. Consequently, we expect growth in Impel's labour costs in 2006 and beyond.

Short-term outlook: The unstable legal environment continues to constitute a major risk: while we anticipate no further changes in the PLE regulation this year, we expect additional subsidy cuts beyond 2005. Assuming the favourable PLE regulations will remain in place for the time being, we expect the company will not strive to breakeven on the EBIT excluding subsidies level before 2007. In anticipation of growth in labour costs and continuation of restructuring costs, we have cut our earnings forecasts for Impel by 15% to PLN 19.3m in 2005 and 17% to PLN 23.5m in 2006. We expect Impel will report another strong set of quarterly results after 2Q 2005. While we anticipate 8% YoY improvement in the top line (to approximately PLN 150m), we are looking for approximately PLN 5 m in EBIT and ca. PLN 4m in earnings.

Valuation: Our amended Impel forecasts imply attractive earnings multiples of 10.1x in 2005 and 8.3x in 2006. We note that Impel holds a net cash position of PLN 66.1m. Based on 2005E EV/EBITDA, the stock trades at 2.9x. We reiterate our BUY recommendation on the stock with a 12-month target price of PLN 15.5/share (down from PLN 19/share), offering an upside potential of 19%.

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

We expect no changes in the favourable-for-Impel PLE regulations in 2005...

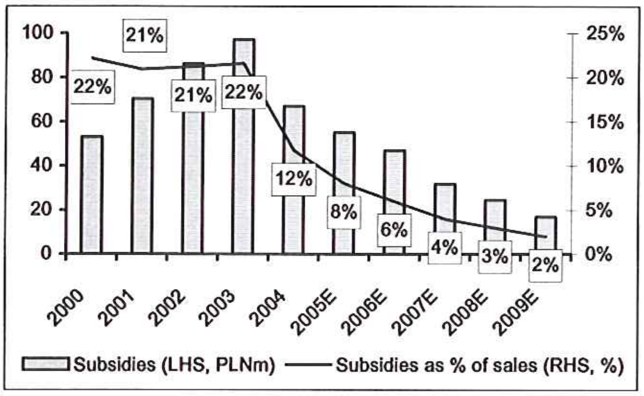
Protected Labour Enterprise regulations

Last year the regulations governing Protected Labour Enterprises were changed three times (on 18 May, 12 October and 7 December), which resulted in serious difficulties for Impel operations. However, the last change was favourable for the company and, based on our discussions with management and the Polish Association of Employers of Disabled Persons (POPON), and given the rapidly approaching elections, we believe there will be no major changes in the regulatory environment in 2005. In our view, management seems to have weakened the restructuring policy to enjoy the previously unexpected high subsidies and will not force a breakeven on the EBIT excluding subsidies basis in the current year. We expect the company to receive approximately PLN 55m in subsides in 2005.

... and assume further cuts in subsidies in 2006 and beyond

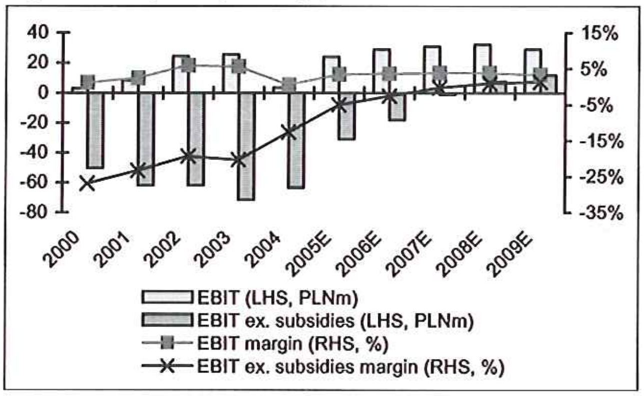
However, one cannot exclude further cuts in subsidies in the oncoming years. Therefore, we assume a decreasing value of subsides, to 6.0% of gross sales in 2006 (PLN 46.9m), 4.0% in 2007 (PLN 31.9m), 3.0% in 2008 (PLN 24.6m) and 2.0% in 2009 (PLN 16.9m).

Figure 23: **Impel: Subsidies forecasts**



Source: Company data, CA IB estimates

Figure 24: **Impel: Operating performance forecasts**



Source: Company data, CA IB estimates

M&As

Acquisitions: BDF purchase closed in May...

In May, Impel acquired Bankowy Dom Faktor (BDF), a security company, for PLN 3.4m from BGZ. According to the company, BDF revenues generated on the servicing of nearly 270 BGZ outlets reached approximately PLN 20m in 2004. Management claims the company was profitable on the bottom line.

...and two more to come in 2H 2005, according to management

Moreover, according to management, Impel is considering two acquisitions, one in cleaning services and another in the security services business. Finally, as reported by the local press, Impel is considering a joint venture project on the German market.

Disposals: non-core Tailor sold in April...

In April, Impel disposed of clothing manufacturing company, Tailor, for PLN 0.9m. According to management, due to the tax shield effect, this transaction will add similar consideration to the consolidated bottom line.

...and management expects Medar to be disposed of in 2H 2005

Secondly, according to management, the company has found a potential buyer for its medical subsidiary, Medar. Management estimates the aforementioned potential disposal should contribute approximately PLN 3m to 2005 net profit and free up a similar amount of cash.

However, in our model, we do not include the impact of any potential new M&As. Therefore any reasonable priced acquisition could be an upside to our forecast and valuation.

Management forecasts

Management forecasts of PLN 17m in net profit

Impel management has published its FY 2005 forecast. Assuming no changes in the regulatory environment and excluding any potential impact of new acquisitions, the management estimated 2005 sales at PLN 630m (up 10.7% YoY) and net profit at PLN 17m (vs. negative PLN 6.3m in 2004). The company announced it would update the forecasts on a quarterly basis, at minimum.

CA IB forecasts update

We have decreased our forecasts for Impel due to following reasons:

1) Expected increase in the minimum wages, which was agreed by the Lower House of Parliament (Sejm) and which we believe it is likely to be positively voted by Upper House of Parliament (Senat) and signed by the President. Therefore, we are looking at a 3% YoY minimum wage hike in 2006, with additional revaluations based on projected CPI and two-thirds of expected GDP growth. Consequently, we expect an increase in Impel's labour costs.

2) The 1Q 2005 earnings, hurt by the initial negative effects of restructuring, fell PLN 1m below our expectations.

3) Moreover Impel's management appears to have relaxed its restructuring policy to take advantage of the previously unexpected high in PLE subsides. Consequently, we expect the company will not strive to breakeven on the EBIT excluding subsidies level before 2007.

Table 148: **Impel: Changes in forecasts**

PLNm	2005E			2006E		
	New	Old	Ch. (%)	New	Old	Ch. (%)
Net revenues	630.3	639.0	(1.4)	734.6	734.2	0.1
Subsidies	55.0	52.0	5.8	46.9	45.0	4.2
EBITDA	44.3	60.0	(26.1)	51.1	69.1	(26.1)
EBIT	24.1	31.7	(24.1)	28.9	38.1	(24.3)
Net profit	19.3	22.8	(15.3)	23.5	28.2	(16.6)
EPS (PLN)	1.28	1.52	(15.3)	1.56	1.87	(16.6)
EBITDA margin (%)	7.0	9.4	(2.4)	7.0	9.4	(2.5)
EBIT margin (%)	3.8	5.0	(1.1)	3.9	5.2	(1.3)
Net profit margin (%)	3.1	3.6	(0.5)	3.2	3.8	(0.6)
Subsidies to sales ratio (%)	8.7	8.1	0.6	6.4	6.1	0.3

Source: CA IB estimates

Table 149: **Preliminary 2Q 2005 (consolidated)**

PLNm	2Q 2005E	2Q 2004	Ch. %	1H 05E	1H 04	Ch. %
Net revenue	150	138.3	8	299	287.9	4
EBIT	5	(21.8)	n.m.	10	(16.8)	n.m.
Net profit	4	(21.5)	n.m.	9	(16.0)	n.m.

Source: Company data, CA IB estimates

Preliminary 2Q 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 2Q 2005 results will be much stronger on a YoY basis. Consequently, while we anticipate 8% improvement in the top line (to approximately PLN 150m), we are looking for approximately PLN 5m in EBIT (vs. negative PLN 21.8m in 2Q 2004) and ca. PLN 4m in earnings (vs. negative PLN 21.5m in 2Q 2004).

Table 150: **Earnings statement (consolidated)**

PLNm	2003	2004	2005E	2006E
Net revenue	449.1	569.0	630.3	734.6
Subsidiaries	97.0	67.0	55.0	46.9
COGS	454.3	544.2	576.8	662.2
Gross profit	(5.2)	24.8	53.5	72.4
SG&A	59.5	77.4	85.8	100.0
EBITDA	44.3	23.0	44.3	51.1
Depreciation	18.8	19.3	20.2	22.2
EBIT	25.6	3.7	24.1	28.9
Net financials	(2.4)	2.6	0.1	0.5
Pre-tax profit	22.9	0.5	24.2	29.4
Minorities	(0.7)	(1.0)	(1.0)	(1.2)
Tax	0.2	5.8	3.9	4.7
Net profit	22.0	(6.3)	19.3	23.5

Source: Impel, CA IB estimates

Table 151: **Cash flow (consolidated)**

PLNm	2003	2004	2005E	2006E
Cash flow from operations	39.7	15.3	32.2	32.8
Cash flow from investment	(18.2)	(39.9)	(22.0)	(19.3)
Cash flow from financing	122.0	(53.7)	22.6	1.2
Net change in cash	143.5	(78.3)	32.8	14.6
Beginning cash	16.5	160.0	81.7	114.5
Ending cash	160.0	81.7	114.5	129.1

Source: Impel, CA IB estimates

Table 152: **Balance sheet (consolidated)**

PLNm	2003	2004	2005E	2006E
Current assets	283.8	234.0	282.0	322.6
Fixed assets	93.0	103.8	111.1	117.5
LT deferred charges	17.1	13.6	15.1	17.6
Total assets	393.9	351.5	408.2	457.7
Current liabilities	99.0	104.7	111.7	125.5
Deferred income	25.4	25.8	28.6	33.4
Long-term liabilities	7.1	2.8	2.8	2.8
Provisions	5.7	10.9	12.1	14.1
Equity	255.7	206.2	251.1	278.8
Minority Interest	1.0	0.9	1.9	3.1
Total liabilities and equity	393.9	351.5	408.2	457.7
Net debt (cash)	(147.0)	(66.1)	(101.9)	(119.5)

Source: Impel, CA IB estimates

Table 153: **Key ratios**

	2003	2004	2005E	2006E
EBITDA margin (%)	9.9	4.0	7.0	7.0
EBIT margin (%)	5.7	0.7	3.8	3.9
Net margin (%)	4.9	n.m.	3.1	3.2
Subsidies/net sales (%)	21.6	11.8	8.7	6.4
Net debt (cash)/equity (%)	(57.5)	(32.1)	(40.6)	(42.9)
ROE (%)	12.7	n.m.	8.4	8.9

Source: Impel, CA IB estimates