Skarbiec Holding

GPW Research Coverage Support Program – Quarterly review

Bloomberg: SKH PW, Reuters: SKH1.WA

CEE Equity Research

Financials Poland

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1Q20/21 Quarterly results review

Highest ever success fee and low personnel cost

Skarbiec reported 1Q20/21 net income of PLN24.2mn, 54% higher than we expected. We are positively surprised by PLN27.0mn of success fee (vs PLN21.0mn expected) and low personnel cost at PLN3.2mn (vs PLN8.3mn expected).

Comment: Positive. Quarterly success fee was highest ever in SKH history (for the second quarter in a row). Looking at calendar year, Skarbiec charged PLN54.1mn of success fee in 9M20 (1.6% of average AUM). Quarterly personnel cost at PLN3.2mn is low, be reminded our model assumption is that SKH personnel cost is PLN3.4mn excluding incentive schemes. Till now we expected 25% of success fee is paid to portfolio managers in the form of bonuses. Uncertainty on the level of the future SKH earnings seems higher as our assumptions related to caps on success fee and personnel cost seem not to hold anymore.

SKH remains relatively inexpensive. After strong 1Q20/21, P/E is at 4.7x. EV/E is at 2.4x with market cap of PLN173mn and PLN84.5mn of net cash. SKH is ahead of dividend from 2019/20 standalone NI of PLN10.6mn.

Fig. 1. Skarbiec Holding: Quarterly results

P&L (PLN mn)	1Q	4Q	1Q	q/q	y/y	1QE	vs. E
Revenues	**19.3**	**40.5**	**45.0**	***11%***	***134%***	**40.5**	***11%***
Management fee	17.4	15.8	17.7	*12%*	*2%*	19.5	*-9%*
Success fee	1.6	24.9	27.0	*8%*	*1633%*	21.0	*28%*
Others	0.3	-0.2	0.3		*7%*	0.0	*687%*
OPEX	**-14.9**	**-20.8**	**-15.0**	***-28%***	***0%***	**-21.2**	***-29%***
Distribution costs	-7.0	-6.9	-7.5	*9%*	*7%*	-7.8	*-3%*
Personnel cost	-4.2	-8.6	-3.2	*-63%*	*-23%*	-8.3	*-61%*
Other OPEX	-3.7	-5.3	-4.2	*-20%*	*13%*	-5.1	*-17%*
Gross profit on sales	**4.4**	**19.6**	**30.1**	***53%***	***591%***	**19.3**	***55%***
EBIT	**4.4**	**19.4**	**30.0**	***54%***	***588%***	**19.3**	***55%***
Financial revenues	0.2	0.1	0.1	*-28%*	*-49%*	0.2	*-48%*
Financial costs	-0.2	-0.2	-0.1	*-51%*	*-43%*	-0.1	*13%*
Pre-tax profit	**4.3**	**19.3**	**30.0**	***55%***	***592%***	**19.4**	***55%***
Corporate tax	-0.9	-3.8	-5.8	*53%*	*527%*	-3.7	*58%*
Net profit	**3.4**	**15.5**	**24.2**	***56%***	***609%***	**15.7**	***54%***
Net profit excl. success fee	*2.9*	*-0.5*	*2.4*		*-20%*	*3.0*	*-21%*

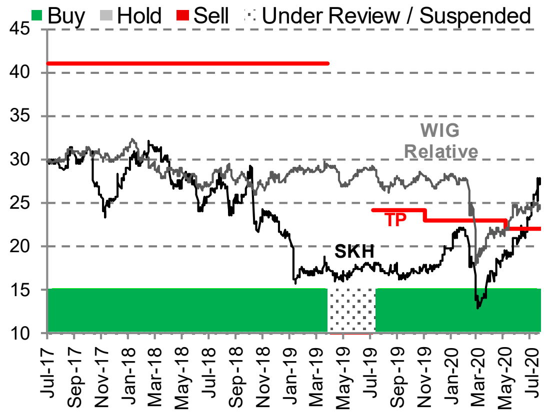
Key ratios (%)	1Q	4Q	1Q			1QE	vs. E
Average AuM yield	2.06%	2.11%	1.96%			2.15%	
Success fee / AuM	0.18%	3.32%	2.98%			2.32%	
Distribution costs / management fee	-40%	-44%	-42%			-40%	
Tax rate	-21%	-20%	-19%			-19%	
Net profit / AuM	0.40%	2.07%	2.67%			1.74%	

Key figures (PLN m)	1Q	4Q	1Q	q/q	y/y	1QE	vs. E
AuM in CMF (average)	3,369	2,999	3,620	*21%*	*7%*	3,620	*0%*
Low margin	1,788	1,418	1,596	*13%*	*-11%*	1,596	*0%*
High margin	1,581	1,581	2,023	*28%*	*28%*	2,023	*0%*

*Source: Company data, Santander Brokerage Poland. *Quarterly preview from our update on SKH dated 30 Oct 2020.*

Recommendation	Hold
12M Target Price (PLN)	24.0

Current price (PLN, 16 Nov 2020)	25.40
Market cap. (PLNmn)	173.0
Avg. daily turnover (PLNk)	51.0
Number of shares (mn)	6.82



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

Main shareholders	% of votes
Aoram Sp. Z o.o.	33.0%
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.

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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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.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
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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