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Comarch – 2019 Q3 Results

Rating: buy | target price: 231.00 PLN | current price: 173.50 PLN

CMR PW; CMR.WA | IT, Poland

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- Comarch's 2019 Q3 **EBITDA** topped our estimate by 44%, and **beat analysts' consensus** by 36%, against respective bottom-line misses of 51.0% and 39%.
- Stripped of a one-time charge reversal related to a settled contract dispute with the social security agency ZUS (+PLN 24.2m), after adjustment for positive IFRS 16 impacts of PLN 4.6m, **comparable EBITDA at ca. PLN 60.9m shows a an impressive, 59.5% rebound from the year-ago period.**
- **Revenue** amounted to PLN 354.5m after **rising 2.7%** year-over-year, showing a 3.2% beat versus our estimate resulting from variations across all operating segments, with the biggest differences recorded in finance & banking solutions and in retail and services.
- As predicted, sales to the Polish public sector fell in Q3 compared to a high year-ago base which had been boosted by a major government contract.
- On the other hand, **global sales** ex. DACH posted a strong, **66% rebound** to PLN 85.7m, driven by solutions dedicated to the TMT and retail sectors in Asia (generating revenue growth over PLN 17m over the past year).
- Adjusted **gross profit** posted a year-over-year **surge of 27%** at PLN 116.1m. The **gross profit margin at 32.7%** registered a rebound from 23.8% generated in Q1 2019 and 28.1% booked in 28.1, thanks in a large part to an **improved sales mix** with hardware and third-party software accounting for just 2.1% of total sales versus 8.0% in the same year-ago period.
- Comarch set aside a provision for doubtful receivables in the amount of PLN 8.2m in Q3 (the receivables in question are connected with business in the Middle East and South America).
- Costs in the third quarter continued to rise in Q3, driven by upward **pay pressures** which affect the whole tech industry; base salary expenses were up by 12.9% y/y.
- **Operating cash flow** after 9M'19 stood at PLN 80.1m, a big improvement from the year-ago OCF of PLN 23.3m. CAPEX for 9M'19 totaled PLN 36.4m.
- In Q3 2019 Comarch paid income tax of PLN 12.0m, and recognized a net loss attributable to noncontrolling interests of PLN 0.6m
- **Summing up, Comarch performed well ahead of expectations in the third quarter of 2019, with EBITDA adjusted just for IFRS 16 effects and the ZUS charge reversal showing growth at an annual rate close to 60% - a big surprise which should drive CMR stock higher today. Comarch achieved 78% of our FY2019 EBITDA forecast in the year to 30 September.**

2019 Q3 actuals vs. expectations

(PLN m)	Q3'19	Q3'18	change	Q3'19E	differ.	consensus	differ.	2019E	YTD*
Revenue	354.5	345.3	2.7%	343.4	3.2%	346.2	2.4%	1,522.7	67.0%
EBITDA	89.8	38.2	135.0%	62.6	43.5%	66.0	36.0%	225.8	78.0%
EBITDA margin	25.3%	11.1%	-	18.2%	-	19.1%	-	14.80%	-
EBIT	66.2	27.1	144.7%	42.3	56.6%	44.1	50.2%	157.3	71.4%
Pre-tax profit	53.9	38.6	39.8%	36.3	48.7%	-	-	150.3	66.6%
Net profit	42.5	18.2	134.1%	28.3	50.1%	30.6	38.9%	98.5	70.7%

Source: Comarch, E – estimates by Dom Maklerski mBanku, consensus estimates provided by PAP
*YTD results as a pct. of FY2019E

List of abbreviations and ratios contained in the report:
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
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

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NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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