

## Kredyt Inkaso

### On the growth track

We continue to recommend KRI as a BUY given our expectation of 49% YOY growth in net income in FY12 contrasted with its low valuation multiples: FY12E P/E of 6.8 and FY12E P/BV of 1.1 for a ROE of 18%. In 2011 KRI made its largest purchases of NPLs and now has plans to acquire foreign NPL portfolios and launch a non-cash loan. We believe that the growth story is still in place, therefore we reiterate our BUY recommendation with a slightly higher FV at PLN 18.0 (versus FV of PLN 17.5 before).

#### We expect FY12E Net Income of PLN 27.9m (+49% YoY)

We expect that despite relatively weak 1Q earnings (NI of PLN 3.4m), KRI will report 2012E net income of PLN 27.9m (+49% YoY) and EPS 10% above the PLN 2.0 indicated during Apr '11 SPO. Material YoY growth in earnings is driven by record high NPL acquisitions in FY11 (PLN 265m; +372% YoY). These acquisitions took place in Dec '11 and Mar '12 and we expect their positive contribution to revenues and gross margin should gradually increase quarter by quarter.

#### We expect FY12E portfolio acquisitions of PLN 160m (-40% YoY)

We expect FY12E NPL purchases to total PLN 160m (-40% YoY), so we are less optimistic than management which plans for a flat PLN 265m. In our opinion this level of NPL purchases should be comfortably financed without the need of any capital increase. According to management, KRI would be comfortable with debt/equity (excl. revaluations) of 2.5x-2.7x (multiple incl. debt on FIZ funds, covenant on standalone level is 2.0x equity exc. revaluations), which potentially allows room for maximum debt of c. PLN 420m-460m vs. debt of PLN 280m as of 2Q12.

#### Non-cash loan and acquisitions of foreign NPL portfolios are potential earnings drivers however it seems to be too early to factor them in

KRI plans to acquire its first foreign portfolio this year (no further details given). Also this year (Sept/Oct) KRI plans to launch a non-cash restructuring loan. At this stage it is difficult for us to assess the impact of the new products on the company, so we have not factored them into our valuation.

#### Structure of KRI's debt maturities looks good

We believe that debt maturities are currently the largest short-term threat for players in the collection market. This is not a concern for KRI, which decided for longer term bonds and there is no concentration of maturities at a single point in time. The current structure of KRI's debt maturities (PLN 11.5m in whole FY12; PLN 27.4m in FY13; PLN 79.8m in FY14; PLN 109m in FY15; PLN 63m in FY16) make us comfortable with KRI's liquidity position also having in mind PLN 113m of operating cashflow expected in FY12E.

#### Reiterate BUY with FV of PLN 18.0 (vs. PLN 17.5 before)

We reiterate BUY recommendation with FV of PLN 18.0. We have changed the FV as a result of lower expected earnings (see p. 3 for details) and changes in valuation methodology (see p. 3).

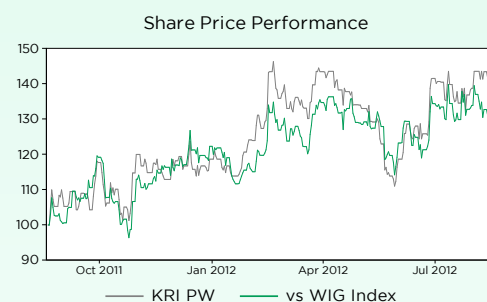
**BUY** 24% upside  
Fair Value PLN 18.00

Bloomberg ticker **KRI PW**  
Share Price PLN 14.56  
Market Capitalisation PLN 188.36m  
Free Float 69%

PLN m Y/E 31-Mar	2011A	2012E	2013E	2014E
Revenues	63.4	135.8	184.9	227.5
EBITDA	31.8	63.6	79.3	93.8
Net income	18.7	27.9	38.0	47.3
EPS (PLN)	1.4	2.2	2.9	3.7
DPS (PLN)	0.3	0.0	0.4	0.6
Receivables at fair value	804.2	930.4	1033.3	1136.3
Spending on NPLs	264.6	160.0	160.0	180.0
Net debt	249.1	330.7	388.0	423.1

*DPS based on cash flow basis, e.g. DPS of PLN 0.6 in 2014E column is the dividend from 2013 Net Income, which will be paid in 2014.*

Y/E 31-Mar	2011A	2012E	2013E	2014E
P/E (x)	10.1	6.8	5.0	4.0
EV/EBITDA (x)	13.8	6.9	5.5	4.7
P/BV excl. rev. capital (x)	1.3	1.1	0.9	0.8
ROE	15.0%	17.8%	20.4%	21.3%
Div. Yield	2.2%	0.0%	3.0%	4.0%



Source: Espirito Santo Investment Bank Research, Company Data, Bloomberg

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**KREDYTKA INKASO**

**Rating** BUY  
**Fair Value:** 18.0  
 Share Price (17/08/2012, PLN): 14.56  
 Upside / Downside potential 24%

Bloomberg KRI PW

Shares (m)(diluted) 12.9  
**Market Cap (PLN m)** 188  
**Equity Value ex. revaluation (PLN m)** 146

**Forthcoming Catalysts**  
 2Q12/13 results 30 November 2012

Valuation Metrics (Year end March)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Reported P/E (x)	34.0	22.6	10.1	6.8	5.0	4.0
P/BV	1.9	0.9	0.3	0.3	0.3	0.3
P/BV excl. rev. Cap	5.5	2.3	1.3	1.1	0.9	0.8
ROE	17.3%	15.7%	15.0%	17.8%	20.4%	21.3%
EV / EBITDA (x)	20.0	15.6	13.8	6.9	5.5	4.7
Dividend yield	0.6%	1.7%	2.2%	0.0%	3.0%	4.0%
Buy back yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Key Ratios	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
EBITDA margin	38.2%	36.8%	50.1%	46.8%	42.9%	41.2%
EBIT margin	35.6%	34.9%	47.8%	45.4%	41.8%	40.3%
C/I	64.5%	65.1%	52.8%	54.7%	58.3%	59.8%
effective tax rate	17.5%	11.7%	-0.5%	3.0%	3.0%	3.0%
Net profit margin	18.7%	20.3%	29.5%	20.5%	20.5%	20.8%

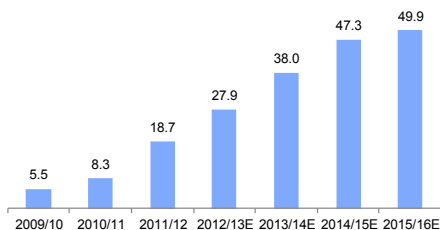
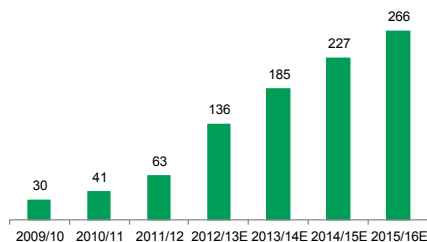
Net Debt / EBITDA (x)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Net Debt / EBITDA (x)	3.4	3.1	7.8	5.2	4.9	4.5
Net Debt / Equity (%)	39%	22%	42%	52%	57%	58%
Net Debt / Equity excl. rev (%)	111%	57%	175%	194%	191%	180%

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Cash Flow Summary (PLN m)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Cash repayments	28.2	38.4	62.3	131.7	180.4	222.5
Operating expenses	(5.2)	(8.7)	(14.7)	(21.5)	(31.1)	(37.2)
Other CFO	(4.4)	(8.9)	(10.6)	2.5	(0.7)	(0.1)
<b>Operating Cash Flow</b>	<b>18.5</b>	<b>20.8</b>	<b>37.0</b>	<b>112.7</b>	<b>148.6</b>	<b>185.2</b>
Debt portfolios purchases	(17.0)	(56.0)	(264.6)	(160.0)	(160.0)	(180.0)
Other CFI	(0.5)	(8.5)	1.3	(1.9)	(2.0)	(2.1)
<b>Cash Flow from Investment</b>	<b>(17.5)</b>	<b>(64.5)</b>	<b>(263.3)</b>	<b>(161.9)</b>	<b>(162.0)</b>	<b>(182.1)</b>
Change in debt	7.3	10.5	233.4	50.0	50.0	40.0
Other CFF	(4.6)	34.6	32.9	(33.1)	(43.9)	(50.7)
<b>Cash Flow from Financing</b>	<b>2.7</b>	<b>45.1</b>	<b>266.3</b>	<b>16.9</b>	<b>6.1</b>	<b>(10.7)</b>
<b>Cash Flow Total</b>	<b>3.7</b>	<b>1.4</b>	<b>40.0</b>	<b>(32.4)</b>	<b>(7.3)</b>	<b>(7.6)</b>

**Net Profit**

**Revenues**


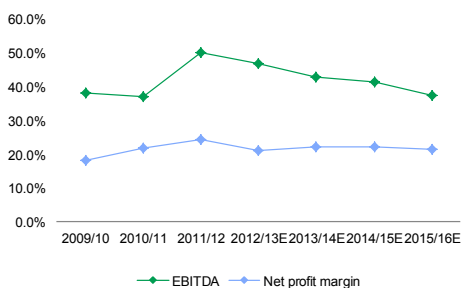
P&L (PLN m, unless stated)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
<b>Revenues</b>	<b>29.7</b>	<b>41.0</b>	<b>63.4</b>	<b>135.8</b>	<b>184.9</b>	<b>227.5</b>
% change		38.3%	54.6%	114.1%	36.2%	23.0%
<b>EBITDA</b>	<b>11.3</b>	<b>15.1</b>	<b>31.8</b>	<b>63.6</b>	<b>79.3</b>	<b>93.8</b>
% change		33.5%	110.2%	100.2%	24.8%	18.2%
% margin	38.2%	36.8%	50.1%	46.8%	42.9%	41.2%
Depreciation & Amortisation	0.8	0.8	1.4	1.9	2.0	2.1
<b>EBIT</b>	<b>10.6</b>	<b>14.3</b>	<b>30.3</b>	<b>61.7</b>	<b>77.3</b>	<b>91.7</b>
% change		36%	112%	103%	25%	19%
% margin	36%	35%	48%	45%	42%	40%
Net Financials	(3.8)	(4.9)	(11.7)	(33.0)	(38.2)	(42.9)
<b>Pre-Tax Profit</b>	<b>6.7</b>	<b>9.4</b>	<b>18.6</b>	<b>28.7</b>	<b>39.2</b>	<b>48.8</b>
Income Tax Expense	1.2	1.1	(0.1)	0.9	1.2	1.5
<b>Net Income</b>	<b>5.5</b>	<b>8.3</b>	<b>18.7</b>	<b>27.9</b>	<b>38.0</b>	<b>47.3</b>

Reported EPS (PLN)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Reported EPS (PLN)	1.0	0.9	1.4	2.2	2.9	3.7
<b>DPS (PLN)</b>	<b>0.09</b>	<b>0.25</b>	<b>0.32</b>	<b>0.00</b>	<b>0.43</b>	<b>0.59</b>

Shares in Issue (Less Treasury) (m)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Shares in Issue (Less Treasury) (m)	5.5	5.5	9.2	12.9	12.9	12.9

**Margins Trend**


Balance Sheet (PLN m)	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Cash & Equivalents	0.5	1.9	41.9	9.5	2.3	7.2
Tangible Fixed Assets	1.1	1.9	3.6	3.8	4.0	4.2
Goodwill & Intangibles	0.0	7.1	7.3	7.3	7.3	7.3
Purchased receivables (at fair value)	131.2	237.7	804.2	930.4	1033.3	1136.3
Other Assets	12.7	20.1	29.7	28.2	30.0	18.5
<b>Total Assets</b>	<b>145.6</b>	<b>268.7</b>	<b>886.7</b>	<b>979.3</b>	<b>1,076.8</b>	<b>1,173.5</b>
Interest Bearing Debt	38.9	48.6	290.9	340.3	390.3	430.3
Other Liabilities	8.0	6.6	7.5	8.1	8.4	8.7
<b>Total Liabilities</b>	<b>47.0</b>	<b>55.2</b>	<b>298.5</b>	<b>348.4</b>	<b>398.7</b>	<b>439.0</b>
Shareholders' Equity	34.5	82.6	142.6	170.5	202.9	242.6
Revaluation & other	64.1	130.9	445.7	460.5	475.3	491.9
<b>Total Equity</b>	<b>98.6</b>	<b>213.5</b>	<b>588.3</b>	<b>630.9</b>	<b>678.1</b>	<b>734.5</b>

Net Debt	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E
Net Debt	38.4	46.7	249.1	330.7	388.0	423.1

Source: Company data, Reuters, Bloomberg, Espirito Santo Research Poland for estimates



## Forecast changes

After two quarters of KRI reporting higher COGS than our initial assumptions we decided to update our methodology for forecasting COGS. Now we assume that KRI will amortize the full cost of acquired portfolios within 8 years (previously we have assumed KRI's COGS based on a gross margin); our changed assumption results in higher COGS and lower net income for 2012 onwards. We also made several minor changes based on the conclusions we drew from the last two sets of quarterly results, however their impact was relatively less material.

### FORECAST CHANGES, PLN M

P&L Summary (PLN m, unless stated)	2012E				2013E				2014E			
	New	Old	Ch.%	Ch. m	New	Old	Ch.%	Ch. m	New	Old	Ch.%	Ch. m
Revenue	135.8	136.1	0%	(0.3)	184.9	230.3	-20%	(45.4)	227.5	255.4	-11%	(27.9)
COGS	52.6	37.3	41%	15.3	76.5	68.6	11%	7.9	98.6	78.5	26%	20.1
EBITDA	63.6	71.1	-11%	(7.5)	79.3	113.3	-30%	(34.0)	93.8	123.7	-24%	(29.9)
EBIT	61.7	68.3	-10%	(6.6)	61.7	109.5	-44%	(47.8)	91.7	119.0	-23%	(27.3)
Net Income	27.9	34.6	-20%	(6.7)	38.0	69.9	-46%	(31.9)	47.3	80.3	-41%	(33.0)

Source: Espirito Santo Investment Bank Research for estimates.

## Valuation summary: FV at PLN 18 with BUY rating

We have changed several assumptions regarding our KRI valuation, so that we would be consistent in the valuation of all collection companies in our coverage. The main new assumptions are:

- Portfolio amortization equals portfolio purchases in perpetuity;
- Tax rate in perpetuity of 19% vs. 3% expected for FY12-FY16; we believe that it would be not possible for any company to keep its tax rate at a very low level forever. We also use an assumed tax rate of 19% to calculate WACC for terminal year cash flow.

DCF Valuation	2009/10	2010/11	2011/12	2012/13E	2013/14E	2014/15E	2015/16E	2016/17E	TV
<b>EBIT</b>	<b>10.6</b>	<b>14.3</b>	<b>30.3</b>	<b>50.2</b>	<b>77.3</b>	<b>91.7</b>	<b>97.5</b>	<b>101.5</b>	<b>104.6</b>
tax rate	17.5%	11.7%	-0.5%	3%	3%	3%	3%	3%	19%
tax	-0.5	-1.2	-1.1	-2.2	-2.3	-2.8	-2.9	-3.0	-19.9
<b>NOPAT</b>	<b>10.0</b>	<b>13.2</b>	<b>29.2</b>	<b>48.0</b>	<b>75.0</b>	<b>89.0</b>	<b>94.6</b>	<b>98.5</b>	<b>84.7</b>
Depreciation	0.8	0.8	1.4	1.4	2.0	2.1	2.2	2.3	2.3
Change in WC	-2.5	-6.0	-1.3	0.6	-2.7	-2.2	-2.0	-1.7	0.0
Portfolios amortization	10.5	12.9	15.3	39.3	72.0	93.6	118.8	144.7	144.7
Portfolios purchases	-17.0	-56.0	-264.6	-160.0	-160.0	-180.0	-190.0	-200.0	-144.7
CAPEX	-0.5	-8.5	1.3	-1.4	-2.0	-2.1	-2.2	-2.3	-2.3
<b>FCF</b>	<b>1.3</b>	<b>-43.6</b>	<b>-218.6</b>	<b>-72.1</b>	<b>-15.7</b>	<b>0.3</b>	<b>21.4</b>	<b>41.4</b>	<b>84.7</b>
		discount factor	0.88	0.78	0.69	0.61	0.54		
		<b>PV FCF</b>	-63.6	-12.2	0.2	12.9	22.2	516.1	
		g		3%					
		EV		475.6					
		Net debt (as of 31.03.2012)		249.6					
		month		2					
		<b>Value of equity (today)</b>		<b>232.7</b>					
		shares number (fully diluted)		12.9					
		<b>Fair Value (PLN)</b>		<b>18.0</b>					
		upside potential		23.6%					

WACC Calculation	2012-2016	TV
Risk free rate	5.2%	5.2%
Unleveraged beta	1.0	1.0
Leveraged beta	2.5	2.3
Capital risk premium	5.0%	5.0%
<b>Cost of equity</b>	<b>17.7%</b>	<b>16.5%</b>
Risk free rate	5.2%	5.2%
Debt risk premium	5.4%	5.4%
tax rate	3.0%	19.0%
<b>Cost of debt after tax</b>	<b>10.3%</b>	<b>8.6%</b>
% debt	61%	61%
% capital	39%	39%
<b>WACC</b>	<b>13.3%</b>	<b>11.7%</b>



FAIR VALUE		Terminal growth rate (g)				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	12.3%	15.5	19.9	25.4	32.6	42.2
	12.8%	12.8	16.7	21.5	27.6	35.6
	13.3%	10.4	13.8	18.0	23.3	30.1
	13.8%	8.2	11.2	14.9	19.5	25.3
	14.3%	6.2	8.9	12.2	16.2	21.2

UPSIDE		Terminal growth rate (g)				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	12.3%	7%	37%	75%	124%	190%
	12.8%	-12%	14%	47%	89%	145%
	13.3%	-29%	-5%	23.5%	60%	107%
	13.8%	-44%	-23%	2%	34%	74%
	14.3%	-58%	-39%	-17%	11%	46%

Source: Source: Espirito Santo Investment Bank Research.

#### KREDYT INKASO Peer Comparison

Prices as of 17.08.2012	P/E		EV/EBITDA		P/BV		ROE	
	2012P	2013P	2012P	2013P	2012P	2013P	2012P	2013P
Intrum Justitia AB	13.4	11.8	10.3	9.2	2.6	2.4	19.8%	21.0%
Portfolio Recovery Associates Inc	13.9	11.3	8.7	7.2	2.4	2.1	14.1%	19.7%
Encore Capital Group Inc	9.1	7.8	9.1	7.2	1.6	1.4	18.3%	19.9%
Credit Corp Group	10.5	10.0	7.0	7.1	2.1	n/a	22.6%	22.0%
Collection House	7.4	6.8	2.2	2.0	0.9	0.9	11.8%	12.4%
Kruk	9.7	7.7	8.1	7.0	2.4	1.9	29.0%	27.5%
<b>median</b>	<b>10.1</b>	<b>8.9</b>	<b>8.4</b>	<b>7.1</b>	<b>2.2</b>	<b>1.9</b>	<b>19%</b>	<b>20%</b>
<b>median for foreign peers only</b>	<b>10.5</b>	<b>10.0</b>	<b>8.7</b>	<b>7.2</b>	<b>2.1</b>	<b>1.7</b>	<b>18%</b>	<b>20%</b>
<b>Kredyt Inkaso</b>	<b>6.8</b>	<b>5.0</b>	<b>6.9</b>	<b>5.5</b>	<b>1.1</b>	<b>0.9</b>	<b>17.8%</b>	<b>20.4%</b>
<i>premium/discount</i>	-33.0%	-44.4%	-18.3%	-22.7%	-50.7%	-51.1%		
<i>premium/discount for foreign peers</i>	-35.5%	-50.6%	-21.2%	-23.1%	-47.0%	-46.4%		
implied KRI value of equity	281.1	338.9	285.5	316.5	328.5	352.9		
implied KRI value of equity on foreign peers	292.1	381.1	305.6	319.0	317.9	330.4		
			median of implied value (PLN m)		318.5			
			<b>implied price (PLN)</b>		<b>24.6</b>			
			<i>upside potential</i>		69%			

Source: Bloomberg, Espirito Santo Investment Bank Research.



## Valuation Methodology

Our valuation is 100% DCF-based (with the following assumptions: equity risk premium of 5.0%, cost of equity of 17.7% for 2012-2016 and 16.5% in Terminal Value (TV) and after tax cost of debt of 10.5% for 2012-2016 and 8.8% in TV; we assume a long-term growth rate of 3%). We also carry out a peer multiple valuation (0% weighting) for comparison.

## Risks to Fair Value

- **Downside risk to overall macroeconomic conditions**, especially households' financial standing due to a higher unemployment rate, slower GDP growth or lower wages;
- **Growing competition** - pressure on receivables' prices. The competition for receivables in Poland is strong and growing, which might put further pressure on NPL prices and ultimately decrease margins.
- **Capital increase** - there is a risk that KRI will need fresh capital to finance further acquisitions of NPL portfolios. We would not expect this to happen in 2012 calendar year.

Kredyt Inkaso KRI PW



Report date	Recommendation	Fair value	Share price
2012 March 23	Buy	PLN 17.50	PLN 14.11
2011 January 21	Buy	PLN 18.00	PLN 13.60

Source: Bloomberg, Espirito Santo Investment Bank Research

Please visit our website at [www.EspiritoSantoIB-Research.com](http://www.EspiritoSantoIB-Research.com) for up to date recommendation charts.



## IMPORTANT DISCLOSURES

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TRADING RATING	DEFINITION
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