

Friday, March 24, 2017 | special comment

## Comarch – Comarch Faces Fine For Alleged SLA Breach

Rating: accumulate | target price: PLN 205.00 | current price: PLN 227.00

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

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Comarch's subsidiary CA Consulting has received a notice from its customer, Bank Pekao, demanding the payment of a PLN 100m penalty (equivalent to 5.4% of Comarch's market capitalization) for alleged violation of SLA requirements under a 2005 electronic banking systems maintenance agreement. Comarch generates annual revenues of ca. PLN 2-3m from the services provided to Pekao.

Comarch says Pekao's claim has no merit, and explains it has not been able to sustain the agreed level of services for reasons beyond its control, including a failure on Pekao's part to make necessary investment in the systems infrastructure, which has to handle 2-3x the agreed workload. What is more, according to Comarch CA Consulting's total liability under the SLA with Peako is capped at 100% of annual compensation, i.e. the PLN 2-3m mentioned above, a fraction of what Pekao is claiming. In our view, investors should not be worried about Pekao's clearly disproportionate claim.

**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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**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.

**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.

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