

Wednesday, 17 May 2023 | update

## XTB: accumulate (reiterated)

XTB.PW; XTB.WA | Financials, Poland

### New products, new clients

We raise our TP to PLN 43.39 with a reiterated accumulate recommendation.

According to XTB, fractional shares are only a harbinger of what is to come later this year, with a truly new and innovative product coming this autumn that will bring XTB one step closer to becoming a one-stop shop for trading/savings/investments. Our guess is that these new products will consist of savings plans similar to those offered by Trade Republic, and a crypto wallet. We see this as an opportunity to target a new, less trading-oriented group of clients.

After successful 1Q 2023 in terms of KPI and earnings, we upgrade our FY2023 forecasts for XTB with a slight shift in the sales mix anticipated in the long term as we believe the Company will acquire more unleveraged clients, who trade less, but on the other hand we believe a higher share of active clients to total clients may persist for longer. We have also raised long term profitability-per-lot estimates to PLN 165, mirroring the long term quarterly average.

We still consider customer acquisition and tapping the mass market as our long-term investment case for XTB, and we raise our assumptions regarding new clients to 320k/240k/200k in 2023/24/25, respectively, and we also upgrade our expectations as to annual client additions to 180k in the long term.

If we look at XTB's P/E ratio, we can see that, on our estimates, the stock is trading at a discount close to 27% vis-à-vis the historical average while, on the other hand, on EV/EBITDA the company is valued at a premium of 4%.

### New clients will trade less and leave less in the short term

A new wave of XTB clients is likely to be more equity-oriented after the Company launched its latest special free share offer, alongside fractional shares and the savings plans that, we suspect are coming next, which cater more to these kinds of potential customers.

Of course, cross sell is possible, but, given current pricing policy, we believe that marginal revenue on those clients will be lower than on leveraged clients. That is why we have raised our assumptions regarding client acquisition and active clients, but, at the same time, we adjust downward our assumption associated with client "tradeability."

### Dividends still attractive

XTB intends to pay its shareholders a combined PLN 4,86 per share in the form of cash dividends and a share repurchase in 2023, which corresponds to an 11% dividend yield. Given the earnings upgrade after an amazing 1Q, we also currently forecast low-double-digit dividend yield in 2024 and 2025, which makes XTB a unique play combining growth and value.

### Unique bet on volatility and trends

XTB is not a cyclical or an anticyclical play as its results are not directly linked to the general state of economy, but, rather, to market volatility. That makes the Company a decent hedge in times of heightened uncertainty and turmoil.

| (PLN m)    | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------|------|------|-------|-------|-------|
| Revenues   | 623  | 1444 | 1602  | 1620  | 1501  |
| EBITDA     | 286  | 898  | 879   | 796   | 614   |
| EBIT       | 277  | 886  | 874   | 790   | 607   |
| Net profit | 238  | 766  | 777   | 710   | 553   |
| P/E        | 18.9 | 5.9  | 5.8   | 6.3   | 8.1   |
| EV/EBITDA  | 13.0 | 3.5  | 3.0   | 2.9   | 3.4   |
| Div Yield. | 4.3% | 3.9% | 12.7% | 13.0% | 11.8% |

|                |            |
|----------------|------------|
| current price* | PLN 38.36  |
| target price   | PLN 43.39  |
| mCap           | PLN 4.50bn |
| free float     | PLN 1.75bn |
| ADTV (3M)      | PLN 11.00m |

\*Price as of May 16, 2023, 5:00 PM

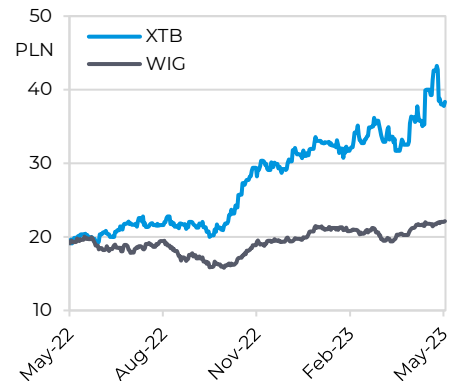
### Ownership

|                           |        |
|---------------------------|--------|
| XXZW Investment Group S.A | 61.02% |
| Others                    | 38.98% |

### About XTB

XTB offers a trading platform in over 1,700 financial instruments. The retail segment accounts for the majority revenues and costs, however, the company also offers services and solutions for institutional clients. XTB's geographic footprint ranges from CEE and Western Europe to Latin America and the Middle East.

### XTB vs. WIG



| name | target price |       | recommendation |            |
|------|--------------|-------|----------------|------------|
|      | new          | old   | new            | old        |
| XTB  | 43.39        | 35.75 | accumulate     | accumulate |

| name | current price | target price | upside |
|------|---------------|--------------|--------|
|      | XTB           | 38.36        | 43.39  |

| Forecast Update (% change) | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|
| Revenues                   | 5.1%  | 11.4% | 16.6% |
| EBIT                       | 4.7%  | 17.1% | 38.3% |
| EBITDA                     | 3.4%  | 15.1% | 33.8% |
| Net profit                 | 4.3%  | 15.5% | 33.5% |

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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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- 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%
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**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 issued the following recommendations for XTB in the 12 months prior to this publication:**

**XTB (Mikołaj Lemańczyk)**

| Rating              | accumulate |
|---------------------|------------|
| Rating date         | 2023-02-15 |
| Target price (PLN)  | 35.75      |
| Price on rating day | 32.16      |

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