

Tuesday, 28 March 2023 | update

Kruk: buy (reiterated)

KRU.PW; KRU.WA | Financials, Poland

Taking Kruk to the Next Level

We maintain a buy rating for Kruk with the target price raised to PLN 388.66 per share.

Kruk positively surprised us in 2022 with stronger-than-expected revenue growth, driven in part by revaluation gains and, more importantly, by 20% higher expenditures on receivable portfolios. After considering potential changes to the Wonga business model and factoring in a sale of the ERIF database into our updated models for Kruk, this allows us to increase 2024-25 our overall revenue forecasts by 8%-9%. At the same time, we have raised the portfolio expenditure forecast by 6% in 2023 and 9% in 2024, and we currently assume Kruk has permanently passed a PLN 1.5bn-a-year expenditure threshold.

Kruk has reached satisfactory or dominant market shares in Poland, Romania, and Spain, with some room to grow still left only in Italy. Keeping that in mind, the recently announced expansion should not have come as a surprise as it is the logical next step if the Management want to push business to the next level. We have narrowed down the potential new target markets to three: Greece, Portugal, and France, with Portugal as the most likely contender (more on page 2). We think Kruk might unveil more details as soon as September 2023, around the time of its 25-year anniversary. We see further geographic growth as inevitable step forward and we hope Kruk has learned from past mistakes in Italy and Spain.

Even though Kruk has massively outperformed the peer group in the last 12 months, it is still trading at a discount on 2023E P/E. Given the bright growth prospects, at the current, still attractive level the stock makes a compelling investment opportunity deserving of premium valuation.

We upgrade our forecasts but remain cautious

We have raised our 2023/24/25 net profit forecasts by +5%/+8%/+9%. At the same time, we raised the respective expectations for portfolio expenditures by +6%/+9%/+1%. Nonetheless, at PLN 765m the updated 2023 net profit estimate points to a y/y contraction vis-à-vis Kruk's own guidance for a y/y rebound from the PLN 805m generated in 2022. This stems from our assumption of a sharp drop in portfolio adjustment gains due to their correlation with slowing GDP growth. That said, at 22% Kruk's expected 2023 ROE is still the best-in-class when compared to a peer group average of 9.6%.

Next step: Portugal. But do mind the gap!

We see Portugal as the country that Kruk will most likely target next as its new destination. Portugal is close to Poland in size and as a marketplace it resembles Spain, where Kruk is finally making progress. We assume Kruk will time the Portuguese expansion at a much more measured pace than it did in Italy and Spain, thus minimizing the potential losses. Read on for an analysis of what could happen if the past mistakes were to be repeated.

Valuation at a discount

Kruk is currently trading at 8x '23E P/E and 7x '24 earnings vs. respective global peers multiples of 11x and 9x, which have recently come under pressure from company- and market specific factors. In our view, Kruk's best-in-class profitability and high gearing to a slowdown commands a premium to peers.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	1,737.9	2,139.2	2,166.8	2,388.9	2,557.3
gross profit	1,115.9	1,364.9	1,394.6	1,495.4	1,530.9
EBIT	859.6	1,042.8	1,058.4	1,135.7	1,152.8
net profit	694.9	805.0	765.2	856.3	891.6
ROE (%)	29.9	27.5	22.4	22.1	20.0
EPS (PLN)	36.6	42.1	39.6	44.3	46.2
BVPS (PLN)	136.8	168.4	185.6	215.7	245.9
P/E (x)	8.3	7.2	7.6	6.8	6.6
P/B (x)	2.2	1.8	1.6	1.4	1.2
Dividend yield	3.64%	4.26%	4.96%	4.72%	5.28%

current price*	302.40 PLN
target price	388.66 PLN
mCap	5,842 mln PLN
free float	5,842 mln PLN
ADTV (3M)	9.3 PLN

*Price as of March 27, 2023, 5:00 PM

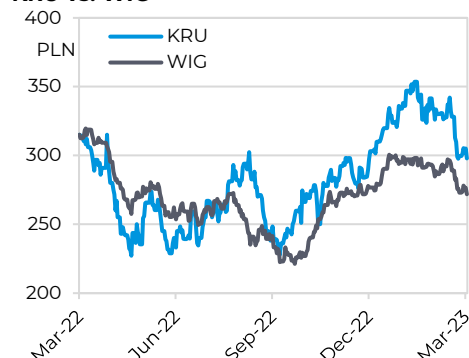
Ownership

Piotr Krupa	9.22%
Other Management Board	1.18%
NN PTE	14.30%
Allianz OFE	12.21%
PZU OFE	7.80%
Aegon OFE	5.90%
Generali OFE	9.26%
other	41.12%

About Kruk

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

KRU vs. WIG



company	target price		recommendation	
	new	old	new	old
Kruk	388.66	337.58	buy	buy

company	current price	target price	upside
Kruk	302.40	388.66	+28.5%

forecast update	2023E	2024E	2025E
	EBITDA	7.2%	7.5%
EBIT	6.8%	7.7%	4.7%
net profit	5.3%	8.1%	9.4%

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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)
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.

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

Kruk (Michał Konarski, Mikołaj Lemańczyk)

rekomodacja	kupuj	kupuj	kupuj
data wydania	2022-12-01	2022-10-03	2022-07-08
cena docelowa (PLN)	337.58	332.04	360.02
kurs z dnia rekomendacji	298.20	236.00	254.60

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