mBank Dom Maklerski

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Comarch – Forecast of 2018 Q1 Results

Rating: buy | target price: PLN 166.50 | current price: PLN 149.50

CMR PW; CMR.WA | TMT, Poland

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Comarch is scheduled to release 2018 first-quarter financials on May 18th. The first quarter is seasonally the slowest for the Software House, accounting for less than 15% of the annual earnings, but this year business was slower than usual, and at an estimated PLN 13.7m the quarterly EBITDA may not be enough to achieve our FY forecast of PLN 144m; much depends on how fast Comarch makes progress on its largest public contracts. An operating loss would no doubt wipe out the 13.7% gain CMR stock has logged since April 6th.

- We expect 2018 Q1 revenue to come in at PLN 254.6m after unfavorable FX movements (i.e. the euro's depreciation versus the zloty).
- Geographically, Poland is expected to generate a revenue of PLN 137m (+3% y/y), stemming from a dearth of new public orders while revenues from the existing government backlog will not have fully materialized yet.
- Revenue from the DACH region at an estimated PLN 64m will be 9% higher than in Q1 2017 thanks to improving SME business. Other export revenues are set to expand 7% to PLN 47m.
- We anticipate a rebound in the Q1 gross margin to 19.2% from 17.3% in 2017 in spite of higher payroll costs.
- After flat growth in SG&A expenses, and after one-time charges of PLN 1.0m, Q1 2018 EBIT is set to show an operating loss of PLN 3.6m. At the same time, EBITDA will increase to PLN 13.7m from PLN 3.9m in Q1'17, and net profit will come in at PLN 1.3m. Note that in Q1 2017 Comarch recognized one-time FX hedging gains of PLN 20.9m.

2017 quarterly actuals and 2018 Q1 estimates

(PLN m)	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18E	YoY
Revenue	242.2	248.8	260.5	350.0	254.6	5.1%
EBITDA	3.9	23.5	21.9	49.3	13.7	250.5%
margin	1.6%	9.5%	8.4%	14.1%	5.4%	-
EBIT	-11.3	7.0	7.2	31.6	-3.6	-
Pre-tax income	8.4	10.2	2.0	42.5	0.9	-
Net income	4.8	6.0	-3.5	35.9	1.3	-

Source: Comarch, E - estimates by Dom Maklerski mBanku; 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
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