Thursday, February 13, 2020 | special comment

Kruk – Addressing Concerns Triggered By Minister's Anti-Usury Law Comments

Rating: buy | target price: PLN 210.31| current price: PLN 162.90

KRU PW; KRU.WA | Financials, Poland

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Two days ago, Poland's Deputy Justice Minister Marcin Warchoł gave an interview to *Gazeta Prawna* where he commented on possible tweaks he would like to see made to Poland's draft anti-usury law before work on the bill resumes in the parliament. Among others, Mr. Warchoł mentioned restrictions on the seizure and sale of property where the debt represents only a small fraction of a home's value. Another idea mentioned by Mr. Warchoł was to ban lenders from selling loan debt.

If actually made into law, these ideas would probably have disastrous consequences for the debt collection industry, and they could also be destructive to banks, where a ban on NPL sales would lead to a surge in write-offs. Even worse, it would force lenders to curb credit access by tightening standards on consumer loans, thus generating negative knock-off effects on Poland's GDP.

Kruk's stock is in a freefall today on a delayed reaction to the interview (as a debt collector the Company is extremely sensitive to any new updates on the anti-usury bill), but in our view the negative sentiment is blown far out of proportion. Kruk's revenues would definitely suffer severely from an NPL sale ban on banks considering that debt collection activity in Poland accounts for about 46% of its yearly sales. Looking at the wider context of the planned anti-usury measures, however, to the best of our understanding, our impression is that Mr. Warchoł's comments were directed primarily at payday lenders, who are a relatively small revenue source for Kruk.

List of abbreviations and ratios contained in the report:
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
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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