

Wednesday, March 04, 2020 Monthly Market Outlook, an excerpt

## Comarch buy (no change)

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CMR stock fell more than 8% in the past month, in step with the broad WIG index. Comarch's 2019 Q4 results turned out weaker than anticipated, with a gross profit of just PLN 113.2m vs. PLN 140.8m expected, after a dent of ca. PLN 4.9m created by unfavorable FX trends. The gross margin came out low at 27.1% vs. 33.3% expected, due largely to a provision for employee compensation which boosted the period's COGS (according to an explanation obtained from Comarch). EBITDA for the full FY2019 was just short of PLN 240m, and we now question our FY2020 estimate as possibly too ambitious at PLN 257m. With that said, Comarch's guidance for the medium term, issued during the fourth-quarter earnings conference, looks solid enough to keep us bullish on the Company's growth prospects, especially when set against its attractive current valuation at 6.3x 2019E EV/EBITDA.

<b>Current Price</b>	189.50 PLN	<b>Upside</b>
<b>9M Target Price</b>	250.00 PLN	<b>+31.9%</b>

	rating	target price	issued
unchanged	buy	250.00 PLN	2019-11-25

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-8.5%	-0.4%
ISIN	PLCOMAR00012	YTD Price Chng	+1.3%	+11.0%
Outst. Stock (m)	8.1	ADTV 1M		PLN 1.0m
MC (PLN m)	1,541.3	ADTV 6M		PLN 0.6m
EV (PLN m)	1,501.6	EV/EBITDA 12M fwd	6.1	-18.2%
Free Float	60.9%	EV/EBITDA 5Y avg	7.4	discount

### Earnings Projections

(PLN m)	2017	2018	2019	2020P	2021P
Revenue	1,102	1,365	1,438	1,590	1,678
EBITDA	99	177	239	257	267
EBITDA margin	9.0%	13.0%	16.6%	16.2%	15.9%
EBIT	34	112	155	170	177
Net income	43	52	115	117	122
P/E	35.8	29.8	13.4	13.2	12.6
P/B	1.8	1.8	1.6	1.4	1.3
EV/EBITDA		8.6	6.3	5.8	5.4
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%

### Financial Highlights

(PLN m)	2017	2018	2019	2020P	2021P
<b>Revenue</b>	<b>1,102</b>	<b>1,365</b>	<b>1,438</b>	<b>1,590</b>	<b>1,678</b>
TMT	258	313	334	389	412
Finance & Banking	186	204	191	218	227
Retail Solutions	174	201	252	293	317
Manufacturing	142	138	179	195	205
Public Sector	63	194	132	137	142
SME	236	260	291	299	314
Other	43	54	58	59	61
Gross profit	268	387	426	475	495
margin	24.3%	28.3%	29.6%	29.9%	29.5%
Selling expenses	134	138	145	158	167
G&A expenses	98	109	128	141	147
<b>EBIT</b>	<b>34</b>	<b>112</b>	<b>155</b>	<b>170</b>	<b>177</b>
margin	3.1%	8.2%	10.7%	10.7%	10.5%
<b>Net income</b>	<b>43</b>	<b>52</b>	<b>116</b>	<b>117</b>	<b>122</b>

### Key Balance Sheet Figures

(PLN m)	2017	2018	2019	2020P	2021P
<b>Operating cash flow</b>	<b>61</b>	<b>181</b>	<b>170</b>	<b>198</b>	<b>197</b>
OCF/EBITDA	62%	102%	71%	77%	74%
<b>CAPEX</b>	<b>-141</b>	<b>-87</b>	<b>-55</b>	<b>-96</b>	<b>-119</b>
Assets	1,503	1,740	1,854	2,011	2,152
Equity	880	876	963	1,081	1,191
<b>Net debt</b>	<b>19</b>	<b>-28</b>	<b>-58</b>	<b>-149</b>	<b>-193</b>
Net debt/EBITDA (x)	0.2	-0.2	-0.2	-0.3	-0.4

### Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	28.7	23.7	21.8	26.1	18.6	15.8
Maximum	8.8	8.1	7.6	5.1	4.9	4.8
Median	16.4	14.9	13.9	9.7	9.4	9.0
Weight	33%	33%	33%	33%	33%	33%

### DCF Analysis

(PLN m)	19	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Revenue	1,438	1,590	1,678	1,752	1,828	1,905	1,979	2,045	2,108	2,173	2,217
EBITDA	239	257	267	278	288	298	305	310	313	316	323
EBITDA margin	16.6%	16.2%	15.9%	15.9%	15.8%	15.6%	15.4%	15.1%	14.9%	14.5%	14.8%
D&A	85	88	91	94	97	101	105	109	113	117	119
EBIT	155	170	177	184	191	197	200	201	200	199	203
Tax	46	50	52	54	56	57	58	57	57	56	57
NOPLAT	109	120	124	130	135	140	142	143	143	143	146
CAPEX	-70	-96	-119	-116	-93	-96	-97	-97	-99	-99	-101
Working capital	13	-10	-19	-19	-20	-22	-22	-22	-23	-25	-25
FCF	136	101	77	89	119	123	128	133	134	136	138
PV FCF	136	92	65	69	85	81	78	74	69	64	
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%

### DCF Summary

(PLN m)	
Beta	1.0
FCF perp. growth rate	2.0%
PV FCF	1,781
Net debt	46
Other adjustments	18
<b>Value per share (PLN)</b>	<b>211.03</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	259.01
DCF Val.	50%	211.02
Implied Price		235.02
Cost of equity (9M)		6.4%
<b>9M Target Price</b>		<b>250.00</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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**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**

**Comarch**

Rating	buy	buy	buy	buy
Rating date	2019-11-25	2019-07-25	2019-04-17	2019-03-05
Target price (PLN)	250.00	231.00	230.00	195.00
Price on rating day	189.50	178.50	181.00	162.50

**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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