2Q'11 Results Preview

TMT and Video Games

20 July 2011

Robust video games vs. neutral telecoms; IT disappointing

In our view TPSA's 2Q'11 set of KPIs are not comforting since we expect low net additions in the mobiles segment to fail to cover the lack of broadband achievements. Since 2Q'10 was unique in many ways, we believe the plain base effecting TPSA's top line contraction at 4.7% in 2Q'11 might actually fall below the official range (-2.0% to -4.5%). Nonetheless, one-offs should lift TPSA's reported net profit to PLN 0.9bn. 2Q'11 should be turn unexciting in the case of Netia, with financials on track to meet the FY forecast and somewhat sluggish broadband additions.

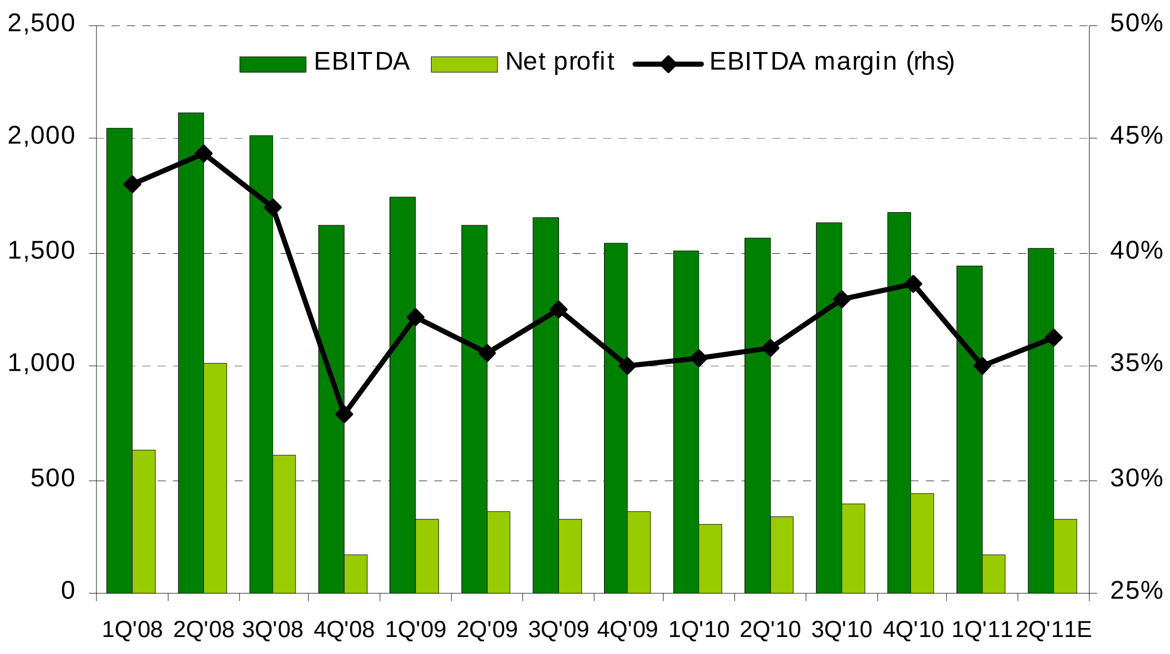
We believe IT companies will all disappoint in 2Q'11 – Sygnity's top line growth comes in too slow for it to crawl out of net losses yet, and Comarch's German disappointment will keep the company's EBIT in the red. Asseco is the real disappointment though. We see the parent company's EBIT contracting by as much as 30% y/y, and none of the 'old' group pillars are likely to surprise on the upside. 2Q'11's bottom line should fall 27% regardless of the recent FS acquisition. We see AP as a stand out in terms of key negative IT surprises in 2Q'11.

2Q'11 results will be very good for both Optimus and City Interactive due to hot video game premieres. In our opinion Optimus will report record results that have been long awaited by investors, while City Interactive may be a positive surprise in terms of sales and profits.

Positive surprises: Optimus & City Interactive. Negative surprise: TPSA, Asseco Poland, Comarch.

Fig. 1. Telecoms – 2Q'11 results preview

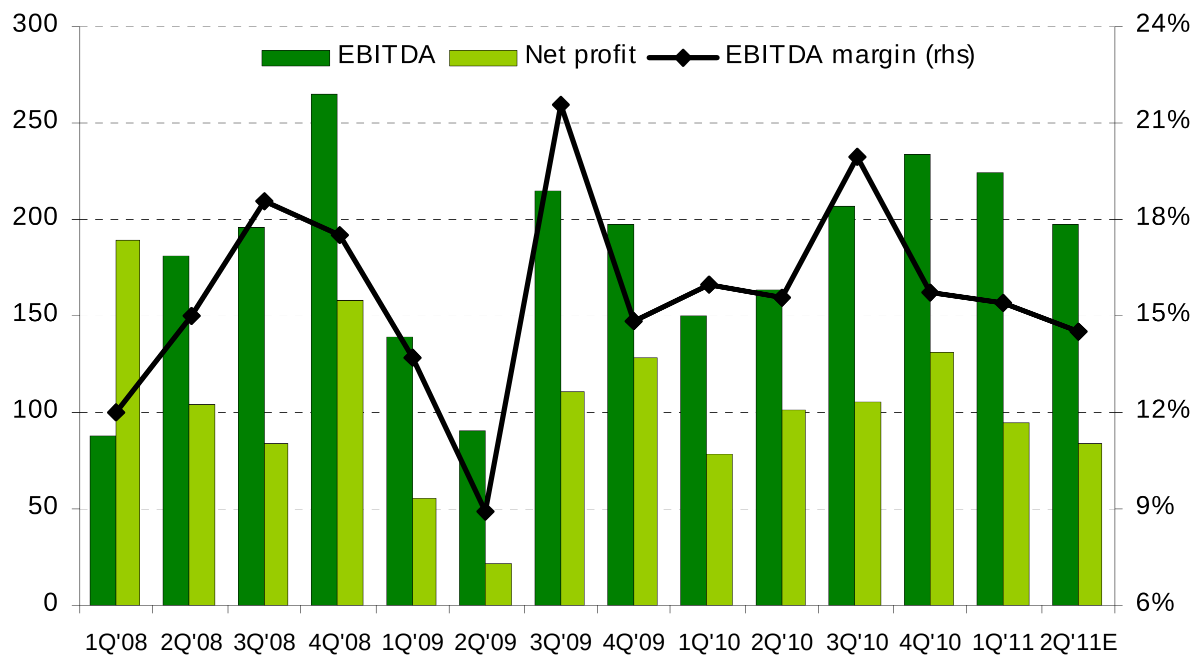
In PLN millions, unless otherwise stated



Source: DM BZWK estimates, company data, 3Q'10 and 2Q'11E adjusted for one-offs

Fig. 2. IT sector – 2Q'11 results preview

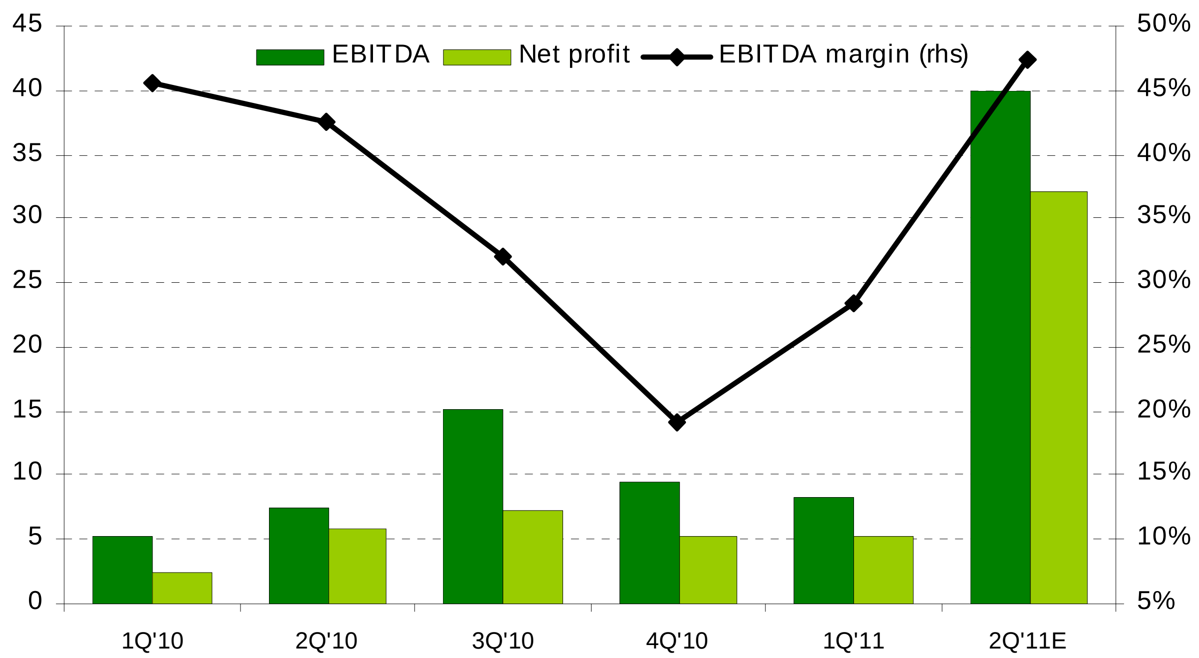
In PLN millions, unless otherwise stated



Source: DM BZWK estimates, company data

Fig. 3. Video games sector – 2Q'11 results preview

In PLN millions, unless otherwise stated



Source: DM BZWK estimates, company data

TP SA

Publishing date: 27 July

Target price: PLN 17.6 (+7.0%) | **CP: PLN 16.5** | **Recommendation: SELL**

Overall outcome: Negative | **Analyst: Pawel Puchalski, CFA**

Key points:

- We expect a continuing slide in the fixed line segment (down 11.2% y/y) resulting in TPSA's quarterly top line contraction (down 4.7% y/y) being greater than the official "2.0–4.5% annual decline" range;
- Greater contraction cannot be ruled out – mobile trends in 2Q'10 (ARPU up PLN 1.7 q/q to PLN 25.9, AUPU up 15mins q/q to 161.8mins) were all driven by catastrophic events (floods, plane crash) or intense advertising campaigns. We expect mobile ARPU at PLN 24 (up PLN 1 q/q) and AUPU at 160mins (up 1.6mins), with the total mobile client base growing to 14.52m at quarter's end (vs. 14.03m in 2Q'10);
- Further fall in broadband ARPU and expected unsettling net additions likely to bring another disappointment in data services;
- Below, we present adjusted figures – the reported EBITDA / net profit should come in at PLN 2.16bn (up 47% y/y) and PLN 904m (up 2.8x y/y) due to gains on Emitel (PLN 1.2bn) being trimmed by heavy provisioning (PLN 458m).

Fig. 4. TPSA: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10*	4Q'10	1Q'11	2Q'11E*	y/y (%)	q/q (%)
Sales	4,520	4,539	4,579	4,312	4,185	4,058	4,005	3,873	3,987	3,898	3,957	3,729	**3,797**	*-4.8%*	*1.8%*
EBITDA	2,078	1,976	1,569	1,670	1,553	1,577	1,446	1,415	1,472	1,538	1,375	1,345	**1,420**	*-3.5%*	*5.6%*
EBITDA margin	*46.0%*	*43.5%*	*34.3%*	*38.7%*	*37.1%*	*38.9%*	*36.1%*	*36.5%*	*36.9%*	*39.5%*	*34.7%*	*36.1%*	***37.4%***	*0.5*	*1.3*
EBIT	984	915	474	610	500	529	457	474	507	597	430	367	**493**	*-2.8%*	*34.3%*
EBIT margin	*21.8%*	*20.2%*	*10.4%*	*14.1%*	*11.9%*	*13.0%*	*11.4%*	*12.2%*	*12.7%*	*15.3%*	*10.9%*	*9.8%*	***13.0%***	*0.3*	*3.1*
Net profit	698	630	179	328	374	327	251	285	324	380	218	189	**303**	*-6.5%*	*60.3%*
Net margin	*15.4%*	*13.9%*	*3.9%*	*7.6%*	*8.9%*	*8.1%*	*6.3%*	*7.4%*	*8.1%*	*9.7%*	*5.5%*	*5.1%*	***8.0%***	*-0.1*	*2.9*

*Source: Company data, DM BZ WBK estimates, *3Q'10 and 2Q'11E adjusted for one-offs*

Netia

Publishing date: 4 August

Target price: PLN 5.7 (+1.8%) | **CP: PLN 5.6** | **Recommendation: BUY**

Overall outcome: Neutral | **Analyst: Pawel Puchalski, CFA**

Key points:

- Net broadband additions stalled in Poland in 2Q'11 and we expect Netia to deliver a tiny, single-digit figure for growth in the broadband customer base over the quarter;
- The long-term trend in margins should remain unaffected since we expect the steady customer migration to LLU and growth in bundled package usage to allow the company's EBITDA margin to reach 25.1%, up 0.9pp y/y;
- The company's strong operating cash flow should result in another PLN 40m of quarterly cash generation, expanding Netia's cash pool to over PLN 420m – 19.2% of the company's Market Cap.

Fig. 5. Netia: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	y/y (%)	q/q (%)
Sales	243.5	271.2	369.1	375.7	373.7	370.3	386.2	387.0	393.7	394.5	394.2	401.2	**403.0**	*2.4%*	*0.5%*
EBITDA	35.4	43.8	57.6	69.9	69.4	82.9	90.6	93.5	95.3	89.8	307.9	101.4	**101.0**	*6.0%*	*-0.4%*
EBITDA margin	*14.6%*	*16.2%*	*15.6%*	*18.6%*	*18.6%*	*22.4%*	*23.5%*	*24.2%*	*24.2%*	*22.8%*	*78.1%*	*25.3%*	***25.1%***	*0.9*	*-0.2*
EBIT	-33.2	-22.7	-14.7	-3.1	-5.0	7.1	15.2	19.6	20.5	14.4	231.3	26.1	**25.7**	*25.3%*	*-1.4%*
EBIT margin	*-13.6%*	*-8.4%*	*-4.0%*	*-0.8%*	*-1.3%*	*1.9%*	*3.9%*	*5.1%*	*5.2%*	*3.6%*	*58.7%*	*6.5%*	***6.4%***	*1.2*	*-0.1*
Net profit	314.6	-18.6	-10.1	-6.4	-8.3	3.2	103.8	14.3	15.6	12.4	221.6	-23.0	**23.2**	*49.2%*	*n.a.*
Net margin	*129.2%*	*-6.9%*	*-2.7%*	*-1.7%*	*-2.2%*	*0.9%*	*26.9%*	*3.7%*	*4.0%*	*3.1%*	*56.2%*	*-5.7%*	***5.8%***	*1.8*	*11.5*

Source: Company data, DM BZ WBK estimates

Asseco Poland

Publishing date: 26 August

Target price: 58 (+22.5%) CP: PLN 47.4 Recommendation: HOLD

Overall outcome: Negative

Analyst: Pawel Puchalski, CFA

Key points:

- Very unsatisfactory contribution from the parent company with a top line at PLN 285m and a mere PLN 62m of EBIT (very significant 30% y/y fall). Dividends received should increase net profit to PLN 90m, but the consolidation will cut it back to PLN 50m;
  Not a single positive piece of news across the 'old group' pillars. We expect ASEE, ACE and ABS to deliver EBITs of PLN 10m, PLN 12m and PLN 7m, respectively – none of which will support the consolidated figures significantly;
- Investors will not find a loss-making subsidiary, but the contribution of most of small subsidiaries to consolidated EBIT will be trimmed to PLN 2–3m each;
- Formula Systems' results (top line PLN 477m, EBIT PLN 41m, net PLN 8m) represent the only support to consolidated figures. Without this contribution we would see AP's consolidated revenues, EBIT and net profit falling by 8.8%, 19.3% and 34.5% y/y, respectively.

Fig. 6. Asseco Poland: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	y/y (%)	q/q (%)
Sales	753.7	751.5	867.4	710.0	707.3	697.2	935.7	690.6	761.7	739.4	1,046.0	1,197.0	**1,062.0**	*39.4%*	*-11.3%*
EBITDA	154.2	166.5	185.4	141.6	166.5	195.9	141.9	151.3	161.0	190.8	191.9	219.0	**186.5**	*15.8%*	*-14.8%*
EBITDA margin	*20.5%*	*22.2%*	*21.4%*	*19.9%*	*23.5%*	*28.1%*	*15.2%*	*21.9%*	*21.1%*	*25.8%*	*18.3%*	*18.3%*	***17.6%***	*-3.6*	*-0.7*
EBIT	120.6	139.3	160.1	114.6	137.9	139.1	134.0	121.3	132.5	158.7	156.5	180.0	**147.5**	*11.3%*	*-18.1%*
EBIT margin	*16.0%*	*18.5%*	*18.5%*	*16.1%*	*19.5%*	*19.9%*	*14.3%*	*17.6%*	*17.4%*	*21.5%*	*15.0%*	*15.0%*	***13.9%***	*-3.5*	*-1.1*
Net profit	100.8	76.9	100.1	75.1	101.4	102.3	94.6	95.5	109.9	109.8	99.9	97.0	**80.4**	*-26.9%*	*-17.1%*
Net margin	*13.4%*	*10.2%*	*11.5%*	*10.6%*	*14.3%*	*14.7%*	*10.1%*	*13.8%*	*14.4%*	*14.8%*	*9.6%*	*8.1%*	***7.6%***	*-6.9*	*-0.5*

Source: Company data, DM BZ WBK estimates

Comarch

Publishing date: 31 August

Target price: PLN 67.0 (+0.5%) CP: PLN 66.7 Recommendation: SELL

Overall outcome: Negative

Analyst: Pawel Puchalski, CFA

Key points:

- No breakthrough in either Polish or German sales, The mere 3% y/y growth figure results to a large extent from favourable exchange rates;
- Insignificant cost line improvements unlikely to prevent Comarch reporting another operating quarterly loss;
- Bottom line 'saved' for the last time via high negative minorities (other entities' participation in heavy losses incurred by the German segment) – these cease as of June 10th.

Fig. 7. Comarch: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	y/y (%)	q/q (%)
Sales	163.9	115.2	311.6	159.7	163.8	174.1	233.1	145.7	174.4	177.3	264.4	147.5	**179.1**	*2.7%*	*21.4%*
EBITDA	9.4	5.5	41.0	3.2	2.3	14.6	37.6	8.4	9.4	18.2	30.7	-0.2	**6.0**	*-36.5%*	*n.a.*
EBITDA margin	*5.7%*	*4.8%*	*13.2%*	*2.0%*	*1.4%*	*8.4%*	*16.1%*	*5.7%*	*5.4%*	*10.3%*	*11.6%*	*-0.1%*	***3.4%***	*-2.1*	*3.5*
EBIT	4.6	0.8	35.0	-5.9	-12.8	8.4	26.1	-3.1	-2.3	9.7	19.2	-7.4	**-1.3**	*n.a.*	*n.a.*
EBIT margin	*2.8%*	*0.7%*	*11.2%*	*-3.7%*	*-7.8%*	*4.8%*	*11.2%*	*-2.2%*	*-1.3%*	*5.5%*	*7.3%*	*-5.0%*	***-0.7%***	*0.6*	*4.3*
Net profit	-5.1	1.1	37.9	-2.9	-4.3	12.8	27.6	-0.1	5.4	7.6	30.6	-0.9	**5.3**	*-0.7%*	*n.a.*
Net margin	*-3.1%*	*1.0%*	*12.2%*	*-1.8%*	*-2.6%*	*7.4%*	*11.9%*	*-0.1%*	*3.1%*	*4.3%*	*11.6%*	*-0.6%*	***3.0%***	*-0.1*	*3.6*

Source: Company data, DM BZ WBK estimates

Sygnity

Publishing date: 31 August

Target price: 30 (+35.3%) | **CP: PLN 21.79** | **Recommendation: BUY**

Overall outcome: Neutral | **Analyst: Pawel Puchalski, CFA**

Key points:

- Top line growing at the slow rate of 3% q/q – Sygnity has not signed any significant long-term contracts yet and no segments have begun to blossom;
- With costs under control, the company should deliver a highly anticipated operating profit – q/q fall results from the recognition of 1H'11 bonuses in 2Q'11 (these were not accounted for in 1Q'11);
- We believe it is almost certain that Sygnity's bottom line will not have entered the black in 2Q'11.

Fig. 8. Sygnity: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	y/y (%)	q/q (%)
Sales	295.4	183.7	334.1	140.4	141.1	126.8	164.3	104.2	118.6	122.2	179.0	112.0	**115.0**	*-3.1%*	*2.7%*
EBITDA	18.1	23.5	38.6	-6.3	-78.1	4.5	19.6	-10.0	-6.7	-2.2	11.3	5.9	**4.8**	*n.a.*	*-18.2%*
EBITDA margin	*6.1%*	*12.8%*	*11.6%*	*-4.5%*	*-55.3%*	*3.5%*	*11.9%*	*-9.6%*	*-5.6%*	*-1.8%*	*6.3%*	*5.2%*	***4.2%***	*9.8*	*-1.1*
EBIT	7.0	11.8	28.4	-16.1	-85.4	-4.6	11.3	-17.5	-13.7	-8.5	5.3	1.4	**0.3**	*n.a.*	*-78.1%*
EBIT margin	*2.4%*	*6.4%*	*8.5%*	*-11.5%*	*-60.5%*	*-3.6%*	*6.9%*	*-16.8%*	*-11.5%*	*-6.9%*	*3.0%*	*1.2%*	***0.3%***	*11.8*	*-1.0*
Net profit	8.3	6.3	19.6	-17.0	-75.5	-3.7	6.9	-17.1	-13.7	-12.3	0.3	-1.2	**-2.2**	*n.a.*	*n.a.*
Net margin	*2.8%*	*3.4%*	*5.9%*	*-12.1%*	*-53.5%*	*-2.9%*	*4.2%*	*-16.4%*	*-11.5%*	*-10.1%*	*0.2%*	*-1.1%*	***-2.0%***	*9.6*	*-0.9*

Source: Company data, DM BZ WBK estimates

Optimus

Publishing date: 31 August

Target price: PLN 7.7 (+9.8%) | **CP: PLN 7.01** | **Recommendation: HOLD**

Overall outcome: Positive | **Analyst: Lukasz Kosiarski**

Key points:

- Optimus is likely to show record results since its merger with CD Projekt Investment in terms of sales (PLN 56.1m) and profits due to the premiere of The Witcher 2 game on the PC.
- Total costs for The Witcher 2 on the PC were PLN 20.5m. All COGS for the game will enter P&L in 2Q'11.
- We estimate that over 1m copies of The Witcher 2 game were sold in 2Q'11, including 130k copies sold through the most profitable digital distribution channel.
- GOG will benefit from sales of The Witcher 2 and new Electronic Arts games added to its portfolio in 2Q'11.
- Sales in the retail distribution segment in Poland will continue to recover from their poor showing in 2009 and 2010.

Fig. 9. Optimus: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	y/y (%)	q/q (%)
Sales	10.9	10.9	11.4	0.4	0.4	0.2	0.2	0.2	0.3	10.0	26.6	15.8	**56.1**	*174x*	*255.9%*
EBITDA	0.8	-1.7	3.8	-0.2	-1.6	0.7	-0.6	-0.6	-0.9	-4.9	3.8	5.1	**26.8**	*n.a.*	*420.7%*
EBITDA margin	*7.2%*	*-15.1%*	*33.2%*	*-47.9%*	*-428.2%*	*319.7%*	*-271.8%*	*-267.4%*	*-297.5%*	*-49.5%*	*14.2%*	*32.7%*	***47.8%***	*345.3*	*15.1*
EBIT	0.6	-1.8	3.7	-0.3	-1.7	0.6	-0.7	-0.7	-1.0	-5.4	3.3	4.7	**26.3**	*n.a.*	*462.4%*
EBIT margin	*5.8%*	*-16.5%*	*32.1%*	*-70.8%*	*-452.2%*	*278.9%*	*-308.8%*	*-301.7%*	*-328.2%*	*-54.5%*	*12.2%*	*29.7%*	***46.9%***	*375.1*	*17.2*
Net profit	-0.2	-1.8	3.7	-0.3	-1.7	0.6	-0.9	-0.9	-1.3	-5.9	1.8	4.1	**23.1**	*n.a.*	*459.2%*
Net margin	*-2.3%*	*-16.2%*	*32.2%*	*-69.4%*	*-454.6%*	*277.5%*	*-379.4%*	*-379.8%*	*-391.8%*	*-59.7%*	*6.8%*	*26.2%*	***41.2%***	*433.0*	*15.0*

Source: Company data, DM BZ WBK estimates

City Interactive

Publishing date: 31 August

Target price: PLN 34.3 (+36.4%) **CP: PLN 25.2** **Recommendation: BUY**

Overall outcome: Positive **Analyst: Lukasz Kosiarski**

Key points:

- Solid unit sales for Sniper: Ghost Warrior on the PlayStation 3 boosted the company's results. Sales grew 61.5% and net profit by 25% y/y.
- Sniper on the PS3 hit the shelves in EMEA and North America in 2Q'11 and has been well received by gamers. Unit sales exceeded 300k copies.
- Margins are back at levels reported in very good 2Q'10 and 3Q'10.
- Sniper 2 has been officially presented at the E3 Expo.

Fig. 10. City Interactive: 2Q'11 results preview
PLN in millions, unless otherwise stated

	2Q'08	3Q'08	4Q'08	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11E	*y/y (%)*	*q/q (%)*
Sales	7.0	7.5	11.6	9.3	7.4	2.7	8.6	11.4	17.5	37.0	23.3	13.4	**28.2**	*61.5%*	*110.7%*
EBITDA	1.3	1.1	3.2	1.5	1.8	-2.5	-7.5	5.9	8.5	20.0	5.8	3.1	**13.1**	*53.9%*	*321.8%*
EBITDA margin	*18.3%*	*14.3%*	*27.9%*	*16.1%*	*23.8%*	*-94.1%*	*-86.9%*	*52.0%*	*48.8%*	*54.0%*	*24.8%*	*23.2%*	***46.5%***	*-2.3*	*23.2*
EBIT	0.1	-0.4	1.3	-1.0	-0.7	-5.3	-10.2	4.5	7.3	18.4	4.1	1.5	**11.5**	*58.6%*	*653.6%*
EBIT margin	*1.2%*	*-5.5%*	*10.8%*	*-10.2%*	*-9.3%*	*-197.0%*	*-118.7%*	*39.8%*	*41.5%*	*49.7%*	*17.4%*	*11.4%*	***40.8%***	*-0.8*	*29.4*
Net profit	0.1	-0.5	2.2	-0.1	-0.5	-5.6	-8.3	3.3	7.2	13.1	3.4	1.1	**9.0**	*25.0%*	*695.1%*
Net margin	*1.3%*	*-6.5%*	*19.1%*	*-0.6%*	*-6.8%*	*-209.2%*	*-96.5%*	*28.9%*	*41.2%*	*35.4%*	*14.4%*	*8.5%*	***31.9%***	*-9.3*	*23.5*

Source: Company data, DM BZ WBK estimates

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EBITDA – earnings before interest, taxes, depreciation, and amortization
P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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Hold - indicates a stock's total return to be in range of 0%-15% over the next twelve months.
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