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## Comarch - Forecast of 2019 Q4 Results

Rating: buy | target price: 250.00 PLN | current price: 204.00 PLN

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**We expect Comarch to report EBITDA of PLN 71.8m, in Q4 2019 decreasing to PLN 67.8m after adjustment for IFRS16 effects. This represents stable earnings relative to the same period a year earlier, when, however, Comarch recognized one-time charges in excess of PLN 10m. Slow growth in TMT Solutions, curbed by rising employment costs, is also part of the reason behind the lackluster fourth quarter growth.**

- At an estimated PLN 422.5m, revenue is likely to show a small, 1.6% rise from the year-ago level.
- By segment, revenues in TMT might register a fall as sharp as 12% to a projected PLN 95.8m, but revenues in Retail & Services, Industrial Solutions, and Public Sector Solutions, should be higher year over year.
- The gross profit margin is estimated at 33.3%.
- SG&A expenses will most likely rise to ca. PLN 90.3m from PLN 83.2m a year earlier.
- Operating expenses will also increase in line with rising costs of employment.
- We assume zero one-time events in Q4 2019 vs. one-off charges of PLN 13.3m posted in Q4 2018.
- Adj. EBITDA ex. IFRS16 will most likely come in at PLN 67.8m after rising 0.9% on the year.
- After a net loss of PLN 5m on financing activity, and after tax at an effective rate of 15.0%, we expect the fourth-quarter bottom-line profit to come in at PLN 39.1m.

### 2019 Q4 estimates

(PLN m)	4Q'18	1Q'19	2Q'19	3Q'19	4Q'19E	Y/Y
Revenue	415.6	338.7	327.8	354.5	422.5	1.6%
EBITDA	67.2	41.2	45.1	89.8	71.8	6.8%
EBITDA margin	16.2%	12.2%	13.7%	25.3%	17.0%	-
EBIT	49.9	20.9	25.2	66.2	50.5	1.2%
Pre-tax income	37.0	19.4	26.7	53.9	45.5	23.0%
Net income	29.2	7.0	20.2	42.5	39.1	33.8%

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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**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.

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