

KRUK

Hungry for portfolio purchases

We reiterate our BUY rating for KRUK and after updating our numbers increase our FV from PLN 112.3 to PLN 194.9 giving 15% upside potential. The substantial increase in FV is a mix of higher earnings forecasts, rolling forward our valuation model, lower discount rates applied and the company's multiples expansion. Kruk benefits from the good macroeconomic environment in Poland with lower unemployment and households' better financial situations. Kruk remains very active in purchasing new NPL portfolios and in May it concluded the purchase (in Romania) of the largest non-secured retail portfolios in the history of that market (nominal value of RON 834m). Growing cash collections and further investments in new NPL portfolios have led us to increase our net profit forecast for this year and we believe market consensus could upgrade given we expect 2Q15 results to be the best in the company's history.

Growing cash collections drive results

Lower unemployment means more jobs and more money in household budgets. As a result Kruk is enjoying growing cash collections from debtors that we believe are even better than assumed in the schedule presented in 2014 financial statements. Thus we expect PLN 198.7m of net profit this year and PLN 564m of cash EBITDA.

Foreign investors attracted by high growth rates and higher market capitalization. Multiples expansion is the result

We think that recent share price re-rating from a 2015E P/E multiple of 12.0-13.0 to 15.0-16.0 was the result of more interest from foreign investors, whom we think were attracted by higher market capitalization and liquidity, high growth rates and management's good track-record.

Higher purchases needed for further growth

We identify two main risks for the company in the mid-term. First is that the company will not be able to purchase more portfolios to increase its earnings. This is why investors should closely observe Kruk's foreign expansion: in Germany this year and potentially in Spain and Italy beginning in 2016. The second risk is related to changes in the corporate tax rate. Its current tax structure becomes less efficient after the changes in tax legislation in Poland. Management is working on a solution but to be on the conservative side we assume a tax rate of 10% from 2017 and 19% in terminal value calculations.

Attractive multiples; forecasts higher than consensus

Kruk trades at a 2015E P/E of 14.7x, at a slight premium vs. its peer group, but still lower than its closest European peers Intrum Justitia on 19.1x (BBG consensus). Our forecasts are also above market consensus in terms of net profit by 20% for 2015E and 6% for 2016E. We believe consensus could upgrade in the light of expected solid 2Q15 results.

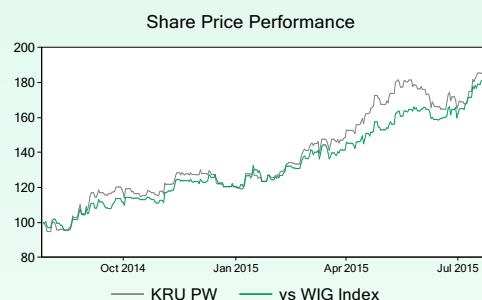
BUY 15% upside
Fair Value PLN 194.90

Bloomberg ticker **KRU PW**
Share Price PLN 169.20
Market Capitalisation PLN 2,925.77m
Free Float 88%

PLN m Y/E 31-Dec	2014A	2015E	2016E	2017E
New debt portfolios purchases	571	595	591	596
Cash collections	712	814	895	1084
Revenues	488	556	610	666
Cash EBITDA	489	564	621	765
EBITDA	220	258	283	289
Net Income	151.8	198.7	207.7	198.1

Y/E 31-Dec	2014A	2015E	2016E	2017E
P/E	19.3	14.7	14.1	14.8
P/BV	5.0	3.9	3.2	3.1
ROE	30.3%	29.6%	25.0%	21.2%
Dividend yield	0.0%	0.9%	2.1%	5.0%
Reported EPS (PLN)	8.9	11.6	12.0	11.4
DPS (PLN)	0.0	1.5	3.5	8.4

DPS based on cash flow basis



All share price data as at close on 27-Jul-2015

Source: BESI Research, Company Data, Bloomberg

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