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Special comment

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Comarch Reports Low Asset Impairments

Current Price: PLN 78.4; Target price: PLN 79.5

Comarch's better-than-expected earnings results for Q2 2010 did not change our outlook on the company's value because they were owed mainly to a lower-than-forecasted goodwill impairment charge (PLN 5.5m vs. PLN 9.9m). The adjustments that we made to our full-year financial forecasts for the company to account for the actual impairments did not result in a change in our target price estimations. That said, note that Comarch shares have reached our target after a 13.1% downtrend seen since the beginning of August.

Q2 2010 results ahead of expectations

Comarch reported better-than-expected earnings for Q2 2010, partly thanks to lower goodwill impairment charges (PLN 5.5m vs. PLN 9.9m forecasted), recognized at standalone subsidiary level rather than against consolidated profits. As a result, minority losses were higher than predicted. However, the recurring results remain ahead of our estimates, with EBIT at PLN 2.2m vis-à-vis our expected operating loss of PLN 1.4m.

Revenues amounted to PLN 174.4m (we expected PLN 148.7m), and the gross margin was good at 22.2%. The business segments that contributed most to the second-quarter sales growth were Finance and Banking (a 26.9% increase to PLN 36.5m), Manufacturers and Utilities (a 22.7% increase to PLN 15.4m), and the Public Sector (a 66.2% increase to PLN 16.0m). In turn, sales to German SMEs saw a 13.1% drop to PLN 38.2m.

At PLN 33.4m, general expenses slightly exceeded our forecast. Start-up losses were not as big as thought (PLN 2.6m vs. PLN 3.0m expected). Other operating expenses of PLN 7.7m included the PLN 5.5m impairment charge mentioned above. After all this, Comarch's Q2 EBIT showed a loss of PLN 2.3m.

Reported vs. forecasted Q2 2010 results

(PLN m)	2Q2010	2Q2010	change	2Q2010F	differ.	consensus	differ.
Revenues	174.4	163.7	6.5%	148.7	17.2%	153.0	14.0%
EBITDA	9.4	2.2	323.4%	0.2	4496.5%	-	-
margin	*5.42%*	*1.36%*	-	*0.14%*	-	-	-
EBIT	-2.3	-12.8	-	-11.3	-	-6.8	-
Pre-tax income	-1.8	-11.7	-	-10.1	-	-	-
Net income	5.4	-3.1	-	-8.7	-	-4.4	-

Source: Comarch, F - forecasts by BRE Bank Securities, Consensus estimates by PAP

The income from financial operations fell short of our PLN 1.2m estimate at PLN 0.4m. Moreover, Comerch paid a tax of PLN 2.8m in the period, compared to our forecast of PLN 0.2m. Minority losses were high at PLN 10.0m because SoftM's EUR 1.3m loss was increased by the addition of goodwill impairment and amortization charges, and because its own minority interests were recalculated to account for the changed equity interests. Further, minority losses included the loss generated by Comarch AG, which transitioned from a wholly-owned to a 60% subsidiary after a recent equity raise. All told, the Q2 2010 net profit came in at PLN 5.4m.

FY2010 Forecast Revisions

We revised our 2010 financial forecasts for Comarch to account for the goodwill impairment charges reported in the second quarter, and for the fact that these charges were recognized by SoftM rather than at consolidated level (we had previously not taken these charges into account in our valuation of Comarch). We are raising our EBIT forecast by the amount of the difference between the reported (PLN 5.5m) goodwill impairment charge and our previous estimate (PLN 9.9m). At net-profit level, we are also adding the portion of these charges that are attributable to minority interests, and minority stakes in goodwill amortization. As a result, we are raising our FY2010 EBIT estimate from PLN 11.3m to PLN 15,8m, and our bottom-line estimate from PLN 20.9m to PLN 34.9m.

Revised FY2010 forecasts

(PLN m)	New 2010F	Old 2010F	differ.	2009	change
Revenues	701.4	701.4	0.0%	729.4	-3.8%
EBITDA	55.4	50.9	8.8%	56.2	-1.4%
margin	*7.9%*	*7.3%*	-	*7.7%*	-
EBIT	15.8	11.3	39.8%	14.3	10.3%
Pre-tax income	20.1	15.7	27.9%	18.4	8.8%
Net income	34.9	20.9	67.2%	32.3	8.2%

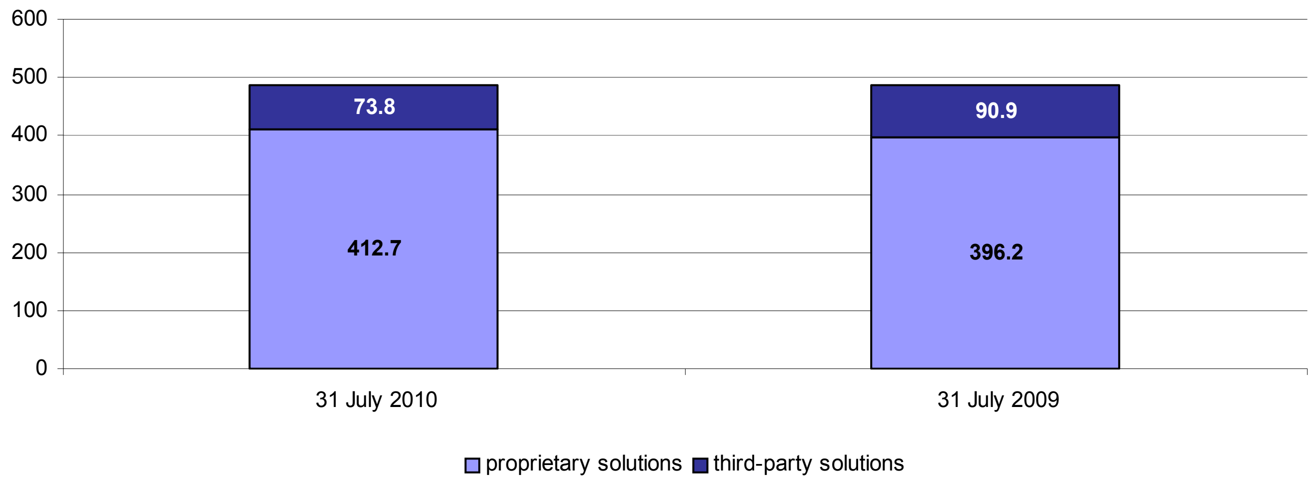
Source: BRE Bank Securities

Order Backlog

Comarch's order backlog amounted to PLN 486.5m at 31 July, compared to PLN 487.0m in the same period in 2009. The backlog was calculated without a recently acquired EUR 42.0m contract from E-Plus Mobilfunk GmbH&Co. KG, which will start generating revenues in 2011 (over a five-year period).

The order total includes PLN 412.7m-worth of orders for Comarch's proprietary solutions, marking a 4.2% increase from last year's PLN 396.2m. Given that last year's and this year's backlogs are the same size, and considering the weak sales generated by SoftM (whose orders are not included in Comarch's reported backlog), we stand by our 2010 consolidated-sales forecast for Comarch.

Current order backlog as of 31 July 2010 vs. 2009



Source: Comarch SA

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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*

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