

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is a translation of the Polish analytical report.

# Votum

## On the roll

We value Votum via the DCF FCFF approach and also compare it against a pool of foreign peer companies. Our ultimate 12M EFV for the stock rests at PLN 30.4 per share. Our valuation of Votum shares is significantly above the market price, which prompts us to initiate the stock with Buy and Overweight fundamental recommendation and short-term relative rating.

Votum pursues damages claims for clients of financial institutions in the area of personal and property claims as well as abusive clauses in foreign currency mortgage loan agreements. The most promising segment is the market of damages claims against FX mortgage loans, which at an early stage of development experiences vigorous expansion. The Company should be an increasing beneficiary of the growing interest of CHF mortgage borrowers in pursuing claims after the precedent judgment of the EU Court of Justice and changing the court line to pro-consumer one.

We expect a further growth of the Company's revenues due to: (i) high dynamics of revenues in the banking segment in the coming periods and (ii) moderate growth in the segment of pursuing claims from insurers. We forecast the 3 year CAGR of revenues and EBIT at 19% and 27%, respectively. One should bear in mind that Votum's results will be burdened this year with the outbreak of a pandemic, which will slow down the pace of customer acquisition translating into a temporary stagnation of financial results. This will be especially visible in the results for 2Q20.

The Company regularly distributes dividends and its dividend policy provides for the payment of 25% to 50% of the consolidated net profit; this year we also assume a dividend payment to turn up, after the general decision to allocate PLN 8.4 million for the reserve capital earmarked for dividend payments.

28/2020/GPW (102) September 2, 2020

Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance

Fundamental rating: Buy (-)

Market relative: Overweight (-)

Price: PLN 11.40

12M EFV: PLN 30.40 (-)

Market Cap: US\$ 36.8 m

Bloomberg code: VOT PW

Av. daily turnover: US\$ 0.05 m

12M range: PLN 8.20-14.95

Free float: 37%

### Guide to adjusted profits

No factors necessitating adjustments.

### Key data

| IFRS consolidated      |       | 2019  | 2020E | 2021E | 2022E |
|------------------------|-------|-------|-------|-------|-------|
| Sales                  | PLN m | 141.8 | 161.0 | 200.3 | 237.1 |
| EBITDA                 | PLN m | 24.7  | 23.6  | 35.5  | 49.0  |
| EBIT                   | PLN m | 22.6  | 21.7  | 33.6  | 46.7  |
| Net income             | PLN m | 17.3  | 16.2  | 25.3  | 36.7  |
| EPS                    | PLN   | 1.44  | 1.35  | 2.11  | 3.06  |
| EPS yoy chg            | %     | 109   | -6    | 56    | 45    |
| Net debt               | PLN m | 11.5  | 2.9   | -8.5  | -26.3 |
| Net debt + leasing     |       | 18.7  | 10.4  | -0.6  | -18.0 |
| P/E                    | x     | 7.9   | 8.4   | 5.4   | 3.7   |
| P/CE                   | x     | 7.0   | 7.6   | 5.0   | 3.5   |
| EV/EBITDA              | x     | 6.0   | 5.9   | 3.6   | 2.3   |
| EV/EBIT                | x     | 6.6   | 6.4   | 3.8   | 2.4   |
| DPS                    | PLN   | 0.19  | 0.72  | 0.68  | 1.05  |
| Gross dividend yield   | %     | 1.7   | 6.3   | 5.9   | 9.2   |
| Number of shares (eop) | m     | 12.0  | 12.0  | 12.0  | 12.0  |

Source: Company, DM BOŚ SA estimates

### Stock performance



Source: Bloomberg

### Upcoming events

1. Publication of 1H20 financial results: September 8
2. Publication of 3Q20 financial results for: November 26

We valued the Company implementing two methods: a DCF FCFF and peer-relative one, based on the EV/ EBITDA, EV/EBIT and P/E ratios for the foreign companies from the legal services sector, and ultimately obtaining an average valuation in the horizon of 12 months at PLN 30.4 per share.

**Risk factors**

1. Epidemic threat - prolonged lockdown of economy and slowdown in operations of courts
2. Lower than assumed propensity of clients to go to the court (the market is at an early stage of development)
3. Lower than expected demand for the Company's services
4. Unfavorable changes in the jurisprudence towards bank customers
5. Growing competition for clients from other law firms (an example is EuCo's entry into the bank segment)
6. Shortage of workforce (rapid development requires an acquisition of qualified employees)
7. Pressure on salaries
8. Adverse FX fluctuations
9. Acquisitions of companies from the main shareholder and their high valuations
10. Lower payouts in pre-trial proceedings
11. Pressure on margins
12. Potential regulation of the market of compensation law firms (currently there are no active legislative bills, but such attempts made their appearances in the past)
13. Draft statutory regulation of the compensation institution
14. Departure of key managerial staff
15. Inclusion of the Company's services by insurers
16. Potential acquisitions of new companies

**Catalysts**

1. Continuation of the pro-consumer trend in the jurisprudence of courts with regard to people with foreign currency loans
2. The continued growth of interest of clients in the in claims against banks, reinforced by favorable case law
3. Further depreciation of the PLNCHF exchange rate, increasing the borrowers' tendency to take legal action
4. Acceleration of court processing procedures
5. Maintaining the leading position in the existing markets
6. Faster than assumed organic growth (increase in the number of contracts in the debt assignment segment, improvement of the structure in the personal claims segment)
7. New value-creating acquisitions for minority shareholders
8. Effective implementation of the pandemic optimization programs
9. Long-term success of new ventures (green energy segment, further foreign expansion)

**Competitive advantages**

1. Main player on the most important product markets
2. Above-average efficiency compared to the competition coming from the scale effect
3. Good historical track record
4. Motivated and competent management team holding equity position in the Company
5. A pioneer of the rapidly growing market of claims for foreign currency borrowers
6. Operational efficiency
7. Specialization in strictly defined product markets
8. Multi-channel distribution network

## BASIC DEFINITIONS

**A/R turnover** (in days) =  $365/(\text{sales}/\text{average A/R})$   
**Inventory turnover** (in days) =  $365/(\text{COGS}/\text{average inventory})$   
**A/P turnover** (in days) =  $365/(\text{COGS}/\text{average A/P})$   
**Current ratio** =  $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$   
**Quick ratio** =  $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$   
**Interest coverage** =  $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$   
**Gross margin** =  $\text{gross profit on sales}/\text{sales}$   
**EBITDA margin** =  $\text{EBITDA}/\text{sales}$   
**EBIT margin** =  $\text{EBIT}/\text{sales}$   
**Pre-tax margin** =  $\text{pre-tax profit}/\text{sales}$   
**Net margin** =  $\text{net profit}/\text{sales}$   
**ROE** =  $\text{net profit}/\text{average equity}$   
**ROA** =  $(\text{net income} + \text{interest payable})/\text{average assets}$   
**EV** =  $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$   
**EPS** =  $\text{net profit}/\text{no. of shares outstanding}$   
**CE** =  $\text{net profit} + \text{depreciation}$   
**Dividend yield** (gross) =  $\text{pre-tax DPS}/\text{stock market price}$   
**Cash sales** =  $\text{accrual sales corrected for the change in A/R}$   
**Cash operating expenses** =  $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

## KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

**Buy** – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;  
**Hold** – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;  
**Sell** – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

**Overweight** – expected to perform better than the benchmark (WIG) over the next quarter in relative terms  
**Neutral** – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms  
**Underweight** – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŠ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

### Distribution of DM BOŠ's current recommendations

|            | Buy | Hold | Sell | Suspended | Under revision |
|------------|-----|------|------|-----------|----------------|
| Numbers    | 34  | 37   | 6    | 9         | 0              |
| Percentage | 40% | 43%  | 7%   | 10%       | 0%             |

### Distribution of DM BOŠ's current market relative recommended weightings

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 28         | 37      | 12          | 9         | 0              |
| Percentage | 33%        | 43%     | 14%         | 10%       | 0%             |

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income}/\text{average assets}$   
**Non interest income** =  $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$   
**Interest Spread** =  $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$   
**Cost/Income** =  $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$   
**ROE** =  $\text{net profit}/\text{average equity}$   
**ROA** =  $\text{net income}/\text{average assets}$   
**Non performing loans (NPL)** = loans in 'basket 3' category  
**NPL coverage ratio** =  $\text{loan loss provisions}/\text{NPL}$   
**Net provision charge** =  $\text{provisions created} - \text{provisions released}$

DM BOŠ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

### Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

|            | Buy | Hold | Sell | Suspended | Under revision |
|------------|-----|------|------|-----------|----------------|
| Numbers    | 4   | 8    | 0    | 2         | 0              |
| Percentage | 29% | 57%  | 0%   | 14%       | 0%             |

### Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 3          | 8       | 1           | 2         | 0              |
| Percentage | 21%        | 57%     | 7%          | 14%       | 0%             |

**LT fundamental recommendation tracker**

| Analyst           | Recommendation |   | Report date | Reiteration date | Distribution date | Expiry date                  | Performance | Relative performance | Price at issue/<br>reiteration* | EFV<br>(12 months) |   |
|-------------------|----------------|---|-------------|------------------|-------------------|------------------------------|-------------|----------------------|---------------------------------|--------------------|---|
| <b>Votum</b>      |                |   |             |                  |                   |                              |             |                      |                                 |                    |   |
| Michał Sobolewski | Buy            | → | 02.09.2020  | -                | 03.09.2020        | Not later than<br>02.09.2021 | -           | -                    | 11.40                           | 30.40              | - |

\* prices at issue/reiteration are the closing prices at the report or reiteration date

**Market-relative recommendation tracker**

| Analyst           | Relative Recommendation |   | Report date | Reiteration date | Distribution date | Expiry date               | Price at issue/<br>reiteration* | Relative performance |
|-------------------|-------------------------|---|-------------|------------------|-------------------|---------------------------|---------------------------------|----------------------|
| <b>Votum</b>      |                         |   |             |                  |                   |                           |                                 |                      |
| Michał Sobolewski | Overweight              | → | 02.09.2020  | -                | 03.09.2020        | Not later than 02.09.2021 | 11.40                           | -                    |

\* prices at issue/reiteration are the closing prices at the report or reiteration date

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