BOŚ DOM MAKLERSKI

WSE Analytical Coverage Program

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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.

Analyst: Michał Sobolewski, CFA, FRM

Votum

Sector: Financials – specialty finance
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 12.80
12M EFV: PLN 30.40 (→)

Market Cap: US$ 40.6 m
Bloomberg code: VOT PW
Av. daily turnover: US$ 0.09 m
12M range: PLN 8.20-14.95
Free float: 37%

3Q20 results preview

On November 26 Votum will release its 3Q20 results which we believe should reflect the improvement of revenues with EBIT and profitability lower yoy, according to our estimates. We note that the Company has been expanding the segment of pursuing claims arising from abusive clauses and RES segment which generate costs while the revenue base has not been fully developed yet. We believe the currently incurred costs will allow for an increase of both the Company's revenues and profitability in the upcoming years; in our view the Company's condition resembles that of an aspiring athlete who first should build the body mass and then proceeds to sculpting the muscles.

Revenues under the easing pandemic impact. We expect revenues in 3Q20 to start rising as a consequence of lifting most of restrictions imposed during the lockdown which should prompt a significant and vast growth of the top line. In our view this should be visible in particular in the segment of pursuing claims arising from abusive clauses in loan agreements while the segments of pursuing property and personal claims should witness more moderate revenue progression. Additionally, we assume undisturbed operations of the rehabilitation segment should support the Company's top line as well. We forecast a single-digit 3Q20 sales yoy dynamic.

Profitability under smaller pressure. We assume a gradual improvement of EBITDA and EBIT margins but to a smaller extent than it would have transpired from previous performance of the Company's operating leverage. Our conservative approach in this respect is related to our expectations of initially higher costs due to mainly: (i) costs of CHF mortgage claims processing (we remind you about the record number of litigations that Votum intends to file this year) and (ii) costs related to launching operating activities in the green energy business line (organic growth). We forecast the EBIT margin in 3Q20 at 6.6% vs 16.7% in 3Q19 which should translate into PLN 2.4 million of EBIT. Our NP forecast for the Group stands at PLN 1.8 million (-58% yoy).

Guide to adjusted profits

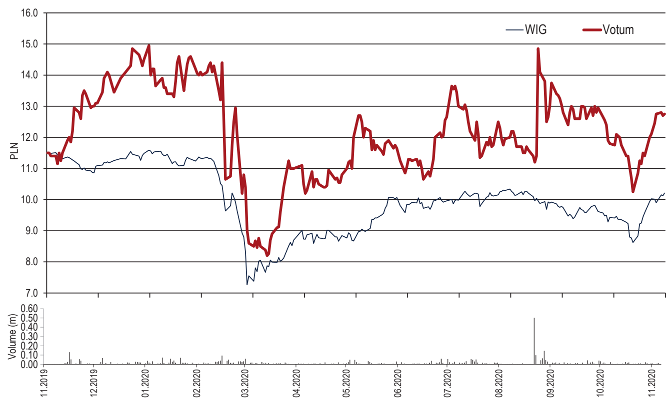
No factors necessitating adjustments.

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*	8.9	9.5	6.1	4.2
P/CE	*x*	7.9	8.5	5.6	3.9
EV/EBITDA	*x*	6.7	6.6	4.1	2.6
EV/EBIT	*x*	7.3	7.2	4.3	2.7
DPS	*PLN*	0.19	0.72	0.68	1.05
Gross dividend yield	*%*	1.5	5.6	5.3	8.2
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 3Q20 financial results for: November 26

Fig. 1. *Votum; 3Q20 financials' forecasts*

IFRS consolidated (PLN m)	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20E	yoy chg	1-3Q19	1-320E	yoy chg	Realization of the FY figures in: 3Q19	3Q20	1-3Q19	1-3Q20E
Sales	33.0	34.4	43.3	36.8	31.8	36.6	6%	98.5	105.2	7%	24%	23%	69%	65%
Profit on sales	5.9	5.4	8.3	4.7	0.2	2.8	-48%	16.2	7.7	-52%	22%	12%	66%	34%
Profit on sales margin	*17.8%*	*15.6%*	*19.1%*	*12.8%*	*0.6%*	*7.7%*	-	*16.5%*	*7.3%*	-	-	-	-	-
EBITDA	6.1	6.3	6.9	5.8	0.6	2.9	-54%	17.7	9.4	-47%	25%	12%	72%	40%
EBITDA margin	*18.6%*	*18.2%*	*16.0%*	*15.8%*	*2.0%*	*7.9%*	-	*18.0%*	*8.9%*	-	-	-	-	-
EBIT	5.5	5.7	6.5	5.4	0.1	2.4	-58%	16.1	7.9	-51%	25%	11%	71%	36%
EBIT margin	*16.6%*	*16.7%*	*15.0%*	*14.7%*	*0.2%*	*6.6%*	-	*16.3%*	*7.5%*	-	-	-	-	-
Pre-tax profit	5.2	5.7	6.5	5.2	0.0	2.3	-59%	15.5	7.5	-51%	26%	11%	70%	36%
Pre-tax profit margin	*15.7%*	*16.4%*	*15.1%*	*14.2%*	*0.0%*	*6.3%*	-	*15.7%*	*7.2%*	-	-	-	-	-
Net profit	4.6	4.1	4.4	4.0	0.1	1.8	-58%	13.0	5.9	-55%	24%	11%	75%	36%
Net profit margin	*14.0%*	*12.0%*	*10.1%*	*11.0%*	*0.2%*	*4.8%*	-	*13.2%*	*5.6%*	-	-	-	-	-

Source: Company, DM BOŚ SA estimates

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

DM BOŚ 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.

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

DM BOŚ 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.

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

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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 BOŚ's current recommendations

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

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ 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 BOŚ's current market relative recommended weightings

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

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ 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/ reiteration*	EFV (12 months)	
Votum											
Michał Sobolewski	Buy	–	02.09.2020	-	03.09.2020	Not later than 02.09.2021	12%	12%	11.40	30.40	–
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	-	-	13.35	30.40	→
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	-	-	12.80	30.40	→
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	-	-	11.40	30.40	→
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	-	-	12.80	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/ reiteration*	Relative performance
Votum								
Michał Sobolewski	Overweight	–	02.09.2020	-	03.09.2020	Not later than 02.09.2021	11.40	12%
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	13.35	-
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	12.80	-
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	11.40	-
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	12.80	-

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

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Institutional sales

Bartosz Janczy
tel.: +48 (22) 504 32 46
b.janczy@bossa.pl

Tomasz Grabowski
tel.: +48 (22) 504 32 47
t.grabowski@bossa.pl

Grzegorz Kołodziejczyk
tel.: +48 (22) 504 33 34
g.kolodziejczyk@bossa.pl

Michał Zawada
tel.: +48 (22) 504 33 36
m.zawada@bossa.pl

Maciej Bąk
tel.: +48 (22) 504 33 78
m.bak@bossa.pl

Bartosz Zieliński
tel.: +48 (22) 504 33 35
b.zielinski@bossa.pl

Marcin Kozerski
tel.: +48 (22) 504 33 35
m.kozerski@bossa.pl

Marcin Stosio
tel.: +48 (22) 504 33 37
m.stosio@bossa.pl

Research

Sobiesław Pająk, CFA
(Equity strategy, TMT)
s.pajak@bossa.pl

Sylwia Jaśkiewicz, CFA
(Construction materials, Consumer staples & discretionary, Health care)
s.jaskiewicz@bossa.pl

Tomasz Rodak*, *CFA
(Consumer discretionary, Video games)
t.rodak@bossa.pl

Łukasz Prokopiuk, CFA
(Chemicals, Mining, Mining – machinery, Oil & gas)
l.prokopiuk@bossa.pl

Michał Sobolewski, CFA, FRM
(Financials)
m.sobolewski@bossa.pl

Jakub Viscardi
(Telco, Consumer staples & discretionary, IT – hardware distribution, Utilities)
j.viscardi@bossa.pl

Maciej Wewiórski
(Residential construction, Construction, Real estate)
m.wewiorski@bossa.pl

Dom Maklerski Banku Ochrony Środowiska Spółka Akcyjna
ul. Marszałkowska 78/80
00-517 Warszawa
www.bossa.pl
Information: (+48) 0 801 104 104