

Friday, September 11, 2020 | update

Skarbiec Holding: accumulate (upgraded)

SKH PW; SKH1.WA | Financials, Poland

Supreme Dividends & More Upside Ahead

We upgrade to accumulate our view on Skarbiec Holding ("Skarbiec"), with a higher target of PLN 26.86, to reflect strong inflows into the asset manager's investment funds fueled by intense trading activity spurred by the coronavirus outbreak. In Q1 2020, Skarbiec registered a decline in assets under management to PLN 2.68bn, but the following quarter AUM rebounded to a spectacular PLN 3.29bn. A significant portion of the inflows came from individuals looking for savings alternatives after a series of interest rate cuts in Poland caused a 15% fall in term deposits. In a scenario where interest rates in Poland stay low in the medium term, the funds managed by Skarbiec are likely to enjoy further gains going forward, supported also by banks seeking to offset lost interest margin through increased selling of fee-generating investments. Accordingly, we anticipate 7% average annual growth in Skarbiec's AUM over the five years to FY2024/25 (Skarbiec's fiscal year runs from July 1 to June 30), when assets, especially in the top fee-earnings funds, will most likely be 27%-20% higher than initially assumed. Aside from a vibrant market, dividends are another important driver of Skarbiec's upside potential, with expected 2020 DPS of PLN 4.4 indicating a spectacular yield of 18%, and yields in the 8%-10% range expected in the years to come.

Upgrading Forecasts

We revised our AUM forecasts for Skarbiec to assume 27%-20% higher annual assets in reporting years FY2020-29. This calendar year, we have seen particularly strong growth in high-earning assets which in Q2 2020 increased by 14.5% compared to the same period a year earlier at PLN 1.8bn. Consequently, after a PLN 17m hike in expected success fees, our FY2020 net profit estimate has received a boost of 86%. We assume that success fees as a percentage of revenues will increase to 29% in FY2020, to pull back to a projected 25%-28% in the following years. Revenues from management fees have been on a decline at Skarbiec due to trimmed customer rates, and that is why the upward revisions to our earnings expectations beyond FY2019/2020 are not as dramatic.

Anticipating Positive Surprises in Calendar 2020 Q2 Results

We expect Skarbiec to report net profit of PLN 9.7m in the second quarter of calendar 2020. Success fees in the period may have soared to PLN 13m from PLN 1.3m the quarter before, and management fees likely edged higher from PLN 14.7m to PLN 15m, driven expanding AUM. At the same time, payroll expenses in Q2 most likely increased in line with increasing performance-based variable pay.

The Dividend King

Skarbiec Holding distributes dividends from the profits earned by its fund manager, Skarbiec TFI, in a calendar year. Given how good 2019 was for Skarbiec TFI, we would put this year's dividend-paying potential at about PLN 40m. However the actual payout will probably be closer to PLN 29.9m, implying DPS of PLN 4.4 and a dividend yield of 18%. In the future, considering expected declines in success and management fees, annual dividend yields will probably normalize in the 8%-10% range.

(PLN m)	17/18	18/19	19/20E	20/21E	21/22E
Management Fees	80.90	78.26	63.31	62.00	58.75
Success Fees	15.24	33.24	27.00	22.33	24.68
Total Revenues	101.50	112.89	91.57	85.63	84.81
Operating Costs	78.10	74.99	62.19	63.67	64.98
Net Profit	19.61	31.17	24.03	18.68	16.95
Retail AUM YoY Growth	12.6%	-21.7%	-4.7%	15.2%	6.4%
P/E (x)	8.6	5.4	7.0	9.0	9.9
P/B (x)	1.6	1.6	1.4	1.5	1.5
Dividend Yield (%)	10.6%	18.0%	2.0%	17.8%	10.1%

Current Price	PLN 24.70
Target Price	PLN 26.86
MCap	PLN 168.5
Free Float	PLN 85.55m
ADTV (3M)	PLN 0.3m

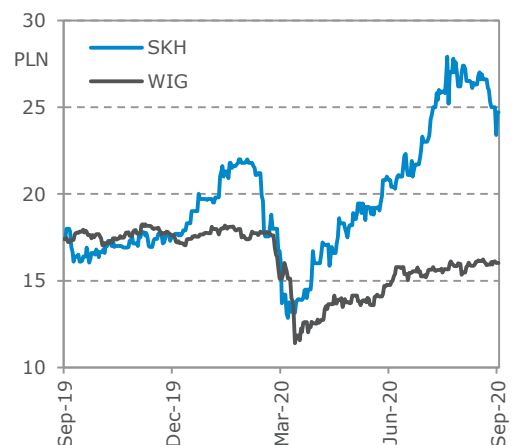
Ownership

Aoram sp. z o.o.	32.99%
Copernicus Capital TFI	16.24%
Metlife OFE	7.32%
Others	43.45%

Business Profile

Skarbiec Holding is the owner of Skarbiec TFI, one of the longest-running asset managers in Poland. Skarbiec TFI manages 45 funds and sub-funds, and it has approximately PLN 4 billion in assets under management, representing one of the largest portfolios in the country. Skarbiec is known for its above-average dividend yields which in the next nine years are set to be in the range of 8-10%.

SKH vs. WIG



Company	Target Price		Recommendation	
	new	old	new	old
SKH	26.86	21.20	accumulate	hold

Company	Current Price	Target Price	Upside
SKH	24.70	26.86	+8.7%

Forecast Update	FY19/20E	FY20/21E	FY21/22E
Management Fees	-3.2%	3.4%	0.6%
Success Fees	179.9%	-0.2%	0.6%
Revenue	20.0%	2.5%	0.7%
Costs	1.5%	1.5%	-0.1%
Net Profit	85.5%	5.4%	3.2%

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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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HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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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 issued the following recommendations for Skarbiec Holding in the 12 months prior to this publication:

Skarbiec Holding

recommendation	hold	accumulate	buy	buy
date issued	2020-07-02	2020-06-03	2020-03-04	2019-12-05
target price (PLN)	21.20	21.20	21.20	29.34
price on rating day	21.40	19.05	18.80	17.20

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