

PLN 16.50

Buy

(Upgrade from Hold)

Target price: PLN 20.0  
(Previously: PLN 18.0)**WIG index**

41,992

**# of shares**

15.0m

**MCAP**

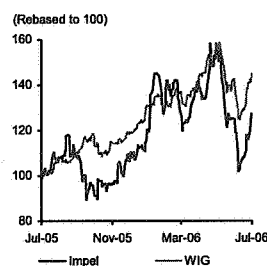
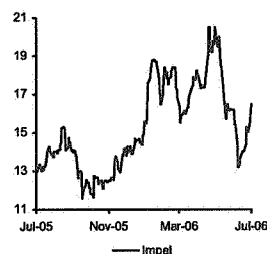
PLN 248m

US\$ 79m

**Free float**

PLN 102m

US\$ 32m

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

Ukasz Wache ko  
Tel. + 48 22 520 9965  
wachelkol@ca-ib.com.pl

<http://research.ca-ib.com>

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## Impel Support Services Poland

### Another real estate story developing?

	2004	2005	2006E	2007E	2008E
Revenues (PLNm)	568.5	625.0	721.3	749.6	779.2
EBITDA (PLNm)	18.4	38.0	43.6	46.8	48.0
EBIT (PLNm)	2.7	21.8	26.5	28.9	29.4
Net profit (PLNm)	(1.5)	20.4	22.1	23.5	24.0
EPS (PLN)	(0.10)	1.36	1.47	1.56	1.59
BVPS (PLN)	13.38	14.79	15.64	16.25	16.81
P/E (x)	(166.4)	12.2	11.2	10.5	10.4
P/CE (x)	17.5	6.8	6.3	6.0	5.8
P/BV (x)	1.2	1.1	1.1	1.0	1.0
EV/Sales (x)	0.3	0.3	0.3	0.2	0.2
EV/EBITDA (x)	9.9	4.8	4.2	3.9	3.8
Dividend yield (%)	2.1	4.1	4.5	6.3	6.4

Shareholder structure: Grzegorz Dzik (CEO Impel Cleaning) 33.5%, Jozef Biegaj (CEO of Impel Security) 25.3%, ML IM 7.8%, Pioneer IM 7.1%

**Investment case:** Impel announced it is seeking a partner to development a joint venture project, to which the company will contribute a 6,650m<sup>2</sup> plot of land located in the centre of Wroclaw. As the plot was booked at its low historical value, it had no impact on our valuation. However given the rally in real estate prices, the market value of this asset has grown to ca. PLN 30m or PLN 2/share, according to our calculations and management guidance. Impel is trading at attractive earnings multiples of 11x for 2006 and 11x for 2007, which fall to 8x and 7x after adjustment for excess cash, respectively. We have included the real estate project valuation into our model and increased our risk free rate assumption, based on which we are increasing our target price for Impel from PLN 18 to PLN 20/share yielding 21% upside potential. We are upgrading the stock from Hold to BUY.

**Recent developments:** Impel announced its plans to participate in a residential real estate project on its 6,650m<sup>2</sup> plot in the centre of Wroclaw. According to the company's management and our field research, the price of land in this area amounts to ca. PLN 450/m<sup>2</sup>, implying a value of PLN 29.9m or PLN 2.0/share for Impel's plot. Impel is currently holding talks with potential joint venture partners. We would expect the outcome of these talks to be determined within the next few weeks. Importantly, three months after one of Impel's top clients, BPH Bank, cancelled its contract for cleaning services, Impel won the tender and signed an agreement worth PLN 2.2m annually to clean the bank's branches. Management expects TPSA and KGHM to follow suit in the coming weeks.

**2Q Results preview and outlook:** We expect another set of decent quarterly results in 2Q 2006. While we anticipate 18% growth YoY in revenues to PLN 175m, we are looking for an 8% YoY drop in subsidies due to the continuing restructuring process and the declining number of disabled persons employed by the company. Consequently, we expect flat QoQ EBIT and earnings of PLN 4m and PLN 3m, respectively.

**Valuation:** Impel trades at an attractive earnings multiple of 11.2x and EV/EBITDA of 4.2x for 2006. On the back of the addition of the real estate project valuation of PLN 2/share, we increase our 12-month target price for the company from PLN 18/share to PLN 20/share, yielding 21.2% upside potential. Therefore, we are upgrading Impel from Hold to BUY.

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

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Table 182: Preliminary 2Q 2005 results

PLNm	2Q 2006E	2Q 2005	Ch.	%	1H 2006E	1H 2005	Ch.	%
Net revenues	175	148.7	18		344	299.1	15	
EBIT	3.8	5.2	(28)		8	10.1	(25)	
Net profit	2.8	4.5	(37)		6	9.2	(37)	

Source: Impel, CA IB estimates

Table 183: Earnings statement (IFRS, consolidated)

PLNm	2005	2006E	2007E	2008E
Net revenue	625.0	721.3	749.6	779.2
Subsidiaries	54.1	50.0	40.0	33.0
Gross profit	48.9	68.4	74.6	79.2
SG&A	85.4	98.2	102.1	106.1
EBITDA	38.0	43.6	46.8	48.0
Depreciation	16.2	17.1	17.9	18.6
EBIT	21.8	26.5	28.9	29.4
Net financials	2.0	0.7	1.2	1.2
Pre-tax profit	23.8	27.3	30.1	30.6
Minorities	(0.7)	(0.8)	(0.8)	(0.9)
Tax	2.7	4.4	5.7	5.8
Net profit	20.4	22.1	23.5	24.0

Source: Impel, CA IB estimates

Table 184: Cash flow (IFRS, consolidated)

PLNm	2005	2006E	2007E	2008E
Cash flow from operations	18.7	24.9	37.8	38.7
Cash flow from investment	(17.8)	4.7	(21.0)	(19.5)
Cash flow from financing	(2.0)	(12.3)	(14.3)	(15.5)
Net change in cash	(1.1)	17.2	2.5	3.7
Beginning cash	72.8	71.7	89.0	91.5
Ending cash	71.7	89.0	91.5	95.2

Source: Impel, CA IB estimates

Table 185: Balance sheet (IFRS, consolidated)

PLNm	2005	2006E	2007E	2008E
Current assets	232.4	271.4	280.3	290.8
Fixed assets	105.9	94.3	100.4	104.4
LT deferred charges	12.7	14.7	15.3	15.9
Total assets	351.0	380.4	396.0	411.1
Current liabilities	111.3	124.9	129.8	134.9
Deferred income	12.0	13.8	14.4	15.0
Long-term liabilities	2.7	2.7	2.7	2.7
Provisions	2.3	2.6	2.7	2.8
Equity	222.4	235.2	244.4	252.8
Minority Interest	0.4	1.2	2.0	2.9
Total liabilities and equity	351.0	380.4	396.0	411.1
Net debt (cash)	(66.8)	(87.1)	(89.6)	(93.3)

Source: Impel, CA IB estimates

Table 186: Key ratios

	2005	2006E	2007E	2008E
EBIT margin (%)	3.5	3.7	3.9	3.8
Net margin (%)	3.3	3.1	3.1	3.1
Subsidies/net sales (%)	8.7	6.9	5.3	4.2
Net debt (cash)/equity (%)	(30.1)	(37.0)	(36.7)	(36.9)
ROE (%)	9.6	9.7	9.8	9.6

Source: Impel, CA IB estimates