

Friday, October 02, 2020 | Monthly Market Outlook, an excerpt

## Comarch buy (no change)

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Comarch stock has fallen nearly 6% in the past month for unclear reasons. In the first half of 2020, the Company generated EBITDA of PLN 118m, and if seasonal patterns hold it should deliver even better results in the second half of the year. The coronavirus pandemic is having even less of an effect on Comarch than we had originally assumed, and after updating our models to account for this we are now expecting FY2020 EBITDA to come in at PLN 234m. We see upside potential of more than 20% in CMR at the current price level. Comarch stock is currently trading at 6.6x 2020E EV/EBITDA and 17.4x P/E, showing discounts to the corresponding peer multiples of 42% and 22%, respectively – huge gaps which we see as narrowing before long, supported by the global contracts that the Company has recently added to its backlog, and that strengthen its international presence. Among them is a high-profile PLN 300m deal with Vodafone New Zealand.

<b>Current Price</b>	202.00 PLN	<b>Upside</b>
<b>9M Target Price</b>	247.60 PLN	<b>+22.6%</b>

	rating	target price	issued
unchanged	buy	247.60 PLN	2020-09-29

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-5.6%	-1.9%
ISIN	PLCOMAR00012	YTD Price Chng	+8.9%	+24.1%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.2m
MC (PLN m)	1,642.9	ADTV 6M		PLN 0.9m
EV (PLN m)	1,547.6	EV/EBITDA 12M fwd	6.4	-12.7%
Free Float	60.9%	EV/EBITDA 5Y avg	7.3	discount

### Earnings Projections

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	1,370	1,437	1,531	1,620	1,700
EBITDA	153	228	234	237	240
EBITDA margin	11.2%	15.9%	15.3%	14.7%	14.1%
EBIT	88	143	147	150	149
Net income	31	105	95	107	107
P/E	53.7	15.7	17.4	15.4	15.4
P/B	1.9	1.7	1.6	1.4	1.3
EV/EBITDA	11.2	7.0	6.6	6.4	6.1
DPS	1.50	1.50	1.50	1.50	1.50
DYield	0.7%	0.7%	0.7%	0.7%	0.7%

Forecast Update (% change)	2020P	2021P	2022P
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%

### Financial Highlights

(PLN m)	2018	2019	2020P	2021P	2022P
<b>Revenue</b>	<b>1,370</b>	<b>1,437</b>	<b>1,531</b>	<b>1,620</b>	<b>1,700</b>
TMT	316	336	344	371	396
Finance & Banking	205	191	234	241	248
Retail Solutions	202	252	268	281	293
Manufacturing	138	179	188	197	207
Public Sector	193	130	122	127	132
SME	260	291	313	338	358
Other	54	58	62	64	66
Gross profit margin	362	421	431	454	469
	26.4%	29.3%	28.1%	28.0%	27.6%
Selling expenses	139	146	147	161	172
G&A expenses	106	128	130	139	145
<b>EBIT</b>	<b>88</b>	<b>143</b>	<b>147</b>	<b>150</b>	<b>149</b>
margin	6.4%	10.0%	9.6%	9.2%	8.8%
<b>Net income</b>	<b>30.6</b>	<b>104.8</b>	<b>94.7</b>	<b>106.8</b>	<b>106.7</b>

### Key Balance Sheet Figures

(PLN m)	2018	2019	2020P	2021P	2022P
<b>Operating cash flow</b>	<b>160</b>	<b>179</b>	<b>188</b>	<b>179</b>	<b>185</b>
OCF/EBITDA	105%	78%	80%	76%	77%
<b>CAPEX</b>	<b>-87</b>	<b>-45</b>	<b>-82</b>	<b>-105</b>	<b>-103</b>
Assets	1,740	1,843	1,967	2,094	2,219
Equity	876	971	1,053	1,148	1,242
<b>Net debt</b>	<b>46</b>	<b>-58</b>	<b>-114</b>	<b>-153</b>	<b>-199</b>
Net debt/EBITDA (x)	-0.2	-0.3	-0.5	-0.6	-0.8

### Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	27.3	26.5	23.8	18.9	17.1	15.9
Maximum	10.0	9.0	7.4	5.2	4.9	4.4
Median	22.2	17.1	15.0	11.3	10.6	10.7
Weight	33%	33%	33%	33%	33%	33%

### DCF Analysis

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Revenue	1,531	1,620	1,700	1,771	1,843	1,914	1,983	2,050	2,119	2,190	2,234
EBITDA	234	237	240	247	253	259	265	271	277	283	288
EBITDA margin	15.3%	14.7%	14.1%	13.9%	13.7%	13.6%	13.4%	13.2%	13.1%	12.9%	0
D&A	87	88	91	94	97	101	104	107	110	112	114
EBIT	147	150	149	153	155	159	161	164	167	171	174
Tax	39	40	40	41	42	43	43	44	45	46	47
NOPLAT	108	109	109	112	114	116	118	120	122	125	127
CAPEX	-82	-105	-103	-82	-85	-86	-86	-88	-89	-92	-94
Working capital	-12	-19	-16	-17	-18	-20	-21	-22	-24	-25	-26
FCF	101	73	80	107	108	111	115	117	120	119	122
PV FCF	98	66	66	81	76	72	68	64	61	56	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	0
Net debt / EV	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%

### DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,577
Net debt	-46
Other adjustments	19
<b>Value per share (PLN)</b>	<b>197.25</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	40%	285.93
DCF Val.	60%	197.25
Implied Price		232.72
Cost of equity (9M)		6.4%
<b>9M Target Price</b>		<b>247.60</b>

**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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**BUY** – we expect that the rate of return from an investment will be at least 15%  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

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

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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.

**mBank issued the following investment recommendations for the Company in the 12 months prior to this publication**

<b>Comarch</b>			
Rating	buy	hold	buy
Rating date	2020-09-29	2020-05-13	2019-11-25
Target price (PLN)	247.60	220.30	250.00
Price on rating day	204.00	210.00	189.50

**Comparable Companies Used In Relative Valuation Models**

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

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