

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

8/2022/GPW (36) April 26, 2022

Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance

Fundamental rating: Buy (→)

Market relative: Overweight (→)

Price: PLN 18.30

12M EFV: PLN 23.80 (→)

Market Cap: US\$ 50.5 m

Bloomberg code: VOT PW

Av. daily turnover: US\$ 0.05 m

12M range: PLN 11.10-20.10

Free float: 37%

4Q21 financial results preview

On May 2 Votum will release their FY21 financial report. We assume that 4Q21 was a good quarter which should be especially visible in the segment of pursuing claims from abusive clauses in FX loan agreements, which is becoming more and more important for the Company's revenues and profitability. We expect some improvement in the remaining business segments as well, albeit not that spectacular. All in all, we envisage a very good quarter with a material improvement of revenues and increasing margins.

Higher qoq revenues. We expect a further sales yoy improvement in 4Q21 on the back of a snowballing number of court sentences which allows the Company to recognize the revenues from success fee in the segment of pursuing claims from abusive clauses in FX loan agreements (Votum informed about this in the current report). Additionally, we assume that the sales in the segment of pursuing property and personal clauses should be flat yoy. We assume a slight improvement of revenues in the rehabilitation segment. The Group's consolidated revenues growth should be double-digit despite the deconsolidation of the RES segment subsidiary.

Strong profitability improvement. We expect a strong qoq improvement of EBITDA and EBIT margins stemming from the settlement of success fee while simultaneously the adverse impact of the RES business development and a change of model of the segment of pursuing personal claims should diminish. We expect the EBIT margin generated in 4Q21 to reach 19.8% vs 6.8% a year before which should translate into a PLN 9.9 million EBIT. Our 4Q21 NP forecast stands at PLN 7.9 million (up 216% yoy).

Guide to adjusted profits

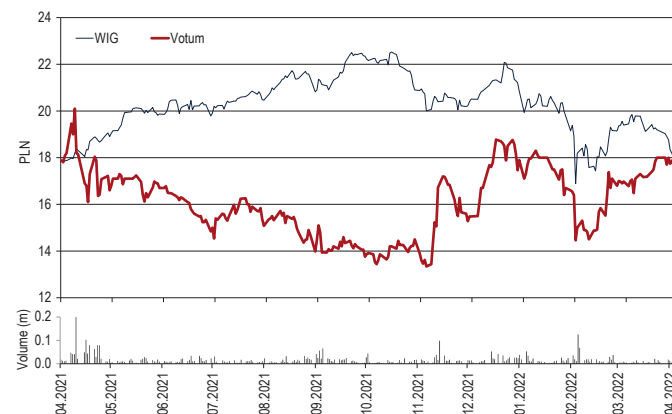
No factors necessitating adjustments.

Key data

IFRS consolidated		2020	2021E	2022E	2023E
Sales	PLN m	149.8	189.1	176.9	217.4
EBITDA	PLN m	13.6	18.5	31.0	36.9
EBIT	PLN m	11.4	15.8	28.3	34.6
Net income	PLN m	8.7	10.8	21.3	25.9
EPS	PLN	0.72	0.90	1.77	2.16
EPS yoy chg	%	109	25	97	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	25.3	20.3	10.3	8.5
P/CE	x	20.2	16.2	9.1	7.8
EV/EBITDA	x	17.1	12.7	7.7	6.2
EV/EBIT	x	20.4	14.9	8.5	6.6
DPS	PLN	0.00	0.35	0.45	0.89
Gross dividend yield	%	0.0	1.9	2.5	4.8
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 FY21 financial report: May 2
2. Release of consolidated 1Q22 financial report: May 30
3. Release of consolidated 1H22 financial report: September 30
4. Release of consolidated 3Q22 financial report: November 29
5. CJUE preliminary ruling on the appointment of judges: 2H22 at the soonest

Fig. 1. Votum; 4Q21 financials' forecasts

IFRS consolidated (PLN m)	3Q20		4Q20		1Q21		2Q21		3Q21		4Q21E		yoy chg	1-4Q20	1-4Q21P	yoy chg	Realization of the FY figures in:	
																	4Q20	4Q21E
Sales	36.4	44.8	43.0	46.9	49.0	50.2	12%						12%	149.8	189.1	26%	30%	27%
Profit on sales	2.9	3.9	3.2	0.2	2.5	9.9	152%						152%	11.7	15.9	36%	34%	63%
Profit on sales margin	7.9%	8.8%	7.6%	0.5%	5.0%	19.8%	-						-	7.8%	8.4%	-	-	-
EBITDA	3.4	3.7	4.0	1.0	2.9	10.6	185%						185%	13.6	18.5	36%	27%	57%
EBITDA margin	9.4%	8.3%	9.2%	2.1%	6.0%	21.2%	-						-	9.1%	9.8%	-	-	-
EBIT	2.9	3.0	3.3	0.3	2.3	9.9	228%						228%	11.4	15.8	39%	27%	63%
EBIT margin	8.0%	6.8%	7.7%	0.6%	4.6%	19.8%	-						-	7.6%	8.4%	-	-	-
Pre-tax profit	2.6	2.8	3.3	-0.0	1.7	9.6	240%						240%	10.6	14.6	37%	27%	66%
Pre-tax profit margin	7.0%	6.3%	7.7%	0.0%	3.5%	19.2%	-						-	7.1%	7.7%	-	-	-
Net profit	2.1	2.5	2.5	-0.4	0.7	7.9	216%						216%	8.7	10.6	22%	29%	74%
Net profit margin	5.7%	5.5%	5.8%	-0.9%	1.3%	15.7%	-						-	5.8%	5.6%	-	-	-

Source: Company, DM BOŚ SA estimates

Financial forecasts

On the back of our more detailed 4Q21 forecast we significantly alter our FY21 forecasts.

Fig. 2. Votum; Changes in DM BOŚ SA forecast

IFRS consolidated (PLN m)	2021E		
	current	previous	change
Sales	189.1	176.3	7%
EBITDA	18.5	11.6	60%
EBIT	15.8	8.9	78%
Net profit	10.8	5.0	117%

Source: DM BOŚ SA estimates

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. It also operates in the renewable

energy industry (i.e. installing photovoltaic panels) and recently struck the partnership with Columbus Energy. In our view, the segment for pursuing claims from abusive clauses in loan agreements remains the most promising business.

We uphold our recommendations: LT fundamental Buy and ST relative Overweight. Recent data show a material increase in the number of the first instance court sentences in the segment of pursuing claims from abusive clauses in FX loan agreements since 4Q21. This implies an increasing contribution of revenues from the success fee and will help improve the Group's EBIT profitability already in 4Q, while the industry partner acquisition should allow the Company to focus on the key segments for the Group. Therefore, we expect a material improvement of the Company's 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 entry into the banking segment and LVB/Replan on the 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	20%	45%	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 ↑
Michał Sobolewski	-	-	05.12.2021	06.12.2021	-	-	-	16.72	23.80 →
Michał Sobolewski	-	-	16.01.2022	17.01.2022	-	-	-	18.50	23.80 →
Michał Sobolewski	-	-	07.02.2022	07.02.2022	-	-	-	18.00	23.80 →
Michał Sobolewski	-	-	28.02.2022	28.02.2022	-	-	-	15.30	23.80 →
Michał Sobolewski	-	-	14.04.2022	14.04.2022	-	-	-	18.00	23.80 →
Michał Sobolewski	-	-	26.04.2022	26.04.2022	-	-	-	18.30	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	41%
Michał Sobolewski	-	-	05.12.2021	06.12.2021	-	16.72	-
Michał Sobolewski	-	-	16.01.2022	17.01.2022	-	18.50	-
Michał Sobolewski	-	-	07.02.2022	07.02.2022	-	18.00	-
Michał Sobolewski	-	-	28.02.2022	28.02.2022	-	15.30	-
Michał Sobolewski	-	-	14.04.2022	14.04.2022	-	18.00	-
Michał Sobolewski	-	-	26.04.2022	26.04.2022	-	18.30	-

* 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 April 26, 2022 at 7.40 p.m.
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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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