

Wednesday, February 05, 2020 Monthly Market Outlook, an excerpt

## Comarch buy (no change)

Pawel Szpigiel +48 22 438 24 06 pawel.szpigiel@mbank.pl

CMR stock gained more than 15% over the last three months. Comarch is expected to report a decline in revenues from TMT solutions in Q4 2019 to an estimated PLN 96m from a record-high level of PLN 109m posted in Q4 2018. Combined with higher costs, driven mainly by payroll, this will result in a reduction in recurring EBITDA. On weaker fourth-quarter earnings, CMR's short-term upside potential seems limited. However, on our FY2020 EBITDA estimate of PLN 257m, Comarch's valuation is attractive at the current level at 6.3x 2020E EV/EBITDA vs. a sector average of 9.4x. We maintain a positive outlook for Comarch, showing upside potential close to 21% relative to our current price target of PLN 250.00.

<b>Current Price</b>	207.00 PLN	<b>Upside</b>
<b>9M Target Price</b>	250.00 PLN	<b>+20.8%</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	+5.9%	+7.6%
ISIN	PLCOMAR00012	YTD Price Chng	+10.7%	+11.1%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.5m
MC (PLN m)	1,683.6	ADTV 6M		PLN 0.5m
EV (PLN m)	1,695.9	EV/EBITDA 12M fwd	6.5	-12.0%
Free Float	60.9%	EV/EBITDA 5Y avg	7.4	discount

### Earnings Projections

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,102	1,365	1,476	1,590	1,678
EBITDA	99	177	260	257	267
EBITDA margin	9.0%	13.0%	17.6%	16.2%	15.9%
EBIT	34	112	176	170	177
Net income	43	52	112	117	122
P/E	39.1	32.6	15.0	14.4	13.8
P/B	1.9	1.9	1.7	1.6	1.4
EV/EBITDA		9.4	6.5	6.3	5.9
DPS	1.50	1.50	1.50	1.50	1.50
DYield	0.7%	0.7%	0.7%	0.7%	0.7%

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	2019P	2020P	2021P
<b>Revenue</b>	<b>1,102</b>	<b>1,365</b>	<b>1,476</b>	<b>1,590</b>	<b>1,678</b>
TMT	258	313	360	389	412
Finance & Banking	186	204	210	218	227
Retail Solutions	174	201	255	293	317
Manufacturing	142	138	181	195	205
Public Sector	63	194	129	137	142
SME	236	260	284	299	314
Other	43	54	57	59	61
Gross profit margin	268	387	475	475	495
	24.3%	28.3%	32.1%	29.9%	29.5%
Selling expenses	134	138	148	158	167
G&A expenses	98	109	133	141	147
<b>EBIT</b>	<b>34</b>	<b>112</b>	<b>176</b>	<b>170</b>	<b>177</b>
margin	3.1%	8.2%	11.9%	10.7%	10.5%
<b>Net income</b>	<b>43</b>	<b>52</b>	<b>112</b>	<b>117</b>	<b>122</b>

### Key Balance Sheet Figures

(PLN m)	2017	2018	2019P	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%	65%	77%	74%
<b>CAPEX</b>	<b>-141</b>	<b>-87</b>	<b>-70</b>	<b>-96</b>	<b>-119</b>
Assets	1,503	1,740	1,850	2,011	2,152
Equity	880	876	976	1,081	1,191
<b>Net debt</b>	<b>19</b>	<b>-28</b>	<b>-80</b>	<b>-149</b>	<b>-193</b>
Net debt/EBITDA (x)	0.2	-0.2	0.0	-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)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Revenue	1,476	1,590	1,678	1,752	1,828	1,905	1,979	2,045	2,108	2,173	2,217
EBITDA	260	257	267	278	288	298	305	310	313	316	323
EBITDA margin	17.6%	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	176	170	177	184	191	197	200	201	200	199	203
Tax	50	50	52	54	56	57	58	57	57	56	57
NOPLAT	125	120	124	130	135	140	142	143	143	143	146
CAPEX	-70	-96	-119	-116	-93	-96	-97	-97	-99	-99	-101
Working capital	-45	-10	-19	-19	-20	-22	-22	-22	-23	-25	-25
FCF	95	101	77	89	119	123	128	133	134	136	138
PV FCF	94	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

**Recommendations of Biuro maklerskie mBanku:**

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Senatorska 18 renders brokerage services in the form of derived organisational unit – Brokerage Office which uses name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for the following companies: Cognor Holding, Comarch, VRG. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: [https://www.mdm.pl/ui-pub/site/market\\_and\\_analysis/analysis\\_and\\_recommendations/analytical\\_coverage\\_support\\_programme](https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme)

This document has been created and published by Biuro maklerskie mBanku. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Comarch, VRG, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

mBank S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information about any conflicts of interest that may arise in connection with the issuance of recommendations (should such a conflict exist) is provided below, and it is valid as of the date of the most recent Monthly Report published by Biuro maklerskie mBanku or as of the date of the most recent recommendation issued for an Issuer, as applicable.

This document was not transferred to the issuers prior to its publication.

mBank S.A. may have received compensation from the following companies in the last 12 months: ABC Data, Alchemia, Alior Bank, Ambra, Amica, Bank Handlowy, Bank Millennium, Bank Pekao, BGŻ BNP Paribas, BoomBIT, Boryszew, Capital Park, CD Projekt, Centrum Nowoczesnych Technologii, Ceramika Nowa Gala, CI Games, Cognor, Echo Investment, Elemental Holding, Elzab, Enea, Energoaparatura, Erbud, Ergis, Erste Bank, Famur, Ferrum, GetBack, Getin Holding, Getin Noble Bank, Globalworth Poland, GPW, Groclin, Helio SA, i2 Development, Impexmetal, INDATA, ING BSK, Kruk, LW Bogdanka, Mangata, MCI Capital, Mennica Polska, Mostostal Warszawa, Netia, Neuca, NWA1 Dom Maklerski, Oponeo.pl, Orbis, OTP Bank, PA Nova, PBKM, Pfeiderer Group, PGNiG, PKO BP, Polimex-Mostostal, Polnord, Polwax, Poznańska Korporacja Budowlana PEKABEX, Prime Car Management, Primetech, Prochem, Projprzem, PZU, Raiffeisen Bank International, Rawiplug, Rubicon Partners NFI, Santander Bank Polska, Seco/Warwick, Skarbiec Holding, Solar Company, Sygnity, Tarczyński, Trakcja, Unibep, Vistal Gdynia, Wittchen, Work Service, YOLO, Zastal, ZUE.

In the last 12 months mBank S.A. has acted as dealer-manager for tender or exchange offers for the shares of: ABC Data, BoomBIT, Centrum Nowoczesnych Technologii, Ceramika Nowa Gala, CI Games, Ergis, Globalworth Poland, Helio SA, MCI Capital, Mostostal Warszawa, NWA1 Dom Maklerski, Orbis, Pfeiderer Group, Prime Car Management, Primetech.

Assec Poland provides IT services to mBank S.A.

mBank S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

mBank S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. mBank, its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of mBank S.A. Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at: [http://www.mdm.pl/ui-pub/site/market\\_and\\_analysis/analysis\\_and\\_recommendations/fundamental\\_analysis/recommendations?recent\\_filter\\_active=true&lang=en](http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en)

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

This publication constitutes investment research within the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

**For U.S. persons only:** This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

**Strong and weak points of valuation methods used in recommendations:**

**DCF** – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**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	hold
Rating date	2019-11-25	2019-07-25	2019-04-17	2019-03-05	2019-02-04
Target price (PLN)	250.00	231.00	230.00	195.00	160.80
Price on rating day	189.50	178.50	181.00	162.50	155.00

**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

**mBank S.A.**  
Senatorska 18  
00-950 Warszawa  
<http://www.mbank.pl/>

## Research Department

Kamil Kliszczyk  
director  
+48 22 438 24 02  
[kamil.kliscz@mbank.pl](mailto:kamil.kliscz@mbank.pl)  
energy, power generation

Jakub Szkopek  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

Aleksandra Szklarczyk  
+48 22 438 24 04  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

Michał Marczak  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

Paweł Szpigiel  
+48 22 438 24 06  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco

Piotr Poniatowski  
+48 22 438 24 09  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
industrials

Michał Konarski  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Piotr Bogusz  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail, gaming

Mikołaj Lemańczyk  
+48 22 438 24 07  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

## Sales and Trading

### Traders

Piotr Gawron  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Adam Prokop  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

Krzysztof Bodek  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

Magdalena Bernacik  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

Tomasz Jakubiec  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

Andrzej Sychowski  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

### Sales, Foreign Markets

Bartosz Orzechowski  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

Jędrzej Łukomski  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

### Private Client Sales

Kamil Szymański  
director  
+48 22 697 47 06  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

Jarosław Banasiak  
deputy director  
+48 22 697 48 70  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)