

Wednesday, 11 October 2023 | update

## Kruk: buy (upgraded)

KRU.PW; KRU.WA | Financials, Poland

### Immune to Any Election Outcome

**We upgrade our rating for Kruk to buy with a new 12-month target price of PLN 493.25 per share.**

Kruk has delivered positive surprises with 2Q'23 results and the trading update for 9M'23 which showed YTD portfolio expenditures exceeding our full-year estimate. As a result, in addition to raising our 2023-25 collections forecast, more importantly, we have revised our expectations for annual portfolio expenditures upwards by 33%, 20%, and 21%, respectively. We have also upgraded the expectations as to debt portfolio revaluations and the Wonga business, which despite our worries, is doing very well, thanks partly to high interest rates. After all this, we are raising our 2023-2024 net profit forecasts for Kruk by 10%, 12%, and 13%, respectively.

We see Kruk as the perfect exposure to Poland's general election because of its immunity to all possible outcomes. A victory of the current ruling PiS party does not pose a threat as their Justice Ministry's Debt Collection Bill has been almost entirely replaced by the EU's NPL directive. A change of government is not likely to trigger changes in any of the major PiS-led welfare programs, including the "800+" child allowance. Last but not least, an inconclusive election can trigger opportunities for Kruk.

The election notwithstanding, current market conditions remain very conducive for Kruk. The Company has yet to reveal more details about its international expansion plans – all we know so far is that it will start with a single portfolio. Revaluation gains on the debt portfolios should also continue with Polish consumers having sailed safely through an economic slowdown.

Summing up, we see Kruk as still very attractively valued and as offering positive exposure to Poland's election by becoming a safe haven in case of an inconclusive vote. On 2024/25 P/E, KRU is trading at 28%/13% premiums to average. Although the premiums look demanding at first glance, note that Kruk's peers are currently dealing with earnings pressure reflected in an average ROE of 10% expected in the next two years vs. Kruk's forecast ROE above 23%. Compared to other rated financials (GPW, XTB, PZU), Kruk is trading at 15%-24% discounts on 2024-25 multiples.

#### Winner of an inconclusive election

We do not expect the 15 October vote to have any major impact on Kruk regardless of the outcome. In fact, Kruk is the best option in case of an inconclusive election because 1) the candidates will likely declare a fiscal push to lure voters from among Kruk's customers, 2) Poland's dovish monetary policy if continued will reduce Kruk's financing costs, 3) an economic recovery will support the collection of debt, and 4) a weaker zloty will have a positive impact on Kruk's revenues (53% of sales are in foreign markets).

#### 3Q'23 results preview

We expect Kruk to report 3Q'23 net profit of PLN 207m (-30% Q/Q, +10% Y/Y). The quarterly drop in net profit will be driven by lower revaluation gains and income from the difference between expected and actual recoveries, which we expect to fall 35% Q/Q. Following a sharp decrease in the WIBOR rate, we expect the indirect margins of Wonga and Novum to contract 10% Q/Q. We predict that G&A expenses will continue their upward climb (+12% Q/Q), while net financing costs will remain stable at PLN 61m. Overall, we agree with Kruk's guidance predicting a slowdown in earnings in 2H'23 relative to 1H'23.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	1,737.9	2,139.2	2,477.4	2,769.6	2,974.2
gross profit	1,115.9	1,364.9	1,637.0	1,834.0	1,971.9
EBIT	859.6	1,042.8	1,270.7	1,414.4	1,524.4
net profit	694.9	805.0	936.8	1,067.9	1,135.5
ROE (%)	29.9	27.5	26.7	25.9	23.3
EPS (PLN)	36.6	42.1	48.5	55.3	58.8
BVPS (PLN)	136.8	168.4	194.5	232.3	271.2
P/E (x)	11.4	9.9	8.6	7.5	7.1
P/B (x)	3.0	2.5	2.1	1.8	1.5
Dividend yield	2.64%	3.09%	3.60%	4.19%	4.77%

current price*	417.20 PLN
target price	493.25 PLN
mCap	8,060m PLN
free float	8,060m PLN
ADTV (3M)	12.7m PLN

\*Price as of October 10, 2023, 5:00 PM

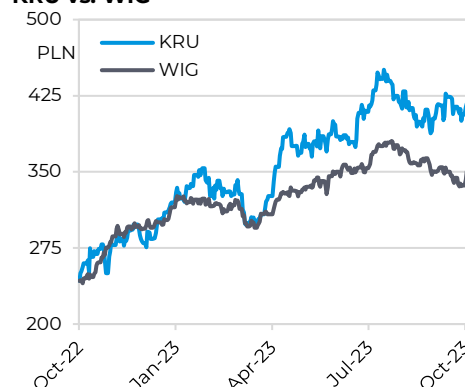
#### Ownership

Piotr Krupa	9.06%
NN PTE	14.30%
Allianz OFE	12.21%
PZU OFE	7.25%
Aegon OFE	5.85%
Generali OFE	8.41%
other	42.92%

#### 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, Spain 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	493.25	440.73	buy	hold
company	current price	target price	upside	
Kruk	417.20	493.25	+18.2%	
forecast update		2023E	2024E	2025E
EBITDA		+11.4%	+15.7%	+21.1%
EBIT		+11.5%	+15.2%	+20.4%
net profit		+9.9%	+11.7%	+13.1%

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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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**SELL** – we expect that an investment will bear a loss  
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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 Kruk in the 12 months prior to this publication:**

**Kruk (Michał Konarski, Mikołaj Lemanczyk)**

Rating	hold	buy	hold	buy	hold	buy	buy	buy
Rating date	2023-10-02	2023-09-01	2023-08-01	2023-06-29	2023-05-04	2023-03-28	2022-12-01	2022-10-03
Target price (PLN)	440.73	440.73	440.73	440.73	388.66	388.66	337.58	332.04
Price on rating day	414.00	400.00	437.20	381.60	375.60	302.40	298.20	236.00



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