

38/2021/GPW (128) December 2, 2021

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.

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Votum

Sector: Financials – specialty finance

Market Cap: US\$ 41.5 m

Fundamental rating: Buy (→)

Bloomberg code: VOT PW

Market relative: Overweight (↑)

Av. daily turnover: US\$ 0.05 m

Price: PLN 15.06

12M range: PLN 11.10-20.10

12M EFV: PLN 23.80 (↑)

Free float: 37%

3Q21 financial results review

Good shape of revenues. The Group's 3Q21 revenues at PLN 49 million (+35% yoy) are close to our expectations. The quarter was good for the segment of pursuing claims from abusive clauses in FX loan agreements, where an increasing contribution of the success fee in revenues has been observed. The remaining segments lag behind, though. For example, the segment of pursuing property claims exhibits a negative yoy dynamic of both, the revenues and volume of contracts acquired. Votum has already decided to change their sales policy and start cooperating with car workshops based on the success fee formula while withdrawing from an assignment of rights model. Likewise, there was some pressure on the revenues in the segment of pursuing personal claims, but there seems to be a slight upwards qoq trend. The rehabilitation segment delivers stable revenues.

Softening pressure on profitability. 3Q21 EBITDA margin dropped/ rose to 6.0%/ 2.1% from 9.4%/ 2.1% in 3Q20/ 2Q21. The profitability improvement stemmed from the sales increase and positive impact of the operating leverage related to a higher growth dynamic of revenues than of costs. On the other hand, the margin is lower yoy due to a material growth of costs in two intensively developed segments: RES and of pursuing claims from abusive clauses in FX loan agreements. The Group's EBITDA and EBIT in 3Q21 reached PLN 2.9 million (down 14% yoy) and PLN 2.3 million (down 23% yoy), respectively.

NI improvement. The Group's 3Q21 financial net result reached PLN -0.54 million vs PLN -0.35 million in 3Q20. The effective tax rate stood at 69%, above our expectations. Ultimately, the Group's NI arrived at PLN 0.7 million in 3Q21.

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	149.8	176.3	176.9	217.4
EBITDA	PLN m	13.6	11.6	31.0	36.9
EBIT	PLN m	11.4	8.9	28.3	34.6
Net income	PLN m	8.7	5.0	21.3	25.9
EPS	PLN	0.72	0.42	1.77	2.16
EPS yoy chg	%	-49	-42	324	22
Net debt	PLN m	12.9	16.0	19.9	7.1
Net debt + leasing	x	18.2	21.4	25.7	13.1
P/E	x	20.8	36.0	8.5	7.0
P/CE	x	16.6	23.4	7.5	6.4
EV/EBITDA	x	14.2	17.0	6.5	5.1
EV/EBIT	x	17.0	22.1	7.1	5.4
DPS	PLN	0.00	0.35	0.21	0.89
Gross dividend yield	%	0.0	2.3	1.4	5.9
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. Dividend payment: December 15, 2021
2. Visible increase in the courts of First Instance rulings in the segment of pursuing claims from abusive clauses in FX loan agreements: 4Q21-1Q22
3. CJUE preliminary ruling on the appointment of judges: 2H22 at the soonest

Fig. 1. Votum; 3Q21 financial results

IFRS consolidated (PLN m)				Results vs				chg		chg		Realization of the FY figures in:				
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	forecasts	3Q21E	yoy	1-3Q20	1-3Q21	yoy	3Q20	3Q21	1-3Q20	1-3Q21
Sales	31.8	36.4	44.8	43.0	46.9	49.0	↑	48.5	35%	105.0	138.9	32%	24%	28%	70%	79%
Profit on sales	0.2	2.9	3.9	3.2	0.2	2.5	↓	1.8	-15%	7.8	5.9	-23%	25%	27%	66%	66%
Profit on sales margin	0.6%	7.9%	8.8%	7.6%	0.5%	5.0%	-	3.8%	-	7.4%	4.3%	-	-	-	-	-
EBITDA	0.6	3.4	3.7	4.0	1.0	2.9	→	2.4	-14%	9.9	7.9	-20%	25%	25%	73%	68%
EBITDA margin	2.0%	9.4%	8.3%	9.2%	2.1%	6.0%	-	4.9%	-	9.4%	5.7%	-	-	-	-	-
EBIT	0.1	2.9	3.0	3.3	0.3	2.3	→	1.8	-23%	8.4	5.9	-30%	25%	25%	73%	66%
EBIT margin	0.2%	8.0%	6.8%	7.7%	0.6%	4.6%	-	3.7%	-	8.0%	4.2%	-	-	-	-	-
Gross profit	0.0	2.6	2.8	3.3	-0.0	1.7	→	1.6	-33%	7.8	5.0	-36%	24%	22%	73%	65%
Gross profit margin	0.0%	7.0%	6.3%	7.7%	0.0%	3.5%	-	3.3%	-	7.4%	3.6%	-	-	-	-	-
Net profit	0.1	2.1	2.5	2.5	-0.4	0.7	↓	1.2	-68%	6.2	2.7	-56%	24%	14%	71%	54%
Net margin	0.2%	5.7%	5.5%	5.8%	-0.9%	1.3%	-	2.5%	-	5.9%	2.0%	-	-	-	-	-

Source: Company, DM BOŚ SA estimates

Valuation

On the back of the financial forecast update, valuation horizon forward shift, and increase of the risk free rate, our 12M EFV – constituting a 50%- 50% average of the outcomes of DCF and peer-relative valuation approaches – increases to PLN 23.8 per share (from PLN 18.3). The DCF/peer-relative valuation renders PLN 21.3 (prev. PLN 17.4) per share/ PLN 26.2 (prev. PLN 19.1) per share.

Recommended action

Votum pursues damages claims for clients of financial institutions in the area of personal and property claims as well as abusive clauses in FX mortgage loan agreements. In 2020 it started operating in the renewable energy industry (i.e. installing photovoltaic panels) and recently entered the partnership with Columbus Energy. In our view, the segment for pursuing claims from abusive clauses in loan agreements remains the most promising business. 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 change of the court line to pro-consumer one.

The risk factor for revenues here in a few years' time may be a wide introduction of the solution proposed by the Polish Financial Supervision Authority for FX borrowers which, however, has sparked neither enthusiasm nor wide approval among banks. Only PKO BP and ING BSK stepped forward with their agreement programs addressing FX borrowers, while the remaining banks assumed a wait-and-see stance. Besides, a serious obstacle for popularizing the PFSA proposal has emerged in the form of rising interest rates and higher loan interests, which makes a conversion of a FX-denominated loan into PLN less attractive for FX borrowers.

We uphold our LT fundamental Buy recommendation and raise ST relative rating to Overweight from Neutral. The recent reported financial results of Votum indicate that we are on the verge of witnessing a material increase in the courts of First Instance rulings in the segment of pursuing claims in abusive clauses in FX mortgage loan agreements, and the data from previous months corroborate this. This implies an rising contribution of revenues from the success fee and will help rebuild the Group's recently frayed EBIT profitability. Until then, the industry partner acquisition should enable enhanced focus on the key segments for the Group. Therefore, we expect a material improvement of financials next year.

Risk factors

1. Lower than assumed propensity of clients to go to the court (the market is at an early stage of development)
2. Lower than expected demand for the Company's services
3. Unfavorable changes in the jurisprudence towards bank customers
4. Growing competition for clients from other law firms (an example is EuCo's and LWB/Replan entry into banking compensations market)
5. Shortage of workforce (rapid development requires an acquisition of qualified employees)
6. Pressure on salaries
7. Adverse FX fluctuations
8. Acquisitions of companies from the main shareholder and their high valuations
9. Lower payouts in pre-trial proceedings
10. Pressure on margins
11. 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)
12. Draft statutory regulation of the compensation institution
13. Departure of key managerial staff
14. Inclusion of the Company's services by insurers
15. Potential acquisitions of new companies
16. Unfavorable changes in the RES system support for prosumers

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 = 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	20	4	9	0	2
Percentage	59%	23%	5%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	38	31	6	9	0	2
Percentage	44%	36%	7%	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	-1%	3%	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 →
Michał Sobolewski	-	-	02.12.2021	03.12.2021	-	-	-	15.06	23.80 ↑

* 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	02.12.2021	14.20	16%
Michał Sobolewski	-	-	18.11.2021	19.11.2021	-	14.22	-
Michał Sobolewski	Overweight	02.12.2021	-	03.12.2021	Not later than 02.12.2022	15.06	-

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

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The production of the report was completed on December 3, 2021 at 7.30 a.m.

The report was distributed on December 3, 2021 at 7.40 a.m.

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