

Wednesday, November 06, 2019 | Monthly Market Outlook, an excerpt

Comarch buy (no change)

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Comarch is expected to generate record revenue of PLN 1.50bn in 2019, a figure which would indicate the Company has been able to grow its business by nearly 40% in the span of two years. The fast-paced expansion is driven by sustained investment in in-house software development capabilities, increasing global recognition, and a growing roster of leading household names on the customer list. Comarch stays on top of industry trends by offering subscription plans, building data centers, and developing cloud solutions. According to our forecasts (calculated pre-IFRS16 for comparability), the Company will grow yearly EBITDA at an average annual rate of 9.6% in the 2018-2021 period. Comarch boasts a strong balance-sheet position as well, with net cash on hand at PLN 4m as of 30 June 2019, a very creditable amount considering that the Company had just completed major CAPEX push (data centers, offices) in 2018, alongside continued investment in in-house software capacity. Meanwhile CMR is trading at a large discount to the median 2019E EV/EBITDA of the peer group. In Q3 2019 Comarch is set to report a strong increase in profits relative to the same year-ago period, but after stripping a charge reversal and IFRS 16 impacts the annual rate of EBITDA growth will be 3%, coming in at ca. PLN 39.4m. Comarch is actively vying for opportunities to fill the gap left by the lucrative e-courts contract completed in 2018.

Financial Highlights

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,102	1,365	1,501	1,606	1,690
TMT	258	313	379	405	425
Finance & Banking	186	204	235	244	254
Retail Solutions	174	201	241	272	294
Manufacturing	142	138	152	164	172
Public Sector	63	194	131	139	145
SME	236	260	297	312	327
Other	43	54	67	69	71
Gross profit margin	268	387	425	440	461
	24.3%	28.3%	28.3%	27.4%	27.3%
Selling expenses	134	138	145	156	164
G&A expenses	98	109	123	131	137
EBIT	34	112	141	154	160
margin	3.1%	8.2%	9.4%	9.6%	9.5%
Net income	43	52	94	104	110

DCF Analysis

(PLN m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Revenue	1,501	1,606	1,690	1,764	1,840	1,918	1,992	2,058	2,122	2,187	2,231
EBITDA	226	241	251	260	269	278	286	292	298	303	309
EBITDA margin	15.0%	15.0%	14.9%	14.7%	14.6%	14.5%	14.3%	14.2%	14.0%	13.9%	14.1%
D&A	85	88	91	94	97	101	105	109	113	117	119
EBIT	141	154	160	166	171	177	181	183	185	186	190
Tax	46	48	49	50	51	52	52	52	52	52	53
NOPLAT	95	105	112	116	121	125	129	131	133	134	137
CAPEX	-77	-88	-115	-112	-94	-87	-91	-93	-96	-99	-101
Working capital	-24	-14	-18	-17	-18	-19	-19	-19	-19	-20	-20
FCF	78	91	69	81	106	120	124	128	131	132	135
PV FCF	76	81	57	61	74	77	73	70	66	61	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
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%
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%

Current Price 178.50 PLN

9M Target Price 231.00 PLN

178.50 PLN

231.00 PLN

Upside

+29.4%

	rating	target price	issued
unchanged	buy	231.00 PLN	2019-07-25

Key Metrics

			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	+2.3%	-4.0%
ISIN	PLCOMAR00012	YTD Price Chng	+18.6%	+15.4%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.2m
MC (PLN m)	1,451.8	ADTV 6M		PLN 0.5m
EV (PLN m)	1,469.4	EV/EBITDA 12M fwd	6.1	-18.8%
Free Float	59.2%	EV/EBITDA 5Y avg	7.5	discount

Earnings Projections

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,102	1,365	1,501	1,606	1,690
EBITDA	99	177	226	241	251
EBITDA margin	9.0%	13.0%	15.0%	15.0%	14.9%
EBIT	34	112	141	154	160
Net income	43	52	94	104	110
P/E	33.7	28.1	15.4	14.0	13.2
P/B	1.6	1.7	1.5	1.4	1.3
EV/EBITDA	14.9	8.6	6.5	5.8	5.5
DPS	1.50	1.50	1.50	1.50	1.50
DYield	0.8%	0.8%	0.8%	0.8%	0.8%
Forecast Update (% change)			2019P	2020P	2021P
Revenue			0.0%	0.0%	0.0%
EBITDA			0.0%	0.0%	0.0%
EBIT			0.0%	0.0%	0.0%
Net income			0.0%	0.0%	0.0%
CAPEX			0.0%	0.0%	0.0%

Key Balance Sheet Figures

(PLN m)	2017	2018	2019P	2020P	2021P
Operating cash flow	61	181	156	179	185
OCF/EBITDA	62%	102%	69%	74%	74%
CAPEX	-141	-87	-77	-88	-115
Assets	1,503	1,740	1,870	2,005	2,132
Equity	880	876	958	1,050	1,148
Net debt	19	-28	-75	-134	-172
Net debt/EBITDA (x)	0.2	-0.2	0.0	-0.2	-0.4

Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	28.2	25.3	23.3	18.4	17.2	16.0
Maximum	9.2	8.6	8.0	5.6	5.3	5.0
Median	16.7	15.5	14.4	9.4	9.0	8.7
Weight	33%	33%	33%	33%	33%	33%

DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,659
Net debt	46
Other adjustments	18
Value per share (PLN)	196.10

Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	238.22
DCF Val.	50%	196.10
Implied Price		217.16
Cost of equity (9M)		6.4%
9M Target Price		231.00

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

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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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%
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Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

Comarch

Rating	buy	buy	buy	hold	accumulate
Rating date	2019-07-25	2019-04-17	2019-03-05	2019-02-04	2018-12-05
Target price (PLN)	231.00	230.00	195.00	160.80	173.30
Price on rating day	178.50	181.00	162.50	155.00	160.00

Comparable Companies Used In Relative Valuation Models

Comarch Assec Poland, Atos, CAP Gemini, Computacenter, Fiserv INC, Indra Sistemas, Oracle Corp, Sage Group, SAP, Software AG, Tieto

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