CDM PEKAO S.A.
Securities

Pekao Research
REPORT

32/2005 (433)

Softbank

Price: PLN 32.7
12M EFV: PLN 36.4 (→)

Hold (maintained)

17 October 2005

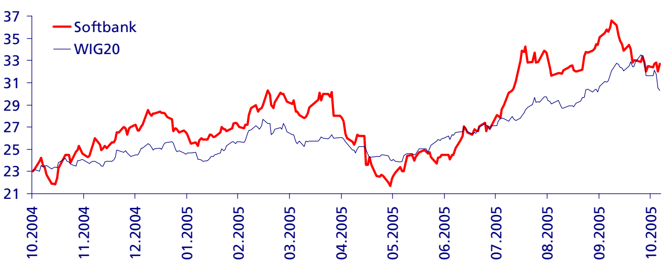
Sector	Market Cap	Free Float	Av. Daily Turnover	Reuters	12-Mth Range
IT	US$ 254 m	67%	US$ 0.65 m	SOBK.WA	PLN 21.7-36.6

Key Data

2004 - PAS, from 2005E onwards - IFRS		2004	2005E	2006E	2007E
Unconsolidated					
Sales	*PLN m*	396.8	359.0	414.5	437.6
EBITDA	*PLN m*	50.1	55.7	57.3	75.3
Adj EBITDA	*PLN m*	53.1	44.4	57.3	75.3
EBIT	*PLN m*	45.0	50.1	51.5	69.4
Adj EBIT	*PLN m*	48.0	38.8	51.5	69.4
Net income	*PLN m*	26.5	35.7	41.9	55.9
Adj Net income	*PLN m*	24.3	26.7	41.9	55.9
Consolidated					
Sales	*PLN m*	490.7	504.4	667.6	702.9
EBITDA	*PLN m*	56.6	58.9	92.5	105.6
Adj EBITDA	*PLN m*	59.7	47.6	92.5	105.6
EBIT	*PLN m*	45.8	45.4	74.4	87.0
Adj EBIT	*PLN m*	48.9	34.1	74.4	87.0
Net income	*PLN m*	29.4	39.0	73.9	83.7
Adj Net income	*PLN m*	26.5	27.7	73.9	83.7
EPS*	*PLN*	1.27	1.10	2.94	3.33
EPS* yoy % chng	%	n.m.	-13	167	13
Net Debt**	*PLN m*	20.7	-74.8	-85.8	-109.5
P/E*	*x*	25.8	29.8	11.1	9.8
P/CE* **	*x*	18.4	20.0	8.9	8.0
EV/EBITDA* **	*x*	11.8	16.2	8.5	7.1
EV/EBIT* **	*x*	14.4	22.9	10.7	8.7
Gross dividend yield	%	0.0	0.0	1.7	2.0
No. of shares (eop)	*ths.*	20,951	25,175	25,175	25,175

Source: Company, CDM estimates.
** calculated on the basis of the adjusted net income and adjusted EBIT. ** calculated on the basis of proportional consolidation of P&Ls and BSs of subsidiaries in which Softbank does not hold 100% stakes (Novum, Gladstone). The adjusted EBITDA, operating profit and net income exclude the impact of the restructuring write-offs and one-off gains booked in other operating income and other financial income. Additionally, adjusted net income excludes the impact of amortisation of consolidation goodwill and creation/amortisation of deferred tax asset related to tax loss carry forwards.*

Stock Performance



Source: Bloomberg

The Waiting Game

We forecast Softbank will post reasonably sound 3Q05E results. However, the numbers for 4Q05E may prove fairly weak. Softbank's 2H05E results are unlikely to improve yoy against their (high) 2H04 PAS base, which some players may find disappointing. We would not increase exposure to the stock now - all of the pending news will likely reinforce price weakness. If, as we expect, the disappointment translates into further share price weakness, it could prove too cheap to resist for the long haul (outlook for 2006-08E is robust) – but we're not there yet.

- Despite much weaker yoy beginning-of-the-quarter contract backlog at the parent company, Softbank should post reasonably sound 3Q05E sales and EBIT due to strong acquisition of new contracts during the summer. However, NI is likely to be hit by the valuation of embedded financial instruments.
- Softbank's showing for 4Q05E may be mediocre due to probably much weaker than last year acquisition of new high-margin contracts in the last quarter of this year (in 2005 they were won by the Company earlier on, and are already reflected in the 1-3Q05E results). Hence for the next few months we recommend benchmark-neutral Softbank's weighting in relative terms.
- 2H05E should not, however, overshadow Softbank's outlook for the next few years, which - on the back of PKO BP's ZSI contract - seems robust. The changes in this project's scope and schedule flatten, on the one hand, the 2006-2007E profit bubble at Softbank, yet - on the other - extend its duration into 2008E.
- While we continue perceiving Softbank's equities to be an appealing story for the 2006-2008E period, we believe there is ST risk related to the release of the 2H05 results. Hence, despite the upside to our 12M EFV of PLN 36.4 per share, for now we maintain our Hold rating.

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