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Equity Market in 2020: An Investment Strategy, an excerpt

## Comarch buy (no change)

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Comarch generated strong 2019 third-quarter earnings well ahead of analysts' estimates, with EBITDA adjusted for IFRS16 effects, a one-time reversal, and positive exchange differences, posting a year-over-year rebound of a whopping 41%. The main driver behind the third-quarter growth was an improved sales mix with a higher proportion of global sales, facilitated by Comarch's expanding presence in the fast-growing markets for technology solutions for TMT and the retail & services industry. At the same time, Poland's share in the mix decreased in the wake of a fall in government orders in an election year. After adjusting our outlook in November to reflect the third-quarter earnings beat, we now expect Comarch to generate FY2019 and 2020 EBITDA and bottom-line results 10-11% higher than the respective consensus estimates. Meanwhile CMR stock at 6.2x 2019E EV/EBITDA and 6.0x 2020E earnings is trading at disproportionate discounts of 36% each relative to its earnings potential. Our current target price for Comarch at PLN 250.00 implies upside potential of nearly 27%, and so we maintain our buy call for the stock.

<b>Current Price</b>	197.50 PLN	<b>Upside</b>
<b>9M Target Price</b>	250.00 PLN	<b>+26.6%</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	+10.0%	+15.4%
ISIN	PLCOMAR00012	YTD Price Chng	+31.2%	+33.9%
Outst. Stock (m)	8.1	ADTV 1M		PLN 0.7m
MC (PLN m)	1,606.3	ADTV 6M		PLN 0.6m
EV (PLN m)	1,618.6	EV/EBITDA 12M fwd	6.4	-14.1%
Free Float	60.9%	EV/EBITDA 5Y avg	7.5	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	37.3	31.1	14.3	13.7	13.2
P/B	1.8	1.8	1.6	1.5	1.3
EV/EBITDA		9.0	6.2	6.0	5.6
DPS	1.50	1.50	1.50	1.50	1.50
DYield	0.8%	0.8%	0.8%	0.8%	0.8%
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	268	387	475	475	495
margin	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
Value per share (PLN)	211.03

### 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  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**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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**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.

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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 Comarch in the 12 months prior to this publication**

<b>Comarch</b>						
Rating	buy	buy	buy	buy	hold	accumulate
Rating date	2019-11-25	2019-07-25	2019-04-17	2019-03-05	2019-02-04	2018-12-05
Target price (PLN)	250.00	231.00	230.00	195.00	160.80	173.30
Price on rating day	189.50	178.50	181.00	162.50	155.00	160.00

**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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