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Comarch - Forecast of 2020 Q1 Results

Rating: buy | target price: PLN 250.00 | current price: PLN 210.00

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Comarch is expected to generate EBITDA of PLN 55.3m in Q1 2020 after a boost of >30% from the same period a year earlier, albeit owed partly to exchange-rate movements which, on the downside, will probably make a substantial addition to the period's financing costs. The first-quarter results were not yet affected by the coronavirus outbreak, and hopefully Comarch will give its perspective on the rest of the year under epidemic conditions at the earnings call on May 15th; looking at how much its shares have gained in value in recent days, the expectations of the market are high.

- Comarch most likely grew 2020 Q1 revenue by 9% relative to the year ago period, driven by improved sales of solutions for the TMT sector and for the retail and services sector.

- The gross margin might show an increase of 2.4pp, led mainly by FX gains.
- We expect to see stable SG&A expenses of PLN 55.3m in the first quarter, and we anticipate one-time charges of PLN 7.0m, including reserves for inevitable delays in payments from customers.
- Due to exchange rate trends in the period, financing activity in Q1 2020 will most likely generate a loss of approximately PLN 25m.
- Consequently, net profit might come out low at PLN 1.0m.

Historical quarterly results and 2020 Q1 estimates

| (PLN m) | 1Q'19 | 2Q'19 | 3Q'19 | 4Q'19 | 1Q'20E | YoY change |
|----------------|-------|-------|-------|-------|--------|------------|
| Revenue | 338.7 | 327.8 | 354.5 | 416.9 | 369.2 | 9.0% |
| EBITDA | 41.2 | 45.1 | 89.8 | 63.2 | 55.3 | 34.3% |
| EBITDA margin | 12.2% | 13.8% | 25.3% | 15.1% | 15.0% | - |
| EBIT | 20.9 | 25.2 | 66.2 | 42.2 | 34.3 | 64.3% |
| Pre-tax profit | 19.4 | 26.7 | 53.9 | 55.3 | 9.3 | -51.9% |
| Net profit | 7.0 | 20.2 | 42.5 | 45.9 | 1.3 | -80.9% |

Source: Comarch, E – estimates by mBank,

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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