

PLN 12.5
Buy

(Upgrade from Hold)

Target price PLN 17.5

WIG Index

25,725

of shares

15m

MCAP

PLN 188m

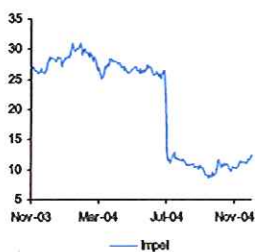
US\$ 59m

Free float

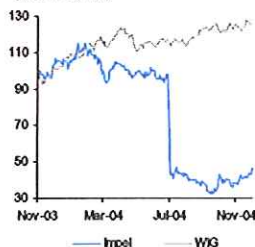
PLN 77m

US\$ 24m

IMPL.WA/PL.PW



(Rebased to 100)



Impel

Support Services

Poland

Boost to subsidies: Upgrade to BUY

	2002	2003	2004E	2005E	2006E
Revenues (PLNm)	406.4	449.1	550.9	632.9	731.1
EBIT (PLNm)	24.4	25.7	(19.9)	36.1	44.3
Net profit (PLNm)	34.5	22.0	(19.1)	29.0	36.2
EPS (PLN)	3.35	1.87	(1.22)	1.93	2.41
CEPS (PLN)	5.03	3.54	0.16	3.45	3.98
BVPS (PLN)	8.7	15.8	13.0	14.9	16.9
P/E (x)	3.7	6.7	(10.3)	6.5	5.2
P/CE (x)	2.5	3.5	79.5	3.6	3.1
P/BV (x)	1.4	0.8	1.0	0.8	0.7
EV/Sales (x)	0.33	0.10	0.19	0.15	0.10
EV/EBITDA (x)	3.3	1.0	64.9	1.6	1.1
Dividend yield (%)	8.1	3.0	0.0	3.1	3.9

Shareholder structure: Grzegorz Dzik 33.5%, Józef Biegaj 25.3%

- The government recently approved further changes in state subsidies to companies employing disabled people.** Overall the new government directive is positive for the company, as the level of subsidies is likely to increase to PLN 60.7m from PLN 45.8m in 2004, while the net loss should narrow to PLN 19m.
- The new level of subsidies will allow Impel to post a positive result in 2005.** Given the recent regulatory changes and declining probability that the government will introduce further less favourable amendments to the law next year, we anticipate that subsidies will rise to PLN 52m in 2005 instead of the previously expected PLN 20m. **However, beyond 2005 we may expect further changes in the law in the form of a parliamentary bill, which will probably be implemented in 2006.**
- As a result of the higher subsidies, we expect the 2004 net loss to narrow to PLN 19m from PLN 33.9m, while in 2005 we expect a nice net profit of PLN 29m.** This is primarily the result of higher subsidies. However, our concern is that in 2006 the level of subsidies could be lower than in 2005 if the new parliamentary bill is less favourable than the current legislation.
- Our DCF-valuation of the stock increased to PLN 17.5/share from PLN 12/share, as a consequence of higher subsidies and benefits coming from internal restructuring.** We have upgraded our rating to BUY as the stock offers an upside of 40%. Given our 2005 forecast the company is traded at a P/E ratio of 6.5x.

Analyst

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14 December 2004

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

Member of HVB Group

Impel proves ability to restructure

During 3Q Impel made significant progress in terms of internal restructuring, primarily in headcount:

- Cuts in workforce amounted to 3,434 people, or 16%, down to 18,626 at the end of September. Concurrently the number of disabled people was reduced by 2,539 or 28%. Overall headcount costs were reduced to 70.9% of the total revenues in 3Q from 74.1% in 2Q. Total cost savings are estimated at PLN 6.7m quarterly or PLN 27m annually from 2005.
- In addition the company also improved its flexibility in terms of employment, as a higher number of people are employed on a part-time basis. In 3Q flexible employment costs accounted for 21% of the total headcount costs vs. 14% in 2Q.
- The total restructuring costs are estimated at PLN 10m in 2004. Impel still expects some PLN 4m of additional restructuring costs in 4Q.

In 2004 the company decided to fully amortise its goodwill. The total non-cash costs related to the write-off amount of PLN 14.7m, while in 4Q the company will bear the cost of PLN 6.4m. The net profit adjusted to the goodwill write-off stands at minus PLN 4.4m in 2004.

Impel maintained its strong growth trend as total revenues improved by 34.3% YoY. In FY 2004 the company expects total revenues at PLN 557m, which implies growth of 24% while organic growth is estimated at 13.5% YoY. Going forward we expect revenue growth to be maintained at 15% CAGR.

Regulatory environment still unstable

Over the past nine months the regulations related to subsidies for companies employing disabled people were modified three times.

- in May the state subsidies were cut by approx. 90% to PLN 2.7m quarterly,
- then in September they were raised to PLN 9.0m quarterly and,
- in December the new regulation raised the level of subsidies to approx. PLN 14m quarterly in 2004.

Consequently the current level of subsidies stands at PLN 56m annually and most likely it will be slightly lower at PLN 52m through 2005 due the lower number of disabled people. However, the Polish parliament is working on further changes in the law, which will be effective most likely from 2006 and we cannot rule out the possibility that a new regulation will be introduced in mid-2005, which will be less favourable than the current one. Overall in our model we have conservatively assumed that the subsidies in 2006 will be lower at PLN 45m.

New earnings forecast

Table 1: Earnings forecast

	2004		2005		2006	
	old	new	old	new	old	new
PLNm						
Revenues	550.9	550.9	630.9	632.9	724.6	731.1
Gross margin	15.9	15.5	36.9	62.9	66.6	82.6
SG&A	77.4	77.4	66.1	71.1	70.0	74.4
EBIT excluding subsidies	(82.3)	(80.6)	(36.9)	(15.9)	(12.2)	(0.7)
Subsidies	45.9	60.8	20.0	52.0	20.0	45.0
EBIT	(36.4)	(19.9)	(16.9)	36.1	7.8	44.3
Net profit	(33.9)	(19.1)	(15.9)	29.0	8.5	36.2

Source: CA IB estimates

- We have maintained our revenue growth forecast at the previous level. We continue to expect revenue growth of 15% CAGR.
- In terms of gross margin we expect significant improvement on the back of a 16% cut in the workforce. Consequently in 2005 the gross margin is expected to reach a level of some 10%. However, we expect less significant decline in SG&A costs as Impel will have to keep some incentives for management to maintain strong revenue growth and further efficiency improvement.
- Nevertheless EBIT excluding subsidies will be much stronger than previously expected and the company should reach break-even in 2006. In the meantime subsidies are expected to be significantly higher than in the previous forecast.
- Overall in 2005 we expect a solid net profit of PLN 29m and PLN 36m in 2006 unless we witness another unfavourable change in the law.

Financials

Table 2: Profit & loss statement (PAS, consolidated)

PLNm	2002	2003	2004E	2005E	2006E
Net revenue	406.4	449.1	550.9	632.9	731.1
COGS	(405.4)	(454.9)	(535.4)	(570.0)	(648.5)
Gross profit	1.1	(5.8)	15.5	62.9	82.6
SG&A	(48.4)	(59.5)	(77.4)	(71.1)	(74.4)
Other operating items	71.7	91.0	42.0	44.2	36.0
EBITDA	40.5	44.7	1.7	59.0	67.8
Depreciation	(16.2)	(19.0)	(21.5)	(22.9)	(23.6)
EBIT	24.4	25.7	(19.9)	36.1	44.3
Net financials	(4.0)	(2.3)	2.8	2.2	2.9
Pre-tax profit	20.1	23.1	(17.1)	38.3	47.2
Minorities	(0.1)	(0.8)	0.0	0.0	0.0
Tax	14.5	(0.3)	(2.0)	(9.3)	(11.0)
Net profit	34.2	21.8	(19.1)	29.0	36.2

Source: Impel, CA IB estimates

Table 3: Cash flow (PAS, consolidated)

PLNm	2002	2003	2004E	2005E	2006E
Net profit	34.5	22.0	(19.1)	29.0	36.2
Depreciation	16.2	19.0	21.5	22.9	23.6
Other non-cash	1.2	0.8	0.0	0.0	0.0
Cash earnings	51.8	41.8	2.5	51.9	59.8
Change in WC	(2.1)	(2.8)	(8.4)	(13.0)	(8.0)
Capex	(20.1)	(18.9)	(28.0)	(25.0)	(25.0)
Free cash flow	29.6	20.1	(34.0)	13.9	26.8
Dividends	0.0	(10.4)	(5.6)	0.0	(5.8)
New capital/(share buyback)	(15.2)	154.8	(37.0)	0.0	0.0
Change in liquid funds	14	165	(77)	14	21

Source: Impel, CA IB estimates

Table 4: Balance sheet (PAS, consolidated)

PLNm	2002	2003	2004E	2005E	2006E
Fixed Assets	90.3	90.2	96.6	98.7	100.2
Working capital	13.9	16.8	25.2	38.2	46.2
Capital employed	115.4	118.1	133.0	148.1	157.5
Shareholders equity	89.7	256.9	195.3	224.2	254.7
Net debt/(cash)	7.0	(157.5)	(80.9)	(94.8)	(115.8)
Other liabilities	18.2	18.2	18.2	18.2	18.2
Total assets	235.1	401.6	353.2	379.6	426.9

Source: Impel, CA IB estimates

Table 5: Ratios

	2002	2003	2004E	2005E	2006E
EBITDA margin (%)	10.0	10.0	0.3	9.3	9.3
EBIT margin (%)	6.0	5.7	(3.6)	5.7	6.1
Net debt (cash)/equity (%)	7.8	(61.3)	(41.5)	(42.3)	(45.5)
Current ratio (x)	1.2	2.5	1.8	2.1	2.1
Debtors turnover (x)	4.7	4.3	4.5	4.4	4.4
ROE (%)	47.4	12.7	(8.4)	13.8	15.1
ROCE (%)	23.3	16.1	(12.8)	20.8	23.5

Source: Impel, CA IB estimates

Distribution of CA IB's current stock ratings

Coverage Universe

	Buy ¹⁾	Hold ²⁾	Sell ³⁾
Count	44	38	15
% of total	45.4	39.2	15.5

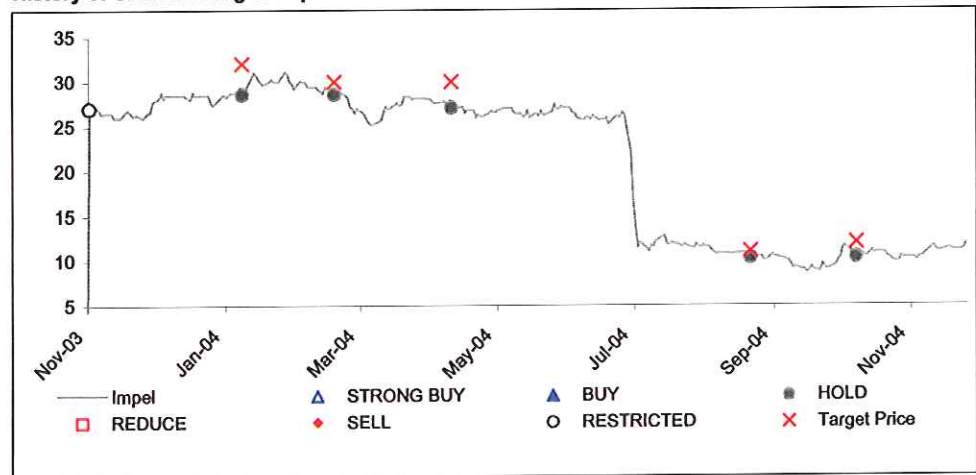
Investment Banking Clients ⁴⁾

	Buy ¹⁾	Hold ²⁾	Sell ³⁾
Count	12	11	4
% of total	44.4	40.7	14.8

- 1) Includes Strong Buy and Buy
- 2) Includes Hold and Restricted stocks (in order to comply with applicable regulations)
- 3) Includes Reduce and Sell
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History of CA IB's rating of Impel



Source: CA IB

Other regulatory disclosures

	1	2	3	4	5	6
Impel	Yes	Yes				

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