

Wednesday, April 17, 2019 | update

Comarch: buy (reiterated)

CMR PW; CMR.WA | IT, Poland

A record year ahead

Comarch's share price grew >10 pp than the WIG index since the release of our report in March 2019. After the recent request from ZUS of the payment from the bank guarantee, Comarch market valuation decreased which we believe creates an investment opportunity. (1) We publish earnings forecasts for Q1 2019. We believe that Comarch will report PLN 31.2 million on the EBITDA line in the IFRS15 standard (+86% y/y), which should strengthen the sentiment towards the Company. (2) Therefore, we are increasing our EBITDA forecasts for 2019 from PLN 201 million to PLN 226 million (13% up). (3) Our current forecast is 12% higher than the Bloomberg consensus. (4) Comarch is currently listed on EV/EBITDA 2019 = 6.2x, ie with >31% discount to peers. The discount level is unjustified, looking at (5) the growth rate of Comarch, ie + 27.4% on the EBITDA line vs. median + 7.5% for peers. The level of dividend payout (DivYield 2019 = 0.8%) could possibly be higher, however it does not significantly differ from market standards (median DivYield 2019 for peer group = 1.8%). We set a new level of valuation at PLN 230.00 and maintain a buy rating.

Q1 2019 estimates

We estimate that Comarch has generated sales revenues of PLN 310.1 million in Q1 2019, ie 14.0% more y/y. The increase in turnover will be noticeable especially in finance and banking and public sectors on the Polish market as well as in telecoms and trade and export sales services sectors. We assume a slight increase in the gross margin on sales, ie 21.8% vs. 20.8% a year earlier. The increase in SG&A expenses will be visible (PLN 55.0 million vs. PLN 49.4 million in Q1 2018). The profit from the transfer of K. Piątek to AC Milan should amount to approx. PLN 6 million. The EBIT result is estimated at PLN 15.7 million, EBITDA at PLN 31.2 million (IFRS15). We assumed a net profit with an effective tax rate of 25% at PLN 8.8 million (vs. PLN -6.2 million a year earlier). Please note that after adjusting the results for other operating activities, the EBITDA increase will amount to >25%. At the same time, after adjusting for the impact of IFRS16 on results, our Q1 2019 EBITDA estimate amounts to PLN 35.2 million.

The risk resulting from ZUS contract

ZUS partially terminated the contract for the maintenance of the KSI system (30 out of 74 metrics), for which Comarch would get PLN 92 million net within 4 years. In addition, ZUS demanded a PLN 24.2 million from a bank guarantee. We should not over-interpret the negative information though. The Company claims that it will not have any problems with the management of the ZUS team, which is important when it comes to margins (and what we assume in our forecasts, taking into account the increase in orders portfolio by 15% y/y). The issue of the guarantee payment will probably end in court as Comarch considers it unreasonable. We also emphasize that the reserve will be included in the group's financial figures for 2018.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	1,101.6	1,364.9	1,522.7	1,609.4	1,692.4
EBITDA*	98.6	177.2	225.8	238.3	250.4
EBITDA margin	9.0%	13.0%	14.8%	14.8%	14.8%
EBIT	34.5	112.0	157.3	166.6	175.4
Net profit	43.1	51.7	98.5	109.7	117.3
P/E	34.2	28.5	14.9	13.4	12.5
P/CE	13.7	12.6	8.8	8.1	7.7
P/BV	1.7	1.6	1.5	1.4	1.3
EV/EBITDA	15.1	8.1	6.2	5.7	5.3
DPS	1.50	1.50	1.50	5.00	5.00
DYield	0.8%	0.8%	0.8%	2.8%	2.8%

*IFRS15

Current Price	PLN 181.00
Target Price	PLN 230.00
Market Cap	PLN 1.47 bn
Free Float	PLN 877 m
ADTV (3M)	PLN 0.89 m

Ownership

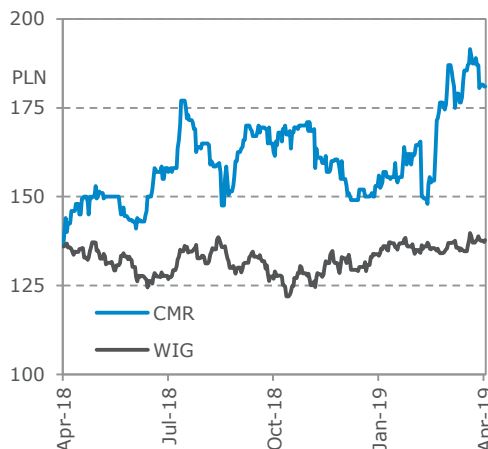
Janusz Filipiak	24.55%
Elżbieta Filipiak	16.27%
MetLife PTE	10.34%

Others 48.84%

Business Profile

Comarch is a developer of IT solutions and an integrator. It is present in over 40 countries on five continents. Comarch receives consistently high marks in Gartner and Truffle 100 rankings. The Company operates its own data centers through which it is able to provide a variety of service models, including SaaS, Cloud, and Managed Services.

CMR vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Comarch	230.00	195.00	buy	buy

Company	Current Price	Target Price	Upside/Downside
Comarch	181.00	230.00	+27.1%

Forecast revision since last update	2019E	2020E	2021E
Revenue	+2.6%	+2.7%	+2.7%
EBITDA	+12.6%	+9.2%	+9.3%
Net profit	+16.6%	+11.1%	+12.7%

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List 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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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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 Company in the 12 months prior to this publication

Rating	buy	buy	hold	accumulate	accumulate	accumulate
Rating date	2019-04-17	2019-03-05	2019-02-04	2018-12-05	2018-10-01	2018-05-09
Target price (PLN)	230,00	195,00	160,80	173,30	180,50	166,50
Price on rating day	181,00	162,50	155,00	160,00	167,00	145,00

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