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Comarch: 3Q 2020 Results

Rating: buy | target price: PLN 247.60 | current price: PLN 198.50

CMR PW; CMR.WA | IT, Poland

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- Comarch generated revenue of PLN 353.7m in Q3 2020, a miss of nearly PLN 22m relative to forecast caused in a large part by PLN 20m lower-than-expected sales of TMT solutions in the Polish market. Other segments turned out less than stellar as well in Q3, except for solutions for the public sector which generated revenue of PLN 38.1m, >PLN 13m more than we had anticipated.
- The gross profit margin amounted to 29.0% in Q3 vs. our estimate of 30.0%.
- SG&A totaled PLN 60.0m vs. PLN 62.4m expected.
- Other operating activity provided a PLN 2.8m gain in Q3 against expectations of a PLN 7.5m loss. Comarch set up provisions for doubtful accounts in the amount of PLN 3.5m in the period.
- EBITDA narrowly missed the mark at PLN 64.5m, a comparable result to that generated in Q3 2019.
- FX movements had a tangible impact on third-quarter profits, with adjustments to foreign-currency receivables and payables producing a PLN 5.4m charge against quarterly EBIT. There was also a PLN 5.3m loss on balance-sheet obligations.
- The bottom-line result came out at PLN 32.5m in Q3 2020.
- Comarch's employee headcount increased by 4.4% in the year to 30 September 2020 to 6,625.
- Comarch generated very strong ytd operating cash flow of PLN 195.8m vs. PLN 80.146m in 9M 2019 after substantial positive working capital changes.
- Summing up, Comarch owed it narrow miss on 2020 Q3 EBITDA to one-time events after another disappointing fall in Polish TMT revenues.**

2020 Q3 actuals vs. expectations

(PLN m)	3Q'20	3Q'19	change	3Q'20E	differ.	consensus	differ.
Revenue	353.7	354.5	-0.2%	375.5	-5.8%	373.3	-5.3%
EBITDA	64.5	89.8	-28.1%	67.5	-4.3%	66.4	-2.8%
EBITDA margin	18.3%	25.3%	-	18.0%	-	17.8%	-
EBIT	46.1	66.2	-30.3%	42.9	7.5%	46.1	0.0%
Pre-tax profit	43.1	53.9	-20.2%	37.9	13.6%	-	-
Net profit	32.5	42.5	-23.6%	28.4	14.3%	32.5	-0.1%

Source: Comarch, E - estimates by mBank; 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

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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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.

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