

Friday, October 9, 2020 | special comment

Kruk – Recoveries and Portfolio Expenditure in Q3 2020

Rating: buy | target price: PLN 183.17 | current price: PLN 133.40

KRU PW; KRU.WA | Financials, Poland

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Kruk recovered PLN 452m of portfolio debts in the third quarter of 2020, and at the same time it spent PLN 33m on new receivable portfolios – a low figure which makes the steep average price of 25% easier to swallow.

The quarterly recoveries in Q3 exceeded those achieved in the previous quarter by 8% and topped the year-ago third-quarter collections by 4%. If recoveries in the fourth quarter are as good, this would mean Kruk is on track to fulfilling our FY2020/21 forecast of PLN 1.8bn.

The small third-quarter portfolio purchases are not a concern considering that Kruk and other debt collectors, including Intrum, are expecting a larger supply of receivable portfolios in the fourth quarter.

In the year through September Kruk spent only 38% of the PLN 298m that we are expecting it to invest in new portfolios this year, but it can easily make up the gap in the fourth quarter assuming better NPL supply from banks.

We are currently expecting Kruk to achieve a net profit of PLN 107.5m in FY2020 vis-à-vis a consensus expectation of a PLN 3.5m loss, which we consider overly pessimistic along with the forecasts for FY2021.

We currently have a buy call for KRU.

Kruk quarterly portfolio spend and recoveries

| (PLN m) | 3Q'19 | 4Q'19 | 1Q'20 | 2Q'20 | 3Q'20 | Y/Y | Q/Q | 2020E | YTD/FY |
|-----------------------|-------|-------|-------|-------|-------|--------|--------|-------|--------|
| Portfolio Expenditure | 83 | 390 | 57 | 23 | 33 | -60.2% | 43.5% | 298 | 37.9% |
| Face Value of Debt | 734 | 4,253 | 505 | 187 | 133 | -81.9% | -28.9% | 2,569 | 32.1% |
| Avg. Portfolio Price | 11% | 9% | 11% | 12% | 25% | | | | |
| Recoveries | 433 | 475 | 477 | 417 | 452 | 4.4% | 8.4% | 1,838 | 73.2% |

Source: Kruk, E—mBank estimate

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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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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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.

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