

29/2020/GPW (104) September 15, 2020

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This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Pilot Program. This is a translation of the Polish analytical report.

**Sector:** Financials – specialty finance  
**Fundamental rating:** Buy (→)  
**Market relative:** Overweight (→)  
**Price:** PLN 13.35  
**12M EFV:** PLN 30.40 (→)

**Market Cap:** US\$ 42.8 m  
**Bloomberg code:** VOT PW  
**Av. daily turnover:** US\$ 0.09 m  
**12M range:** PLN 8.20-14.95  
**Free float:** 37%

# Votum

## 2Q20 results overview

**Revenue influenced by the epidemic.** The Group's 2Q20 revenues amounting to nearly PLN 32 million recorded a 4% yoy decrease. Although we assumed a drop in sales in our forecasts, it turned out to be 10% below our expectations. The negative dynamics in 2Q20 stemmed from a number of pandemic-driven disruptions that affected most of the revenue categories. Here, the strongest impact came from limitations in the direct sales network operations, which hit the segment of pursuing claims arising from abusive clauses in loan agreements and resulted in deteriorating other revenues. The significant limitation of the work of the courts came as another obstacle. Taking into account the long-term nature of the claims for damages the Group pursues, we believe that this is more likely to bring about rather the delay of demand and shift of revenues to upcoming periods than their expiry. Additionally, the work of the courts has been restored in the months following the quarter.

**Profitability under pressure.** 2Q20 EBITDA margin decreased to 2.0% compared to 18.6% in 2Q19. The decline in profitability in 2Q20 was due to the negative operating leverage resulting from higher dynamics of the decline in revenues comparing to costs. Votum recorded a drop in the main cost item - the cost of external services, but personnel costs as well as the costs of materials and energy increased. We assume that in 2Q20 there was an accumulation of: (i) certain costs related to adjusting business operations due to the epidemic outbreak and (ii) expenses connected with developing the segment of pursuing claims against abusive clauses in loan agreements (significant increase in cases), (iii) costs related to launching operating activities in the green energy business line, and (iv) costs related to the foreign expansion of personal injuries claims. The Group recorded PLN 0.6 million / PLN 0.1 million of EBITDA/ EBIT in 2Q20 (-90%/ -99% yoy).

### Guide to adjusted profits

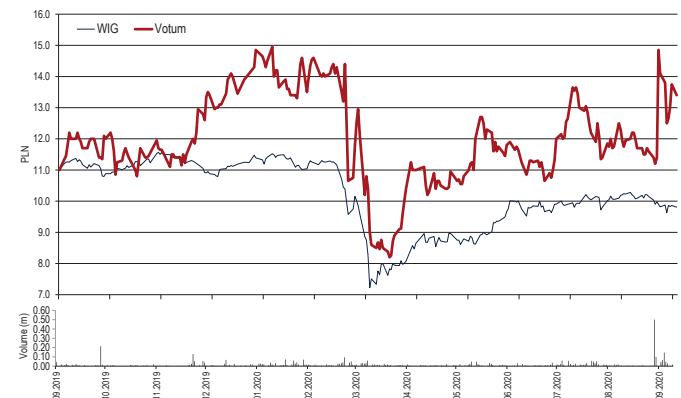
No factors necessitating adjustments.

### Key data

IFRS consolidated		2019	2020E	2021E	2022E
Sales	PLN m	141.8	161.0	200.3	237.1
EBITDA	PLN m	24.7	23.6	35.5	49.0
EBIT	PLN m	22.6	21.7	33.6	46.7
Net income	PLN m	17.3	16.2	25.3	36.7
EPS	PLN	1.44	1.35	2.11	3.06
EPS yoy chg	%	109	-6	56	45
Net debt	PLN m	11.5	2.9	-8.5	-26.3
Net debt + leasing		18.7	10.4	-0.6	-18.0
P/E	x	9.2	9.9	6.3	4.4
P/CE	x	8.2	8.8	5.9	4.1
EV/EBITDA	x	7.0	6.9	4.3	2.7
EV/EBIT	x	7.6	7.5	4.5	2.9
DPS	PLN	0.19	0.72	0.68	1.05
Gross dividend yield	%	1.4	5.4	5.1	7.9
Number of shares (eop)	m	12.0	12.0	12.0	12.0

Source: Company, DM BOS SA estimates

### Stock performance



Source: Bloomberg

### Upcoming events

1. Publication of 3Q20 financial results for: November 26

**Symbolic net profit.** 2Q20 net financial costs amounted to PLN 0.1 million as financial income increased at a faster yoy rate than financial costs. The net profit of the Votum Group was symbolic in 2Q20 and stood at PLN 0.1 million, recording a 99% decrease yoy.

**Fig. 1. Votum; 2Q20 financials' forecasts**

IFRS consolidated (PLN m)					2Q20 vs			yoy chg			yoy chg	Realization of the FY figures in:				
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	2Q20E		forecasts	1H19		1H20	2Q19	2Q20	1H19	1H20
Sales	31.1	33.0	34.4	43.3	36.8	31.8	35.5	↓	-4%	64.1	68.6	7%	23%	20%	45%	43%
Profit on sales	4.9	5.9	5.4	8.3	4.7	0.2	3.7	↓	-97%	10.8	4.9	-55%	24%	1%	44%	22%
Profit on sales margin	15.9%	17.8%	15.6%	19.1%	12.8%	0.6%	10.3%	-	-	16.9%	7.1%	-	-	-	-	-
EBITDA	5.3	6.1	6.3	6.9	5.8	0.6	3.4	↓	-90%	11.5	6.5	-44%	25%	3%	46%	26%
EBITDA margin	17.1%	18.6%	18.2%	16.0%	15.8%	2.0%	9.5%	-	-	17.9%	9.4%	-	-	-	-	-
EBIT	4.8	5.5	5.7	6.5	5.4	0.1	2.9	↓	-99%	10.3	5.5	-47%	24%	0%	46%	24%
EBIT margin	15.6%	16.6%	16.7%	15.0%	14.7%	0.2%	8.0%	-	-	16.1%	8.0%	-	-	-	-	-
Pre-tax profit	4.7	5.2	5.7	6.5	5.2	0.0	2.7	↓	-100%	9.8	5.2	-47%	24%	0%	45%	24%
Pre-tax profit margin	15.0%	15.7%	16.4%	15.1%	14.2%	0.0%	7.7%	-	-	15.4%	7.6%	-	-	-	-	-
Net profit	4.2	4.6	4.1	4.4	4.0	0.1	2.1	↓	-99%	8.8	4.1	-54%	27%	0%	51%	24%
Net profit margin	13.5%	14.0%	12.0%	10.1%	11.0%	0.2%	5.9%	-	-	13.8%	6.0%	-	-	-	-	-

Source: Company, DM BOŚ SA estimates

## Financial forecasts and valuation

Our financial forecasts and valuation stay intact, as detailed in the previous report dated Sept. 2, 2020 (28/GPW/102/2020).

## Recommended action

Though 2Q20 financial results were not impressive, we believe that it is a temporary weakness, which is mainly due to two following factors: (i) the pandemic outbreak and resulting lockdown of economy in the discussed quarter, which shifted revenues to upcoming periods and led to (ii) the accumulation of costs, which on the one hand were forced by the state of the epidemic (maintenance of the production continuity), but also stemmed from entering the green energy segment, as well as from the desire to capture a good momentum in the damages claims against CHF mortgage agreements. This has brought about a significant cost burden on the results, but should translate into future revenues. In our opinion, the medium-term prospects for the market of pursuing

claims against abusive clauses are crucial for Votum, and they remain favorable, which is reflected in the pro-client line of court judgments and rebound of the clients acquisition numbers in the segment. We also understand the Company's approach focused on maximizing the revenue potential of conducted cases, which is related to incurring short-term costs in order to build an income base. Therefore, we are reiterating our fundamental Buy recommendation and short-term relative Overweight rating.

Votum pursues damages claims for clients of financial institutions in the area of personal and property claims as well as abusive clauses in foreign currency mortgage loan agreements. The most promising segment is the market of damages claims against FX mortgage loans, which at an early stage of development experiences vigorous expansion. The Company should be an increasing beneficiary of the growing interest of CHF mortgage borrowers in pursuing claims after the precedent judgment of the EU Court of Justice and change of the court line to pro-consumer one.

**Risk factors**

1. Epidemic threat - prolonged lockdown of economy and slowdown in operations of courts
2. Lower than assumed propensity of clients to go to the court (the market is at an early stage of development)
3. Lower than expected demand for the Company's services
4. Unfavorable changes in the jurisprudence towards bank customers
5. Growing competition for clients from other law firms (an example is EuCo's entry into the bank segment)
6. Shortage of workforce (rapid development requires an acquisition of qualified employees)
7. Pressure on salaries
8. Adverse FX fluctuations
9. Acquisitions of companies from the main shareholder and their high valuations
10. Lower payouts in pre-trial proceedings
11. Pressure on margins
12. Potential regulation of the market of compensation law firms (currently there are no active legislative bills, but such attempts made their appearances in the past)
13. Draft statutory regulation of the compensation institution
14. Departure of key managerial staff
15. Inclusion of the Company's services by insurers
16. Potential acquisitions of new companies

**Catalysts**

1. Continuation of the pro-consumer trend in the jurisprudence of courts with regard to people with foreign currency loans
2. The continued growth of interest of clients in the in claims against banks, reinforced by favorable case law
3. Further depreciation of the PLNCHF exchange rate, increasing the borrowers' tendency to take legal action
4. Acceleration of court processing procedures
5. Maintaining the leading position in the existing markets
6. Faster than assumed organic growth (increase in the number of contracts in the debt assignment segment, improvement of the structure in the personal claims segment)
7. New value-creating acquisitions for minority shareholders
8. Effective implementation of the pandemic optimization programs
9. Long-term success of new ventures (green energy segment, further foreign expansion)

**Competitive advantages**

1. Main player on the most important product markets
2. Above-average efficiency compared to the competition coming from the scale effect
3. Good historical track record
4. Motivated and competent management team holding equity position in the Company
5. A pioneer of the rapidly growing market of claims for foreign currency borrowers
6. Operational efficiency
7. Specialization in strictly defined product markets
8. Multi-channel distribution network

## BASIC DEFINITIONS

**A/R turnover** (in days) =  $365/(\text{sales}/\text{average A/R})$   
**Inventory turnover** (in days) =  $365/(\text{COGS}/\text{average inventory})$   
**A/P turnover** (in days) =  $365/(\text{COGS}/\text{average A/P})$   
**Current ratio** =  $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$   
**Quick ratio** =  $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$   
**Interest coverage** =  $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$   
**Gross margin** =  $\text{gross profit on sales}/\text{sales}$   
**EBITDA margin** =  $\text{EBITDA}/\text{sales}$   
**EBIT margin** =  $\text{EBIT}/\text{sales}$   
**Pre-tax margin** =  $\text{pre-tax profit}/\text{sales}$   
**Net margin** =  $\text{net profit}/\text{sales}$   
**ROE** =  $\text{net profit}/\text{average equity}$   
**ROA** =  $(\text{net income} + \text{interest payable})/\text{average assets}$   
**EV** =  $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$   
**EPS** =  $\text{net profit}/\text{no. of shares outstanding}$   
**CE** =  $\text{net profit} + \text{depreciation}$   
**Dividend yield** (gross) =  $\text{pre-tax DPS}/\text{stock market price}$   
**Cash sales** =  $\text{accrual sales corrected for the change in A/R}$   
**Cash operating expenses** =  $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŠ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

## KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

**Buy** – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;  
**Hold** – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;  
**Sell** – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

**Overweight** – expected to perform better than the benchmark (WIG) over the next quarter in relative terms  
**Neutral** – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms  
**Underweight** – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

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### Distribution of DM BOŠ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	34	37	6	9	0
Percentage	40%	43%	7%	10%	0%

### Distribution of DM BOŠ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	28	37	12	9	0
Percentage	33%	43%	14%	10%	0%

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income}/\text{average assets}$   
**Non interest income** =  $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$   
**Interest Spread** =  $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$   
**Cost/Income** =  $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$   
**ROE** =  $\text{net profit}/\text{average equity}$   
**ROA** =  $\text{net income}/\text{average assets}$   
**Non performing loans (NPL)** = loans in 'basket 3' category  
**NPL coverage ratio** =  $\text{loan loss provisions}/\text{NPL}$   
**Net provision charge** =  $\text{provisions created} - \text{provisions released}$

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### Distribution of DM BOŠ's current recommendations for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision
Numbers	4	8	0	2	0
Percentage	29%	57%	0%	14%	0%

### Distribution of DM BOŠ's current market relative recommended weightings for the companies which DM BOŠ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	3	8	1	2	0
Percentage	21%	57%	7%	14%	0%

**LT fundamental recommendation tracker**

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/ reiteration*	EFV (12 months)	
<b>Votum</b>										
Michał Sobolewski	Buy	–	02.09.2020	-	03.09.2020	Not later than 02.09.2021	17%	20%	11.40	30.40 –
Michał Sobolewski	-	→	15.09.2020	-	16.09.2020	-	-	-	13.35	30.40 →

\* prices at issue/reiteration are the closing prices at the report or reiteration date

**Market-relative recommendation tracker**

Analyst	Relative Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Price at issue/ reiteration*	Relative performance
<b>Votum</b>							
Michał Sobolewski	Overweight	–	02.09.2020	-	03.09.2020	Not later than 02.09.2021	34%
Michał Sobolewski	-	→	15.09.2020	-	16.09.2020	-	-

\* prices at issue/reiteration are the closing prices at the report or reiteration date

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