Thursday, September 03, 2020 | update

Kruk: buy (reiterated)

KRU PW; KRU.WA | Financials, Poland

Quick Return to the Right Track

We expect that the rebound in the debt management sector will be V-shaped, much unlike that in the banking sector. Extensive fiscal and aid programmes should, on the one hand, translate into smaller growth in non-performing loans than was expected back in March 2020, but on the other hand, they will significantly support consumers, and consequently, Kruk's portfolio recoveries. This means that the scenario envisaged for Kruk before the pandemic needs to be adjusted for lower recoveries and portfolio outlays in 2020, but at the same time, the expected availability of portfolios in the coming years needs to be increased. The coronavirus crisis has dealt a painful blow to Kruk's earnings this year, but we believe the Company can quickly regain lost ground, as confirmed by the results for the second quarter. In FY2021, the first stage of the expected rebound, operating costs will remain low with little upward adjustment on portfolios and equally low one-off write-offs, e.g. goodwill. In the second stage, we expect that, from FY2022 onwards, results will be fuelled by a growing portfolio supply, resulting from a higher NPL ratio in the banking sector coupled with cost normalisation. We expect the nominal value of non-performing loans in Poland (which is Kruk's main market) to go up by 20% in 2021, which will have a positive impact on the receivables market, but not earlier than in 2022. Finally, we need to remember about Kruk's plans for a share buyback at PLN 350 apiece, which also puts the Company in a better light than the banking sector. We had to slash our FY2020 net profit estimate for Kruk by 66%, but the adjustments to FY2021-2022 expectations are much less harsh at as little as 10-11%. We renew our buy recommendation for KRU.

Ready for new debt purchases

Kruk's financial standing is excellent. Its net debt-to-equity ratio is only 1.1x against covenants at 2.5x. The Company has available credit lines of PLN 910m, and it has a KNF-approved bond prospectus ready worth PLN 700m. We expect a growing supply of NPL portfolios in Kruk's main markets. In Poland, a 2pp rise in the NPL ratio would boost nominal NPLs by PLN 30bn (delta 2022/2019) to make a market worth >PLN 15bn annually. The Romanian market is worth about PLN 3bn. Kruk's portfolio outlays are set to drop to PLN 298m in 2020, PLN 874m in 2021 and PLN 1,036m in 2022. Our 2020 outlook for Kruk might be a tad conservative, but this is due to competitive price pressures anticipated in Poland in H2 2020.

Market sentiment toward debt collectors is improving

Investors have been looking more keenly at debt collectors, as reflected in share price gains (e.g. B2H +6%, Intrum -7% vs EURO Stoxx banks 600 -20% over 12M) and decreasing short betting, down from 10% in early March to 8.8% today for Intrum; from 2% to zero for B2H, and from 6% to 1% for Arrow Global. Kruk is currently trading at discounts of 8% and 2% to FY2021 and 2022 P/E ratios, but it is important to remember that the market sees growth potential in most of the debt management sector, reflected in constantly reiterated positive stock recommendations.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	1,164.8	1,251.1	1,093.0	1,299.0	1,380.4
Gross profit	663.9	665.0	483.1	682.1	739.5
EBIT	478.3	440.3	276.8	446.9	491.2
Net profit	330.4	277.1	107.5	294.3	327.1
ROE (%)	20.7	15.0	5.4	13.6	13.6
EPS (PLN)	17.5	14.6	5.7	15.8	17.6
BVPS (PLN)	91.7	103.7	109.5	123.4	135.7
P/E (x)	8.9	10.7	27.3	9.9	8.9
P/B (x)	1.7	1.5	1.4	1.3	1.2
DYield	3.2	3.2	0.0	1.2	3.3

Current Price	PLN 156.70
Target Price	PLN 183.17
MCap	PLN 2.96bn
Free Float	PLN 2.96m
ADTV (3M)	PLN 12.1m

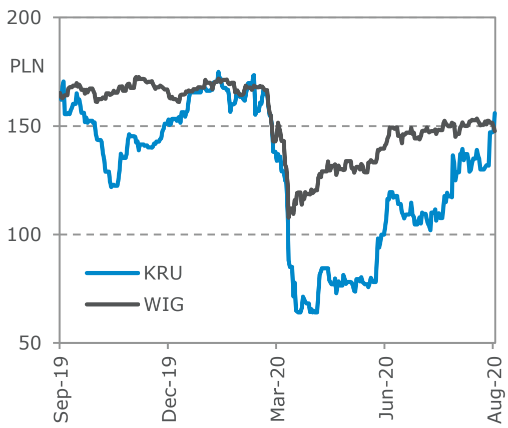
Ownership

Piotr Krupa	9.79%
Other Officers	0.95%
NN PTE	10.83%
Aviva OFE	9.17%
Others	69.26%

Business Profile

Kruk is a leadier in receivables management in Poland and Romania, focusing mainly on retail bank debt. Since 2015, the Company is also present in Germany and Italy. In the core markets of Poland, Italy, and Romania, Kruk's operations are organised into two complementary businesses: debt collection and debt purchases for own account.

KRU vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
Kruk	183.17	210.31	buy	buy

Company	Current Price	Target Price	Upside
Kruk	156.70	183.17	+16.9%

Forecast Update	2020E	2021E	2022E
EBITDA	-38.4%	-6.7%	-8.9%
EBIT	-41.8%	-8.8%	-11.2%
Net Profit	-65.5%	-10.0%	-11.2%

Analysts:

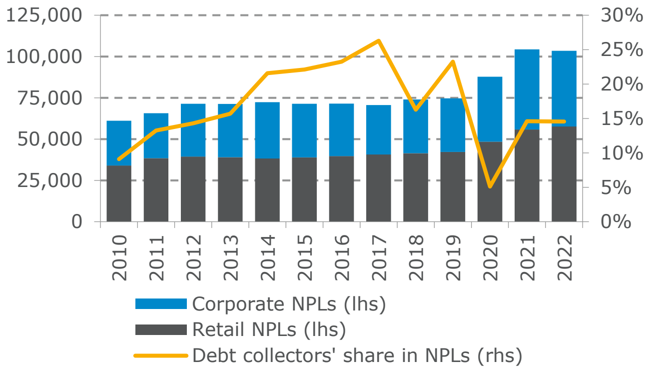
Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl

COVID-19 will stimulate the market, but only in two years

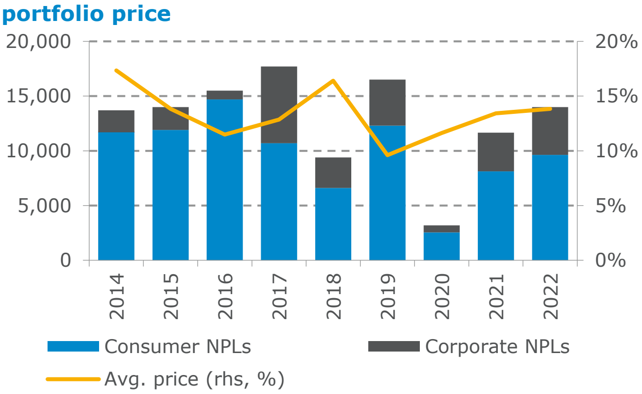
We believe that the unprecedented scale of fiscal packages will significantly limit the deterioration of bank assets, which in turn will affect the debt management sector. Experts from Raiffeisen Bank International expect non-performing loans in the CEE region to increase by 4%-9%, which is a small deviation from the current growth rate. EBA, on the other hand, forecasts that the NPL ratio in the Euro zone may go up to 6%-8%, i.e. grow at least twofold compared with the pre-pandemic figure. The increase in non-performing loans should be relatively low compared with the 2008/2009 global financial crisis thanks to banks' more disciplined risk policy before the pandemic, lower RWA increases, and aid programmes, including loan repayment holidays. Experts believe that the growth in non-performing loans will reach its peak in 2021. We forecast that the NPL ratio in Kruk's core market of Poland will increase from 6.2% in 2019 to 8.2% in 2021, and then it will gradually improve. Despite the significant hike in the NPL ratio, we predict that the nominal value of the market will only exceed PLN 15bn in 2022 after its new start in 2021. In Romania, the growth in the NPL ratio from 6% to 4% will not translate into historic supply. We must remember that in 2014 the nominal value of non-performing loans in Romania stood at PLN 57.5bn against our forecast of PLN 23bn in 2021 (vs. PLN 104bn forecast in Poland), which shows that the debt purchase market in Romania will be limited in the future, as was the case in recent years. We expect that this year the market will only take off in Q4, which is in line with the predictions of Kruk's main market competitors.

Value of Polish bank NPLs (PLN m) and market share of debt collectors



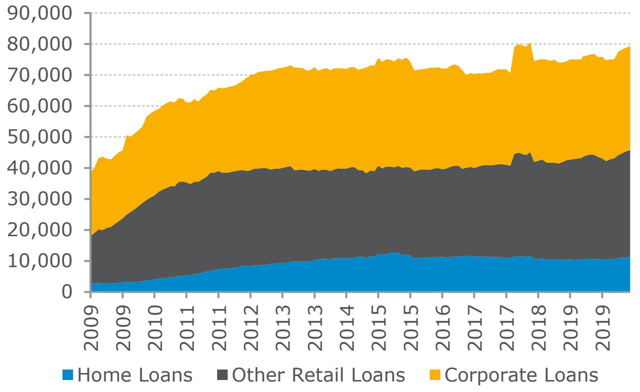
Source: Kruk, NBP, mBank

Nominal value of NPL market (PLN m) vs. average portfolio price



Source: Kruk, mBank

Polish NPLs have started to climb (PLN m)

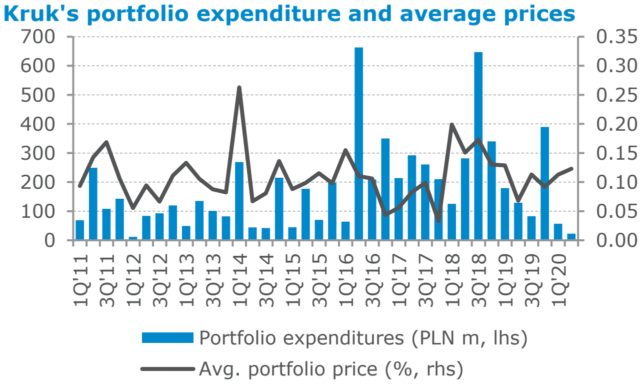


Source: NBP, mBank

Kruk's portfolio spend will increase eventually

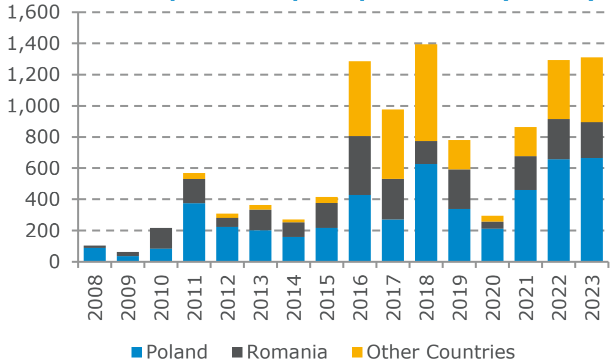
We believe that Kruk's spending will go up significantly in two years' time, driven by an increase in the NPL ratio next year and an overall growth in the loan market. Meanwhile, its debt purchase expenditure will decrease to PLN 298m in 2020, which is still a quite optimistic assumption considering that H1 2020 debt purchase expenditure stood at PLN 80m (PLN 23m in Q2). We find our forecast realistic as in the last two years the largest debt purchase expenditure was reported in the second half of the year. On the other hand, hungry competitors can considerably inflate debt portfolio prices. Consequently, we think that the normalised Q4 spending will be far from historical highs. What's interesting, H1 data show that markets have not witnessed a considerable increase in the NPL ratio so far, which means that a peak is unlikely to be seen until 2021. Consequently, a larger volume of non-performing loans will not be put on the market until 2022, when Kruk's debt purchase expenditure is expected to exceed PLN 1.3bn. In geographic terms, we believe that Poland will again account for half of Kruk's spending with a shrinking share of Romania, where the market has sold historical debt and the supply is now based on current loan deterioration. In Poland, we expect spending to exceed PLN 600m from 2022. Our expectations are based on the assumption that the NPL ratio will increase to 8% in 2021, after which it will go down, and that loans will grow by an average of 3% over the next ten years. At the same time, we assume that the nominal value of non-performing loans sold in a given year accounts for 15% of all NPLs from the previous year compared with approx. 19% historically.

Kruk's portfolio expenditure and average prices



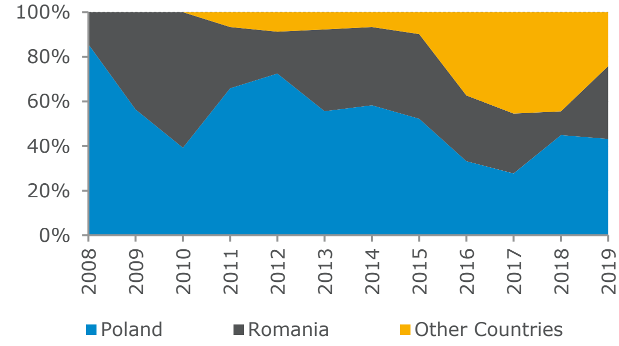
Source: Kruk, mBank

Kruk's annual portfolio spend per market (PLN m)



Source: Kruk, mBank

Historical geographic breakdown of Kruk's spending

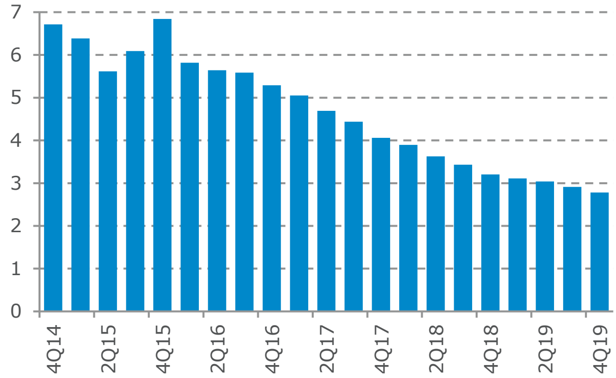


Source: Kruk, mBank

Uncertain performance of European NPLs

According to ECB estimates, the NPL ratio of the European banking sector stood at 2.7% at the end of 2019 with NPLs worth EUR 583bn. Historical data show that the NPL ratio is set to increase in the quarters to come. However, the provisions created by European banks due to the COVID-19 pandemic so far are forward-looking, which directly stems from the application of IFRS 9. As a result, banks have not witnessed real portfolio deterioration yet and the NPL ratio has not increased. Some explanation is offered by the EBA's preliminary assessment of the impact of COVID-19 on the EU banking sector. In accordance with the sensitivity analysis presented in the document, which is partly based on the 2018 stress tests, the NPL ratio is likely to increase to 6.4%-7.7%, where the lower figure is based on the adverse scenario of the 2018 stress test, while the upper limit further extends the shock to sectors and countries particularly affected by the lockdown and pandemic. The EBA underlined, however, that wide-ranging support programmes may compensate for a part of the loan quality deterioration. What's more, the EBA did not consider the EUR 750bn recovery fund approved in July, which should give a boost to the EU economy from 2021. Therefore, we believe that the analysis offered by the EBA is likely to constitute the upper limit of the NPL ratio and that the actual NPL growth (and consequently, the NPL supply) will be lower. In addition, recession in Poland should be relatively weaker than in the EU as a whole. This, combined with a wide-ranging local support package, means that the increase in the NPL ratio in Poland might be lower than the figure for the entire EU banking sector.

NPL ratio of the European banking sector (%)



Source: ECB, mBank

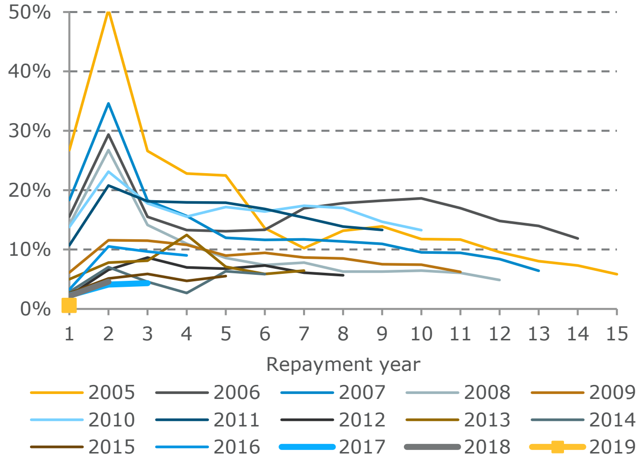
A highly concentrated market

The NPL market did not freeze completely in H1 2020. However, the majority of transactions were beyond the reach of debt collection companies. According to a report by Debtwire, NPLs worth EUR 30.4bn were sold in H1 2020 compared with EUR 41.8bn in the same period of 2019. The concentration and nature of the transactions are interesting. Italy (60%) and Greece (30%) accounted for 90% of the value of the transactions. Large transactions were mostly made by government-linked entities, e.g. AMCO, an Italian government-controlled bad bank, purchased a EUR 8.1bn worth past due portfolio from Banca Monte dei Paschi di Siena, while in Greece the oldest tranche of a EUR 7.5bn worth securitised portfolio was acquired under the government's Hercules scheme. Most transactions are now expected to take place on the Greek and Italian markets, mainly under government programmes.

Recoveries supported by aid programmes

The ongoing pandemic had a negative impact on recoveries from debt portfolios in H1 2020, in particular in March and April. In April, May, and June, recoveries accounted for 85%, 86%, and 89% of the operational target assumed in this year's budget, respectively. The drop in recoveries was reflected in the negative H1 2020 revaluation of PLN 200m. The management board does not expect any further negative revaluations in 2020. In Q2 2020, recoveries fell to PLN 417m from PLN 477m in Q1 2020, and PLN 447m in Q2 2019. If the government restrictions are not reimposed, we believe that recoveries have already reached the lowest possible level this year and should gradually go up in the upcoming years. Interestingly, on the one hand high-value fiscal programmes and extensive aid will limit the influx of new non-performing loans, which negatively affects the debt collection sector; on the other hand, however, they should result in a V-shaped rebound of recoveries. At the same time, please remember that relatively lower purchases, which began in 2019, will translate into flat recoveries in 2020-2022, which will resume the upward trend from 2023 onward. This is because the highest recoveries are usually reported within the first three years from the purchase of a debt portfolio.

Recovery curves: the highest recoveries are reported in first three years (%)

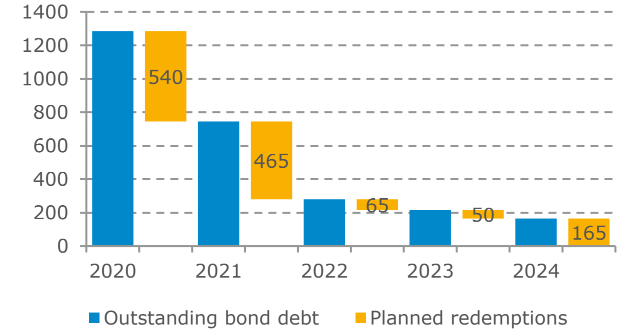


Source: Kruk, mBank

Kruk can afford further purchases

At the end of Q2 2020, Kruk's net debt-to-equity ratio stood at 1.1x, which gives the company a lot of room for more financing. Assuming the threshold value of covenants (2.5x), Kruk can increase its net debt by PLN 2.8bn, which – at the average portfolio price of 12% – translates into a purchase of receivables with a total nominal value of approx. PLN 23.6bn. Currently, Kruk has PLN 910m in open and unused credit lines. In 2021/22, Kruk will face a new test, as this is when significant tranches of bonds worth PLN 540m and PLN 465m, respectively, will mature, reducing the bond balance to PLN 280m. We believe that, considering the current cash flows and planned purchases, Kruk should handle the planned redemption well. Moreover, after the recession we expect the corporate debt market to rebuild, especially considering the current rates of return on deposits and T-bonds. Kruk announced that on 24 August the KNF approved a prospectus for the issue of bonds with a total nominal value of PLN 700m. The low interest rate environment will positively affect the debt cost, which should fall from PLN 115m in 2019 to PLN 76m in 2020.

Balance of bonds to be redeemed and planned redemption (PLN m)



Source: Kruk, mBank

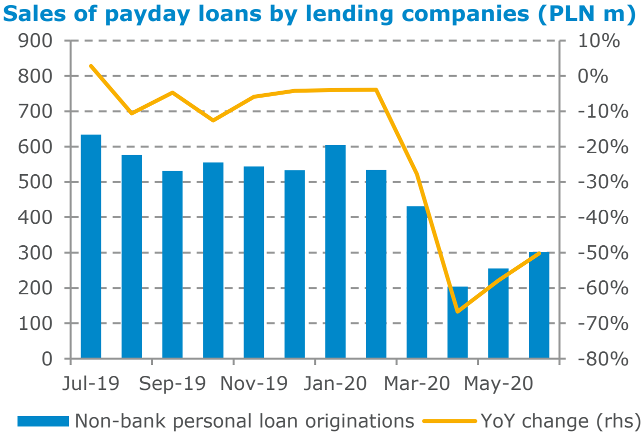
Competition fares better as well

Three of Kruk's largest competitors (Intrum AB, Hoist Finance and B2Holding) have already reported their Q2 results. The management boards of these companies admitted during earnings calls that they expected the NPL market to return at the end of the year and to normalise in 2021. They also emphasised that the overall approach of the regulator would favourably affect the supply of portfolios. Additionally, Hoist believes that some competitors are so heavily indebted that they will not be able to afford frantic bidding, which should have a positive – from debt collectors' point of view – impact on the prices of individual portfolios. This has so far been reflected in investments of Intrum AB, which admits that portfolio purchases in H1 2020 were made at a high expected rate of return. As regards the results later in the year, two things are worth noting. Firstly, Hoist claims that further negative revaluations will not be necessary, and the new curve of expected recoveries from the debt portfolio should reach the old one's levels in Q2 2021. Secondly, Q3 2020 results may be seasonally weaker due to lower court activity in the holiday season, especially in markets where hybrid and court debt collection processes are the most effective (e.g. Italy). B2Holding emphasises that the NPL market will open up in the entire Europe at the end of 2020. Additionally, the Norwegian debt collector indicates that although portfolio purchases in Q2 were low, the portfolios were purchased with a higher IRR, which confirms that during a recession/crisis, portfolio prices begin to take higher risk into account.

Dark clouds gather over non-bank lenders

The non-bank lending industry has been strongly affected by the pandemic, interest rate cuts and changes in the law introduced by the anti-crisis shields. Due to interest rate cuts, the maximum interest on loans stands at 7.2%. However, more attention should be paid to non-interest costs of consumer loans, which, under a special law, have been limited to 21% for loans over 30 days and to 5% for loans under 30 days. As a result, the business model of some lending companies has been put at risk, and the profitability of the offered products sharply fell. Furthermore, sales decreased significantly both during and after the lockdown. According to the data of the Credit Information Bureau (BIK), in June sales began to go up again, but we are still talking about a 50.2% year-on-year decline. Therefore, the profitability of Wonga, acquired by Kruk for PLN 97m, remains uncertain. We are thus expecting a possible revaluation of the acquired assets.

Sales of payday loans by lending companies (PLN m)



Source: BIK, mBank

Valuation

Our valuation of Kruk represents a weighted average of four techniques: DCF, DDM, Economic Profits, and Multiples Comparison. We analyzed the valuation results for sensitivity to cost of capital (all methods), long-term FCF growth (DCF analysis), and the duration of the forecast period (DDM and Economic Profits).

(PLN)	weight	per share
DCF Model	25%	176.09
Dividend Discount Model	25%	175.29
Economic Profits Model	25%	174.40
Relative Valuation	25%	157.70
	Average Fair Value	170.87
	9M Target Price	**183.17**

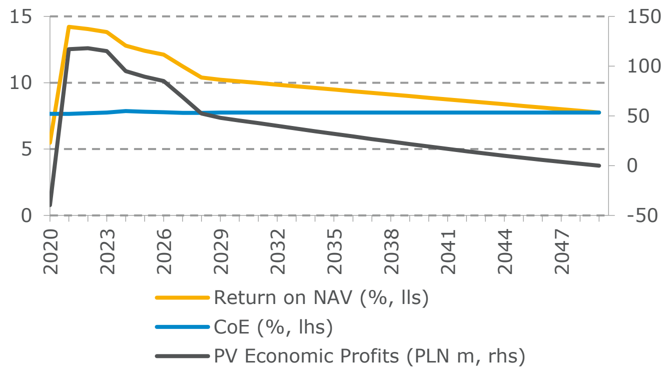
Economic Profit Valuation

The Economic Profit-based valuation model uses the sum of the opening net value of tangible assets (TNAV; Kruk does not hold intangible assets) and the present value of future economic profits (return on TNAV less cost of equity, multiplied by opening NAV). Alongside the gap between cost of and return on equity, asset growth is the main value driver. Beyond the explicit period (2020-2029), we factor in a 20-year fade period over which tangible ROE is linearly converged towards COE.

Economic Profit Model

(PLN m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Opening equity	**1,958.4**	**2,065.7**	**2,323.9**	**2,553.3**	**2,798.5**	**3,040.0**	**3,299.0**	**3,574.3**	**3,844.0**
Net profit	107.3	293.6	326.3	352.9	357.9	377.1	399.8	401.6	399.7
Dividends paid	0.0	-35.4	-96.9	-107.7	-116.5	-118.1	-124.5	-131.9	-132.5
Closing equity	**2,065.7**	**2,323.9**	**2,553.3**	**2,798.5**	**3,040.0**	**3,299.0**	**3,574.3**	**3,844.0**	**4,111.2**
ROE (%)	5.5	14.2	14.0	13.8	12.8	12.4	12.1	11.2	10.4
Cost of equity	7.7	7.7	7.7	7.8	7.9	7.8	7.8	7.7	7.7
Economic spread (%)	-2.2	6.6	6.3	6.1	4.9	4.6	4.3	3.5	2.7
Economic profit	-42.7	135.5	147.3	154.9	137.8	139.8	143.4	125.3	102.6
Discount factor	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51
Present value of economic profit	-39.7	117.0	118.0	115.1	95.0	89.4	85.1	69.0	52.4

	(PLN m)	(%)
Opening equity	1,958.4	62.5
PV of 2020-2029E economic profits	749.5	23.9
PV of 2030-2049E economic profits	425.6	13.6
Equity value at January 2020	**3,133.4**	**100.0**
Adjustment for time value of money	160.5	
Current equity value	3,293.9	
Shares outstanding (millions)	18.9	
Equity value per share (PLN)	**174.4**	



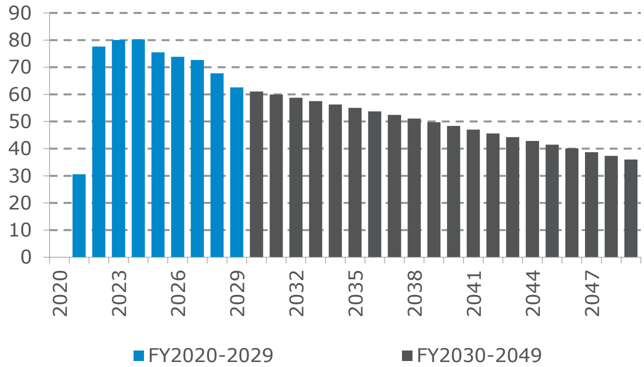
Dividend Discount Model

The dividend discount model uses dividends as declared under Kruk's corporate dividend policy. Kruk maintains its net debt-to-equity ratio at or below 1.6x. In the fade period, DDM is integrated with the economic profit model, with equity growth guided by the 75% standing dividend payout ratio assumed in the period. Terminal value calculations are based on the single-stage Gordon Model.

Dividend Discount Model

(PLN m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Dividend	0.0	35.4	96.9	107.7	116.5	118.1	124.5	131.9	132.5
Dividend payout ratio (%)	0.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Discount factor (x)	0.93	0.86	0.80	0.74	0.69	0.64	0.59	0.55	0.51
Present value of dividends	0.0	30.5	77.6	80.1	80.3	75.5	73.8	72.7	67.7

	(PLN m)	(%)
PV of 2020-2029E dividends	620.8	20.2
PV of 2030-2049E dividends	977.2	31.8
Present value of terminal value	1,479.0	48.1
Equity value at September 2020	**3,077.0**	**100.0**
Adjustment for time value of money	233.6	
Current equity value	3,310.6	
Shares outstanding (millions)	18.9	
Equity value per share (PLN)	**175.3**	



Discounted Cash Flow Model

The discounted cash flow model uses future free cash flow projections for 2020-2028, discounted using Kruk's weighted average cost of capital. FCF projections take into account portfolio purchases and amortization. The terminal value, calculated using the Gordon model with an assumed growth rate of 3%, implies a 2028E P/E of 10.3x and 2028E P/B of 1.1x, both reasonable values in our view given expected ROE growth by 10% in the final forecast year and Kruk's assumed ability to maintain the dividend payout ratio at 33% in the long term.

Cost of Equity, WACC

Cost of equity for Kruk is calculated as an average of the cost of equity incurred in each of Poland, Romania, and the other markets, weighted by year-end debt purchase expenditure per country as a percentage of total expenditure. We applied the following risk metrics to Kruk's geographic markets: Poland: 3.5% risk-free rate, 5.0% market risk premium, Romania: 3.9% risk-free rate, 5.5% risk premium, other: 1.5% risk-free rate, 4.5% risk premium. Beta is 1 in each case.

WACC Calculation

(%)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Risk-free rate: Poland	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Risk-free rate: Romania	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Risk-free rate: Other	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Risk premium: Poland	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Risk premium: Romania	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Risk premium: Other	4	4	4	4	4	4	4	4	4
Beta (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	7.7	7.7	7.7	7.8	7.9	7.8	7.8	7.7	7.7
Portfolio spend as a pct. of total: Poland	40.0%	40.8%	46.1%	50.2%	51.6%	52.6%	51.6%	51.4%	51.9%
Portfolio spend as a pct. of total: Romania	24.6%	23.7%	21.1%	19.3%	20.9%	18.7%	18.6%	17.6%	17.2%
Portfolio spend as a pct. of total: Other	35.4%	35.4%	32.9%	30.6%	27.5%	28.7%	29.8%	31.0%	30.9%
Cost of debt	3.2	3.0	3.1	3.7	4.3	4.3	4.3	4.3	4.3
Effective tax rate	22.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
After-tax cost of debt	2.5	2.7	2.8	3.3	3.9	3.9	3.9	3.9	3.9
WACC	**6.3**	**6.5**	**6.4**	**6.5**	**6.6**	**6.5**	**6.5**	**6.5**	**6.5**

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DCF Model

(PLN m)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue	1,093.0	1,299.0	1,380.4	1,488.1	1,585.7	1,680.4	1,779.0	1,857.5	1,937.6
EBIT	276.8	446.9	491.2	549.6	592.7	634.9	675.9	690.1	698.4
EBIT margin	*25.3*	*34.4*	*35.6*	*36.9*	*37.4*	*37.8*	*38.0*	*37.1*	*36.0*
Tax	-60.9	-44.7	-49.1	-55.0	-59.3	-63.5	-67.6	-69.0	-69.8
NOPAT	**215.9**	**402.2**	**442.1**	**494.7**	**533.4**	**571.4**	**608.3**	**621.1**	**628.6**
D&A expenses	45.8	47.7	49.1	50.0	50.6	51.0	51.3	51.5	51.7
Portfolio amortization	892.3	731.6	597.4	644.9	677.5	757.5	932.4	998.5	1,045.8
Portfolio purchases	-300.9	-882.2	-1,318.4	-1,341.5	-1,401.2	-1,425.0	-1,469.8	-1,516.0	-1,499.2
CAPEX	-52.0	-52.0	-52.0	-52.0	-52.0	-52.0	-52.0	-52.0	-52.0
Change in working capital	139.6	80.1	53.0	-1.0	6.0	1.3	3.9	4.4	-3.9
FCF	**940.6**	**327.4**	**-228.9**	**-204.9**	**-185.7**	**-95.8**	**74.2**	**107.5**	**171.0**
Discount rate (WACC)	6.3	6.5	6.4	6.5	6.6	6.5	6.5	6.5	6.5
Discount factor	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6
PV of FCF	885.0	289.2	-190.1	-159.8	-135.8	-65.7	47.8	65.0	97.2
Total FCF	**997**								

Terminal value	8,862
FCF growth after the forecast period (%)	3.0
Present value of terminal value	4,724
Enterprise value	**5,721**
Net debt (2019 eop)	2,555
Minority interests	0.7
Equity value at January 2020	3,165
Adjustment for time value of money	161
Current equity value	**3,326**
Shares outstanding (millions)	18.9
Equity value per share (PLN)	**176.1**

Multiples Comparison

	P/E			P/BV			ROE		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Intrum Ab	12.2	8.2	7.2	1.3	1.1	1.0	8.6	13.2	13.5
Pra Group Inc	15.2	14.5	12.2	1.7	1.5	-	11.0	11.9	13.0
Encore Capital G	5.7	5.2	4.5	1.3	1.1	1.0	18.7	18.8	19.6
Credit Corp Grp	14.7	18.2	15.2	2.1	2.0	1.9	13.9	11.9	13.5
Hoist	29.0	5.9	4.9	0.6	0.6	0.5	0.0	10.8	12.4
Arrow Global	-	4.7	3.4	2.2	1.5	0.9	-37.7	31.4	34.9
B2 Holding	11.1	7.2	5.0	0.6	0.5	0.5	5.5	9.2	10.5
Average	**12.3**	**10.1**	**8.6**	**1.5**	**1.3**	**0.8**			

Source: Bloomberg, mBank

Relative Valuation Summary

	(PLN m)	(PLN per share)
P/E	2,778.64	147.24
P/B	3,173.51	168.16
	Avg. valuation	**157.70**

Income Statement

(PLN m)	2017	2018	2019	2020P	2021P	2022P
Purchased Debt Portfolios	971.7	1,070.0	1,138.3	946.0	1,152.4	1,230.5
Collection Services	59.1	67.4	52.1	53.8	58.7	59.8
Other	24.6	27.4	60.6	93.2	87.9	90.1
Revenue	**1,055.5**	**1,164.8**	**1,251.1**	**1,093.0**	**1,299.0**	**1,380.4**
Purchased Debt Portfolios	412.5	437.3	477.7	463.6	495.5	516.8
Collection Services	44.2	52.6	53.4	69.9	49.3	50.3
Other	9.3	11.0	55.0	76.4	72.1	73.9
Direct and indirect costs	**466.0**	**500.9**	**586.0**	**609.9**	**616.9**	**640.9**
Purchased Debt Portfolios	559.2	632.7	660.7	482.5	656.8	713.7
Collection Services	14.9	14.8	-1.3	-16.1	9.4	9.6
Other	15.3	16.4	5.6	16.8	15.8	16.2
Gross profit	**589.4**	**663.9**	**665.0**	**483.1**	**682.1**	**739.5**
General expenses	147.9	161.0	178.3	164.0	185.1	196.7
Other operating gains/losses	-2.1	-4.7	-2.4	3.4	-2.4	-2.5
EBITDA	**439.4**	**498.2**	**484.4**	**322.5**	**494.6**	**540.2**
D&A expenses	18.7	19.9	44.0	45.8	47.7	49.1
EBIT	**420.8**	**478.3**	**440.3**	**276.8**	**446.9**	**491.2**
Financing Activity	-85.6	-125.7	-126.1	-138.9	-119.9	-127.8
Pre-tax income	**335.2**	**352.5**	**314.2**	**137.8**	**327.0**	**363.4**
Tax	40.0	22.1	37.2	30.3	32.7	36.3
Net income	**295.2**	**330.4**	**277.1**	**107.5**	**294.3**	**327.1**

Balance Sheet

(PLN m)	2017	2018	2019	2020P	2021P	2022P
Cash and cash equivalents	173.3	147.3	150.3	232.7	242.0	285.9
Trade debtors	16.6	28.1	24.0	21.0	24.9	26.5
Purchased Debt Portfolios	**3,169.3**	**4,157.0**	**4,446.1**	**3,605.5**	**3,756.1**	**4,477.1**
Tangible and intangible assets	109.5	122.2	180.4	186.6	190.9	193.9
Other assets (incl. Novum)	91.4	27.5	39.1	65.8	61.3	67.5
Total assets	**3,560.1**	**4,482.2**	**4,839.9**	**4,111.6**	**4,275.2**	**5,050.9**
Current ad noncurrent loans and borrowings	1,897.2	2,500.0	2,705.7	1,956.6	1,782.0	2,267.4
Trade creditors	143.4	176.1	101.3	39.1	114.7	171.4
Other	58.9	73.3	73.8	78.2	82.1	86.2
Total liabilities	**2,099.6**	**2,749.4**	**2,880.8**	**2,073.9**	**1,978.8**	**2,525.0**
Equity	1,460.4	1,732.4	1,958.4	2,037.7	2,296.3	2,525.9
Total equity and liabilities	**3,560.1**	**4,482.2**	**4,839.9**	**4,111.6**	**4,275.2**	**5,050.9**

Cash Flow

(PLN m)	2017	2018	2019	2020P	2021P	2022P
Cash flow from operations						
Net profit	295.2	330.4	277.1	107.5	294.3	327.1
D&A expenses	18.7	19.9	44.0	45.8	47.7	49.1
Net financing costs	87.8	90.4	115.2	74.1	55.1	63.0
Portfolio purchases	-975.9	-1,423.9	-781.0	-300.9	-882.2	-1,318.4
Portfolio amortization = recoveries - revenues	397.2	512.2	644.1	892.3	731.6	597.4
Change in working capital	-46.3	68.9	-90.8	153.8	39.9	108.3
Net cash from operations	**-223.4**	**-402.1**	**208.6**	**972.6**	**286.4**	**-173.6**
Cash flow from investing activities						
Interest received	0.3	0.1	0.2	0.2	0.2	0.3
Change in loans receivable	-3.7	-5.8	-302.7	-235.3	40.2	-55.4
Purchase/sale of tangible and intangible assets	-27.0	-24.7	-117.0	-52.0	-52.0	-52.0
Other	10.8	4.1	282.5	221.0	0.0	0.0
Net cash from investing activities	**-19.5**	**-26.2**	**-137.0**	**-66.0**	**-11.6**	**-107.1**
Cash flow from investing activities						
Net proceeds from share issue (buyback)	5.3	6.6	7.1	0.0	0.0	0.0
Dividend	-37.5	-94.1	-95.0	-0.7	-35.7	-97.6
Change in borrowings	250.8	602.8	205.7	-749.1	-174.6	485.4
Interest paid	-88.1	-90.6	-115.4	-74.3	-55.3	-63.2
Other	18.3	-22.4	-71.0	0.0	0.0	0.0
Net cash from financing activities	**148.8**	**402.3**	**-68.7**	**-824.1**	**-265.5**	**324.6**
Total net cash flow						
Cash and cash equivalents at bop	267.4	173.3	147.3	150.3	232.7	242.0
Cash and cash equivalents at eop	**173.3**	**147.3**	**150.3**	**232.7**	**242.0**	**285.9**
Cash flow from operations*	**355.3**	**509.6**	**345.5**	**381.3**	**437.0**	**547.4**

ex. portfolio purchases and amortization

Key Ratios

	2017	2018	2019	2020P	2021P	2022P
Balance-Sheet Ratios						
Debt/Equity + Debt (%)	56.5	59.1	58.0	49.0	43.7	47.3
Debt/Equity (%)	129.9	144.3	138.2	96.0	77.6	89.8
Net Debt/Equity (%) (covenant @2.5x)	118.0	135.8	130.5	84.6	67.1	78.4
Net Debt/EBITDA (%)	392.3	472.3	527.6	534.4	311.4	366.8
Debt/Cash EBITDA (%)	226.8	247.4	239.8	161.1	145.3	199.3
Net Debt/Cash EBITDA (%) (covenant @4x)	206.1	232.8	226.4	141.9	125.6	174.2
EBUT/Interest Expenses (%)	477.5	528.2	381.5	372.5	807.6	776.9
Sales/Trade Debtors	63.5	41.4	52.2	52.2	52.2	52.2
Costs/Trade Creditors	3.2	2.8	5.8	15.6	5.4	3.7
Trade Creditors/Debt Purchases	14.7	12.6	13.0	13.0	13.0	13.0
Profitability Ratios						
Revenue from / Avg. Investment in Purchased Debt	33.2	29.2	26.5	23.5	31.3	29.9
Revenue / Avg. Assets	31.7	29.0	26.8	24.4	31.0	29.6
Operating Costs / Avg. Assets	19.3	17.2	17.6	18.5	20.5	19.3
Gross profit	55.8	57.0	53.2	44.2	52.5	53.6
Purchased Debt	57.5	59.1	58.0	51.0	57.0	58.0
Collection Services	25.2	22.0	-2.4	-30.0	16.0	16.0
Other	62.1	59.9	9.3	18.0	18.0	18.0
EBITDA margin	41.6	42.8	38.7	29.5	38.1	39.1
EBIT margin	39.9	41.1	35.2	25.3	34.4	35.6
Net profit margin	28.0	28.4	22.1	9.8	22.7	23.7
Effective tax rate	11.9	6.3	11.8	22.0	10.0	10.0
ROA	8.9	8.2	5.9	2.4	7.0	7.0
ROE	21.9	20.7	15.0	5.4	13.6	13.6
Trading Multiples						
Shares outstanding at eop (millions)	18.9	18.9	18.9	18.6	18.6	18.6
Shares outstanding (avg., millions)	18.7	18.8	18.9	18.8	18.6	18.6
Earnings Per Share (PLN)	15.7	17.5	14.6	5.7	15.8	17.6
P/E (x)	10.0	8.9	10.7	27.3	9.9	8.9
Book Value Per Share (PLN)	77.4	91.7	103.7	109.5	123.4	135.7
P/B (x)	2.0	1.7	1.5	1.4	1.3	1.2
EV/EBITDA	10.7	10.7	11.4	14.4	9.0	9.1
EV/EBITDA (ex. portfolio amortization)	5.6	5.3	4.9	3.8	3.6	4.3
Dividend Per Share (PLN)	2.0	5.0	5.0	0.0	1.9	5.2
Dividend Yield (%)	1.3	3.2	3.2	0.0	1.2	3.3

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
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mBank issued the following investment recommendations for Kruk in the 12 months prior to this publication

Kruk

recommendation	**buy**
issued on	2019-12-05
target price (PLN)	210.31
price at date issued	150.90

mBank S.A.
Senatorska 18
00-950 Warszawa
http://www.mbank.pl/

Research Department

Kamil Kliszcz
director
+48 22 438 24 02
kamil.kliszcz@mbank.pl
energy, power generation

Michał Marczak
+48 22 438 24 01
michal.marczak@mbank.pl
strategy

Michał Konarski
+48 22 438 24 05
michal.konarski@mbank.pl
banks, financials

Jakub Szkopek
+48 22 438 24 03
jakub.szkopek@mbank.pl
industrials, chemicals, metals

Paweł Szpigiel
+48 22 438 24 06
pawel.szpigiel@mbank.pl
media, IT, telco

Piotr Bogusz
+48 22 438 24 08
piotr.bogusz@mbank.pl
retail, gaming

Aleksandra Szklarczyk
+48 22 438 24 04
aleksandra.szklarczyk@mbank.pl
construction, real-estate development

Piotr Poniatowski
+48 22 438 24 09
piotr.poniatowski@mbank.pl
industrials

Mikołaj Lemańczyk
+48 22 438 24 07
mikolaj.lemanczyk@mbank.pl
banks, financials

Sales and Trading

Traders

Piotr Gawron
director
+48 22 697 48 95
piotr.gawron@mbank.pl

Krzysztof Bodek
+48 22 697 48 89
krzysztof.bodek@mbank.pl

Tomasz Jakubiec
+48 22 697 47 31
tomasz.jakubiec@mbank.pl

Adam Prokop
+48 22 697 47 90
adam.prokop@mbank.pl

Magdalena Bernacik
+48 22 697 47 35
magdalena.bernacik@mbank.pl

Andrzej Sychowski
+48 22 697 48 46
andrzej.sychowski@mbank.pl

Sales, Foreign Markets

Bartosz Orzechowski
+48 22 697 48 47
bartosz.orzechowski@mbank.pl

Jędrzej Łukomski
+48 22 697 49 85
jedrzej.lukomski@mbank.pl

Private Client Sales

Kamil Szymański
director
+48 22 697 47 06
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
+48 22 697 48 70
jaroslaw.banasiak@mbank.pl