

Wednesday, May 13, 2020 | update

Comarch: hold (downgraded)

CMR PW; CMR.WA | IT, Poland

2020 Growth stumped by COVID-19

Comarch stock has outperformed the Polish broad market WIG benchmark by 42.7 percentage points since July 2019. However the Company's growth potential going forward has been interrupted by the coronavirus outbreak, prompting downward revisions to our financial forecasts. We currently expect that, on slightly higher revenue (+1.8% y/y), Comarch will register EBITDA contraction of 7.1% in 2020. CMR shares are still trading at attractive levels of 7.6x EV/2020E EBITDA, and with earnings about to take a hit, looking at the low dividend yields (0.7%), we would use this as an opportunity to take profits. The best time to cash in would be the still-relatively-solid 2020 first-quarter earnings announcement on May 15th. After updating our outlook, we set our new 9-month price target at PLN 220.30 per share, implying upside potential of just about 5% from the current level which warrants a downgrade to hold.

Forecast of 2020 Q1 Results

Comarch most likely grew 2020 Q1 revenue by 9% relative to the year ago period, driven by improved sales of solutions for the TMT sector and for the retail and services industries. Gross margin might grow by 2.4pp on the year, and there should be no change in S&A expenses at an estimated PLN 55.3m. We anticipate one-time charges of PLN 7.0m, including reserves for inevitable delays in payments from customers amid the coronavirus crisis, and we expect to see a PLN 25m loss on financing activity (mainly negative FX differences). After all this, net profit for the quarter will approximate PLN 1.0m.

No Going Back to 2019

Comarch faces a decline in orders in 2020 as the year progresses, including bookings from SMEs and from financial institutions, some of which have put in place cost-cutting measures (revenues from the financial sector already fell 6.6% in 2019). Further, after a 30% boost last year, this year sales to manufacturers and the power industry are bound to decelerate. The diminishing sales to the private sector might be mitigated by stable or increased orders from the public sector as state agencies try to do their part to keep the Polish economy going. Comarch will most likely take action on its side to cushion the blow by reducing expenses, but the expected savings cannot stop it from losing a projected 7% of annual EBITDA in 2020.

IT Market Impact of Coronavirus Epidemic

The technology industry will most likely start feeling the full effects of the coronavirus crisis later than other sectors. During the last crisis year of 2009, the IT market in Poland contracted by 9.7%, due mainly to reduced orders for hardware. This time, hardware is probably in greater demand than ever as companies switch to work-from-home mode, but nevertheless we do expect to see certain key customer groups, including banks, small and mid-sized businesses, and retailers, cut down on IT expenses in 2020. Adding to the pressure is the zloty's depreciation vis-a-vis the euro and the dollar. Providers of cloud computing services are better positioned to get through the crisis.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	1,369.6	1,437.4	1,463.0	1,593.3	1,692.3
EBITDA	152.7	228.3	212.1	232.3	241.8
EBITDA margin	11.2%	15.9%	14.5%	14.6%	14.3%
EBIT	87.5	143.4	125.3	144.4	151.1
Net income	30.6	104.8	73.8	103.0	107.9
P/E	55.8	16.3	23.1	16.6	15.8
P/CE	17.8	9.0	10.6	8.9	8.6
P/B	1.9	1.8	1.7	1.5	1.4
EV/EBITDA	11.0	7.2	7.6	6.8	6.3
DPS	1.50	1.50	1.50	1.50	1.50
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%

Current Price	PLN 210.00
Target Price	PLN 220.30
Market Cap	PLN 1.71bn
Free Float	PLN 1.11bn
ADTV (3M)	PLN 2.2m

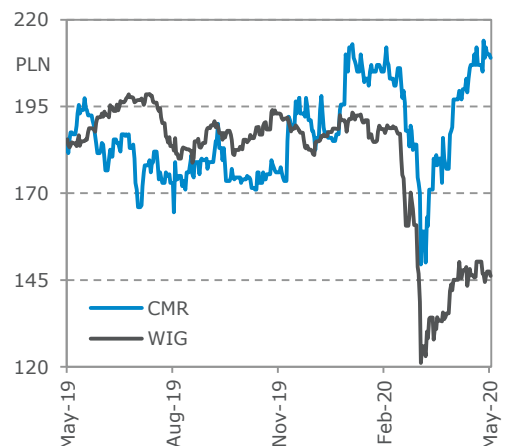
Ownership

Janusz Filipiak	24.55%
Elżbieta Filipiak	10.40%
NN PTE	10.41%
MetLife PTE	10.34%
Others	44.29%

Business Profile

Comarch is a software developer and integrator with a presence spanning over 100 countries on six continents. The Company has earned top marks in the Gartner Vendor Rating and the Truffle 100. Comarch operates its own data centers which support the delivery of services across various models, including SaaS, Cloud, and Managed Services.

CMR vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Comarch	220.30	250.00	hold	buy

Company	Current Price	9MTP	Upside
	Comarch	210.00	220.30

Forecast Update	2020E	2021E	2022E
	Revenue	-8.0%	-5.0%
EBITDA	-17.6%	-13.1%	-12.9%
Net income	-37.0%	-15.5%	-15.2%

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Key Risks

Coronavirus Infection

Like all Polish businesses, Comarch has had to adapt its workplace to new health and safety guidelines under pandemic conditions. The Company has complied with all the rules and restrictions issued by the government and health authorities, including by shifting to a work-from-home model on a broad scale, and by switching to remote conferencing tools in its communications with customers and business partners. Despite all these measures, a risk remains that normal business operations will get disrupted because of a coronavirus case among employees or associates.

Loss of Business Due to the Coronavirus Epidemic

The coronavirus crisis can be expected to have a negative effect on the technology sector through reduced orders for services and solutions. Comarch runs a well-diversified business model which offers a wide product mix to customers from different sectors of the economy and different geographic regions. The Company generates more than 60% of its revenues from recurring sources, but the remaining 40% are derived from the SME sector (>20% in 2019) and the retail sector (>17% in 2019), which have been negatively impacted by coronavirus lockdown restrictions to a much larger extent than other sectors.

Increase in Labor Costs

Payroll accounts for a major part of Comarch's operating expenses. In 2019 its average pay, which is among the highest in Poland, increased by several percent. Comarch tries to mitigate pay pressures by taking on fresh graduates as interns and then hiring them full time. Internships offset staff attrition, however Comarch still faces risk of greater turnover and an unavailability of skilled tech specialists even at the current pay rates.

Legislative Risk

Comarch's operations are governed by Polish laws and regulations, including in particular the Labor Law, which determines the size of the Company's payroll expenses. Certain changes in labor laws might drive increases in the employment costs of Polish businesses, including Comarch.

Investment in Real Estate and Non-Core Assets

Comarch has invested substantial amounts of money in its own office buildings and data centers, and while some of these investments can be considered necessary we feel others could have been eschewed in favor of higher dividends. As a reminder, Comarch owns the MKS Cracovia local football team, based in Krakow, for which it wants to build new training facilities at a cost of about PLN 40m. To be fair, Cracovia did get paid handsomely in 2018 for two of its players sold to foreign clubs.

Low Dividends

Comarch enjoys a healthy balance-sheet position with net cash of PLN 58m reported at the end of 2019 – another year in a row ended with a cash surplus. Comarch generates high operating cash flow, but it pays very modest dividends (PLN 1.50 per share in 2019). In our opinion, the Company can afford much more generous payouts.

Liquidated Damages

Comarch is always at risk of claims under liquidated damages and warranty clauses contained in its many contracts with customers and business partners.

Exchange Rate Risk

Comarch generates a substantial portion of revenues in euros and dollars, causing EBIT to fall any time the zloty, which is the main currency in which the Company incurs expenses, strengthens vis-à-vis these currencies.

Public Procurement

Comarch's exposure to the public sector puts it at risk of low contract margins due to high competitive pressure, and results in slow periods in terms of new business acquisition. For example, back in 2017 Comarch outbid others in a 374m tender for systems maintenance for a public authority with a price quote of PLN 242m compared to PLN 431m offered by the highest bidder. Despite having won the call, Comarch's shares fell after the announcement on rumors that at such a cheap price the contract left little by way of profit margin.

Risk Of Failed Acquisitions

Comarch buys other tech companies because it wants to gain access to new tools and new markets. In some cases, the investments do not bring the desired benefits, as was the case with Thanks Again, a US-based travel loyalty company bought in 2015 for \$8 million and written off completely by 2018 after a string of failures.

Transparency In Market Communications

The way Comarch communicates with investors and analysts seems to us less transparent than practiced by listed tech peers like Asseco Poland and Asseco South Eastern Europe. While others share up-to-date and detailed backlog status on a regular basis, Comarch offers very little by way of specifics, as evidenced by the vague statement at the Q1'19 earnings conference that growth in the order book at the time had reached "solid teens."

Valuation

Using DCF analysis and relative valuation, We set our new 9-month price target for Comarch at 220.30 per share.

We have lowered the weight of relative valuation in the final outcome to 40% to reflect the possibility that some of the forecasts contributing to consensus estimates are not up to date.

(PLN)	weight	price
Relative Valuation	40%	230.34
DCF Analysis	60%	191.60
	price	210.97
	9M target price	220.30

DCF Valuation

Assumptions:

- The forecast period is FY2020 through FY2029.
- The risk-free rate in the forecast period is 3.50%.
- We assume FCF after the forecast period will grow at a rate of 2.0%.
- Net cash is as of 31 December 2019 (PLN 58m under IFRS16). Accordingly, our future estimates take into

account depreciation of the right-of-use assets but do not factor in lease payments.

- D&A expenses in the terminal period are equal to CAPEX and lease payments.
- Beta = 1.0x.

DCF Model

(PLN m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2029+
Revenue	1,463	1,593	1,692	1,765	1,840	1,913	1,983	2,051	2,121	2,193	
change	1.8%	8.9%	6.2%	4.3%	4.2%	4.0%	3.7%	3.4%	3.4%	3.4%	
EBITDA	212.1	232.3	241.8	248.7	255.4	262.5	268.8	274.5	280.3	286.3	
EBITDA margin	14.5%	14.6%	14.3%	14.1%	13.9%	13.7%	13.6%	13.4%	13.2%	13.1%	
EBIT	125.3	144.4	151.1	154.8	158.2	161.8	164.5	166.4	168.2	170.0	
EBIT margin	8.6%	9.1%	8.9%	8.8%	8.6%	8.5%	8.3%	8.1%	7.9%	7.7%	
Tax on EBIT	33.1	38.8	40.6	41.6	42.5	43.5	44.2	44.7	45.2	45.7	
Effective tax rate	26.4%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	
NOPLAT	92.2	105.6	110.5	113.2	115.7	118.3	120.3	121.6	123.0	124.3	
CAPEX	-79.2	-106.7	-106.8	-85.2	-88.5	-89.4	-90.2	-92.1	-93.1	-96.8	
Working capital	-3.9	-24.5	-18.8	-17.3	-18.6	-20.5	-21.3	-21.8	-23.1	-24.5	
FCF	96.0	62.3	75.7	104.5	105.8	109.1	113.1	115.8	118.9	119.4	121.8
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
discount factor	94.8%	87.4%	80.6%	74.2%	68.4%	63.1%	58.1%	53.6%	49.4%	45.5%	
PV FCF	91.0	54.5	61.0	77.6	72.4	68.8	65.7	62.1	58.7	54.3	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	26.4%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	1,874
Present value of terminal value	853
Present value of FCF in the forecast period	666
Enterprise value	1,519
Net debt (2019 eop, IFRS16)	-58
Other noncore assets	0
Minority interests	19
Million shares outstanding (adj.)	1,558
Equity value per share (PLN)	191.6
9M cost of equity	6.4%
9M target price (PLN)	203.8

EV/EBITDA('20) at target price	7.2
P/E('20) at target price	21.1
TV / EV	56%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	4.0%
WACC +1.0 p.p.	215.6	226.2	238.8	253.9	272.3
WACC +0.5 p.p.	200.8	209.6	219.8	232.0	246.5
WACC	188.0	195.3	203.8	213.7	225.4
WACC -0.5 p.p.	176.8	183.0	190.1	198.3	207.8
WACC -1.0 p.p.	167.0	172.2	178.2	185.0	192.9

Relative Valuation

We compared Comarch with a group of peers based on forward P/E and EV/EBITDA multiples. Each of the forecast years FY2020, 2021, and 2022, is assigned an equal weight.

Multiples Comparison

	EV/EBITDA			P/E		
	2020E	2021E	2022E	2020E	2021E	2022E
Sap AG	15.1	13.3	11.9	21.3	18.7	16.6
Oracle Corp	10.3	10.2	9.9	13.8	12.8	12.1
CAP Gemini	7.3	6.6	6.1	13.8	11.8	10.4
Sage Group PLC	16.6	15.8	14.3	24.7	23.1	20.7
Atos	6.6	6.2	5.8	9.3	8.4	7.7
Software AG	11.5	10.7	9.9	19.8	18.3	16.5
Indra Sistemas	6.1	5.5	5.2	10.9	8.7	7.9
Fiserv INC	16.3	14.7	13.1	23.0	19.1	16.4
Computacenter PLC	8.1	8.0	8.1	17.1	16.3	15.8
Asseco Poland	5.5	5.2	5.1	15.9	14.8	12.4
Maximum	16.6	15.8	14.3	24.7	23.1	20.7
Minimum	5.5	5.2	5.1	9.3	8.4	7.7
Median	9.2	9.1	9.0	16.5	15.6	14.1
Comarch	7.6	6.8	6.3	23.1	16.6	15.8
Premium / discount	-18.2%	-25.5%	-29.8%	39.9%	6.6%	12.3%

Implied Valuation

Value per share (PLN)	262.9	285.6	299.3	150.1	197.0	187.0
Multiple weight	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%

Equity value per share (PLN)	230.3
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Business Update

2019 Q4 Results

At PLN 416.9m, Comarch's 2019 Q4 revenue was down only 0.8% from the year-ago level. Of the total, PLN 303.9m came from services and PLN 75.1m was generated from proprietary software – amounts which as a percentage of total sales represent, respectively, a year-over-year rise from 70.7% to 72.9% and a decline from 22.5% to 18.1%. The customer groups where software sales fell the most were telecoms (-26% y/y) and financial institutions (-23%). A geographic breakdown of the quarterly revenue reveals that sales in Poland amounted to PLN 598.1m in the period, equivalent to 44.1% of total – an increase of 3.1pp y/y.

Summing up, the composition of the fourth-quarter sales was far from ideal, and as a consequence the gross margin for the period shrunk to 27.1% from 30.3% the year before, underpinned by an increase in employment costs and unfavorable FX movements.

Gross profit in Q4 2019 showed a **dramatic, 25% fall** off a low year-ago base reduced by one-time charges. SG&A expenses for the quarter were slightly higher than in Q4 2018. Comarch recognized one-time reversals of PLN 12.8m in Q4 2019 vs. one-time losses of PLN 19.5m booked the year before, and thanks to this the Company was able to recognize an increase in operating profit from PLN 25.5m to PLN 42.2m. Net profit in Q4 2019 came in at PLN 45.9m.

2019 Q4 Results

(PLN m)	Q4'19	Q4'18
Revenue	416.9	420.3
COGS	303.7	292.8
Gross profit margin	27.1%	30.3%
SG&A	83.7	82.5
Other operations (net)	12.8	-19.5
EBIT margin	42.2	25.5
	10.1%	6.1%
Financing activity	13.1	-13.0
Tax	-9.7	-5.2
Noncontr. interest	-0.4	-0.9
Net income	45.9	8.2
D&A expenses		
EBITDA margin	42.2	25.5
	10.1%	6.1%

Source: Comarch

Forecast of 2020 Q1 Results

Comarch most likely grew 2020 Q1 revenue by 9% relative to the year ago period, driven by improved sales of solutions for the TMT sector and for the retail and services sector. Gross margin might grow by 2.4pp on the year, and there should be no change in S&A expenses at an estimated PLN 55.3m. We anticipate one-time charges of PLN 7.0m, including reserves for inevitable delays in payments from customers amid the coronavirus crisis, and we expect to see a PLN 25m loss on financing activity (mainly negative FX differences). After all this, net profit for the quarter will not exceed PLN 1.0m.

Summary of 2020 Q1 estimates

(PLN m)	Q1'20E	Q1'19	Y/Y
Revenue	369.2	338.7	9%
EBITDA	55.3	41.2	34%
EBITDA margin	15.0%	12.2%	-
EBIT	34.3	20.9	64%
Pre-tax profit	9.3	19.4	-52%
Net income	1.3	7.0	-81%

Source: Comarch, E - mBank estimate

IT Market Impact of Coronavirus Epidemic

Comarch will most likely feel the full effects of the coronavirus crisis later than businesses from other sectors of the economy. During the crisis year of 2009, global IT spend fell between 2.1% and 13.9% depending on the category of services according to Gartner, of which software expenditures decreased by 2.1% and expenses on services contracted by 3.5%. Total worldwide IT spending for the year came in at over \$3.2 trillion.

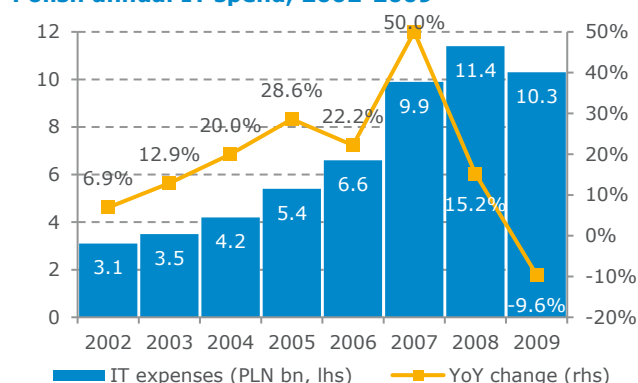
2009 global IT expenditures

(USD bn)	2009	Y/Y
Hardware	326.4	-13.9%
Software	220.7	-2.1%
Services	780.9	-3.5%
Telecommunications	1887.7	-3.6%
TOTAL	3215.7	-4.6%

Source: Gartner

At the same time, IDC estimates that IT expenses in Poland approximated \$10.3bn in 2009 after falling 9.7% on the year – the first decrease since 1990. Back then, the fall was led mainly by reduced orders for hardware. This time, hardware is probably in greater demand than ever as companies switch to work-from-home schemes. Moreover, the contraction eleven years ago was driven largely by spending cuts at banks, telecoms, and government agencies. The groups that can be expected to cut their IT budgets the most during the current crisis aside from banks are small and mid-sized businesses and retailers. Adding to the pressure is the zloty's depreciation vis-a-vis the euro and the dollar.

Polish annual IT spend, 2002-2009



Source: IDC

From an initial 5% growth prediction given in January, in April IDC downgraded its outlook to assume 2.7% contraction in Polish IT spend in 2020 due to the coronavirus epidemic. Hardware producers are expected to be hit the hardest by the crisis, with expenditures on personal computers, tablets, smartphones, peripherals, and others, expected to fall by 8.8%, led mainly by reduced smartphone purchases. Business expenses on services and software are

set to be cut by a projected 2% this year. IDC believes that most companies will quickly adapt to the changing environment.

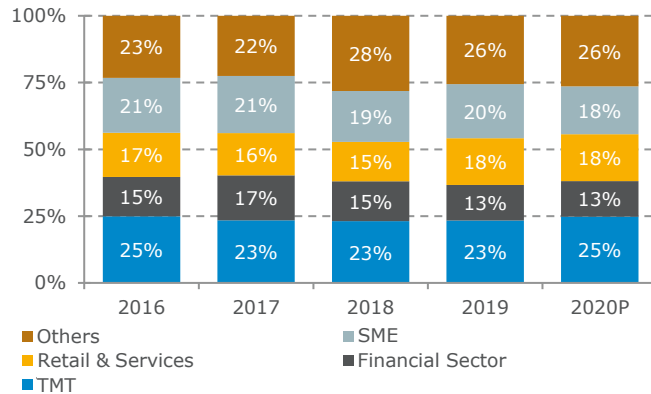
On the upside, expenses on infrastructure will most likely increase in 2020 at an estimated rate of 5.3%, driven by higher demand for IaaS and cloud services.

Revising Forecasts For a Recession

We have revised our FY2020 outlook for Comarch to assume revenue growth of 1.8%, reduced from an original estimate of 7.7%. Comarch faces a decline in orders in 2020 as the year progresses, including bookings from SMEs and from selected financial institutions as part of cost-cutting measures (revenues from the financial sector already fell 6.6% in 2019). Further, after a +30% boost last year, sales to manufacturers and the power industry are bound to decelerate this year.

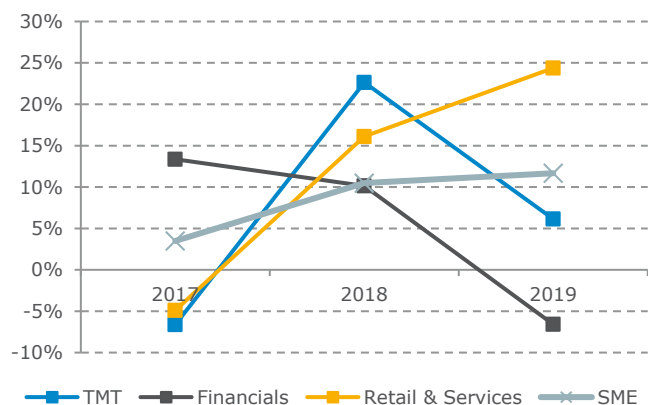
The diminishing sales to the private sector might be mitigated by stable-to-higher orders from the public sector as the government tries to do its part to keep the economy going.

Percentage breakdown of Comarch revenue by source



Source: Comarch, P - mBank projection

Growth in selected business lines in the 2017-2019 period (YoY pct. change)

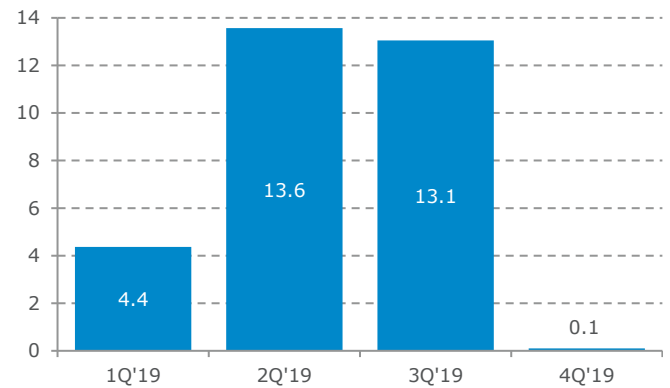


Source: Comarch, P - mBank projection

We also want to point out that in Q4 2019 the positive effects of the 2018 switch to the percentage-of-completion method of revenue recognition under IFRS 15, pertaining to revenues from software licenses, were seen to diminish to just PLN 0.1m. In the whole of FY2019 the "IFRS 15" effects added PLN >31.1m to the total revenue for the year. If the reduction in the positive impacts of the IFRS 15 transition

proves permanent, this would additionally validate our less upbeat FY2020 topline outlook.

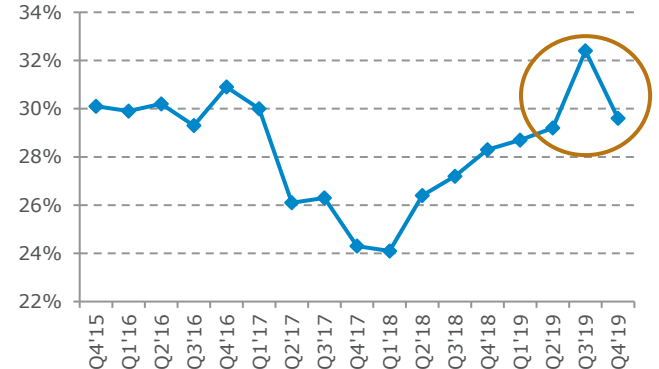
Impact of IFRS 15 transition on quarterly revenues in 2019 (PLN m)



Source: Comarch, mBank

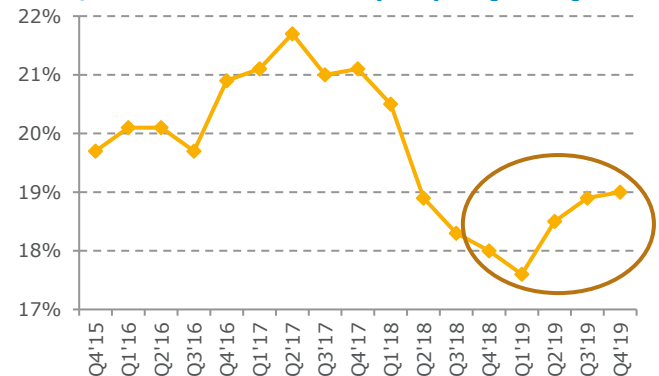
The fourth quarter of 2019 was also when Comarch's sales margin growth swung downward, with not much hope of a recovery in 2020. The zloty's depreciation versus EUR and USD will most likely continue to boost sales profits in the periods ahead, but on the other hand negative base effects might weigh (as a reminder gross profit in 2019 was boosted by charge reversals in the amount of PLN 24m). Based on this, we assume that gross margin in 2020 will decrease by 1.2pp to 28.1%. After adding about 1pp in 2019, we also assume that SG&A as a percentage of sales will increase further to 19.2% in 2020.

Sales margins of Comarch in Q4'15-Q4'19 (LTM)



Source: Comarch, mBank

SG&A/Sales ratio of Comarch (LTM) in Q4'15-Q4'19



Source: Comarch, mBank

Comarch is expected to do its part to cushion the blow of the coronavirus crisis by reducing expenses, even if the potential extent of the savings is limited. For example, the Company could higher fewer interns under full-time contracts than it has to date; between 2016 and 2019, its tech headcount increased by 18%.

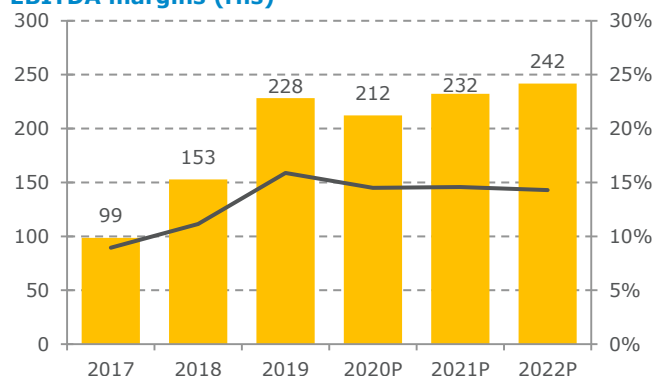
Average employee headcount at Comarch, 2016-2019

	2016	2017	2018	2019
Tech Roles	4,342	4,369	4,797	5,103
Sales & Marketing	336	293	298	321
Management & Administration	434	458	495	499
Other	487	518	501	525

Source: Comarch. mBank

That said, we would not expect significant downsizing from Comarch this year unless forced by a dramatic shift in circumstances. As a result, we expect to see the annual EBITDA decline 7% on the year to an estimated PLN 212.1m.

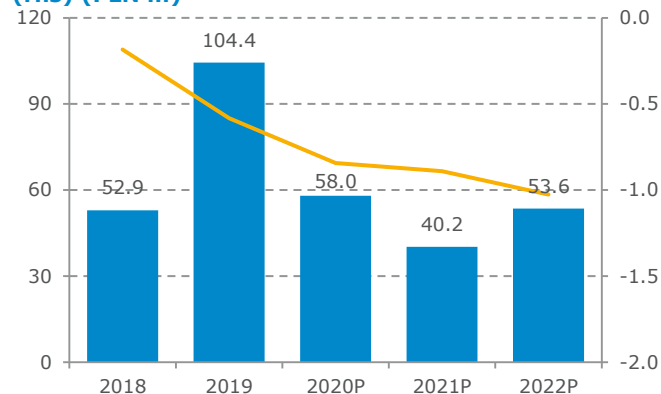
Forecast of 2020-2022 EBITDA (PLN m, lhs) and EBITDA margins (rhs)



Source: Comarch, P - mBank projection

We are anticipating FCFE of PLN 40-60m from Comarch in the years ahead, less than the Company could deliver were it not for new capital projects which include a data center in the US at an estimated cost of \$5-10m and MKS Cracovia training facilities with a budget of PLN 35-40m.

Forecast of FCFE (lhs) and net debt/EBITDA ratios (rhs) (PLN m)



Source: Comarch, P - mBank projection

Earnings History and Future Projections*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
Revenue	1,369.6	1,437.4	1,463.0	1,593.3	1,692.3	1,765.4	1,840.2
change	24.3%	5.0%	1.8%	8.9%	6.2%	4.3%	4.2%
Cost of sales	1,008.0	1,016.7	1,051.4	1,145.0	1,223.2	1,281.0	1,340.3
Gross profit	361.6	420.7	411.7	448.3	469.0	484.4	499.9
Other operating income	20.2	34.3	0.0	0.0	0.0	0.0	0.0
Sales and marketing costs	139.4	145.5	146.7	159.7	169.6	177.0	184.5
Administrative expenses	106.1	127.9	133.7	139.7	145.3	151.1	157.2
Other operating charges	48.7	38.2	6.0	4.5	3.0	1.5	0.0
EBIT	87.5	143.4	125.3	144.4	151.1	154.8	158.2
margin	6.4%	10.0%	8.6%	9.1%	8.9%	8.8%	8.6%
D&A expenses	65.2	84.9	86.8	87.9	90.7	93.9	97.2
EBITDA	152.7	228.3	212.1	232.3	241.8	248.7	255.4
margin	11.2%	15.9%	14.5%	14.6%	14.3%	14.1%	13.9%
Financing activity	-14.0	-1.0	-25.0	-3.5	-3.5	-3.5	-3.5
Share in profits/losses of associates	-11.1	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	62.5	142.4	100.3	140.9	147.6	151.3	154.7
margin	4.6%	9.9%	6.9%	8.8%	8.7%	8.6%	8.4%
Tax	30.0	36.9	26.5	37.9	39.7	40.7	41.6
Net Income	30.6	104.8	73.8	103.0	107.9	110.6	113.1
margin	2.2%	7.3%	5.0%	6.5%	6.4%	6.3%	6.1%
Shares outstanding at eop (millions)	8.13	8.13	8.13	8.13	8.13	8.13	8.13
EPS	3.76	12.89	9.08	12.67	13.27	13.60	13.91
CEPS	11.78	23.33	19.76	23.47	24.42	25.14	25.86
ROAE	3.5%	11.4%	7.4%	9.6%	9.2%	8.7%	8.4%
ROAA	1.9%	5.9%	3.9%	5.2%	5.1%	4.9%	4.8%

*IFRS 16 figures from 2019

Balance Sheet*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
ASSETS	1,740.3	1,842.7	1,920.0	2,057.6	2,191.5	2,317.0	2,417.0
Fixed assets	821.2	796.7	808.7	847.0	882.6	893.6	904.5
Property, plant and equipment	551.1	539.6	561.6	610.5	657.1	679.8	703.3
Investment property	32.7	36.6	36.6	36.6	36.6	36.6	36.6
Goodwill	42.2	40.7	40.7	40.7	40.7	40.7	40.7
Other intangible assets	59.4	56.3	46.3	35.8	24.7	12.9	0.3
Noncurrent prepayments	2.8	2.5	2.5	2.5	2.5	2.5	2.5
Deferred income tax assets	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Other (including right-of-use assets)	98.0	85.9	85.9	85.9	85.9	85.9	85.9
Current assets	919.1	1046.0	1111.3	1210.6	1308.9	1423.4	1512.5
Inventory	97.2	90.7	94.8	104.2	112.5	119.0	125.7
Trade and other receivables	435.4	430.2	442.2	486.4	521.8	549.8	579.1
Long-term contract receivables	134.8	193.9	197.3	214.9	228.2	238.1	248.2
Other	5.8	8.5	8.5	8.5	8.5	8.5	8.5
Cash	245.9	322.7	368.5	396.5	437.9	508.1	551.1

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
EQUITY & LIABILITIES	1,740.3	1,842.7	1,920.0	2,057.6	2,191.5	2,317.0	2,417.0
Equity	876.1	970.8	1,032.4	1,123.2	1,218.9	1,317.4	1,389.8
Non-current liabilities	287.3	257.4	257.4	257.4	257.4	257.4	257.4
Loans and borrowings	175.0	141.7	141.7	141.7	141.7	141.7	141.7
Provision for deferred income tax	43.6	48.7	48.7	48.7	48.7	48.7	48.7
Financial liabilities at fair value	1.3	2.9	2.9	2.9	2.9	2.9	2.9
Other financial obligations (incl. leases)	57.5	59.0	59.0	59.0	59.0	59.0	59.0
Other liabilities	9.8	5.0	5.0	5.0	5.0	5.0	5.0
Current liabilities	576.9	614.6	630.3	677.0	715.2	742.3	769.8
Trade and other payables	182.5	191.8	196.3	211.7	223.9	232.1	240.4
Current income tax liabilities	9.0	8.8	8.8	8.8	8.8	8.8	8.8
Revenue billed under long-term contracts	163.8	172.8	178.7	194.6	207.9	217.8	227.8
Loans and borrowings	40.3	41.1	41.1	41.1	41.1	41.1	41.1
Financial liabilities at fair value	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other financial obligations (incl. leases)	17.6	19.7	19.7	19.7	19.7	19.7	19.7
Provisions for other liabilities and charges	163.3	180.4	185.6	201.1	213.8	222.8	231.9
Debt	217.8	189.7	189.7	189.7	189.7	189.7	189.7
Net debt	46.3	-58.3	-104.1	-132.1	-173.4	-243.6	-286.6
Net Debt (ex. IFRS 16)	-28.1	-133.0	-178.8	-206.8	-248.2	-318.3	-361.3
Pre-IFRS-16 Net Debt / Equity	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.3
Net debt/ EBITDA**	-0.2	-0.3	-0.5	-0.6	-0.7	-1.0	-1.1
BVPS	107.7	119.4	126.9	138.1	149.9	162.0	170.9

*IFRS 15 figures from 2018 **2018 figures are ex-IFRS 16

Cash Flow*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
Cash flow from operating activities	159.7	178.8	181.8	170.0	183.4	190.7	195.2
Net Income	30.6	104.8	73.8	103.0	107.9	110.6	113.1
D&A expenses	65.2	84.9	86.8	87.9	90.7	93.9	97.2
Financing activity	14.0	1.0	25.0	3.5	3.5	3.5	3.5
Change in working capital and other	49.9	-12.0	-3.9	-24.5	-18.8	-17.3	-18.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-86.6	-45.0	-79.2	-106.7	-106.8	-85.2	-88.5
CAPEX	-86.6	-45.0	-79.2	-106.7	-106.8	-85.2	-88.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-35.6	-65.2	-56.8	-35.3	-35.3	-35.3	-63.7
Debt	-9.4	-32.5	0.0	0.0	0.0	0.0	0.0
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends/Buyback	-12.2	-12.2	-12.2	-12.2	-12.2	-12.2	-40.7
Other (incl. lease payments)	-14.0	-20.6	-44.6	-23.1	-23.1	-23.1	-23.1
Change in cash	37.5	68.6	45.8	28.0	41.4	70.2	43.0
Cash at eop	245.9	322.7	368.5	396.5	437.9	508.1	551.1
DPS (PLN)	1.5	1.5	1.5	1.5	1.5	1.5	5.0
FCF	59.2	113.3	58.0	40.2	53.6	82.4	83.7
CAPEX/Sales	6.3%	3.1%	5.4%	6.7%	6.3%	4.8%	4.8%

*IFRS 16 figures from 2019

Trading Multiples*

	2018	2019	2020P	2021P	2022P	2023P	2024P
P/E	55.8	16.3	23.1	16.6	15.8	15.4	15.1
P/CE	17.8	9.0	10.6	8.9	8.6	8.4	8.1
P/B	1.9	1.8	1.7	1.5	1.4	1.3	1.2
P/S	1.2	1.2	1.2	1.1	1.0	1.0	0.9
FCF/EV	3.5%	6.9%	3.6%	2.6%	3.5%	5.6%	5.9%
EV/EBITDA**	11.0	7.2	7.6	6.8	6.3	5.9	5.6
EV/EBIT**	19.2	11.5	12.8	10.9	10.2	9.5	9.0
EV/S**	1.2	1.1	1.1	1.0	0.9	0.8	0.8
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2.4%
Price (PLN)	210.0	210.0	210.0	210.0	210.0	210.0	210.0
Shares outstanding at eop (millions)	8.1	8.1	8.1	8.1	8.1	8.1	8.1
MC (PLN m)	1,708	1,708	1,708	1,708	1,708	1,708	1,708
EV (PLN m)	1,680	1,650	1,604	1,576	1,535	1,464	1,421

*IFRS 16 figures from 2019 (balance-sheet items are IFRS 16 from 2018) **2018 figures are ex-IFRS 16

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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mBank issued the following recommendations for Comarch in the 12 months prior to this publication:

Comarch		
recommendation	buy	buy
date issued	2019-11-25	2019-07-25
target price (PLN)	250.00	231.00
price on rating day	189.50	178.50

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