Skarbiec Holding

GPW Research Coverage Support Program – Quarterly preview

Bloomberg: SKH PW, Reuters: SKH1.WA

CEE Equity Research

Financials Poland

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Quarterly preview update

2Q20 net income of PLN11.9mn?

We update our preview for SKH 2Q20 (4Q19/20). Comparing to our our previous preview dated 19 May 2020 we factor now 5% higher AUM and even stronger success fee. The SKH 2Q20 reporting date has not been announced yet.

2Q20 success fee at PLN17.4mn?

According to our calculations at least four funds managed by Skarbiec TFI earned maximum quarterly success fee of 1.5% of AUM. We expect 11 different funds to report in total PLN17.4mn of success fee.

PLN682mn (Jun'20) Skarbiec Spółek Wzrostowych reported quarterly performance of +54.2%. We expect this fund to earn PLN10.2mn success fee, if not the 1.5% quarterly cap, success fee could be at PLN48.5mn.

PLN235.8mn (Jun'20) Skarbiec MIS reported quarterly performance of +43.5%. We expect this fund to earn PLN3.5mn success fee, if not the 1.5% quarterly cap, success fee could be at PLN10.0mn.

Comment: Potentially positive. Results are likely to be strong. Be reminded, Skarbiec is potentially ahead of strong dividend, we assume PLN30mn (DPS=PLN4.4, DY=16.6%).

Fig. 1. Skarbiec Holding: Financial summary

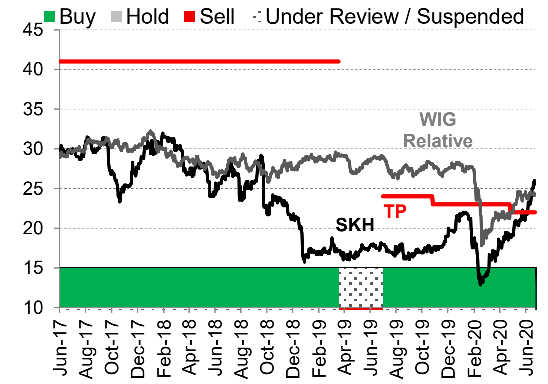
P&L (PLN mn)	4Q	3Q	4QE	q/q	y/y	4QE*	vs. E*
Revenues	**29.0**	**16.3**	**33.0**	***102%***	***14%***	**25.0**	***32%***
Management fee	17.3	14.7	15.3	*4%*	*-11%*	13.7	*12%*
Success fee	11.2	1.3	17.4	*1273%*	*56%*	11.0	*58%*
Others	0.5	0.3	0.3	*-16%*	*-44%*	0.3	*0%*
OPEX	**-15.9**	**-14.3**	**-18.3**	***29%***	***16%***	**-16.1**	***14%***
Distribution costs	-6.5	-6.6	-6.1	*-7%*	*-6%*	-5.5	*12%*
based on AuM	-6.5	-6.6	-6.1	*-7%*	*-6%*	-5.5	*12%*
Other OPEX	-9.4	-7.7	-12.2	*59%*	*30%*	-10.6	*15%*
Gross profit on sales	**13.1**	**2.1**	**14.7**	***613%***	***12%***	**8.9**	***65%***
EBIT	**13.4**	**2.0**	**14.7**	***629%***	***10%***	**8.9**	***65%***
Financial revenues	0.1	0.2	0.2	*-22%*	*19%*	0.2	*0%*
Financial costs	0.0	-0.1	-0.1	*0%*	*694%*	-0.1	*0%*
Pre-tax profit	**13.5**	**2.1**	**14.7**	***604%***	***9%***	**9.0**	***64%***
Corporate tax	-2.7	-0.5	-2.8	*456%*	*5%*	-1.7	*64%*
Net profit	**10.8**	**1.6**	**11.9**	***651%***	***11%***	**7.3**	***64%***
Net profit excl. success fee	*2.6*	*0.6*	*1.4*	*142%*	*-47%*	*0.6*	*135%*

Key ratios (%)	4Q	3Q	4QE	q/q	y/y	4QE*	vs. E*
Average AuM yield	1.95%	2.01%	2.01%	0.00%	0.06%	1.89%	
Success fee / AuM	1.26%	0.17%	2.28%	2.10%	1.01%	1.52%	
Distribution costs / management fee	-38%	-45%	-40%	5%	-2%	-40%	
Other OPEX / management fee	-54%	-52%	-80%	-27%	-25%	-77%	
Tax rate	-20%	-24%	-19%	5%	1%	-19%	
Net profit / AuM	1.22%	0.22%	1.56%	1.35%	0.34%	1.00%	

Key figures (PLN m)	4Q	3Q	4QE	q/q	y/y	4QE*	vs. E*
AuM in CMF (average)	3,540	2,934	3,057	*4%*	*-14%*	2,900	*5%*
Low margin	1,896	1,418	1,476	*4%*	*-22%*	1,400	*5%*
High margin	1,644	1,515	1,581	*4%*	*-4%*	1,500	*5%*

*Source: Company data, Santander Brokerage Poland. *Quarterly preview from our update on SKH dated 19 May 2020.*

Recommendation	**Buy**
12M Target Price (PLN)	**22.0**
Current price (PLN, 28 July 2020)	26.60
Market cap. (PLNmn)	181.0
Avg. daily turnover (PLNk)	104.7
Number of shares (mn)	6.82



The chart above presents recommendations issued by Santander Brokerage Poland since Apr'17. The chart measures performance against WIG index.

Main shareholders	% of votes
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Copernicus Capital TFI	16.2%
MetLife OFE	7.3%
Value FIZ	6.2%
PKO OFE i DFE	5.5%
Others	32.6%

Source: Stooq.pl, Santander Brokerage Poland

Company description

Skarbiec is one of the leading independent mutual funds in Poland. It manages 43 funds and subfunds which accumulated assets worth 4.3 billion PLN (July 2020)

Success fee constitutes a crucial part of revenues.

Beneficiaries of funds that control Skarbiec Holding still have remained unknown.

No recommendations, TPs or annual forecasts were altered in this note.

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P/E – price-earnings ratio
EV – enterprise value (market capitalisation plus net debt)
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
P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
NOPAT – net operational profit after taxation
FCF - free cash flows
BV – book value
ROE – return on equity
P/BV – price-book value

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The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
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The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
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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