

Tuesday, March 02, 2021 | special comment

## Comarch: 2020 Q4 Results

Rating: buy | target price: PLN 247.60 | current price: PLN 187.00

**CMR PW; CMR.WA | IT, Poland**

Analyst: Paweł Szpigiel +48 22 438 24 06

- Comarch generated revenue of PLN 474.0m in Q4 2020, representing a substantial, PLN 58m beat relative to our estimate driven by higher-than-expected sales in Poland (PLN 265.9m vs. PLN 218.4m), in particular sales of solutions for the finance sector, manufacturing and utilities, and the public sector.
- The gross profit margin amounted to 32.9% in Q4 vs. our estimate of 30.0%.
- SG&A expenses totaled PLN 91.1 vs. PLN 86.1m expected.
- Other operating activity provided a PLN 4.0m gain in Q4 against expectations of no one-time boosts and PLN 8.0m added in the corresponding year-ago period; the gain was a net outcome of charges and reversals associated with doubtful receivables.
- EBITDA at PLN 89.1m showed a year-over-year rebound of 71%, and it exceeded our forecast by 40% as well as showing a 61% beat over the consensus estimate.
- Net profit for the quarter came in at PLN 51.8m.
- Comarch recorded a 5.4% increase in operating costs in Q4 2020 due to pay pressures and new costs associated with employee benefits.
- It is worth noting the strong operating cash flow generated by Comarch, which in 2020 amounted to PLN 293.8m after growing from PLN 169.0m the year before on higher earnings combined with positive working capital.
- Comarch more than made up for a weak third quarter with the 2020 Q4 beat. We expect a positive reaction to the strong results, and we stand by our positive view on CMR.**

### 2020 Q4 results vs. expectations

(PLN m)	4Q'20	4Q'19	change	4Q'20E	differ.	Consensus (median)	differ.
Revenue	474.0	416.5	13.8%	427.0	11.0%	439.6	7.8%
EBITDA	89.1	52.2	70.6%	63.6	40.2%	55.4	60.9%
EBITDA margin	18.8%	12.5%	-	14.9%	-	12.6%	-
EBIT	68.9	31.0	122.2%	42.0	64.1%	33.5	105.7%
Pre-tax profit	60.4	42.3	42.6%	42.0	43.8%	-	-
Net profit	51.8	35.2	47.2%	33.2	56.0%	24.3	113.0%

Source: Comarch, E - estimates by mBank; 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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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
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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.

**mBank S.A.**  
Prosta 18  
00-850 Warszawa  
<http://www.mbank.pl/>

## Research Department

Kamil Kliszcz  
director  
+48 22 438 24 02  
[kamil.klischcz@mbank.pl](mailto:kamil.klischcz@mbank.pl)  
energy, power generation

Jakub Szkopek  
+48 22 438 24 03  
[jakub.szkopek@mbank.pl](mailto:jakub.szkopek@mbank.pl)  
industrials, chemicals, metals

Aleksandra Szklarczyk  
+48 22 438 24 04  
[aleksandra.szklarczyk@mbank.pl](mailto:aleksandra.szklarczyk@mbank.pl)  
construction, real-estate development

Michał Marczak  
+48 22 438 24 01  
[michal.marczak@mbank.pl](mailto:michal.marczak@mbank.pl)  
strategy

Paweł Szpigiel  
+48 22 438 24 06  
[pawel.szpigiel@mbank.pl](mailto:pawel.szpigiel@mbank.pl)  
media, IT, telco

Piotr Poniatowski  
+48 22 438 24 09  
[piotr.poniatowski@mbank.pl](mailto:piotr.poniatowski@mbank.pl)  
industrials

Michał Konarski  
+48 22 438 24 05  
[michal.konarski@mbank.pl](mailto:michal.konarski@mbank.pl)  
banks, financials

Piotr Bogusz  
+48 22 438 24 08  
[piotr.bogusz@mbank.pl](mailto:piotr.bogusz@mbank.pl)  
retail, gaming

Mikołaj Lemańczyk  
+48 22 438 24 07  
[mikolaj.lemanczyk@mbank.pl](mailto:mikolaj.lemanczyk@mbank.pl)  
financials

## Sales and Trading

### Traders

Piotr Gawron  
director  
+48 22 697 48 95  
[piotr.gawron@mbank.pl](mailto:piotr.gawron@mbank.pl)

Adam Prokop  
+48 22 697 47 90  
[adam.prokop@mbank.pl](mailto:adam.prokop@mbank.pl)

Krzysztof Bodek  
+48 22 697 48 89  
[krzysztof.bodek@mbank.pl](mailto:krzysztof.bodek@mbank.pl)

Magdalena Bernacik  
+48 22 697 47 35  
[magdalena.bernacik@mbank.pl](mailto:magdalena.bernacik@mbank.pl)

Tomasz Jakubiec  
+48 22 697 47 31  
[tomasz.jakubiec@mbank.pl](mailto:tomasz.jakubiec@mbank.pl)

Andrzej Sychowski  
+48 22 697 48 46  
[andrzej.sychowski@mbank.pl](mailto:andrzej.sychowski@mbank.pl)

### Sales, Foreign Markets

Marzena Łempicka-Wilim  
deputy director  
+48 22 697 48 82  
[marzena.lempicka-wilim@mbank.pl](mailto:marzena.lempicka-wilim@mbank.pl)

Bartosz Orzechowski  
+48 22 697 48 47  
[bartosz.orzechowski@mbank.pl](mailto:bartosz.orzechowski@mbank.pl)

Jędrzej Łukomski  
+48 22 697 49 85  
[jedrzej.lukomski@mbank.pl](mailto:jedrzej.lukomski@mbank.pl)

### Private Client Sales

Kamil Szymański  
director  
[kamil.szymanski@mbank.pl](mailto:kamil.szymanski@mbank.pl)

Jarosław Banasiak  
deputy director  
[jaroslaw.banasiak@mbank.pl](mailto:jaroslaw.banasiak@mbank.pl)