

Thursday, November 05, 2020 | Monthly Market Outlook, an excerpt

Comarch buy (no change)

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We maintain a positive outlook for Comarch which at the current level shows nearly 30% upside potential to our PLN 247.60 target. Comarch stock is currently trading at 6.5x 2020E EV/EBITDA and 17.0x P/E, showing discounts to the corresponding peer multiples of 42% and 23%, 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 help to strengthen its international presence. Among them is a PLN 300m high-profile assignment for Vodafone New Zealand. In the short term, investors might call into question Comarch's low bid on systems maintenance for Poland's social security administrator, PZU, which at PLN 165.8m turned out to be much cheaper than the second-lowest offer of PLN 234.9m, submitted by Asseco Poland. This is a repeat of ZUS's 2018 call for tenders, where Comarch also outbid others, and a reason to look into the profit-generating potential of the long-term assignment.

Current Price	198.00 PLN	Upside
9M Target Price	247.60 PLN	+25.1%

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

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-3.4%	+0.2%
ISIN	PLCOMAR00012	YTD Price Chng	+6.7%	+25.0%
Outst. Stock (m)	8.1	ADTV 1M		PLN 1.0m
MC (PLN m)	1,610.4	ADTV 6M		PLN 0.8m
EV (PLN m)	1,515.1	EV/EBITDA 12M fwd	6.0	-18.3%
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	52.6	15.4	17.0	15.1	15.1
P/B	1.8	1.7	1.5	1.4	1.3
EV/EBITDA	11.0	6.9	6.5	6.2	6.0
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)		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
Revenue	1,370	1,437	1,531	1,620	1,700
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
EBIT	88	143	147	150	149
margin	6.4%	10.0%	9.6%	9.2%	8.8%
Net income	30.6	104.8	94.7	106.8	106.7

Key Balance Sheet Figures

(PLN m)	2018	2019	2020P	2021P	2022P
Operating cash flow	160	179	188	179	185
OCF/EBITDA	105%	78%	80%	76%	77%
CAPEX	-87	-45	-82	-105	-103
Assets	1,740	1,843	1,967	2,094	2,219
Equity	876	971	1,053	1,148	1,242
Net debt	46	-58	-114	-153	-199
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
Value per share (PLN)	197.25

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%
9M Target Price		247.60

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

Comarch

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

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