

Friday, August 02, 2019 | Monthly Market Outlook, an excerpt

## Comarch buy (no change)

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Comarch is expected to generate record revenue of PLN 1.53bn in 2019, a figure which would indicate the Company has been able to grow its business by nearly 40% in the span of two years. The fast-paced expansion is driven by sustained investment in in-house software development capabilities, increasing global recognition, and a growing roster of leading household names on the customer list. Comarch stays on top of industry trends by offering subscription plans, building data centers, and offering cloud solutions. According to our forecasts (calculated pre-IFRS16 for comparability), the Company will grow yearly EBITDA at an average annual rate of 9.6% in the 2018-2021 period. Comarch boasts a strong balance-sheet position as well, with net cash on hand at PLN 123m as of 30 June 2019 (PLN 53m pre-IFRS 16), a very creditable amount considering that the Company had just completed a major CAPEX push (data centers, offices) in 2018, alongside continued investment in in-house software capacity. Meanwhile CMR is trading at a discount to the median 2019E EV/EBITDA of the peer group. We remain bullish on CMR even though we expect to see lower profits in Q2 2019 than in the same period in 2018, when, however, the bottom line received a boost from a large government contract, since completed.

<b>Current Price</b>	174.50 PLN	<b>Upside</b>
<b>9M Target Price</b>	231.00 PLN	<b>+32.4%</b>

	rating	target price	issued
unchanged	buy	231.00 PLN	2019-07-25

Key Metrics			CMR PW	vs. WIG
Ticker	CMR PW	1M Price Chng	-6.4%	-4.0%
ISIN	PLCOMAR00012	YTD Price Chng	+15.9%	+13.9%
Outst. Stock (m)	8.1	ADTV 1M		PLN 2.4m
MC (PLN m)	1,419.3	ADTV 6M		PLN 0.7m
EV (PLN m)	1,436.8	EV/EBITDA 12M fwd	6.3	-16.8%
Free Float	59.2%	EV/EBITDA 5Y avg	7.5	discount

### Earnings Projections

(PLN m)	2017	2018	2019P	2020P	2021P
Revenue	1,102	1,365	1,501	1,606	1,690
EBITDA	99	177	226	241	251
EBITDA margin	9.0%	13.0%	15.0%	15.0%	14.9%
EBIT	34	112	141	154	160
Net income	43	52	94	104	110
P/E	32.9	27.5	15.1	13.7	12.9
P/B	1.6	1.6	1.5	1.4	1.2
EV/EBITDA	14.6	8.4	6.4	5.7	5.3
DPS	1.50	1.50	1.50	1.50	1.50
DYield	0.9%	0.9%	0.9%	0.9%	0.9%
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>1,501</b>	<b>1,606</b>	<b>1,690</b>
TMT	258	313	379	405	425
Finance & Banking	186	204	235	244	254
Retail Solutions	174	201	241	272	294
Manufacturing	142	138	152	164	172
Public Sector	63	194	131	139	145
SME	236	260	297	312	327
Other	43	54	67	69	71
Gross profit	268	387	425	440	461
margin	24.3%	28.3%	28.3%	27.4%	27.3%
Selling expenses	134	138	145	156	164
G&A expenses	98	109	123	131	137
<b>EBIT</b>	<b>34</b>	<b>112</b>	<b>141</b>	<b>154</b>	<b>160</b>
margin	3.1%	8.2%	9.4%	9.6%	9.5%
<b>Net income</b>	<b>43</b>	<b>52</b>	<b>94</b>	<b>104</b>	<b>110</b>

### Key Balance Sheet Figures

(PLN m)	2017	2018	2019P	2020P	2021P
<b>Operating cash flow</b>	<b>61</b>	<b>181</b>	<b>156</b>	<b>179</b>	<b>185</b>
OCF/EBITDA	62%	102%	69%	74%	74%
<b>CAPEX</b>	<b>-141</b>	<b>-87</b>	<b>-77</b>	<b>-88</b>	<b>-115</b>
Assets	1,503	1,740	1,870	2,005	2,132
Equity	880	876	958	1,050	1,148
<b>Net debt</b>	<b>19</b>	<b>-28</b>	<b>-75</b>	<b>-134</b>	<b>-172</b>
Net debt/EBITDA (x)	0.2	-0.2	0.0	-0.2	-0.4

### Relative Valuation Summary

	P/E			EV/EBITDA		
	19P	20P	21P	19P	20P	21P
Minimum	28.2	25.3	23.3	18.4	17.2	16.0
Maximum	9.2	8.6	8.0	5.6	5.3	5.0
Median	16.7	15.5	14.4	9.4	9.0	8.7
Weight	33%	33%	33%	33%	33%	33%

### DCF Analysis

(PLN m)	19P	20P	21P	22P	23P	24P	25P	26P	27P	28P	+
Revenue	1,501	1,606	1,690	1,764	1,840	1,918	1,992	2,058	2,122	2,187	2,231
EBITDA	226	241	251	260	269	278	286	292	298	303	309
EBITDA margin	15.0%	15.0%	14.9%	14.7%	14.6%	14.5%	14.3%	14.2%	14.0%	13.9%	14.1%
D&A	85	88	91	94	97	101	105	109	113	117	119
EBIT	141	154	160	166	171	177	181	183	185	186	190
Tax	46	48	49	50	51	52	52	52	52	52	53
<b>NOPLAT</b>	<b>95</b>	<b>105</b>	<b>112</b>	<b>116</b>	<b>121</b>	<b>125</b>	<b>129</b>	<b>131</b>	<b>133</b>	<b>134</b>	<b>137</b>
CAPEX	-77	-88	-115	-112	-94	-87	-91	-93	-96	-99	-101
Working capital	-24	-14	-18	-17	-18	-19	-19	-19	-19	-20	-20
<b>FCF</b>	<b>78</b>	<b>91</b>	<b>69</b>	<b>81</b>	<b>106</b>	<b>120</b>	<b>124</b>	<b>128</b>	<b>131</b>	<b>132</b>	<b>135</b>
PV FCF	76	81	57	61	74	77	73	70	66	61	
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	1,659
Net debt	46
Other adjustments	18
<b>Value per share (PLN)</b>	<b>196.10</b>

### Valuation Summary

(PLN)	Weight	Price
Relative Val.	50%	238.22
DCF Val.	50%	196.10
Implied Price		217.16
Cost of equity (9M)		6.4%
<b>9M Target Price</b>		<b>231.00</b>

**disclList 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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**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**

**Comarch**

Rating	buy	buy	buy	hold	accumulate	accumulate
Rating date	2019-07-25	2019-04-17	2019-03-05	2019-02-04	2018-12-05	2018-10-01
Target price (PLN)	231.00	230.00	195.00	160.80	173.30	180.50
Price on rating day	178.50	181.00	162.50	155.00	160.00	167.00

**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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