

Thursday, 29 June 2023 | update

## Kruk: buy (upgraded)

KRU.PW; KRU.WA | Financials, Poland

### Fiscally Supercharged

**Kruk surprised on the upside with stronger-than-expected revenue growth in 1Q'23, driven once again by revaluation gains. The surprise was major given the strong correlation between revaluation gains/losses and GDP. The Polish GDP probably hit bottom in 1Q'23 at -0.3% Y/Y, yet, regardless of a technical recession, Kruk once again recognized positive fair value adjustments on receivable portfolios not only in Poland, but also in Romania and Italy.**

**In the meantime, mBank's 2023 annual GDP growth rate forecast has been revised upwards from 0.4% to 1.9%, and, to boot, Kruk's customers are being supercharged by fiscal stimulus triggered by the Polish general election campaign. After taking into account the 1Q'23 results and the continuous consumer stimulus, we have raised our 2023-2025 net profit forecasts for Kruk by 11%-13%.**

**We are still looking forward to Kruk unveiling more details about foreign expansion plans as soon as in September 2023, around the time of its 25-year anniversary. We have narrowed down the potential new target markets to three: Greece, Portugal, and France, with Portugal as the most likely contender. We see geographic expansion as an inevitable step forward for Kruk which, however, is not yet included in our models.**

**Since our last update on 28 March, KRU stock has almost reached our target price after a hefty 26% gain. The Company is currently trading at a 9% discount to peers on 2024E P/E which we consider unjustified considering its superior pace of growth, dividends, and above-average profitability. We see more upside in Kruk amid today's very supportive business conditions, supercharged by fiscal stimulus, and so we upgrade our call to buy with a 12M target price of 440.73 PLN per share.**

### Fiscally Supercharged

Poland is super-charging its consumers by providing wide-ranging fiscal stimulus from two extra pension payments to seniors to inflation-fighting bonuses for miners, heating subsidies, personal income tax relief, food VAT cuts, credit holidays, and wage increases for public sector employees. Coming next are minimum wage hikes, an adjustment of the 500zł-a-month child benefits to 800zł, and, possibly, an extension of credit holidays. All this boosts the debt service capacity of an average Kruk customer, as reflected in a 16% y/y rebound in repayments in 1Q'23.

Interestingly, Kruk's stock market performance in the last 12M (+56%) has been similar to the Polish consumer staples leader, Dino (+46%). Our upwardly adjusted expectations for 2023 revaluation gains and actual-over-expected recoveries at PLN 663m indicate a 10% Y/Y decline.

### Trading at a Discount

Kruk is currently trading at 7.7x '24E P/E and 7.3x '25E P/E vs. respective global peer multiples of 8.5x and 8.3x, which remain under pressure from company- and market specific factors. It is worth noting that short positions in the sector have increased YTD from 1.0% to 1.4%, led solely by a larger exposure to Intrum (up from 4% to 10%).

In our view, Kruk's best-in-class profitability and high gearing to a slowdown still commands a premium over peers.

(PLN m)	2021	2022	2023E	2024E	2025E
revenue	1,737.9	2,139.2	2,280.1	2,502.6	2,571.3
gross profit	1,115.9	1,364.9	1,475.1	1,598.2	1,642.2
EBIT	859.6	1,042.8	1,140.1	1,227.4	1,266.3
net profit	694.9	805.0	852.6	956.3	1,003.9
ROE (%)	29.9	27.5	24.6	23.9	21.6
EPS (PLN)	36.6	42.1	44.1	49.5	52.0
BVPS (PLN)	136.8	168.4	190.1	223.7	257.9
P/E (x)	10.4	9.1	8.6	7.7	7.3
P/B (x)	2.8	2.3	2.0	1.7	1.5
Dividend yield	2.88%	3.37%	3.93%	4.17%	4.67%

current price*	381.60 PLN
target price	440.73 PLN
mCap	7,372m PLN
free float	7,372m PLN
ADTV (3M)	10.2m PLN

\*Price as of June 28, 2023, 5:00 PM

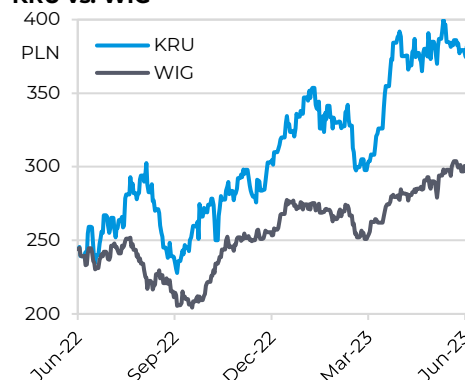
### Ownership

Piotr Krupa	9.08%
Other Management Board	1.14%
NN PTE	14.30%
Allianz OFE	12.20%
PZU OFE	7.80%
Aegon OFE	5.90%
Generali OFE	8.26%
other	41.31%

### 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	440.73	388.66	buy	hold
company	current price	target price	upside	
Kruk	381.60	440.73	+15.5%	
forecast update	2023E	2024E	2025E	
EBITDA	+7.4%	+7.8%	+9.5%	
EBIT	+7.7%	+8.1%	+9.8%	
net profit	+11.4%	+11.7%	+12.6%	

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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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**HOLD** – we expect that the rate of return from an investment will range from -10% to +10%  
**SELL** – we expect that an investment will bear a loss greater than 10%  
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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 \(Michał Konarski, Mikołaj Lemańczyk\)](#)

Rating	hold	buy	buy	buy	buy
Rating date	2023-05-04	2023-03-28	2022-12-01	2022-10-03	2022-07-08
Target price (PLN)	388.66	388.66	337.58	332.04	360.02
Price on rating day	375.60	302.40	298.20	236.00	254.60

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