

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program. 3.0.
This is an excerpt from the Polish version of DM BOŚ SA's research report.

Votum

3Q21 financial results preview

On November 29 Votum will release their 3Q21 financial results, which, we believe, should reflect further sales improvement paired with a rebound of operating margins. We also expect the Group to be able to generate the net profit, albeit at the same time we assume a material impact of costs to be visible stemming from expenses related to the services provided on behalf of new cases in the segment of pursuing claims from abusive clauses in FX loan agreements. Likewise, high costs would be incurred in the RES segment. To sum up, we expect 3Q21 to be a kind of a transition quarter featuring further improvement of revenues, though burdened with increasing costs which, on the other hand, will allow for continued expansion of revenues and margins in the subsequent periods.

Higher qoq revenues. We expect a gradual qoq improvement of revenues, in particular due to (i) a growing number of judgments of the Courts of First Instance, translating into an increase in success fees generated, (ii) maintained level of sales in the segments of pursuing property and personal damages, and (iii) high sales in the RES segment. We assume stable revenues in the rehabilitation segment. We believe the Group's yoy dynamic of consolidated revenues should remain double-digit all the time.

Profitability improvement. We assume a gradual rebound of EBITDA and EBIT margins qoq, albeit not substantial, given the impact of: (i) the costs of pursuing the CHF litigation cases (already in August the Company informed that it hit the FY21 target of 8,000 new cases), (ii) expenses related to the green energy segment development (from the next quarter on, this business will be developed in cooperation) as well as (iii) business model transformation in the segment of pursuing personal damages (B2B cooperation with automotive

35/2021/GPW (124) November 18, 2021

Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance

Fundamental rating: Buy (→)

Market relative: Neutral (→)

Price: PLN 14.22

12M EFV: PLN 18.30 (→)

Market Cap: US\$ 41.5 m

Bloomberg code: VOT PW

Av. daily turnover: US\$ 0.05 m

12M range: PLN 11.10-20.10

Free float: 37%

Guide to adjusted profits

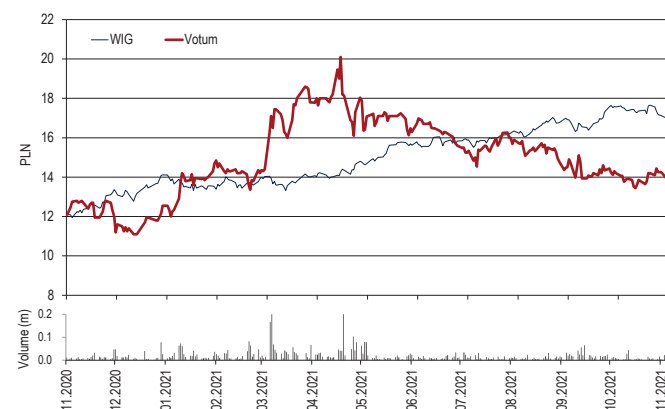
No factors necessitating adjustments.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	149.8	184.3	207.3	249.5
EBITDA	PLN m	13.6	10.1	22.1	26.8
EBIT	PLN m	11.4	7.5	19.4	24.5
Net income	PLN m	8.7	4.9	14.5	18.3
EPS	PLN	0.72	0.40	1.21	1.52
EPS yoy chg	%	-49	-44	199	26
Net debt	PLN m	12.9	11.4	10.5	8.3
Net debt + leasing	x	18.2	16.8	16.2	14.3
P/E	x	19.7	35.2	11.8	9.3
P/CE	x	15.7	22.8	10.0	8.3
EV/EBITDA	x	13.5	18.0	8.2	6.7
EV/EBIT	x	16.1	24.3	9.3	7.3
DPS	PLN	0.00	0.35	0.20	0.60
Gross dividend yield	%	0.0	2.5	1.4	4.3
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. Release of consolidated 3Q21 financial report: November 29, 2021
2. Dividend payment: December 15, 2021
3. CJUE preliminary ruling on the appointment of judges: 2H22 at the soonest

workshops). We forecast the EBIT margin generated in 3Q21 at 3.6% vs 8.0% a year before which should translate into EBIT at PLN 1.8 million. Our 3Q21 NP forecast stands at PLN 1.2 million (down 42% yoy).

Fig. 1. Votum; 3Q21 financials' forecasts

IFRS consolidated (PLN m)	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21P	yoy chg	1-3Q20	1-3Q21	yoy chg	Realization of the FY figures in:			
											3Q20	3Q21	1-3Q20	1-3Q21
Sales	31.8	36.4	44.8	43.0	46.9	48.5	33%	105.0	138.4	32%	24%	26%	70%	75%
Profit on sales	0.2	2.9	3.9	3.2	0.2	1.8	-37%	7.8	5.3	-32%	25%	25%	66%	71%
<i>Profit on sales margin</i>	<i>0.6%</i>	<i>7.9%</i>	<i>8.8%</i>	<i>7.6%</i>	<i>0.5%</i>	<i>3.8%</i>	-	<i>7.4%</i>	<i>3.8%</i>	-	-	-	-	-
EBITDA	0.6	3.4	3.7	4.0	1.0	2.4	-30%	9.9	7.3	-26%	25%	24%	73%	72%
<i>EBITDA margin</i>	<i>2.0%</i>	<i>9.4%</i>	<i>8.3%</i>	<i>9.2%</i>	<i>2.1%</i>	<i>4.9%</i>	-	<i>9.4%</i>	<i>5.3%</i>	-	-	-	-	-
EBIT	0.1	2.9	3.0	3.3	0.3	1.8	-40%	8.4	5.4	-36%	25%	23%	73%	72%
<i>EBIT margin</i>	<i>0.2%</i>	<i>8.0%</i>	<i>6.8%</i>	<i>7.7%</i>	<i>0.6%</i>	<i>3.6%</i>	-	<i>8.0%</i>	<i>3.9%</i>	-	-	-	-	-
Pre-tax profit	0.0	2.6	2.8	3.3	-0.0	1.6	-38%	7.8	4.9	-38%	24%	23%	73%	71%
<i>Pre-tax profit margin</i>	<i>0.0%</i>	<i>7.0%</i>	<i>6.3%</i>	<i>7.7%</i>	<i>0.0%</i>	<i>3.3%</i>	-	<i>7.4%</i>	<i>3.5%</i>	-	-	-	-	-
Net profit	0.1	2.1	2.5	2.5	-0.4	1.2	-42%	6.2	3.3	-47%	24%	25%	71%	68%
<i>Net profit margin</i>	<i>0.2%</i>	<i>5.7%</i>	<i>5.5%</i>	<i>5.8%</i>	<i>-0.9%</i>	<i>2.5%</i>	-	<i>5.9%</i>	<i>2.4%</i>	-	-	-	-	-

Source: Company, DM BOŚ SA estimates

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 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.

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 BOŚ 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 BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	51	22	5	9	0	2
Percentage	57%	25%	6%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	37	32	9	9	0	2
Percentage	42%	36%	10%	10%	0%	2%

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 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.

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	Not rated
Numbers	13	2	0	1	0	2
Percentage	72%	11%	0%	6%	0%	11%

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	Not rated
Numbers	9	5	1	1	0	2
Percentage	50%	28%	6%	6%	0%	11%

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	31.08.2021	36%	-1%	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 →
Michał Sobolewski	-	-	05.01.2021	05.01.2021	-	-	-	11.80	25.70 →
Michał Sobolewski	-	-	28.01.2021	29.01.2021	-	-	-	13.95	25.70 →
Michał Sobolewski	-	-	23.02.2021	24.02.2021	-	-	-	14.20	25.70 →
Michał Sobolewski	-	-	28.02.2021	01.03.2021	-	-	-	13.65	25.70 →
Michał Sobolewski	-	-	14.03.2021	15.03.2021	-	-	-	14.40	27.90 ↑
Michał Sobolewski	-	-	16.04.2021	16.04.2021	-	-	-	18.00	27.90 →
Michał Sobolewski	-	-	27.05.2021	27.05.2021	-	-	-	16.86	27.90 →
Michał Sobolewski	-	-	30.05.2021	31.05.2021	-	-	-	17.10	27.90 →
Michał Sobolewski	-	-	13.06.2021	14.06.2021	-	-	-	16.30	27.40 ↓
Michał Sobolewski	-	-	09.07.2021	09.07.2021	-	-	-	15.60	27.40 →
Michał Sobolewski	Buy	31.08.2021	-	31.08.2021	Not later than 31.08.2022	-6%	-5%	15.52	27.40 →
Michał Sobolewski	-	-	14.09.2021	15.09.2021	-	-	-	14.48	27.40 →
Michał Sobolewski	-	-	19.09.2021	20.09.2021	-	-	-	14.70	27.05 ↓
Michał Sobolewski	-	-	05.10.2021	06.10.2021	-	-	-	14.40	18.30 ↓
Michał Sobolewski	-	-	07.10.2021	07.10.2021	-	-	-	14.60	18.30 →
Michał Sobolewski	-	-	04.11.2021	04.11.2021	-	-	-	14.20	18.30 →
Michał Sobolewski	-	-	18.11.2021	19.11.2021	-	-	-	14.22	18.30 →

* 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	04.11.2021	12.80	-16%
Michał Sobolewski	-	-	06.12.2020	07.12.2020	-	12.80	-
Michał Sobolewski	-	-	08.12.2020	09.12.2020	-	12.30	-
Michał Sobolewski	-	-	05.01.2021	05.01.2021	-	11.80	-
Michał Sobolewski	-	-	28.01.2021	29.01.2021	-	13.95	-
Michał Sobolewski	-	-	23.02.2021	24.02.2021	-	14.20	-
Michał Sobolewski	-	-	28.02.2021	01.03.2021	-	13.65	-
Michał Sobolewski	-	-	14.03.2021	15.03.2021	-	14.40	-
Michał Sobolewski	-	-	16.04.2021	16.04.2021	-	18.00	-
Michał Sobolewski	-	-	27.05.2021	27.05.2021	-	16.86	-
Michał Sobolewski	-	-	30.05.2021	31.05.2021	-	17.10	-
Michał Sobolewski	-	-	13.06.2021	14.06.2021	-	16.30	-
Michał Sobolewski	-	-	09.07.2021	09.07.2021	-	15.60	-
Michał Sobolewski	-	-	31.08.2021	31.08.2021	-	15.52	-
Michał Sobolewski	-	-	14.09.2021	15.09.2021	-	14.48	-
Michał Sobolewski	-	-	19.09.2021	20.09.2021	-	14.70	-
Michał Sobolewski	-	-	05.10.2021	06.10.2021	-	14.40	-
Michał Sobolewski	-	-	07.10.2021	07.10.2021	-	14.60	-
Michał Sobolewski	Neutral	04.11.2021	-	04.11.2021	Not later than 04.11.2022	14.20	7%
Michał Sobolewski	-	-	18.11.2021	19.11.2021	-	14.22	-

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

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The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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The report was not shown to the analyzed company before the distribution of the report.

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