

Wednesday, September 02, 2020 | Monthly Market Outlook, an excerpt

Comarch hold (no change)

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Comarch generated revenue of PLN 331.0m in Q2 2020, a miss of nearly PLN 23m relative to our forecast caused in a large part by weaker sales of TMT solutions. Sales to the Polish TMT sector were particularly disappointing, with revenue ending up PLN >22m lower than anticipated, but sales in the DACH region and other global markets also fell short of expectations. EBITDA showed an increase from the year before thanks only to one-time events (including among others reversals of receivables reserves). The quarterly gross profit was PLN 10m off target at PLN 85m. Looking ahead, 7%-8% growth in the order book compared to last year is a disappointing result, but on the upside Comarch achieves very high cash flow, and recently it signed a high-profile contract in New Zealand. Trading at 7.8x 2020E EV/EBITDA, CMR is valued at a significant discount to peers. We maintain a neutral stance on Comarch.

Current Price	214.00 PLN	Upside
9M Target Price	220.30 PLN	+2.9%

	rating	target price	issued
unchanged	hold	220.30 PLN	2020-05-13

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-1.8%	-2.8%
ISIN	PLCOMAR00012	YTD Price Chng	+15.4%	+27.3%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.8m
MC (PLN m)	1,740.5	ADTV 6M		PLN 1.1m
EV (PLN m)	1,655.1	EV/EBITDA 12M fwd	6.8	-7.6%
Free Float	60.9%	EV/EBITDA 5Y avg	7.3	discount

Earnings Projections

(PLN m)	2018	2019	2020P	2021P	2022P
Revenue	1,370	1,437	1,463	1,593	1,692
EBITDA	153	228	212	232	242
EBITDA margin	11.2%	15.9%	14.5%	14.6%	14.3%
EBIT	88	143	125	144	151
Net income	31	105	74	103	108
P/E	56.9	16.6	23.6	16.9	16.1
P/B	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	11.8	7.4	7.8	7.0	6.6
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)	2020P	2021P	2022P
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)	2018	2019	2020P	2021P	2022P
Revenue	1,370	1,437	1,463	1,593	1,692
TMT	316	336	363	384	404
Finance & Banking	205	191	195	203	211
Retail Solutions	202	252	257	295	316
Manufacturing	138	179	183	198	207
Public Sector	193	130	143	158	173
SME	260	291	262	293	317
Other	54	58	61	62	64
Gross profit margin	362	421	412	448	469
	26.4%	29.3%	28.1%	28.1%	27.7%
Selling expenses	139	146	147	160	170
G&A expenses	106	128	134	140	145
EBIT	88	143	125	144	151
margin	6.4%	10.0%	8.6%	9.1%	8.9%
Net income	30.6	104.8	73.8	103.0	107.9

Key Balance Sheet Figures

(PLN m)	2018	2019	2020P	2021P	2022P
Operating cash flow	160	179	182	170	183
OCF/EBITDA	105%	78%	86%	73%	76%
CAPEX	-87	-45	-79	-107	-107
Assets	1,740	1,843	1,920	2,058	2,192
Equity	876	971	1,032	1,123	1,219
Net debt	46	-58	-104	-132	-173
Net debt/EBITDA (x)	-0.2	-0.3	-0.5	-0.6	-0.7

Relative Valuation Summary

	P/E			EV/EBITDA		
	20P	21P	22P	20P	21P	22P
Minimum	24.7	23.1	20.7	16.6	15.8	14.3
Maximum	9.3	8.4	7.7	5.5	5.2	5.1
Median	16.5	15.6	14.1	9.2	9.1	9.0
Weight	33%	33%	33%	33%	33%	33%

DCF Analysis

(PLN m)	20P	21P	22P	23P	24P	25P	26P	27P	28P	29P	+
Revenue	1,463	1,593	1,692	1,765	1,840	1,913	1,983	2,051	2,121	2,193	
EBITDA	212	232	242	249	255	263	269	275	280	286	
EBITDA margin	14.5%	14.6%	14.3%	14.1%	13.9%	13.7%	13.6%	13.4%	13.2%	13.1%	
D&A	87	88	91	94	97	101	104	108	112	116	
EBIT	125	144	151	155	158	162	165	166	168	170	
Tax	33	39	41	42	43	44	44	45	45	46	
NOPLAT	92	106	110	113	116	118	120	122	123	124	
CAPEX	-79	-107	-107	-85	-89	-89	-90	-92	-93	-97	
Working capital	-4	-24	-19	-17	-19	-21	-21	-22	-23	-24	
FCF	96	62	76	104	106	109	113	116	119	119	122
PV FCF	91	54	61	78	72	69	66	62	59	54	
WACC	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%	
Risk-free rate	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	1,519
Net debt	-58
Other adjustments	19
Value per share (PLN)	191.60

Valuation Summary

(PLN)	Weight	Price
Relative Val.	40%	230.34
DCF Val.	60%	191.60
Implied Price		207.10
Cost of equity (9M)		6.4%
9M Target Price		220.30

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.

mBank issued the following investment recommendations for the Company in the 12 months prior to this publication

Comarch		
Rating	hold	buy
Rating date	2020-05-13	2019-11-25
Target price (PLN)	220.30	250.00
Price on rating day	210.00	189.50

Comparable Companies Used In Relative Valuation Models

Comarch Asseco Poland, Atos, CAP Gemini, Computacenter, Fiserv INC, Indra Sistemas, Oracle Corp, Sage Group, SAP, Software AG, Tieto

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