

# UNISYSTEMS

[ USYr.AT ]

Moderate growth amid unfavorable market environment

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unisystems



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**Valuation & Research Specialists (VRS)**

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**by VALUATION & RESEARCH SPECIALISTS (VRS)**

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# VALUATION & RESEARCH SPECIALISTS

Value Invest - www.valueinvest.gr

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Greek Equities – 27 December 2005

## UNISYSTEMS

Information Technology Sector

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### Company Description:

Unisystems is the leading systems integrator in Greece servicing large corporate clients of the banking, public, and private sector in the country. The company offers integrated IT solutions, supporting complex IT systems of different platforms. Unisystems is the dealer of the world's prominent high tech companies such as Microsoft, Hewlett Packard, IBM, Nortel Networks, Oracle, SAP, Cisco Systems, EMC, Chip PC, and Unisys.

	2004	2005 E	2006 F
(in mil. €)			
Turnover	41,097	42,085	43,600
EBIT	5,072	5,033	5,088
EBT	5,439	5,333	5,438
Net Profit	4,057	3,949	4,028
Cash Eq.	22,087	22,589	23,575

Price Close in €	27/12/2005	1.89
Shares (mn outstanding)		38.51
Mkt Cap (in mn €)		72.79

Beta	0.820
Dividend in €	0.08
Div. Yield	4.23%

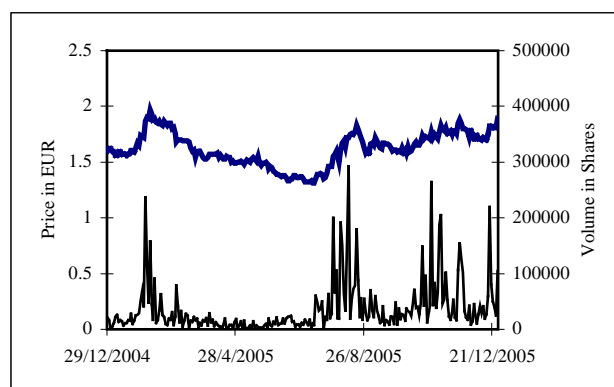
	2004	2005 E	2006 F
P/E	17.94	18.43	18.07
P/BV	1.49	1.42	1.36
ROE	8.30%	7.71%	7.51%
Debt/Equity	2.77%	1.56%	1.30%

Source: Company & Res. Dept. Projections

### Key Investment Points

- © We continue to adopt a **conservative approach in forecasting Unisystems' financial performance** due to tough market conditions in the domestic IT sector. However, growth potential may be significant in both the public and the private sector in 2006, with the latter remaining the major revenue and income contributor looking forward.
- © The **Greek banking sector** experienced a stable demand for IT investments during the year 2005, whereas **2006 may be more favorable** as far as the broader financial services sector is concerned.
- © The **absorption rate of EU funds** utilized for IT projects, which are financed jointly with the Greek State, **has marginally improved** since our last report. This has affected growth potential for Unisystems, which still depends to a small extent on the public sector.
- © Overall, Unisystems remains the most attractive stock in the Greek Information Technology Sector. **The Company is cash rich, has zero bank debt and posts competitive valuation ratios.**

Share Price Graph (52 weeks)  
Max: €1.97 - Min: €1.31



Please see important disclosure and disclaimer statements at the end of this report

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## Forecasts Revision & Investment Considerations

### Old / New Forecasts

	2004		2005		2006	
	Forecast	Actual	Old Forecast	New	Old Forecast	New
Turnover	40.07	41.09	40.83	42.08	44.30	43.60
EBITDA	7.01	6.74	6.25	6.77	6.67	6.87
EBT	5.62	5.43	4.31	5.33	4.59	5.44
EAT	3.93	4.05	3.02	3.95	3.21	4.03

Source: Unisystems, VRS. Notes: Previous and old forecasts presented in VRS report as of January 24<sup>th</sup> 2005.

We have adopted a conservative approach – based on moderate growth scenario - in forecasting Unisystems' financial performance due to the following reasons:

- On the one hand, there is no sign of a significant turnaround in the Greek IT market.
- However, growth potential may be significant in both the public and the private sector in 2006.
- Private sector is expected to remain the major revenue and income contributor looking forward.

## Growth Drivers

The moderate growth scenario is expected to materialize, once again, due to a stable or slowly improving environment in the private sector, specifically in the financial industry and telecommunications. The Greek public sector continues to face structural problems in expediting IT projects, funded jointly by the European Union (EU) and the Greek State. Therefore in the case of Unisystems, limited positive effect should be expected in near future.

### New Contracts for IT Projects

Unisystems made bids for over 40 tender offers, with regard to IT projects of the Greek public sector, during 2005. The Company undertook contracts for the

account of legal organizations, financial authorities and the Greek army. It is noted that some of the above IT projects are still in progress and should generate additional revenues in 2006. In the private sector, the Company broadened its client base, anticipating stronger performance in the following years.

### **Banking and Financial Services Sector**

The Greek banking sector experienced a stable demand for IT investments during the year 2005, whereas 2006 may be more favorable as far as the broader financial services sector is concerned. Unisystems remains the most prominent specialist in system integration of complex IT projects in the banking sector, and this implies that once the market conditions improve, the Company's market share may further strengthen. The Company's clientele includes some of the largest commercial banks in the Greek market, as well as their subsidiaries in Southeast Europe, the so-called "New Europe". Alpha Bank, the second largest commercial bank in Greece, contributes around 30%-35% of Unisystems' total revenues.

### **Telecommunications**

In the period 2004 - 2005, Unisystems benefited from a steady flow of telecommunications related IT contracts with major clients both the fixed telephony and the mobile operators. The sector experiences steady growth over the past few years and there is no sign of a slow down. Unisystems may further enhance its position during the year 2006, which is expected as a year of significant IT investments within the Greek telecommunications sector.

### **Financial Technologies – "FIT"**

The subsidiary continues to activate in the Balkans and Cyprus, mostly servicing subsidiaries of Greek commercial banks. The year 2005 did not fulfill expectations in terms of revenue generation, and as a result, 2006 may be a critical year in terms of growth potential.

## **Assumptions on Forecasting Model**

In forecasting Unisystems' future financial performance, we have assumed moderate revenue growth and contracting profit margins in view of tough market conditions in the Greek IT sector.

Furthermore, we see sustainable return on equity in the neighborhood 7.30%-7.70% for most of the following 5-year period.

Cash cycle is expected to further aggravate in future, however in view of strong cash and cash equivalents, Unisystems should not face any problems in “financing” revenue growth. Liquidity ratios are expected to range higher than the sector.

Finally, we expect no significant changes in the Company’s capital structure and limited use of bank debt. Interest coverage should remain well above sector average.

### **Financial Performance in 9-Month 2005 according to IFRS**

**Consolidated Basis:** Turnover amounted to EUR 32.35 million in 9-month 2005, with gross profit margin settling at 25.55%. Net profit before taxes settled at EUR 3.37 million with net profit reaching EUR 2.25 million. As end September 2005, liquid securities accounted for EUR 13.86 million, with cash amounting to EUR 4.17 million. Total liabilities reached EUR 14.50 million with total net worth (excluding minorities) at EUR 48.83 million.

**Parent Basis:** Turnover settled at EUR 31.13 million, posting a rise of 8.8% as compared to 9-month 2004. Gross profit margin moved lower to 25.54% vis-à-vis 27.49% in the same period of the previous year. Net profit before taxes strengthened to EUR 3.51 million as compared to EUR 2.74 million in 9-month 2004 (+28.28%).

### **Adoption of IFRS: Effects on Financial Year 2004**

Following the adoption of IFRS in early 2005, Unisystems incurred minimal changes in its income statement, whereas on the balance sheet side, the Company experienced appreciation in fixed assets and shareholder’s funds. The most significant reconciliation was realized in capital reserves leading to a higher net worth on group basis. Higher capital reserves were due to a revaluation of the Company’s real estate assets.

<i>Consolidated figures, in EUR million</i>	2004	
	Greek GAAP	IFRS
Turnover	41.097	41.097
EBT	5.433	5.439
Fixed Assets	21.372	21.617
Shareholders' Funds	46.307	48.864

Source: Unisystems.

## Greek IT Sector Developments

### **Limited Changes in Competition**

During 2005, the Greek IT sector experienced limited developments, which were mostly due to ownership changes (mergers, divestitures and acquisitions). As a result, we would expect market shares of the major IT companies either commercial players or system integrators to remain stable, taking also into consideration the moderate growth scenario for the sector as a whole.

### **Public IT Projects Still Behind Schedule**

Delays in the absorption of the EU funds continue to be the case in the Greek IT market, due to inefficiencies, lack of private funding, bureaucratic procedures, and other structural issues. The absorption rate of EU funds utilized for IT projects, which are financed jointly with the Greek State, has marginally improved since our last report. Information Society, the state owned organization running the program, had projected absorption of EUR 65 million for 2005 on aggregate basis. However, during the 9-month period of the same year, the total funds absorbed were standing at only EUR 14 million.

<i>Aggregate Figures</i>	Total Budget (in EUR)	Registered Projects for Financing	Stake of Realized Investments (Absorption Rate)
Information Society	2,987,499,150	82%	22%

## Unisystems, Analysis on Quarterly Financial Results (1)

Consolidated Financial Statements (in EUR mil.)	2003	3M 2004 IFRS	6M 2004 IFRS	9M 2004	2004	3M 2005 IFRS	6M 2005 IFRS	9M 2005 IFRS
<b>Turnover</b>	<b>44.927</b>	<b>9.396</b>	<b>18.944</b>	<b>28.539</b>	<b>41.097</b>	<b>9.672</b>	<b>20.350</b>	<b>32.353</b>
Cost of Goods Sold	29.835	6.867	13.377	21.864	27.680	6.968	14.865	24.086
<b>Gross Profit</b>	<b>15.091</b>	<b>2.530</b>	<b>5.567</b>	<b>6.675</b>	<b>13.417</b>	<b>2.703</b>	<b>5.485</b>	<b>8.267</b>
Gross Profit Margin	33.59%	26.92%	29.39%	23.39%	32.65%	27.95%	26.95%	25.55%
Other Operating Income	0.274	0.129	0.013	0.308	0.573	0.113	0.019	0.035
<b>Gross Operating Income</b>	<b>15.365</b>	<b>2.659</b>	<b>5.580</b>	<b>6.983</b>	<b>13.989</b>	<b>2.816</b>	<b>5.505</b>	<b>8.302</b>
Administrative Expenses	4.384	0.655	1.824	2.420	3.695	0.952	1.468	2.256
R & D or Other Expenses or Other Income	1.351	0.222	-0.106	0.550	0.782	0.069	-0.637	-0.411
Distribution Expenses	3.645	1.108	2.128	3.273	4.408	1.149	2.234	3.203
Depreciation Charges		0.425				0.358		
Net Financial Income	1.111	-0.027	0.048	-0.028	0.222	0.004	0.117	0.123
<b>Net Operating Income</b>	<b>7.096</b>	<b>0.222</b>	<b>1.782</b>	<b>0.711</b>	<b>5.327</b>	<b>0.293</b>	<b>2.557</b>	<b>3.378</b>
Extraordinary Income	0.273			0.307	0.361			
Extraordinary Expenses	0.118			0.246	0.255			
<b>Net Profit (Loss) Before Taxes</b>	<b>7.252</b>	<b>0.222</b>	<b>1.782</b>	<b>0.773</b>	<b>5.433</b>	<b>0.293</b>	<b>2.557</b>	<b>3.378</b>
Minority Interests	-0.057	0.397	0.000	1.241	-0.042	0.000	0.000	0.000
<b>Net Profit (Loss) After Minorities and Before Taxes</b>	<b>7.194</b>	<b>0.619</b>	<b>1.782</b>	<b>2.014</b>	<b>5.391</b>	<b>0.293</b>	<b>2.557</b>	<b>3.378</b>

Source: Company accounts.

## Unisystems, Analysis on Quarterly Financial Results (2)

Consolidated Financial Statements (in EUR mil.)	Q1 2004 IFRS	Q2 2004 IFRS	Q3 2004	Q4 2004	Q1 2005 IFRS	Q2 2005 IFRS	Q3 2005 IFRS
<b>Turnover</b>	<b>9.396</b>	<b>9.547</b>	<b>9.596</b>	<b>12.558</b>	<b>9.672</b>	<b>10.678</b>	<b>12.003</b>
Cost of Goods Sold	6.867	6.510	8.488	5.816	6.968	<b>7.897</b>	<b>9.221</b>
<b>Gross Profit</b>	<b>2.530</b>	<b>3.037</b>	<b>1.108</b>	<b>6.741</b>	<b>2.703</b>	<b>2.782</b>	<b>2.782</b>
Gross Profit Margin	26.92%	31.81%	11.55%	53.68%	27.95%	26.05%	23.18%
Other Operating Income	0.129	-0.116	0.294	0.265	0.113	-0.093	0.016
<b>Gross Operating Income</b>	<b>2.659</b>	<b>2.921</b>	<b>1.402</b>	<b>7.007</b>	<b>2.816</b>	<b>2.688</b>	<b>2.798</b>
Administrative Expenses	0.655	1.169	0.596	1.274	0.952	0.516	0.787
R & D or Other Expenses or Other Income	0.222	-0.328	0.657	0.231	0.069	-0.707	0.226
Distribution Expenses	1.108	1.021	1.145	1.135	1.149	1.085	0.969
Depreciation Charges	0.425				0.358		
Net Financial Income	-0.027	0.075	-0.075	0.250	0.004	0.113	0.006
<b>Net Operating Income</b>	<b>0.222</b>	<b>1.560</b>	<b>-1.071</b>	<b>4.616</b>	<b>0.293</b>	<b>2.264</b>	<b>0.821</b>
Extraordinary Income		0.000	0.307	0.054		0.000	0.000
Extraordinary Expenses		0.000	0.246	0.009		0.000	0.000
<b>Net Profit (Loss) Before Taxes</b>	<b>0.222</b>	<b>1.560</b>	<b>-1.009</b>	<b>4.660</b>	<b>0.293</b>	<b>2.264</b>	<b>0.821</b>
Minority Interests	0.397	-0.397	1.241	-1.284	0.000	0.000	0.000
<b>Net Profit (Loss) After Minorities and Before Taxes</b>	<b>0.619</b>	<b>1.163</b>	<b>0.232</b>	<b>3.377</b>	<b>0.293</b>	<b>2.264</b>	<b>0.821</b>

Source: Company accounts.

## Income Statement – Historic and Projected Accounts, IFRS

(in ,000 €)	2004	2005 E	2006 E	2007 E
<b>Turnover</b>	<b>41,097</b>	<b>42,085</b>	<b>43,600</b>	<b>45,309</b>
y-o-y Change %		<b>2.40%</b>	<b>3.60%</b>	<b>3.92%</b>
Cost of Sales	26,545	27,309	28,265	29,276
% of Turnover	64.59%	64.89%	64.83%	64.61%
y-o-y Change %		2.88%	3.50%	3.57%
<b>Total Gross Operating Results</b>	<b>14,552</b>	<b>14,776</b>	<b>15,335</b>	<b>16,033</b>
Gross Operating Margin	35.41%	35.11%	35.17%	35.39%
y-o-y Change %		1.54%	3.78%	4.55%
Other operating income	934	1,000	1,000	1,000
Administrative Expenses	3,885	3,914	4,142	4,350
% of Turnover	9.45%	9.30%	9.50%	9.60%
Distribution Cost	4,132	4,335	4,534	4,757
% of Turnover	10.05%	10.30%	10.40%	10.50%
<b>Total Expenses</b>	<b>8,745</b>	<b>9,006</b>	<b>9,461</b>	<b>9,923</b>
% of Turnover	21.28%	21.40%	21.70%	21.90%
y-o-y Change %		2.98%	5.05%	4.88%
<b>EBITDA</b>	<b>6,741</b>	<b>6,770</b>	<b>6,874</b>	<b>7,111</b>
EBITDA Margin	<b>16.40%</b>	<b>16.09%</b>	<b>15.77%</b>	<b>15.69%</b>
y-o-y Change %		<b>0.43%</b>	<b>1.53%</b>	<b>3.45%</b>
<b>Depreciation</b>	<b>1,669</b>	<b>1,738</b>	<b>1,786</b>	<b>1,834</b>
% of Turnover	4.06%	4.13%	4.10%	4.05%
<b>EBIT</b>	<b>5,072</b>	<b>5,033</b>	<b>5,088</b>	<b>5,276</b>
% of Turnover	<b>12.34%</b>	<b>11.96%</b>	<b>11.67%</b>	<b>11.65%</b>
y-o-y Change %		<b>-0.78%</b>	<b>1.10%</b>	<b>3.71%</b>
Total Financial Results	367	300	350	300
<b>Net Results Before Taxes</b>	<b>5,439</b>	<b>5,333</b>	<b>5,438</b>	<b>5,576</b>
EBT Margin	<b>13.23%</b>	<b>12.67%</b>	<b>12.47%</b>	<b>12.31%</b>
y-o-y Change %		<b>-1.96%</b>	<b>1.98%</b>	<b>2.55%</b>
Tax income	1,340	1,333	1,359	1,394
<b>Net Results After Taxes</b>	<b>4,099</b>	<b>3,999</b>	<b>4,078</b>	<b>4,182</b>
EAT Margin	<b>9.97%</b>	<b>9.50%</b>	<b>9.35%</b>	<b>9.23%</b>
y-o-y Change %		<b>-2.43%</b>	<b>1.98%</b>	<b>2.55%</b>
Proportion of Minority rights	42	50	50	50
<b>Consolidated Net Results (a.t.&amp;m.i.)</b>	<b>4,057</b>	<b>3,949</b>	<b>4,028</b>	<b>4,132</b>
<b>Net Margin</b>	<b>9.87%</b>	<b>9.38%</b>	<b>9.24%</b>	<b>9.12%</b>
<b>y-o-y Change %</b>		<b>-2.64%</b>	<b>2.00%</b>	<b>2.58%</b>

Source: Company accounts, Research Department's forecasts.

## Balance Sheet – Historic and Projected Accounts, IFRS

	2004	2005 E	2006 E	2007 E
<b>Assets</b>				
Total Intangible Assets	4,819	4,969	5,119	5,269
Accumulated depreciation	2,240	2,729	3,234	3,753
<b>Total Net Intangible Assets</b>	<b>2,579</b>	<b>2,239</b>	<b>1,885</b>	<b>1,516</b>
Tangible Assets	30,661	31,461	32,261	33,061
Accumulated depreciation	11,792	13,041	14,322	15,637
<b>Total Net Tangible Assets</b>	<b>18,868</b>	<b>18,420</b>	<b>17,939</b>	<b>17,424</b>
Financial & Other L-Term Assets	171	221	271	321
<b>Total Fixed Assets</b>	<b>21,618</b>	<b>20,880</b>	<b>20,094</b>	<b>19,260</b>
% Total Assets	<b>32.89%</b>	<b>30.86%</b>	<b>28.57%</b>	<b>26.55%</b>
Inventories	4,332	5,394	5,447	6,584
Debtors	16,694	17,896	20,329	21,877
Other Receivables	992	900	900	900
Securities (net)	19,471	19,471	19,471	19,471
Cash in bank and at hand	2,616	3,118	4,105	4,459
<b>TOTAL CURRENT ASSETS</b>	<b>44,105</b>	<b>46,779</b>	<b>50,251</b>	<b>53,291</b>
% Total Assets	<b>67.11%</b>	<b>69.14%</b>	<b>71.43%</b>	<b>73.45%</b>
<b>GRAND TOTAL ASSETS</b>	<b>65,723</b>	<b>67,660</b>	<b>70,346</b>	<b>72,551</b>
<b>Equity &amp; Liabilities</b>				
Share capital	11,554	11,554	11,554	11,554
Share premium account	9,999	9,999	9,999	9,999
Total Reserves	25,163	26,348	27,557	28,796
Profit carried forward	1,355	2,540	3,749	4,988
Minority Rights	1,103	1,100	1,100	1,100
<b>TOTAL CAPITAL &amp; RESERVES</b>	<b>48,865</b>	<b>51,231</b>	<b>53,648</b>	<b>56,128</b>
% Total Equity & Liabilities	74.35%	75.72%	76.26%	77.36%
Provisions	600	660	726	799
L-Term Bank Loans	0	0	0	0
Provisions for Staff Retirement	4,736	4,618	4,503	4,390
Investment Grants	313	300	300	300
Other long term debts	0	0	0	0
Tax Liabilities	0	0	0	0
<b>Total L-Term Liabilities</b>	<b>5,049</b>	<b>4,918</b>	<b>4,803</b>	<b>4,690</b>
Suppliers	3,653	3,529	3,750	3,469
Banks	1,354	800	700	600
Taxes-duties	2,810	2,900	3,000	3,000
Social charges	528	509	538	609
Dividends	37	158	161	165
Sundry debtors	1,909	1,954	2,019	2,092
<b>Total Current Liabilities</b>	<b>10,291</b>	<b>9,850</b>	<b>10,169</b>	<b>9,935</b>
<b>TOTAL LIABILITIES</b>	<b>15,341</b>	<b>14,768</b>	<b>14,971</b>	<b>14,625</b>
% Total Equity & Liabilities	23.34%	21.83%	21.28%	20.16%
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>65,723</b>	<b>67,660</b>	<b>70,346</b>	<b>72,551</b>

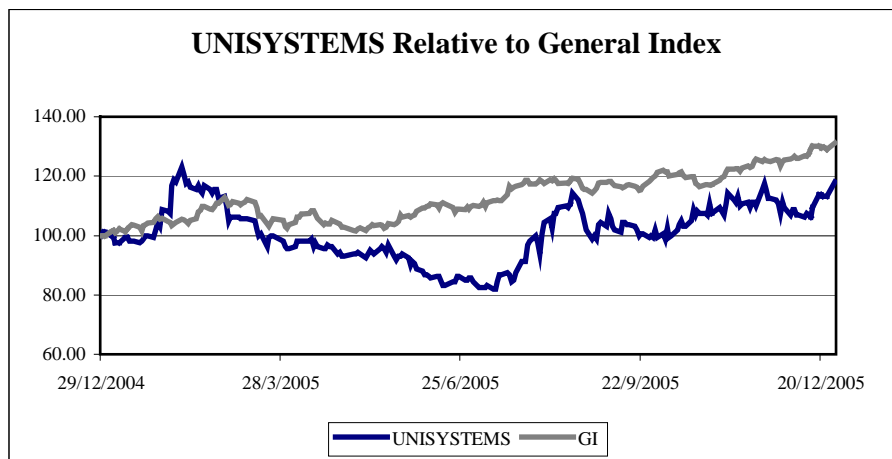
Source: Company accounts, Research Department's forecasts.

### Historic and Projected Financial Ratios, IFRS

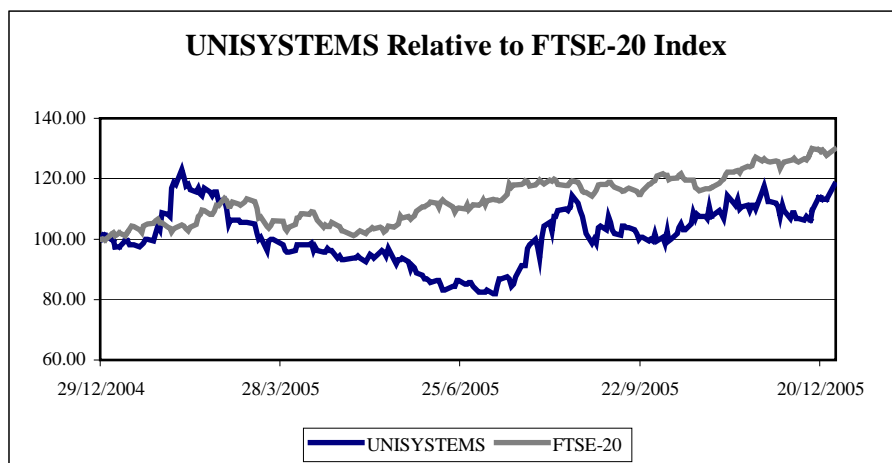
	2004	2005 E	2006 E	2007 E
<b>Profit Margins</b>				
Gross margin	35.41%	35.11%	35.17%	35.39%
EBITDA margin	16.40%	16.09%	15.77%	15.69%
EBIT margin	12.34%	11.96%	11.67%	11.65%
Pre-tax profit margin	13.23%	12.67%	12.47%	12.31%
Net profit margin	9.87%	9.38%	9.24%	9.12%
<b>Profitability</b>				
ROIC	7.38%	7.08%	6.98%	6.89%
ROA	6.17%	5.92%	5.84%	5.78%
ROE	8.30%	7.71%	7.51%	7.36%
<b>Activity</b>				
Stock Days	60	65	70	75
Debtors Days	148	150	160	170
Creditors Days	50	48	47	45
Operating Cycle	208	215	230	245
Cash Cycle	158	167	183	200
<b>Capital Gearing</b>				
Equity on Assets	0.27	0.25	0.23	0.21
Interest Coverage	22.87	25.16	25.44	26.38

Source: Company accounts, Research Department's forecasts.

**Share Price Performance vs. General Index & FTSE / ASE 20 (base=100)**



Source: VRS.



Source: VRS.

## Unisystems – Developments since our Previous Research Update

**28 July 2005:** Unisystems participated in a state running graduate level program concerning research and development of new technologies by researchers in the context of their PhD dissertation. Greek state with 90% and Greek enterprises with 10% were the sponsors of the program.

**13 July 2005:** Unisystems and Nortel Networks co-established Uninortel with a total share capital of EUR 1 million. Unisystems owns 70% of the new company. Uninortel will activate as solution provider in the areas of enterprises, carriers and wireless networks in Greece and Cyprus, whereas it will promote Nortel products in terms of sales, as well as technical design. The new company will also serve Nortel's existing client base and distribution channels.

**15 June 2005:** Unisystems entered into an agreement with Temenos, the prominent banking software developer, for the distribution of the latter's solutions and products in Greece, Cyprus, Turkey, as well as in the Balkans and North Africa. Unisystems will not be an exclusive distributor. Temenos has developed the banking software "Globus," which is directly competitive with FiT's software. FiT is Unisystems' subsidiary.

**15 March 2005:** Oracle Corporation (NASDAQ: ORCL) and Unisys Corporation (NYSE: UIS) entered into an agreement in February 2005, according to which Unisys payments software would be adjusted to use Oracle® Database 10g and Oracle interMedia. The new solution would be offered to banking and other financial institutions across the globe improving their efficiency, profitability and customer satisfaction.

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# VALUATION & RESEARCH SPECIALISTS

Value Invest - [www.valueinvest.gr](http://www.valueinvest.gr) Investment Research & Analysis Journal - [www.iraj.gr](http://www.iraj.gr)

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Covered Company	Reuters	Price	Price Close	Disclosure
Unisystems	USYr.AT	€1.89	27 December 2005	2, 4, 5, 7

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4. VRS has received compensation from the covered company for the preparation of this research report.
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