

Monday, August 31, 2020 | special comment

Comarch – 2020 Q2 Results

Rating: hold | target price: PLN 220.30 | current price: PLN 222.00

CMR PW; CMR.WA | IT, Poland

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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 in Q2 (with revenue ending up PLN >22m lower than anticipated), but sales in the DACH region and other global markets also fell short of expectations. At PLN 45.1m, the Q2 2020 segmental TMT revenue came out well below our PLN 80.0m estimate and showed a decrease from the PLN 97.0m result generated in the previous quarter and the year-ago result of PLN 77.5m.
- The gross profit margin amounted to 25.7% in Q2 vs. our 26.9% estimate and a year-ago margin of 28.1%.
- SG&A expenses were in line at PLN 61.0m.
- Other operating activity provided a gain of PLN 2.8m in Q2 against expectations of a PLN 7.0m loss. Comarch set up provisions for doubtful accounts in the amount of PLN 4.3m in Q2, and at the same time it recognized reversals of PLN 6.7m
- After all this, EBITDA came in at PLN 51.5m, indicating a 7% beat vs. our forecast.
- Comarch incurred higher-than expected D&A expenses in Q2 2020 at PLN 24.6m vs. PLN 21.0m.
- Combined with the effects of FX movements and receivables adjustments, this resulted in a PLN 7.8m charge against quarterly EBIT. On the other hand, net profit received a one-time boost of PLN 8.0m in Q2 thanks to financing activity, including derivatives valuation and the recognition of a resulting deferred tax asset.
- Net profit came in at PLN 20.4m after decreasing by PLN 5.6m due to substantial deferred tax adjustments.
- Comarch's employee headcount decreased by 1.2% in Q2 2020 To 6,269 as of 30 June.
- Comarch generated very strong operating cash flow of PLN 124.3m in H1 2020 vs. PLN 69.5m in H1 2019 after substantial working capital changes.
- Summing up, Comarch achieved slightly better results in Q2 2020 than we had anticipated after factoring out high D&A expenses and deferred tax adjustments, and it achieved impressive operating cash flow in the first half of the year. On the other hand, the Company was only able to demonstrate y/y EBITDA growth in Q2 thanks to one-time events, and its quarterly gross profit fell short of expectations due to disappointingly weak sales of TMT solutions. We hope Comarch will bring us up to date on the TMT segment's prospects in its guidance for the rest of the year.**

2020 Q2 results vs. expectations

(PLN m)	2Q'20	2Q'19	change	2Q'20E	differ.	Consensus	differ.
Revenue	331.0	327.8	1.0%	353.9	-6.5%	341.7	-3.1%
EBITDA	51.5	45.1	14.2%	48.3	6.6%	46.4	11.0%
EBITDA margin	15.6%	13.7%	-	13.7%	-	13.6%	-
EBIT	26.9	25.2	6.8%	27.3	-1.5%	25.8	4.3%
Pre-tax profit	36.0	26.7	34.5%	33.8	6.4%	-	-
Net profit	20.4	20.2	0.7%	24.1	-15.5%	23.6	-13.7%

Source: Comarch, E - mBank estimates, Consensus estimates provided by PAP

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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