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Votum

Sector: Financials – specialty finance
Fundamental rating: Buy (→)
Market relative: Neutral (→)
Price: PLN 12.30
12M EFV: PLN 25.70 (→)

Market Cap: US\$ 42 m
Bloomberg code: VOT PW
Av. daily turnover: US\$ 0.05 m
12M range: PLN 8.20-14.95
Free float: 37%

Yesterday, 'Rzeczypospolita' website flashed a news that during a meeting organized by the Polish Bank Association ([link](#)) the Polish Financial Supervision Authority (KNF in Polish abbreviation) presented a solution to the FX mortgage issue. The watchdog argues that banks should change their current strategy and increase the attractiveness of settlements offered clients in order to reduce a scale of court failures and rising litigation costs. The agreements offered by the banks should provide a reasonable alternative to the court path. The approach proposed is to balance the interests of customers and banks taking into account the safety of the sector and a sense of fairness for PLN borrowers. According to the watchdog, the reference solution in negotiations with customers should be based on the economics of a PLN loan taken at the same time. KNF believes that the solution allows for avoidance of extreme demands from both, the customers (free loan) and the banks (fee for using capital). The solution proposed by KNF would not be based on any new law, but would be the result of self-regulation of the industry. The financial regulator started cooperation with the Office of Competition and Consumer Protection in order to develop a formula that would allow for the stability of agreements with customers and to ensure protection of consumer rights.

In case the solution is introduced it would be a viable alternative to court proceedings for most banks and with respect to Votum, we see a significant risk of lower than assumed revenues in the Company's abusive clauses litigation segment. So far, the strategy of banks in the negotiation process has not been flexible and resulted in unattractive offers made to clients. The crux of the watchdog's idea is to change the approach which would be binding for the client and would prevent the settlement to be challenged in courts. In this situation, we think that some customers who may have considered entering the court path will be willing to accept the settlement instead of alternatives associated with an arduous several-year process. For this reason, wide

Guide to adjusted profits

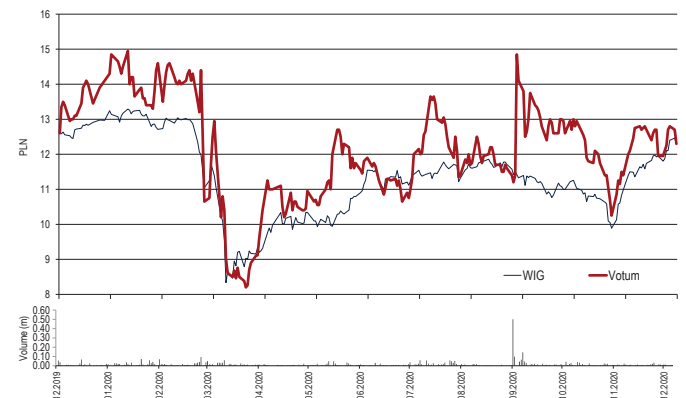
No factors necessitating adjustments.

Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	141.8	150.8	200.0	239.8
EBITDA	PLN m	24.7	15.3	27.3	38.6
EBIT	PLN m	22.6	13.3	25.3	36.3
Net income	PLN m	17.3	9.7	18.4	27.5
EPS	PLN	1.44	0.81	1.53	2.29
EPS yoy chg	%	109	-44	90	49
Net debt	PLN m	11.5	-1.0	-11.5	-22.8
Net debt + leasing	PLN m	18.7	6.5	-3.6	-14.5
P/E	x	8.5	15.2	8.0	5.4
P/CE	x	7.6	12.6	7.2	5.0
EV/EBITDA	x	6.4	9.6	5.0	3.2
EV/EBIT	x	7.1	11.1	5.4	3.4
DPS	PLN	0.19	0.00	0.00	0.77
Gross dividend yield	%	1.5	0.0	0.0	6.2
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. Consolidated financial report for FY20: February – March 2021

participation of banks in the initiative of the Polish Financial Supervision Authority, which would allow clients to successfully bypass the court path, emerges as an important factor for future revenues and results of the Company's abusive clauses litigation segment.

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 = EBIT/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	41	28	5	9	0
Percentage	49%	34%	6%	11%	0%

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	5	5	0	2	0
Percentage	42%	42%	0%	17%	0%

Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	33	29	12	9	0
Percentage	40%	35%	14%	11%	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	5	2	2	0
Percentage	25%	42%	17%	17%	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.

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%	4%	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	→
Michał Sobolewski	-	→	-	04.12.2020	04.12.2020	-	-	12.80	25.70	↓
Michał Sobolewski	-	→	-	06.12.2020	07.12.2020	-	-	12.80	25.70	→
Michał Sobolewski	-	→	-	08.12.2020	09.12.2020	-	-	12.30	25.70	→

* 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	04.12.2020	11.40	4%
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	-
Michał Sobolewski	Neutral	04.12.2020	-	04.12.2020	Not later than 04.12.2021	12.80	-10%
Michał Sobolewski	-	→	-	06.12.2020	07.12.2020	12.80	-
Michał Sobolewski	-	→	-	08.12.2020	09.12.2020	12.30	-

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

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