

Monday, March 02, 2020 | special comment

Comarch – 2019 Q4 Results

Rating: buy | target price: PLN 250.00 | current price: PLN 188.00

CMR PW; CMR.WA | IT, Poland

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- Comarch generated 2019 Q4 revenue of PLN 416.9m, representing a miss relative to our PLN 422.5m forecast.
- The shortfall was due mainly to lower-than-anticipated sales generated in Poland (PLN 208.3m actual vs. PLN 220.3m expected), as the DACH segment delivered a topline beat at PLN 93.1m vs. PLN 82.1m estimated by us.
- Gross profit fell short of our PLN 140.8m forecast at PLN 113.2m 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).
- SGA& expenses amounted to PLN 82.7m vs. PLN 90.3m anticipated.
- Other operating activity generated an unexpected net one-time gain of PLN 12.8m compared to one-time charges of PLN 19.4m posted in Q4 2018. Comarch reversed provisions for doubtful receivables in a net amount of PLN 7.3m in Q4 (the receivables in question are connected with business in the Middle East and South America), supporting the period's operating profit, which came in at PLN 42.2m.
- EBITDA for the fourth quarter totaled PLN 63.2m.
- After net one-time gains of PLN 13.1m provided by financing activity (stemming from unexpected upward adjustments to the book values of financial instruments in the amount of PLN 9.9m), and after 17.6% tax, net profit showed a beat at PLN 55.3m vs. PLN 45.5m forecast by us.
- Comarch had to raise the base pay wage bill by 11.1% in Q4,2019 to reflect rising pay pressures, experienced across the Polish tech industry, combined with new charges related to the introduction of the PPK workplace pension scheme, the Company said in the Q4 report.
- FCF totaled PLN 95.5m in FY2019 vs. PLN 52.9m in 2018 after a CAPEX reduction from PLN 86.5m to PLN 54.8m following completion of data centers and office building investment.
- Comarch's 2019 Q4 results came as a disappointment to us, with the bottom-line beat achieved largely with the help of one-time adjustments. Otherwise, EBITDA missed estimates after an increase in employment costs, and revenue was also below expectations.**

2019 Q4 results vs. expectations

(PLN m)	4Q'19	4Q'18	change	4Q'19E	differ.	consensus (median)	differ.
Revenue	416.9	415.6	0.3%	422.5	0.3%	449.9	-7.3%
EBITDA	63.2	67.2	-6.0%	71.8	-6.0%	74.3	-15.0%
EBITDA margin	15.1%	16.2%	-	17.0%	-	16.5%	-
EBIT	42.2	49.9	-15.5%	50.5	-15.5%	53.3	-20.9%
Pre-tax profit	55.3	37.0	49.4%	45.5	49.4%	-	-
Net profit	45.9	29.2	57.3%	39.1	57.3%	41.0	12.0%

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)
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

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
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