

Thursday, 27 January 2022 | initiating report

Grupa Pracuj: buy (new)

GPP PW; GPPP.WA | e-Business, Poland

Made to Monetize HR Market Growth

Grupa Pracuj ("Grupa Pracuj" or the "Company") is a leading online HR platform in Poland and Ukraine with a well-established market position. The Company has a large base of loyal customers from Poland and Ukraine. Grupa Pracuj operates in a rapidly-growing recruitment market (with 2019-30E CAGR at 11% in Poland and 18% in Ukraine). Its online employment marketplace, pracuj.pl, is the job platform of first choice for many and a widely recognized brand that, over the years, has gained the trust of job seekers and employers alike; as such, pracuj.pl today stands as the single biggest barrier to entry for market newcomers.

Looking ahead, Grupa Pracuj stands to benefit from a shift in the Polish job market towards a candidate's market. According to our estimates, in 2020-2025 the Company can grow its adjusted EBITDA at an average annual rate of 23%, and with a high cash conversion ratio* (historically CFO/EBITDA at 84-109%) this will translate into high FCFE. Grupa Pracuj has the means to grow its presence further in the CEE region through selective acquisitions while making regular distributions to shareholders.

We initiate coverage of Grupa Pracuj with a buy recommendation and a target price of PLN 88.30 per share that indicates 20% upside potential from the current level.

As of January 2022, a potential invasion by Russia on Ukraine has become a risk factor for Grupa Pracuj. For the purposes of our analyses we assume a de-escalation of the conflict in the medium term.

Undisputed Polish Leader

Grupa Pracuj is a leading player in the online recruitment markets of Poland and Ukraine with respective market shares of 40%** and 35%**. The pracuj.pl website is the #1 job classifieds platform in Poland (64% market share) achieving revenues 3.6x those of the #2 player. pracuj.pl has been able to keep a stable market share in a cutthroat market where even StepStone, one of the world's leading online recruiting marketplaces, failed to gain a foothold.

Fast-Growing Market

Growing labor demand set against tightening supply creates a candidate's market where companies have a harder time finding employees and, hence, are more inclined to up recruitment budgets. According to OC&C, by 2030 the Polish recruitment market will grow 3.1 times relative to 2019, and for Ukraine the multiple is estimated at 6.1x – a major opportunity for Grupa Pracuj.

Experienced Management and Focus on Innovation

Grupa Pracuj is run by some of its original founders together with seasoned employees with an in-depth knowledge of the HR business. The Company is an innovation-driven business capable of rapidly responding to changing market demands and searching for new avenues to growth via investment in promising HR Tech start-ups.

Superior Cash Flow

Grupa Pracuj achieves EBITDA margins among the highest in the HR industry, significantly above the average (adj. EBITDA margin >45% vs. ca. 23%). The Company is an asset-light business with a sound balance sheet (showing a net cash position) and superior cash generation. In addition, Grupa Pracuj consistently reports negative working capital that implies solid FCFE. Historically, the Company's CAPEX/Sales ratios have not exceeded 2.2%.

(PLN m)	2019	2020	2021E	2022E	2023E
revenue	367.5	299.3	468.4	531.6	620.3
EBITDA (adj.)	174.8	148.3	257.4	283.3	325.9
margin	47.6%	49.6%	54.9%	53.3%	52.5%
EBIT	159.9	136.1	233.7	269.5	309.8
net profit	125.5	105.8	260.0	218.7	251.8
P/E	39.9	47.3	28.8	22.9	19.9
P/S	13.6	16.7	10.7	9.4	8.1
P/B	90.0	48.5	21.1	15.4	12.1
EV/EBITDA (adj.)	28.5	33.2	18.8	16.8	14.3
DPS (PLN)	0.70	0.91	1.62	1.91	2.41
DYield	1.0%	1.2%	2.2%	2.6%	3.3%

*CFO/EBITDA, **revenue*19/ recruitment market as of 2019

current price	PLN 73.45
target price	PLN 88.30
mCap	PLN 5.0bn
free float	PLN 1.4bn
ADTV (20D)	PLN 10.2m

Shareholders

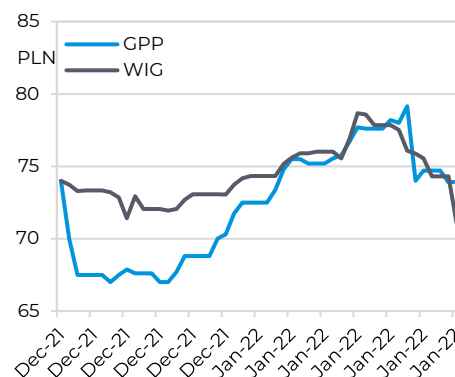
Przemysław Gacek*	53.0%
TCV LUXCO	12.7%
Maciej Noga	8.5%
Others	25.8%

*directly and indirectly via Frascati Investments

About Grupa Pracuj

Grupa Pracuj is a leading online recruitment platform in Poland and Ukraine. Job listings are the primary source of the Company's revenues; however its portfolio includes a wide range of HR-related services. Grupa Pracuj developed eRecruiter, a one-stop-shop ATS tool. At the moment, the majority (ca. 71% in 2021) of the job offers on Grupa Pracuj's websites are targeted at white collar workers. Grupa Pracuj caters to over 45k active clients in Poland and ca. 55k in Ukraine. Its customer base includes virtually all major corporations from both countries and an increasing proportion of employers from the SME sector.

GPP vs. WIG



company	target price		recommendation	
	new	old	new	old
Grupa Pracuj	88.30	-	buy	-

company	current price	target price	upside
Grupa Pracuj	73.45	88.30	+20.2%

Analysts:

Paweł Szpigiel
+48 22 438 24 06 | +48 509 603 258
pawel.szpigiel@mbank.pl

Janusz Pięta
+48 22 438 24 08 | +48 506 065 659
janusz.pieta@mbank.pl

**List of abbreviations and ratios used by mBank:**

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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

Recommendations of Biuro maklerskie mBanku:

A recommendation is valid for a period of 9 months, unless a subsequent recommendation is issued in this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
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%
Recommendations are updated at least once every nine months.

mBank S.A. with its registered office in Warsaw at Prosta 18 renders brokerage services via a dedicated organisational unit, the Brokerage Bureau, which uses the Polish name Biuro maklerskie mBanku.

mBank S.A. as part of the Exchange's Analytical Coverage Support Programme ("Programme", <https://www.gpw.pl/eacsp>) prepares analytical reports for the following companies: Cognor Holding, Comprehend, Sygnity. These documents are prepared at the request of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE"), which is entitled to copyrights to these materials. mBank S.A. receives remuneration from the WSE for the preparation of the reports. All documents prepared for the Programme are available at: https://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/analytical_coverage_support_programme

This document has been created and published by Biuro maklerskie mBanku. This report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. This report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Biuro maklerskie mBanku considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Biuro maklerskie mBanku, in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. mBank S.A. bears no responsibility for investment decisions taken on the basis of this report or for any damages incurred as a result of investment decisions taken on the basis of this report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute investment, legal, accounting or other advice, and mBank is not liable for damages resulting from or related to the use of data provided in the documents. This document may not be copied, duplicated and/or be directly or indirectly distributed in the United States, Canada, Australia or Japan, nor transferred to citizens or residents of a state where its distribution may be legally restricted, which does not limit the possibility of publishing materials prepared for the Programme on Cognor Holding, Comprehend, Sygnity, mBank or WSE websites. Persons who disseminate this document should be aware of the need to comply with such restrictions.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that mBank S.A. in its brokerage activity renders, will render or in the past has rendered services for companies and other entities mentioned in this report.

mBank S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located below.

The present report was not transferred to the issuer prior to its publication.

mBank S.A. may have received compensation for services provided to the Issuer in the last 12 months.

mBank S.A. acted as co-manager of the Issuer's public offering in the last 12 months.
mBank S.A. may have received compensation for services provided to the Issuer in the last 12 months.

This document is an extract from a recommendation produced by Biuro maklerskie mBanku.

The production of this recommendation was completed on January 27, 2022, 8:06 AM.
This recommendation was first disseminated on January 27, 2022, 8:30 AM.

mBank S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares.

Copying or publishing this report, in full or in part, or disseminating in any way information contained in this report requires the prior written consent of mBank S.A.

Recommendations are addressed to all Clients of Biuro maklerskie mBanku.

All investment recommendations and strategies issued by mBank S.A. over the last 12 months are available at:
http://www.mdm.pl/ui-pub/site/market_and_analysis/analysis_and_recommendations/fundamental_analysis/recommendations?recent_filter_active=true&lang=en

The activity of mBank S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Biuro maklerskie mBanku authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of these recommendations.

This publication constitutes investment research in the meaning of Art. 36.1 of Commission Delegated Regulation (EU) 2017/565.

The compensation of the research analysts responsible for preparing investment research is determined independently of and without regard to the compensation of or revenue generated by any other employee of the Bank, including but not limited to any employee whose business interests may reasonably be considered to conflict with the interests of the persons to whom the investment research prepared by the Research Department of Biuro maklerskie mBanku is disseminated. With that being said, since one of the factors taken into consideration when determining the compensation of research analysts is the degree of fulfillment of annual financial targets by customer service functions, there is a risk that the adequacy of compensation offered to persons preparing investment research will be questioned by a competent oversight body.

For U.S. persons only: This research report is a product of mBank SA which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by mBank SA only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, mBank SA has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

Strong and weak points of valuation methods used in recommendations:

DCF - acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Economic profits – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

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 recommendations for Grupa Pracuj in the 12 months prior to this publication:

mBank S.A.

Prosta 18
00-850 Warszawa
<http://www.mbank.pl/>

Research Department

Kamil Kliszcz
director
+48 22 438 24 02 | +48 667 770 837
kamil.kliszcz@mbank.pl
energy, power generation

Piotr Poniatowski
+48 22 438 24 09 | +48 509 603 046
piotr.poniatowski@mbank.pl
gaming

Antoni Kania
+48 22 438 24 03 | +48 509 595 736
antoni.kania@mbank.pl
industrials, chemicals, metals

Michał Konarski
+48 22 438 24 05 | +48 515 025 640
michal.konarski@mbank.pl
banks, financials

Mikołaj Lemańczyk
+48 22 438 24 07 | +48 501 663 511
mikolaj.lemanczyk@mbank.pl
banks, financials

Paweł Szpigiel
+48 22 438 24 06 | +48 509 603 258
pawel.szpigiel@mbank.pl
media, IT, telco, e-commerce

Janusz Pięta
+48 22 438 24 08 | +48 506 065 659
janusz.pieta@mbank.pl
retail, e-commerce

Sales and Trading

Traders

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

Daniel Urbański
+48 22 697 47 44
daniel.urbanski@mbank.pl

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

Łukasz Płaska
+48 22 697 47 90
lukasz.plaska@mbank.pl

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

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

Sales, Foreign Markets

Marżena Łempicka-Wilim
deputy director
+48 22 697 48 82
marzena.lempicka-wilim@mbank.pl

Piotr Brożyna
+48 22 697 48 47
piotr.brozyna@mbank.pl

Private Client Sales

Kamil Szymański
director
kamil.szymanski@mbank.pl

Jarosław Banasiak
deputy director
jaroslaw.banasiak@mbank.pl