

XTB

## Attractive mean reversion

XTB has become an unexpected beneficiary of the global pandemic. Thousands of people who were "trapped" at home lost no time opening brokerage accounts to try their hand making money in the financial markets. This, coupled with extremely high volatility, resulted in massive profits recorded by the company in the first quarter. Although we assume markets will gradually revert to the mean, we believe that XTB will still benefit for some time from tension in the economy, while low interest rates globally will drive retail investors to search for higher returns outside banking deposits. On top of this, a strong and liquid balance sheet creates room for a healthy dividend payment and further expansion of the business if opportunity arises. We upgrade our recommendation to BUY and increase the Fair Value of the company to PLN 10.9, offering 23% upside potential.

### Profits to normalize soon, but at a higher level

We feel that after an expected extraordinary 2020, profits will normalize as soon as in 2021, but at a higher level than we had anticipated so far. We expect a net profit of PLN 309m in 2020, PLN 81m in 2021 and PLN 107m in 2022. Growth in earnings in subsequent years will be driven by further increases in the client base, which so far has been essentially uninterrupted. It can also be boosted by geographical expansion planned by the company, eg. in Africa (which to be honest, despite several promises, has yet to materialize).

Other key metrics such as the number of lots per client and profitability of each lot should be stable under the assumption that no further regulations are introduced, which is our base case scenario. Obviously XTB operates in a highly regulated environment, so it will be reflected in a higher expected rate of return and thus lower valuation multiples.

XTB trades at P/E of 3.4x for this year (we think that strong momentum from Q1 continues in Q2 as well), 12.8x for 2021 and 9.7x for 2022. We note that multiples for next year will be reduced after the expected payment of DPS next year, at which time the company should return more than 20% of its market capitalization.

### Most profits likely to go to shareholders

Expected strong 2020 profits will allow XTB to pay a higher dividend next year (possibly even in 2H20). We estimate that with a 75% payout ratio, DPS can reach PLN 1.97, what would translate into a 22% dividend yield. At the same time, we think that its solid and very liquid balance sheet allows XTB to flexibly navigate between dividend policy and further growth, but also means that the value of the company's equity should provide a floor for the valuation of the company.

Figure 1. Summary of Financial Data

	2017	2018	2019	2020E	2021E	2022E
Revenues (PLN m)	274	288	239	613	276	307
EBITDA (PLN m)	134	120	72	401	103	133
EBIT (PLN m)	128	116	65	393	99	132
Net profit (PLN m)	93	101	58	309	81	107
EPS (PLN)	0.79	0.86	0.49	2.63	0.69	0.91
DPS (PLN)	0.32	0.35	0.17	0.24	1.97	0.35
Payout ratio	48%	40%	20%	49%	75%	50%
Dividend yield	7.2%	8.3%	4.4%	2.7%	22.3%	3.9%
P/E	5.6	4.9	7.8	3.4	12.8	9.7
EV/EBITDA	1.2	0.2	-0.5	0.6	3.8	2.5

Source: Company, IPOPEMA Research

Financials

XTB

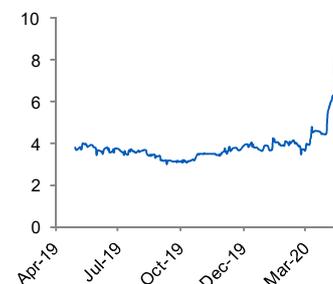
BUY

FV PLN 10.9 from PLN 4.00

23% upside

Price as of 20 May 2020 PLN 8.86

Upgraded



Share data

Number of shares (m)	117.4
Market cap (EUR m)	230.0
3M avg daily volume (k)	672.0
3M avg daily turnover (EUR m)	1.3
12M high/low (PLN)	10.76/2.83
WIG weight	0.07%
Reuters	XTB.WA
Bloomberg	XTB.PW

Total performance

1M	+51.2%
3M	+122.6%
12M	+139.5%

Shareholders

XXZW Investment Group*	67.0%
Others	33.0%

\*controlled by the founder

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The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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Rating	Difference between FV and price at recommendation
Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

#### IPOPEMA Research - Distribution by rating category (Jan 1 – Mar 31, 2020)

	Number	%
Buy	2	29%
Hold	1	14%
Sell	4	57%
Total	7	100%

#### Rating History – XTB

Date	Recommendation	Fair Value	Price at recommendation	Author
18.05.2018	BUY	PLN 9.30	PLN 5.74	Łukasz Jańczak
11.06.2019	HOLD	PLN 4.00	PLN 3.92	Łukasz Jańczak