

Friday, 12 January 2024 | update

Kruk: buy (upgraded)

KRU.PW; KRU.WA | Financials, Poland

Vive La France!

We upgrade our Hold rating on Kruk to a Buy and lift our 12 month target price to 532.36 PLN per share.

Operational data for 4Q'23 surprised us on a positive side. Expenditures on a bad loan portfolios amounted to PLN 983m versus our expectations for PLN 571m whilst repayments came in broadly in-line. Kruk reported that during entire 2023, 74% of new portfolio purchases has been made outside of Poland, out of which almost PLN 1bn in Italy.

Although the higher-than-expected portfolio acquisitions should somewhat boost our revenues in the next 2-3 years, the major change to our forecasts comes from a long awaited announcement regarding a new market entrance. On December 20, last year, Kruk announced it has signed forward flow agreement on unsecured consumer receivables of a total value EUR 120m (c.PLN 520m) on French market. Kruk underlined that currently is not planning any acquisition of physical operations on the market whilst the portfolio purchase should be a part of a research project. Nonetheless we believe that Kruk will push forward with French market and we should cautiously include some investments into our forecasts.

Finally we stay positive on revaluations gains in 2024 given ongoing fiscal boost of the new Government. We expect that pension indexation, 20% salary increases to budgetary sector employees, c.30% increases for teachers or increase of 500+ programme to 800+ should positively affect Kruk's repayments and business model. The repayments should be also supported by wide rebound of European economies (GDP) in 2024 including Poland (+2.7%), Romania (+3.4%) and positive growth in Italy and Spain (both c.+1%)

We believe that the current operating environment and a new market entrance, if performed in secure manner, will warrant a needed fuel for further growth. We upgrade Kruk to a buy rating.

We upgrade our forecasts

Recently published operational data should not have any impact on our 2023 forecasts but allowed us to raise our 2024/25 net profit forecasts by +8%/+3%. At the same time, we raised the respective expectations for portfolio expenditures by +8%/+10%. Our forecasts have been also increased in the mid-term by adding extra PLN 100m/250m/300m expenditures on new portfolios in 2025/26/27 and +400m/year in next the 5 years reflecting entrance on a French market. Finally, we have also somewhat lifted our positive revaluation gains for 2024 given a large stimulus push from Government in Poland. That said, at 28% Kruk's expected 2024 ROE is still the best-in-class when compared to a peer group average of 7.9%.

Valuation with a premium but for a reason

Kruk is currently trading at 7x '24/25E P/E vs. respective global peers multiples of 6.1x. Nonetheless it is worth mentioning that peers have massively underperformed Kruk during last 12 months given operational problems in a high rate environment. We also want to emphasize that on 12M forward P/E Kruk is still trading at a 22% discount to its 10Y average and with 23% discount to Polish banks on 2024 multiples.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	1,737.9	2,139.2	2,503.2	2,987.3	3,110.3
gross profit	1,115.9	1,364.9	1,662.7	1,978.1	2,061.1
EBIT	859.6	1,042.8	1,303.0	1,541.3	1,607.4
net profit	694.9	805.0	946.5	1,156.0	1,169.9
ROE (%)	29.9	27.5	27.0	27.7	23.6
EPS (PLN)	36.6	42.1	49.0	59.8	60.6
BVPS (PLN)	136.8	168.4	195.0	237.2	276.2
P/E (x)	12.0	10.5	9.0	7.4	7.3
P/B (x)	3.2	2.6	2.3	1.9	1.6
Dividend yield	2.49%	2.92%	3.40%	4.00%	4.89%

current price*	PLN 441.00
target price	PLN 532.36
mCap	PLN 8,519.59 m
free float	PLN 8,519.59 m
ADTV (3M)	PLN 14.1 m

*Price as of January 11, 2024, 5:00 PM

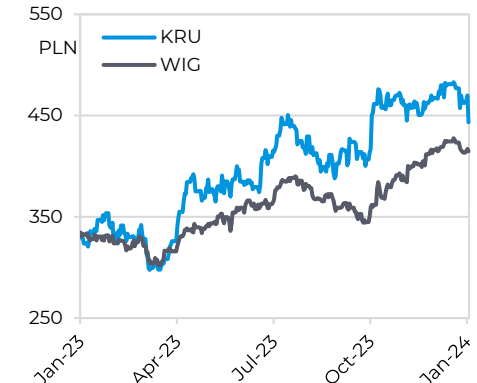
Ownership

Piotr Krupa	9.06%
NN PTE	14.30%
Allianz OFE	12.21%
PZU OFE	7.25%
Vienna 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, 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	532.36	493.25	buy	hold

company	current price	target price	upside
Kruk	441.00	532.36	+20.7%

forecast update	2023E	2024E	2025E
	EBITDA	+2.4%	+8.6%
EBIT	+2.5%	+9.0%	+5.4%
net profit	+1.0%	+8.2%	+3.0%

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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 10%
HOLD – we expect that the rate of return from an investment will range from 0% to +10%
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 The Issuer is a counterparty to mBank.
 mBank S.A. acts as listing sponsor for Kruk.
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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	hold	buy
Rating date	2023-11-02	2023-10-11	2023-10-02	2023-09-01	2023-08-01	2023-06-29	2023-05-04	2023-03-28
Target price (PLN)	493.25	493.25	440.73	440.73	440.73	440.73	388.66	388.66
Price on rating day	465.40	417.20	414.00	400.00	437.20	381.60	375.60	302.40



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