

Tuesday, August 04, 2020 | Monthly Market Outlook, an excerpt

Comarch hold (no change)

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We maintain a neutral stance on Comarch, with the upside potential to our target slim at just 3.9%. Nevertheless we expect the Company to report strong 2020 second-quarter results in August, with EBITDA at an estimated PLN 48.3m showing an increase of more than 7% from the same period a year earlier. This should lend more confidence to investors about future earnings prospects, especially if Comarch itself gives a more confident guidance for H2 2020. Assuming our estimates are correct, Comarch will fulfill upwards of 54% of our FY EBITDA forecast and deliver close to 52% of the net profit target in the year to 30 June 2020. CMR is currently trading at 7.7x 2020E EV/EBITDA, i.e. below the median ratio of its peers, but to be fair its dividend yields are low at just about 0.7% despite a solid financial standing.

Current Price	212.00 PLN	Upside
9M Target Price	220.30 PLN	+3.9%

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

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-0.9%	-2.1%
ISIN	PLCOMAR00012	YTD Price Chng	+14.3%	+25.2%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.6m
MC (PLN m)	1,724.3	ADTV 6M		PLN 1.1m
EV (PLN m)	1,638.8	EV/EBITDA 12M fwd	6.7	-9.0%
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	56.3	16.4	23.4	16.7	16.0
P/B	2.0	1.8	1.7	1.5	1.4
EV/EBITDA	11.7	7.4	7.7	6.9	6.5
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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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.

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

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