

50/2022/GPW (139) December 2, 2022

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.

Votum

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Analyst: Michał Sobolewski, CFA, FRM

Sector: Financials – specialty finance
Fundamental rating: Buy (→)
Market relative: Overweight (→)
Price: PLN 45.85
12M EFV: PLN 72.1 (↓)

Market Cap: US\$ 123,7 m
Bloomberg code: VOT PW
Av. daily turnover: US\$ 0.2 m
12M range: PLN 13.34-46.50
Free float: 37%

Votum

Key points

Votum pursues damages claims for clients of financial institutions in the area of personal and property damages and abusive clauses CHF loan agreements. In our opinion, the coming years will bring a golden age to the Company’s segment of claiming damages from foreign currency loan agreements. Votum is an strong beneficiary of the growing number of the pro-consumer court judgments in pending proceedings as well as an increased interest of CHF borrowers in pursuing claims after the first group of clients paved the way and the clear pro-consumer jurisprudence was formed. Although banks, due to devastating failures in courts, double their efforts to convince their clients with foreign currency mortgages to settle, due to the favorable case law (in most cases, a court judgment means the invalidation of the existing loan agreement) the differences in financial benefits for the borrower are clearly in favor of the legal path, which, combined with the significant value of the dispute, ensure a further influx of new customers to the Company. Another disadvantage of settlements in the current macroeconomic environment is a much higher level of domestic interest rates and thus the need to pay a higher installment for PLN loans, which limits the attractiveness of switching to PLN for customers with foreign currency loans. What’s more, Votum has also started to pursue claims for borrowers of selected PLN contracts, which are also subject to abusive clauses.

4Q22E earnings. The quarterly bottom line should be the strongest ever delivered, in our view, as we assume a seasonally better quarter helped by a record-high share of success-fee charges on the back of a rising number of court verdicts.

Mid-terms earnings momentum. Positive, predominantly connected with the abusive clauses segment showing a success fee impact after the court cases proceed.

Guide to adjusted profits

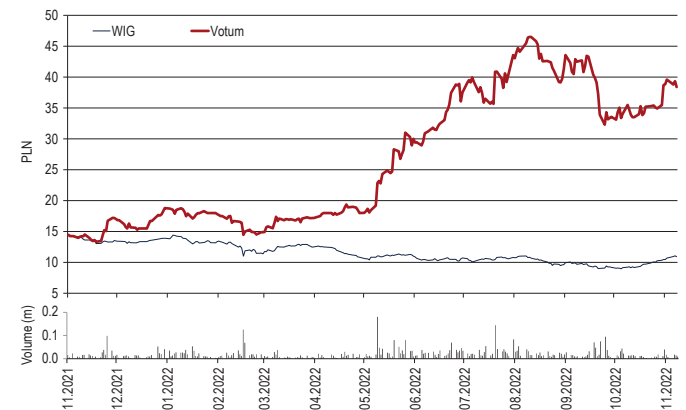
No factors necessitating adjustments.

Key data

IFRS consolidated		2021	2022E	2023E	2024E
Sales	PLN m	195.6	287.2	353.1	383.5
EBITDA	PLN m	20.1	114.3	156.7	175.7
EBIT	PLN m	17.5	111.8	154.2	172.8
Net income	PLN m	10.1	88.8	120.9	136.6
EPS	PLN	0.84	7.40	10.07	11.38
EPS yoy chg	%	16	781	36	13
Net debt	PLN m	20.9	10.5	-75.7	-146.7
Net debt + leasing	x	23.6	13.3	-72.7	-143.6
P/E	x	54.6	6.2	4.6	4.0
P/CE	x	43.3	6.0	4.5	3.9
EV/EBITDA	x	28.4	4.9	3.0	2.3
EV/EBIT	x	32.7	5.0	3.1	2.3
DPS	PLN	0.35	0.41	3.70	5.04
Gross dividend yield	%	0.8	0.9	8.1	11.0
Number of shares (eop)	m	12.0	12.0	12.0	12.0

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Recent events

1. Dividend payment (DPS at PLN 0.41): December 12
2. The CJEU spokesman’s opinion regarding the C-520/21 matter on uncontractual use of capital: February 12, 2023
3. CJEU judgment regarding the C-520/21 matter on uncontractual use of capital: likely in 2H23
4. CJUE preliminary ruling on the appointment of judges: likely in 2023

Upcoming events

1. Dividend payment (DPS at PLN 0.41): December 12
2. The CJEU spokesman’s opinion regarding the C-520/21 matter on uncontractual use of capital: February 12, 2023
3. CJEU judgment regarding the C-520/21 matter on uncontractual use of capital: likely in 2H23
4. CJUE preliminary ruling on the appointment of judges: likely in 2023

FY financial forecasts. Our financial forecasts for the stock remain intact.

Valuation. Our valuation remains intact.

Dividends – payouts to grow in the nearest years.

We assume that the Company will continue to pay growing dividends in the following years as the cash-flow generating capacity will improve after the number of second instance rulings continues to grow.

Recommended action. In the short term we uphold the overweight stance due to: (i) further improvement of the Group's revenues, margins, and profits in the coming quarters, (ii) expected very strong dynamics of 4Q22 results, (iii) expected double-digit dynamics of the new customers acquisition in the abusive claims segment this year, and (iv) growing willingness of foreign currency borrowers to take legal action after the beginning of the interest rate hike cycle in Switzerland.

Risk factors

1. Smaller than assumed willingness of clients to choose the court path
2. Lower than expected demand for the Company's services
3. Unfavorable changes in the jurisprudence towards bank customers
4. Increasing competition
5. Clients' diminishing interest in the offer of pursuing abusive claims from PLN loan agreements
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
17. Lower than assumed CAGR of the RES segment

Catalysts

1. Continuation of the pro-consumer trend in the jurisprudence of courts with regard to people with foreign currency loans
2. The CJEU pro-consumer judgment regarding the C-520/21 matter on uncontractual use of capital
3. The continued growth of clients interest in claims against banks, reinforced by favorable case law and by recommendations of satisfied clients after the winning sentence,
4. Further depreciation of the PLNCHF exchange rate, increasing the borrowers' tendency to take legal action
5. Acceleration of court processing procedures
6. Pursuing of abusive clauses in PLN loan agreements proving successful
7. Case-law favorable for borrowers in PLN
8. Maintaining the leading position in the existing markets
9. 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)
10. New value-creating acquisitions for minority shareholders
11. Effective implementation of the pandemic optimization programs
12. LT success of new ventures (RES segment)

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 = EBIT/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 BOŚ 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

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	39	32	7	8	0	2
Percentage	44%	36%	8%	9%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	38	30	10	8	0	2
Percentage	43%	34%	11%	9%	0%	2%

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 = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. 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 fundamental target fair P/E and target fair P/BV multiples method is its independence of 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. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

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

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	7	6	0	1	0	2
Percentage	44%	38%	0%	6%	0%	13%

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

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	7	4	2	1	0	2
Percentage	44%	25%	13%	6%	0%	13%

LT fundamental recommendation tracker

Analyst	Recommendation	Report date	Reiteration date	Distribution date	Expiry date	Performance	Relative performance	Price at issue/reiteration*	EFV (12 months)
Votum									
Michał Sobolewski	Buy	02.09.2020	-	03.09.2020	31.08.2021	36%	-1%	11.40	30.40 -
Michał Sobolewski	-	-	15.09.2020	16.09.2020	-	-	-	13.35	30.40 →
Michał Sobolewski	-	-	08.10.2020	09.10.2020	-	-	-	12.80	30.40 →
Michał Sobolewski	-	-	08.11.2020	09.11.2020	-	-	-	11.40	30.40 →
Michał Sobolewski	-	-	19.11.2020	20.11.2020	-	-	-	12.80	30.40 →
Michał Sobolewski	-	-	04.12.2020	04.12.2020	-	-	-	12.80	25.70 ↓
Michał Sobolewski	-	-	06.12.2020	07.12.2020	-	-	-	12.80	25.70 →
Michał Sobolewski	-	-	08.12.2020	09.12.2020	-	-	-	12.30	25.70 →
Michał Sobolewski	-	-	05.01.2021	05.01.2021	-	-	-	11.80	25.70 →
Michał Sobolewski	-	-	28.01.2021	29.01.2021	-	-	-	13.95	25.70 →
Michał Sobolewski	-	-	23.02.2021	24.02.2021	-	-	-	14.20	25.70 →
Michał Sobolewski	-	-	28.02.2021	01.03.2021	-	-	-	13.65	25.70 →
Michał Sobolewski	-	-	14.03.2021	15.03.2021	-	-	-	14.40	27.90 ↑
Michał Sobolewski	-	-	16.04.2021	16.04.2021	-	-	-	18.00	27.90 →
Michał Sobolewski	-	-	27.05.2021	27.05.2021	-	-	-	16.86	27.90 →
Michał Sobolewski	-	-	30.05.2021	31.05.2021	-	-	-	17.10	27.90 →
Michał Sobolewski	-	-	13.06.2021	14.06.2021	-	-	-	16.30	27.40 ↓
Michał Sobolewski	-	-	09.07.2021	09.07.2021	-	-	-	15.60	27.40 →
Michał Sobolewski	Buy	31.08.2021	-	31.08.2021	16.08.2022	195%	273%	15.52	27.40 →
Michał Sobolewski	-	-	14.09.2021	15.09.2021	-	-	-	14.48	27.40 →
Michał Sobolewski	-	-	19.09.2021	20.09.2021	-	-	-	14.70	27.05 ↓
Michał Sobolewski	-	-	05.10.2021	06.10.2021	-	-	-	14.40	18.30 ↓
Michał Sobolewski	-	-	07.10.2021	07.10.2021	-	-	-	14.60	18.30 →
Michał Sobolewski	-	-	04.11.2021	04.11.2021	-	-	-	14.20	18.30 →
Michał Sobolewski	-	-	18.11.2021	19.11.2021	-	-	-	14.22	18.30 →
Michał Sobolewski	-	-	02.12.2021	03.12.2021	-	-	-	15.06	23.80 ↑
Michał Sobolewski	-	-	05.12.2021	06.12.2021	-	-	-	16.72	23.80 →
Michał Sobolewski	-	-	16.01.2022	17.01.2022	-	-	-	18.50	23.80 →
Michał Sobolewski	-	-	07.02.2022	07.02.2022	-	-	-	18.00	23.80 →
Michał Sobolewski	-	-	28.02.2022	28.02.2022	-	-	-	15.30	23.80 →
Michał Sobolewski	-	-	14.04.2022	14.04.2022	-	-	-	18.00	23.80 →
Michał Sobolewski	-	-	26.04.2022	27.04.2022	-	-	-	18.30	23.80 →
Michał Sobolewski	-	-	16.05.2022	16.05.2022	-	-	-	19.20	53.60 ↑
Michał Sobolewski	-	-	20.05.2022	20.05.2022	-	-	-	24.30	53.60 →
Michał Sobolewski	-	-	26.05.2022	26.05.2022	-	-	-	24.70	53.60 →
Michał Sobolewski	-	-	07.06.2022	08.06.2022	-	-	-	28.95	53.60 →
Michał Sobolewski	-	-	15.07.2022	15.07.2022	-	-	-	39.20	53.60 →
Michał Sobolewski	-	-	27.07.2022	28.07.2022	-	-	-	35.65	75.90 ↑
Michał Sobolewski	Buy	16.08.2022	-	16.08.2022	Not later than 16.08.2023	1%	1%	45.50	75.90 →
Michał Sobolewski	-	-	02.09.2022	02.09.2022	-	-	-	41.00	75.90 →
Michał Sobolewski	-	-	27.09.2022	27.09.2022	-	-	-	39.90	75.90 →
Michał Sobolewski	-	-	07.10.2022	07.10.2022	-	-	-	33.55	75.90 →
Michał Sobolewski	-	-	28.10.2022	28.10.2022	-	-	-	35.20	75.90 →
Michał Sobolewski	-	-	17.11.2022	17.11.2022	-	-	-	38.00	75.90 →
Michał Sobolewski	-	-	02.12.2022	02.12.2022	-	-	-	45.85	72.10 ↓

* 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
Votum								
Michał Sobolewski	Overweight	→	02.09.2020	-	03.09.2020	04.12.2020	11.40	4%
Michał Sobolewski	-	→	-	15.09.2020	16.09.2020	-	13.35	-
Michał Sobolewski	-	→	-	08.10.2020	09.10.2020	-	12.80	-
Michał Sobolewski	-	→	-	08.11.2020	09.11.2020	-	11.40	-
Michał Sobolewski	-	→	-	19.11.2020	20.11.2020	-	12.80	-
Michał Sobolewski	Neutral	↓	04.12.2020	-	04.12.2020	04.11.2021	12.80	-16%
Michał Sobolewski	-	→	-	06.12.2020	07.12.2020	-	12.80	-
Michał Sobolewski	-	→	-	08.12.2020	09.12.2020	-	12.30	-
Michał Sobolewski	-	→	-	05.01.2021	05.01.2021	-	11.80	-
Michał Sobolewski	-	→	-	28.01.2021	29.01.2021	-	13.95	-
Michał Sobolewski	-	→	-	23.02.2021	24.02.2021	-	14.20	-
Michał Sobolewski	-	→	-	28.02.2021	01.03.2021	-	13.65	-
Michał Sobolewski	-	→	-	14.03.2021	15.03.2021	-	14.40	-
Michał Sobolewski	-	→	-	16.04.2021	16.04.2021	-	18.00	-
Michał Sobolewski	-	→	-	27.05.2021	27.05.2021	-	16.86	-
Michał Sobolewski	-	→	-	30.05.2021	31.05.2021	-	17.10	-
Michał Sobolewski	-	→	-	13.06.2021	14.06.2021	-	16.30	-
Michał Sobolewski	-	→	-	09.07.2021	09.07.2021	-	15.60	-
Michał Sobolewski	-	→	-	31.08.2021	31.08.2021	-	15.52	-
Michał Sobolewski	-	→	-	14.09.2021	15.09.2021	-	14.48	-
Michał Sobolewski	-	→	-	19.09.2021	20.09.2021	-	14.70	-
Michał Sobolewski	-	→	-	05.10.2021	06.10.2021	-	14.40	-
Michał Sobolewski	-	→	-	07.10.2021	07.10.2021	-	14.60	-
Michał Sobolewski	Neutral	→	04.11.2021	-	04.11.2021	02.12.2021	14.20	16%
Michał Sobolewski	-	→	-	18.11.2021	19.11.2021	-	14.22	-
Michał Sobolewski	Overweight	↑	02.12.2021	-	03.12.2021	28.10.2022	15.06	222%
Michał Sobolewski	-	→	-	05.12.2021	06.12.2021	-	16.72	-
Michał Sobolewski	-	→	-	16.01.2022	17.01.2022	-	18.50	-
Michał Sobolewski	-	→	-	07.02.2022	07.02.2022	-	18.00	-
Michał Sobolewski	-	→	-	28.02.2022	28.02.2022	-	15.30	-
Michał Sobolewski	-	→	-	14.04.2022	14.04.2022	-	18.00	-
Michał Sobolewski	-	→	-	26.04.2022	27.04.2022	-	18.30	-
Michał Sobolewski	-	→	-	16.05.2022	16.05.2022	-	19.20	-
Michał Sobolewski	-	→	-	20.05.2022	20.05.2022	-	24.30	-
Michał Sobolewski	-	→	-	26.05.2022	26.05.2022	-	24.70	-
Michał Sobolewski	-	→	-	07.06.2022	08.06.2022	-	28.95	-
Michał Sobolewski	-	→	-	15.07.2022	15.07.2022	-	39.20	-
Michał Sobolewski	-	→	-	27.07.2022	28.07.2022	-	35.65	-
Michał Sobolewski	-	→	-	16.08.2022	16.08.2022	-	45.50	-
Michał Sobolewski	-	→	-	02.09.2022	02.09.2022	-	41.00	-
Michał Sobolewski	-	→	-	27.09.2022	27.09.2022	-	39.90	-
Michał Sobolewski	-	→	-	07.10.2022	07.10.2022	-	33.55	-
Michał Sobolewski	Overweight	→	28.10.2022	-	28.10.2022	Not later than 28.10.2023	35.20	15%
Michał Sobolewski	-	→	-	17.11.2022	17.11.2022	-	38.00	-
Michał Sobolewski	-	→	-	02.12.2022	02.12.2022	-	45.85	-

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

This report has been prepared by Dom Maklerski Banku Ochrony Środowiska SA registered in Warsaw (hereinafter referred to as DM BOŚ SA) and commissioned by the Warsaw Stock Exchange SA (hereinafter referred to as WSE SA) pursuant to the agreement on the research report preparation between DM BOŚ SA and WSE SA within the framework of the Analytical Coverage Support Program. 3.0 described on the WSE SA website: <https://www.gpw.pl/gpwpa> (hereinafter referred to as the Agreement). DM BOŚ SA will receive a remuneration for the research report in accordance with the Agreement.

The production of the report was completed on December 2, 2022 at 8.35 p.m.

The report was distributed on December 2, 2022 at 8.45 p.m.

The report is an investment research within the meaning of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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