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Comarch – 2019 Q2 Results

Rating: buy | target price: PLN 231.00 | current price: PLN 179.00

CMR PW; CMR.WA | TMT, Poland

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- Comarch generated 2019 Q2 **EBITDA 5.4% below our estimate and 8.8% short of market expectations,** but achieved an 8.0% net profit beat over our forecast, with the bottom-line figure coming in line with the analysts' consensus. Adjusted for a positive IFRS 16 effect of PLN 4.7m, the comparable EBITDA at ca. PLN 40.4m showed a 26.2% drop from the year-ago period.
- The quarterly **revenue** posted 1.3% y/y contraction at PLN 327.8m, indicating a miss vis-à-vis our PLN 344.1m forecast. **Sales of TMT solutions increased 22.2%** to PLN 77.5m, but sales to the Polish public sector in the period fell compared to a high year-ago base which had been boosted by a major government contract. Sales to the retail sector were down to PLN 7.5m from PLN 21.1m in the previous quarter.
- **Global sales ex. DACH** posted a strong, **47% rebound** to PLN 82.0m, driven by TMT solutions and strong sales in Asia.
- The **gross profit margin** exceeded our estimate at **28.1%,** resulting in a narrow, PLN 2m miss on Q2 EBIT despite **higher SG&A** expenses (PLN 68.0m vs. PLN 55.4m in Q2'18). Comarch posted one-time gains of PLN 1.2m in Q2 vs. zero one-offs anticipated by us.
- The quarterly tax amounted to PLN 6.9m, and there was a PLN 0.4m loss attributable to non-controlling interest which was responsible for the bottom-line beat. The relatively high tax was due to among others to high profits generated by Comarch's operations in Germany and Russia.
- **Operating cash flow** in Q2 2019 was **negative** at **-PLN 34.9m** after unfavorable changes in payables and reserves. Nevertheless the **ytd OCF** for the first half of the year at PLN 69.5m was **equivalent to >80% of the period's EBITDA**.
- Comarch was employing 6,106 people as of 30 June 2019, indicating the addition of 66 FTEs since the end of 2018. Coupled with upward pay pressures in the tech sector, this resulted in a 14% increase in labor costs in H1 2019 relative to the same year-ago period.
- **The slight disappointment in Q2 2019 EBITDA might send CMR stock lower today after the 8.6% outperformance vs. WIG registered over the past month. On the upside, the weak public-sector sales in Poland observed in the period were consistent with expectations, and increasing SG&A expenses to date have been offset by high sales margins. We maintain our FY2019 earnings estimates for Comarch.**

2019 Q2 actuals vs. expectations

(PLN m)	Q2'19	Q2'18	change	Q2'19E	differ.	consensus (median)	differ.	2019E	YTD
Revenue	327.8	332.0	-1.3%	344.1	-4.7%	340.8	-3.8%	1522.7	43.8%
EBITDA	45.1	54.7	-17.6%	47.7	-5.4%	49.4	-8.8%	225.8	38.2%
EBITDA margin	13.7%	16.5%	-	13.8%	-	14.5%	-	14.8%	-
EBIT	25.2	34.4	-26.8%	27.4	-7.8%	25.2	0.1%	157.3	29.3%
Pre-tax income	26.7	14.7	82.4%	29.4	-8.9%	-	-	150.3	30.7%
Net income	20.2	10.5	91.9%	18.7	8.0%	20.2	0.1%	98.5	27.6%

Source: Comarch, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

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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