Skarbiec Holding SA

WSE research coverage support program – 1Q20 preview

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CEE Equity Research

Finance, Poland

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A quarter with no success fee?

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Skarbiec Holding (Buy, TP PLN23.0)

We expect rather weak 1Q20 (3Q19/20) and net income around PLN1.0mn. No success fee (because of negative returns of funds managed by Skarbiec) and lower management fee (resulting from lower AUM and another regulatory cut in maximium management fee to 3.0% starting from Jan'2020 from 3.5% in 2019) are likely to be the main reason behind decline in net income.

Quarterly preview for 1Q20E (3Q19/20E)

	1Q19	2Q19	3Q19	4Q19	1Q20E		
Profit and loss statement (PLN mn)	**3Q**	**4Q**	**1Q**	**2Q**	**3QE**	***q/q***	***y/y***
Revenues	**39.8**	**29.0**	**19.3**	**27.2**	**14.6**	***-46%***	***-63%***
Management fee	18.1	17.3	17.4	15.8	14.0	*-11%*	*-22%*
Success fee	21.5	11.2	1.6	11.0	0.0	*-99%*	*-100%*
Others	0.2	0.5	0.3	0.4	0.5	*17%*	*110%*
OPEX	**-22.5**	**-15.9**	**-14.9**	**-15.8**	**-13.3**	***-16%***	***-41%***
Distribution costs	-8.2	-6.5	-7.0	-4.7	-5.3	*13%*	*-35%*
based on AuM	-8.2	-6.5	-7.0	-4.7	-5.3	*13%*	*-35%*
Other OPEX	-14.4	-9.4	-7.9	-11.1	-8.0	*-28%*	*-44%*
Gross profit on sales	**17.2**	**13.1**	**4.4**	**11.4**	**1.3**	***-88%***	***-92%***
EBIT	**17.2**	**13.4**	**4.4**	**11.4**	**1.4**	***-87%***	***-92%***
Financial revenues	0.1	0.1	0.2	0.2	0.1	*-35%*	*130%*
Financial costs	0.0	0.0	-0.2	0.1	0.1	*0%*	*-575%*
Other	0.0	0.0	0.0	0.0	0.0		*-130%*
Pre-tax profit	**17.3**	**13.5**	**4.3**	**11.6**	**1.6**	***-86%***	***-91%***
Corporate tax	-3.4	-2.7	-0.9	-2.3	-0.6	*-74%*	*-83%*
Net profit	**13.9**	**10.8**	**3.4**	**9.3**	**1.0**	***-89%***	***-93%***
Net profit excl. success fee (est.)	*-0.7*	*2.6*	*2.7*	*0.4*	*1.0*	*121%*	*-236%*

Key ratios (%)	**3Q**	**4Q**	**1Q**	**2Q**	**3QE**	***q/q***	***y/y***
Average AuM yield*	1.88%	1.95%	2.06%	1.92%	1.85%	-0.07%	-0.03%
Success fee / AuM	2.24%	1.26%	0.18%	1.33%	0.01%	-1.32%	-2.22%
Distribution costs** / management fee	-45%	-38%	-40%	-30%	-38%	-8%	7%
Other OPEX / management fee	-79%	-54%	-46%	-70%	-57%	13%	22%
Tax rate	-20%	-20%	-21%	-20%	-36%	-17%	-17%
Net profit / AuM	1.45%	1.22%	0.40%	1.13%	0.14%	-1.00%	-1.31%

Key figures (PLN m)	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	***q/q***	***y/y***
AuM in CMF (average)	3,839	3,540	3,369	3,296	3,031	*-8%*	*-21%*
Low margin	2,203	1,896	1,788	1,751	1,516	*-13%*	*-31%*
High margin	1,636	1,644	1,581	1,545	1,515	*-2%*	*-7%*

*Source: Company data, Santander Brokerage Poland, *financial year of SKH ends on 30th June*

Disclosure statements provided in the last section of this report are an integral part of this document.

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PEG - P/E to growth ratio
EPS - earnings per share
CPI – consumer price index
WACC - weighted average cost of capital
CAGR – cumulative average annual growth
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Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
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