mBank Biuro maklerskie mBank.pl

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GPW: buy (new)

GPW PW; GPW.WA | Financials, Poland

Dividend Champion With a Plan To Rekindle Growth

GPW Group has experienced declining revenues in recent years amid lower trading volumes across its equity (the Warsaw Stock Exchange) and energy (the TGE exchange) marketplaces. The Group recognizes these challenges, and it is taking measures to address setbacks and improve growth as part of its #GPW2022 Strategy Plan. The planned initiatives, which include the development of a proprietary trading system, will require significant investment over the coming years, however we believe they create meaningful upside potential for GPW. Looking at its consistently strong cash-generation record, we believe GPW will be able to offer dividend yields as high as 6.1-6.3%, well above the 3.2% average paid by comparable exchange operators, even during periods of increased capital spend. A "stable dividend policy" is one of the targets explicitly identified in #GPW2022. Furthermore, the current expectations of analysts, including us, do not yet take into account the revenue-generating potential of initiatives like the establishment of an Agricultural Commodity Market and a GPW Private Market, or the transformation of the forward commodity trading venue into an organized trading facility. With this potential factored out, we see upside risk to the current forecasts. We believe the Warsaw Stock Exchange will see more trading activity again once Poland completes its pension reforms this year, with volumes additionally supported by the new nationwide workplace pension savings scheme, PPK. GPW stock is trading at a significant discount of 46% to the estimated 2020 P/E ratio of its peer group, but the gap will most likely be reduced once liquidity returns and assuming revenues bounce back as predicted. We initiate coverage of GPW Group with a buy recommendation and a target price of PLN 47.82.

Current forecasts leave out potential future profits

We see upside risk to the current earnings expectations for GPW Group resulting from the planned strategic initiatives, with potential to generate additional recurring revenues ranging from 10+ million to tens of millions of zlotys. In the best-case scenario, we see the projected 2019-2021 net profit CAGR turning to a positive 9.7% from a negative CAGR of 5.5% estimated today. We also see upside to our revenue expectations for the equity trading business: any rise of 5pp beyond our 5% current 2020 volume growth estimate would be tantamount to extra revenue of PLN 4m. –

High dividends, low valuation

GPW ranks among the most undervalued exchange operators at 13.8x NTM P/E, representing a discount of 46% to the peer group, which contrasts with the Group's standout dividend yields: at 6.1-6.3% DY GPW is a great stock to own. Further, GPW has estimated FCF yield of 8.3% based on our FY2019 estimates compared to a peer average of 3.3%. Calculated using the FCF Yield ratio, the Group's value per our model comes out at PLN 102 per share, a price far above the analysts' consensus and our target. Summing up, GPW is currently valued at discounts of approximately 50% on most multiples.

(PLN m)	2017	2018	2019E	2020E	2021E
Revenue	352.0	346.8	326.5	319.5	333.8
EBITDA	215.9	204.7	180.0	161.4	169.7
EBITDA margin	61.3%	59.0%	55.1%	50.5%	50.9%
EBIT	186.2	173.0	147.6	127.0	132.8
Net profit	158.7	183.7	127.6	111.4	114.0
P/E	10.8	9.3	13.4	15.4	15.0
P/BV	2.1	1.9	1.9	1.9	1.9
EV/EBITDA	6.8	8.7	9.4	10.3	9.8
DPS	2.15	2.20	3.18	2.50	2.60
DYield	4.4%	5.5%	7.4%	6.1%	6.3%

Current Price	PLN 40.85
Target Price	PLN 47.82
MCap	PLN 1.73bn
Free Float	PLN 1.12bn
ADTV (3M)	PLN 3.3m

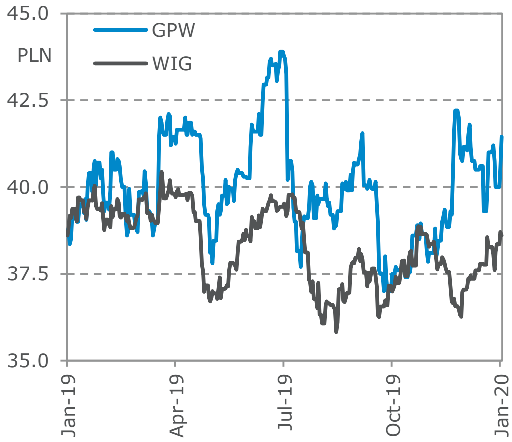
Ownership

State Treasury	35.00%
NN OFE	7.73%
Aviva OFE	7.72%
Others	49.55%

Business Profile

GPW Group is the biggest exchange operator in the CEE region, managing trading venues for securities and commodities, and offering data services to investors. The Group's key competitive advantages include strong cash flow and high dividends.

GPW vs. WIG



Name	Target Price new	Target Price old	Recommendation new	Recommendation old
GPW	47.82	-	buy	-

Name	Current Price	Target Price	Upside
GPW	40.85	47.82	+17.1%

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List of abbreviations and ratios contained in the report:
EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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The present report was not transferred to the issuer prior to its publication.

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NAV - valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/ profits of a company.

mBank did not issue any investment recommendations for GPW in the 12 months prior to this publication

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