

KRUK

Bright light among financials

Kruk presented very solid 2012 results, in line with our expectations, with net profit of PLN 81.2m. We believe that unlike most Polish financial stocks we cover, KRUK will deliver net profit growth for the second year in a row in 2013. New portfolio purchases, good cost discipline and supportive macroeconomic conditions with a stable level of non-performing consumer loans in the Polish banking system and significantly lower market interest rates lead us to forecast double-digit growth this year. The company wants to grow and is seeking new opportunities. Management is analysing the possibility of entering new markets: Spain and Turkey are its main preferences, Russia less so. We do not incorporate any new market into our model, so confirmation of foreign expansion could be a strong catalyst for the stock. Although Kruk is up by 43% YTD, outperforming the broad index by almost 50%, we still see some room for growth. Our slightly lowered NP forecasts for 2013E and 2014E are more than offset by a reduced WACC and thus we increase our FV from PLN 57 to PLN 70.0, implying 11% upside potential.

Investments on the growth track again

After a record high 2011 with investments of more than PLN 0.5bn, Kruk reduced its appetite for new portfolios mostly on the back of the high prices, especially in the first half of 2012. In total the company has invested PLN 309m (our expectation was for PLN 383m) in new portfolios, with the bulk of that value in 2H12, when competitors were slightly less aggressive. Management wants to increase investments in 2013, targeting ca. PLN 400m. Given milder competition in Poland and a growing presence in the Czech Republic and Slovakia, we think this target is more or less achievable.

Above-average profitability

Kruk has maintained above-average profitability with ROE close to 30% for the last three years. While we expect this to fall slightly - mostly owing to a forecast increase in retained earnings - we highlight that Kruk remains the most profitable financial stock in our coverage based on the ROE ratio. What is more, unlike the Polish banks Kruk will benefit from the recent cuts in the reference rate by the National Bank of Poland, as it will pay less for loans and bonds. On our estimates savings in financial costs could reach PLN 9m this year, 11% of reported 2012 net profit.

Still at a discount to foreign peers

Despite a strong rally at the beginning of the year, Kruk is still at more than a 15% discount to foreign peers (Bloomberg consensus) on PE, trading at 11.0x and 9.9x for 2013E and 2014E, respectively. Kruk's valuation also looks attractive vs. the median of Polish banks we cover, trading on our estimates at 14.4x, although we believe that some discount is warranted given the relatively stable dividend policies of the Polish lenders and no dividend planned by Kruk.

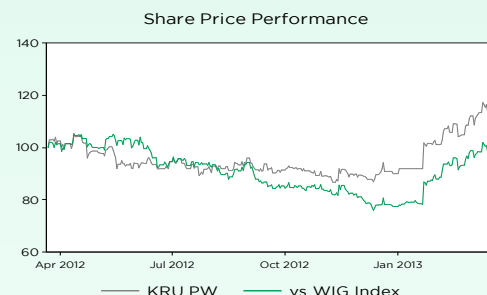
BUY 11% upside
Fair Value **PLN 70.00**

Bloomberg ticker **KRU PW**
Share Price **PLN 63.00**
Market Capitalisation **PLN 1,064.72m**
Free Float **64%**

PLN m Y/E 31-Dec	2012A	2013E	2014E	2015E
Debt portfolios purchases	309	375	393	418
Cash repayments	451	557	657	737
Revenues	343	394	443	483
Cash EBITDA	292	368	440	497
EBITDA	137	155	170	183
Net Income	81.2	96.6	108.1	117.3

Y/E 31-Dec	2012A	2013E	2014E	2015E
P/E (x)	13.1	11.0	9.9	9.1
P/BV (x)	3.4	2.6	2.2	1.8
ROE	29.2%	26.4%	23.3%	20.7%
Dividend yield	0.0%	0.0%	0.9%	1.0%
Reported EPS (PLN)	4.7	5.6	6.2	6.7
DPS (PLN)	0.0	0.0	0.6	0.6
BV per share (PLN)	18.6	23.9	29.2	35.3

DPS based on cash flow basis



All share price data as at close on 21-Mar-2013

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

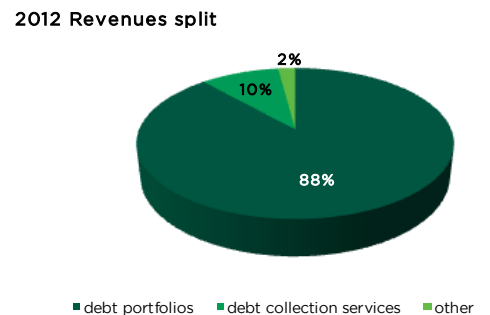
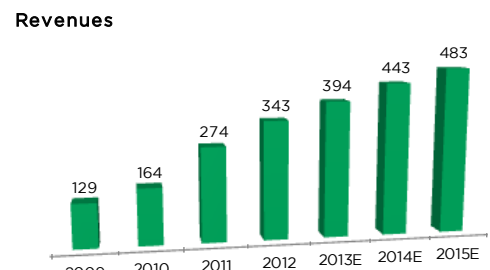
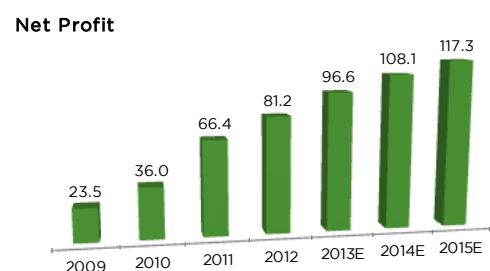
Analysts

Lukasz Janczak
+48 22 347 4062
ljanczak@espiritasantoinb.pl
Banco Espirito Santo de Investimento, S.A. - Warsaw Branch
Poland 59 Zlota Street, 00-120 Warsaw

Kamil Stolarski
+48 22 347 4048
kstolarski@espiritasantoinb.pl
Banco Espirito Santo de Investimento, S.A. - Warsaw Branch
Poland 59 Zlota Street, 00-120 Warsaw

Table 1 Financial information

KRUK		Valuation Metrics	2010	2011	2012	2013E	2014E	2015E
Rating	BUY	Reported P/E (x)	29.6	16.0	13.1	11.0	9.9	9.1
Fair Value:	70.0	P/BV	7.3	4.5	3.4	2.6	2.2	1.8
Previous Fair Value	57.0	ROE	31.0%	35.9%	29.2%	26.4%	23.3%	20.7%
change	23%	EV / EBITDA (x)	25.1	14.8	11.2	9.9	9.0	8.4
		EV / cash EBITDA (x)	12.1	7.6	5.5	4.4	3.7	3.3
Share Price (21/03/2013, PLN):	63.00	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.9%	1.0%
Upside / Downside potential	11%	Buy back yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Bloomberg	KRU PW	Key Ratios	2010	2011	2012	2013E	2014E	2015E
Shares (m)(diluted)	17.5	EBITDA margin	28.3%	37.0%	42.0%	41.3%	40.5%	39.9%
Market Cap (PLN m)	1,065	EBIT margin	25.9%	35.0%	39.8%	39.3%	38.5%	37.9%
Equity Value (PLN m)	253	C/I	74.1%	65.5%	60.9%	60.7%	61.5%	62.1%
		Effective tax rate	-1.4%	3.1%	4.6%	6.0%	6.0%	6.0%
		Net profit margin	21.9%	24.2%	23.7%	24.5%	24.4%	24.3%
Forthcoming Catalysts		Average price for purchased debt	9.4%	13.9%	12.0%	11.8%	13.1%	13.9%
1Q13 results publication	15 May 2013	Net Debt / EBITDA (x)	2.2	4.3	3.8	3.8	3.6	3.4
1H13 results publication	02 September 2013	Net Debt / Equity	0.8	1.8	1.7	1.5	1.3	1.1
3Q13 results publication	14 November 2013							
ES Equity Research Analyst		Cash Flow Summary (PLN m)	2010	2011	2012	2013E	2014E	2015E
Lukasz Janczak		Cash repayments	197.9	341.1	451.3	556.5	657.5	736.6
+48 22 347 40 62		Operating expenses	(60.9)	(103.1)	(122.2)	(150.3)	(177.5)	(198.9)
ljanczak@esinvestment.pl		Other CFO	(13.0)	(39.7)	(89.4)	(88.5)	(95.4)	(100.8)
Kamil Stolarski		Operating Cash Flow	124.0	198.3	239.8	317.8	384.5	436.9
+48 22 347 40 48		Debt portfolios purchases	(194.0)	(568.8)	(309.2)	(374.9)	(393.3)	(418.5)
kstolarski@esinvestment.pl		Other CFI	(7.0)	(9.4)	(14.1)	(9.2)	(9.9)	(10.0)
Net Profit		Cash Flow from Investment	(201.0)	(578.2)	(323.3)	(384.1)	(403.2)	(428.4)
		Change in debt	57.3	352.0	120.6	60.0	60.0	10.0
		Other CFF	16.6	44.3	(30.7)	0.0	(9.7)	(10.8)
		Cash Flow from Financing	73.9	396.3	89.9	60.0	50.3	(0.8)
		Cash Flow Total	(3.1)	16.3	6.4	(6.3)	31.7	7.6
		P&L Summary (PLN m, unless stated)	2010	2011	2012	2013E	2014E	2015E
		Revenues	164.3	274.1	343.0	393.9	442.7	483.2
		% change	27.8%	66.8%	25.2%	14.8%	12.4%	9.1%
		EBITDA	46.5	101.4	144.0	162.8	179.4	192.6
		% change	33.4%	118.4%	42.0%	13.0%	10.2%	7.4%
		% margin	28.3%	37.0%	42.0%	41.3%	40.5%	39.9%
		Depreciation & Amortisation	3.9	5.4	7.3	8.0	9.0	9.5
		EBIT	42.5	96.0	136.7	154.8	170.4	183.1
		% change	34%	126%	42%	13%	10%	7%
		% margin	26%	35%	40%	39%	38%	38%
		Net Financials	(7.0)	(27.4)	(51.6)	(52.0)	(55.4)	(58.3)
		Pre-Tax Profit	35.5	68.6	85.1	102.8	115.0	124.8
		Income Tax Expense	(0.5)	2.2	3.9	6.2	6.9	7.5
		Net Income	36.0	66.4	81.2	96.6	108.1	117.3
		% change		85%	22%	19%	12%	9%
		Reported EPS (PLN)	2.4	3.9	4.7	5.6	6.2	6.7
		DPS (PLN)	0.00	0.00	0.00	0.00	0.56	0.62
		Payout Ratio	0%	0%	0%	0%	10%	10%
		Shares in Issue (Less Treasury) (m)	15.3	16.9	17.1	17.3	17.5	17.5
		Balance Sheet (PLN m)	2010	2011	2012	2013E	2014E	2015E
		Cash & Equivalents	20.8	36.2	42.7	36.5	68.1	75.8
		Tangible Fixed Assets	9.6	14.3	17.2	18.4	19.3	19.8
		Goodwill & Intangibles	6.0	7.7	7.6	7.6	7.6	7.6
		Purchased receivables (at fair value)	263.2	718.7	880.0	1050.0	1182.2	1296.0
		Other Assets	18.0	23.6	23.8	23.6	25.1	26.3
		Total Assets	317.6	800.5	971.4	1,136.1	1,302.4	1,425.5
		Interest Bearing Debt	122.1	477.0	596.4	656.4	716.4	726.4
		Other Liabilities	195.4	323.5	375.0	479.7	586.0	699.1
		Total Liabilities	317.6	800.5	971.4	1,136.1	1,302.4	1,425.5
		Shareholders' Equity	132.0	238.2	317.5	414.1	512.5	619.0
		Minority Interests	0.0	0.2	0.2	0.2	0.2	0.2
		Total Equity	132.0	238.4	317.6	414.2	512.7	619.2
		Net Debt	101.4	440.8	553.7	619.9	648.2	650.6



Source: Company data, Espirito Santo Investment Bank Research for estimates, Bloomberg



Forecast changes

We have somewhat trimmed our net profit forecasts for this year and next, reflecting lower than expected debt purchases in 2012 (PLN 309m vs. PLN 383m assumed by us), but the overall picture remained unchanged. We expect Kruk to deliver earnings growth over the next few years.

Table 2 Changes to forecasts

(PLN m, unless other stated)	2013E				2014E			
	New	Old	Ch.%	Ch. m	New	Old	Ch.%	Ch. m
Cash repayments	556.5	694.5	-20%	(138.0)	657.5	772.9	-15%	(115.4)
Revenues	393.9	458.8	-14%	(64.9)	442.7	506.0	-13%	(63.3)
EBITDA	154.8	163.9	-6%	(9.1)	170.4	179.7	-5%	(9.3)
Net profit	96.6	102.1	-5%	(5.5)	108.1	112.3	-4%	(4.2)

Source: Espirito Santo Investment Bank Research for estimates.

Valuation update

We believe a DCF valuation fully reflects cash generation and debt servicing potential and is the best methodology to value highly-leverage debt collection companies. For comparable purposes we present a peers multiple valuation.

Following cuts in the reference rate and falling yields for Polish bonds we lower the risk free rate to 3.9% from 5.2%. As a result we now apply a WACC of 10.4% for 2013E-17E and 9.7% for the terminal value (11.8% and 10.9% previously). We keep the terminal growth rate of 3% and still assume a 19% tax rate in the terminal value to reflect the risk of potential changes in this respect.

Table 3 DCF Valuation

DCF Valuation	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	TV
EBIT	42.5	96.0	136.7	154.8	170.4	183.1	198.5	203.4	209.4
tax rate	-1.4%	3.1%	2.9%	6.0%	6.0%	6.0%	6.0%	6.0%	19.0%
tax paid	0.6	-3.0	-3.9	-9.3	-10.2	-11.0	-11.9	-12.2	-39.8
NOPAT	43.1	93.0	132.8	145.5	160.2	172.1	186.6	191.2	169.6
Depreciation	3.9	5.4	7.3	8.0	9.0	9.5	10.0	10.5	10.0
Change in WC	21.8	15.5	-28.0	8.3	6.4	5.4	3.8	6.3	0.0
Portfolios amortization	86.8	112.9	146.8	204.9	261.0	304.7	340.3	397.4	340.3
Portfolios purchases	-194.0	-568.8	-309.2	-374.9	-393.3	-418.5	-440.6	-454.0	-340.3
CAPEX	-7.0	-9.4	-14.1	-9.2	-9.9	-10.0	-10.0	-10.5	-10.0
FCF	-45.2	-351.5	-64.4	-17.4	33.4	63.2	90.1	141.0	169.6
			<i>discount factor</i>	0.91	0.82	0.74	0.67	0.61	
			PV FCF	-15.7	27.4	47.0	60.7	86.0	1521.8
			g	3%					
			EV	1727.1					
			Net debt (as of 31.12.2012)	553.7					
			month	3					
			Value of equity (today)	1207.3					
			NPV motivational program inflow	20.9					
			shares number (fully diluted)	17.5					
			Fair Value (PLN)	70.0					
			upside potential	11.1%					

Source: Espirito Santo Investment Bank Research for estimates, Company data

Table 4 DCF sensitivity analysis

FAIR VALUE	WACC	Terminal growth rate (g)				
		1.0%	2.0%	3.0%	4.0%	5.0%
	8.4%	56.0	66.0	80.0	98.0	123.0
	9.4%	52.0	62.0	75.0	92.0	116.0
	10.4%	48.0	58.0	70.0	86.0	110.0
	11.4%	45.0	54.0	66.0	81.0	104.0
	12.4%	42.0	50.0	62.0	77.0	98.0

change to FV	WACC	Terminal growth rate (g)				
		1.0%	2.0%	3.0%	4.0%	5.0%
	8.4%	-20%	-6%	14%	40%	76%
	9.4%	-26%	-11%	7%	31%	66%
	10.4%	-31%	-17%	0%	23%	57%
	11.4%	-36%	-23%	-6%	16%	49%
	12.4%	-40%	-29%	-11%	10%	40%

Source: Espirito Santo Investment Bank Research for estimates.



We present a peers multiple valuation with an implied price of PLN 61.9 for comparable purposes only. Kruk trades at a PE discount to its foreign peers, but at a premium on EV/EBITDA.

Table 5 Peers multiple valuation

	P/E			EV/EBITDA			P/BV			ROE		
	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
Intrum Justitia AB	14.4	13.0	12.3	10.1	9.3	10.1	3.0	2.7	2.5	21.0%	22.0%	21.0%
Portfolio Recovery Associates Inc	14.1	12.4	#N/A	8.8	7.9	#N/A	2.4	2.3	#N/A	19.0%	19.0%	#N/A
Encore Capital Group Inc	8.4	7.3	6.3	7.3	6.4	#N/A	1.5	1.3	1.1	20.0%	19.0%	19.0%
Credit Corp Group	12.9	11.8	11.2	8.5	8.0	7.0	2.7	3.0	#N/A	23.0%	22.0%	#N/A
Collection House	11.2	10.0	9.6	3.8	3.5	3.3	1.5	1.4	1.3	14.0%	14.0%	14.0%
Kredyt Inkaso	7.3	6.2	5.6	8.0	8.2	8.8	0.9	0.8	0.7	14.0%	14.2%	13.8%
median	12.1	10.9	9.6	8.2	8.0	7.9	2.0	1.9	1.2	20%	19%	17%
median for foreign peers only	12.9	11.8	10.4	8.5	7.9	7.0	2.4	2.3	1.3	20%	19%	19%
KRUK	11.0	9.9	9.1	10.5	9.5	8.8	2.6	2.2	1.8	26.4%	23.3%	20.7%
<i>premium/discount</i>	<i>-8.5%</i>	<i>-9.6%</i>	<i>-5.5%</i>	<i>26.9%</i>	<i>19.5%</i>	<i>11.6%</i>						
<i>premium/discount to foreign peers only</i>	<i>-14.6%</i>	<i>-16.5%</i>	<i>-12.7%</i>	<i>23.0%</i>	<i>20.2%</i>	<i>26.3%</i>						
implied value of equity	1164.2	1178.1	1126.2	932.6	1016.9	1116.6	966.1	1052.4	853.2			
implied value of equity (based on foreign peers only)	1246.3	1275.4	1220.0	974.6	1007.9	938.9	1159.3	1308.4	802.6			
						1084.5						
						implied price (PLN)						
												<i>upside potential</i>
												<i>-2%</i>

Source: Bloomberg consensus forecasts for not rated companies, Espirito Santo Investment Bank Research for KRUK and KRI estimates. Figures for KRI refer to a March year end, ie 2013E refers to March 2014.

Table 6 Kruk vs. Polish banks on estimated PE multiples (PLN)

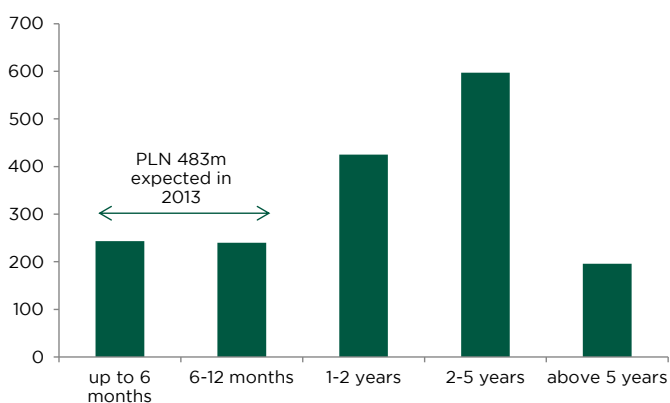
	Ticker	Price	FV	Rating	PE'13E	PE'14E
PKO BP	PKO PW	34.2	40.4	BUY	13.1	10.2
Pekao	PEO PW	157.0	146.0	SELL	16.1	14.2
BZ WBK	BZW PW	255.0	252.0	NEUTRAL	16.1	12.5
BRE Bank	BRE PW	348.0	363.0	BUY	13.7	12.0
Bank Handlowy	BHW PW	92.5	85.7	SELL	16.7	15.9
ING BSK	ING PW	90.8	90.1	NEUTRAL	14.8	13.2
Bank Millennium	MIL PW	4.9	4.8	NEUTRAL	14.0	10.7
Getin Noble Bank	GNB PW	1.8	1.7	SELL	14.0	11.5
median					14.4	12.3
Kruk					11.0	9.9
<i>premium/discount</i>					<i>-23%</i>	<i>-20%</i>

Source: Espirito Santo Investment Bank Research for estimates, Reuters

High double digit growth

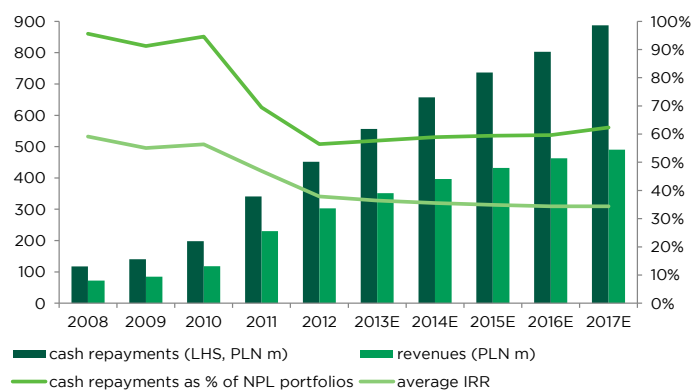
In the past few years Kruk has managed to grow net profit at a high double-digit rate and management understandably wants to continue this. Management aims to grow this year as well and seeks to increase investments in new portfolios. We expect the company to recover PLN 557m of cash in 2013, 23% more than in 2012. The current repayments schedule presented in the financial statements assumes PLN 483m from currently held portfolios. We assume that the remaining part will be recovered from portfolios that will be bought this year.

Figure 1 Current (end of 2012) repayments schedule (PLN m)



Source: Espirito Santo Investment Bank Research, Company Data

Figure 2 Cash repayments and revenues from NPL portfolios (PLN m)



Source: Company data, Espirito Santo Investment Bank Research for estimates

Cash recoveries from Kruk's investments in portfolios grew at a CAGR of 40% in 2008-12, while revenues from acquired portfolios grew even more at a CAGR of 43%. The strongest increase was seen in 2011 thanks to high investments that year. We forecast cash repayments growth to slow to 23% this year but we still expect growth in 2013E-17E at a CAGR of 14.5%, which would be an excellent result vs the broad financial sector in Poland. We forecast this to translate into revenues growth of 16% this year and CAGR 10.1% in 2013E-17E.

Investments in new portfolios

Last year Kruk invested PLN 309m in new portfolios vs our expectations of PLN 383m. However, we assumed a face value of portfolios of PLN 2.8bn, while the company eventually bought more than PLN 3.6bn of bad debts. The higher face value resulted from purchasing bigger portfolios with lower quality. Currently Kruk's portfolios have a face value of ca. PLN 12.7bn. Management aims to increase investments this year and wants to allocate ca. PLN 400m to new NPLs. Our forecast is slightly below management guidance at PLN 375m.

Figure 3 Investments in NPLs portfolios (PLN m)



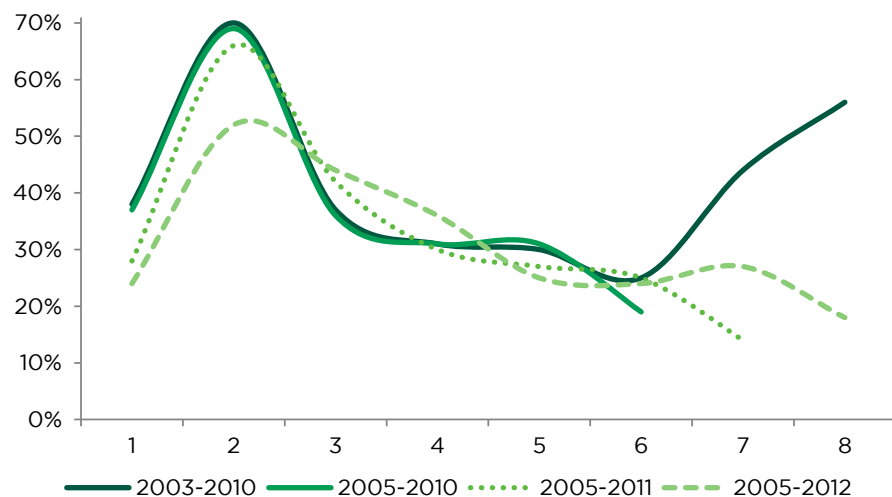
Source: Company data, Espirito Santo Investment Bank Research for estimates



Repayments curves

The average-weighted repayments curve for portfolios purchased in 2005-12 presented by the company suggests that the average IRR for portfolios from 2012 is lower than in 2011. We have taken this into account and have updated our assumed curves.

Figure 4 Kruk's weighted average repayment curves for different periods



Source: Company data.

Table 7 Repayments curves in details

Period	1	2	3	4	5	6	7	8	TOTAL	sum of first 6Y	IRR
2003-2010	38%	70%	37%	31%	30%	25%	44%	56%	331%	231%	41%
2005-2010	37%	69%	36%	31%	31%	19%			223%	223%	35%
2005-2011	28%	66%	42%	30%	27%	25%	14%		232%	218%	32%
2005-2012	24%	52%	44%	36%	25%	24%	27%	18%	250%	205%	30%

Source: Company data, Espirito Santo Investment Bank Research for estimates

Growing importance of other countries

Kruk has now diversified its investments into four countries: Poland, Romania, and two smaller ones: the Czech Republic and Slovakia. The company wants to increase its presence in smaller markets, but firstly has to get hold of some repayments history to better estimate the value of the portfolios. Management is still searching new opportunities and is now considering entering Turkey, Spain or Russia. We believe the next step towards geographical diversification could be a positive trigger as it could help the company to grow faster. Romania, the Czech Republic and Slovakia are good examples of management's proven track record in foreign expansion.

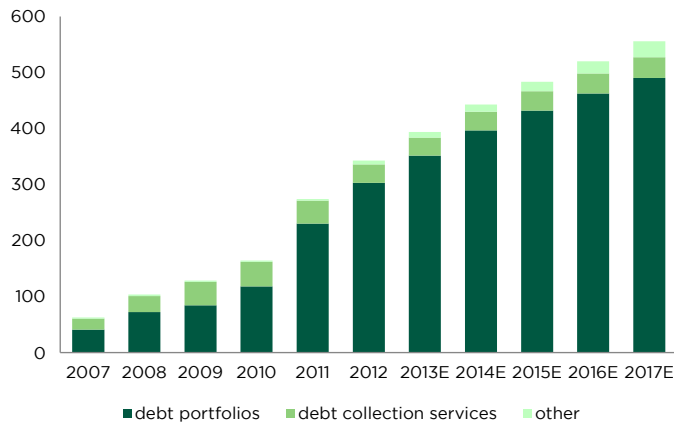
Table 8 Company's results – country breakdown

	2009	2010	2011	2012
Revenues	103.9	164.3	274.0	343.0
Poland	102.3	122.7	170.0	240.1
Romania	1.6	41.6	102.9	85.1
Other countries	0.0	0.0	1.1	17.8
Middle margin	47.6	74.7	149.3	194.1
Poland	50.9	45.9	68.8	124.6
Romania	-3.3	28.8	79.6	61.0
Other countries	0.0	0.0	0.8	8.5
Middle margin %	46%	45%	54%	57%
Poland	50%	37%	40%	52%
Romania	-210%	69%	77%	72%
Other countries	n/a	n/a	73%	48%
Revenue split	2009	2010	2011	2012
Poland	98%	75%	62%	70%
Romania	2%	25%	38%	25%
Other countries	0%	0%	0%	5%
Margin split				
Poland	107%	61%	46%	64%
Romania	-7%	39%	53%	31%
Other countries	0%	0%	1%	4%

Source: Espirito Santo Investment Bank Research, Company Data

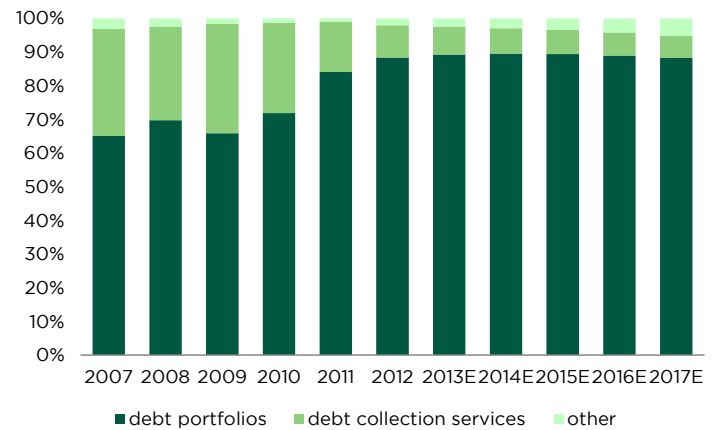
Main figures

Figure 5 Revenues (PLN m)



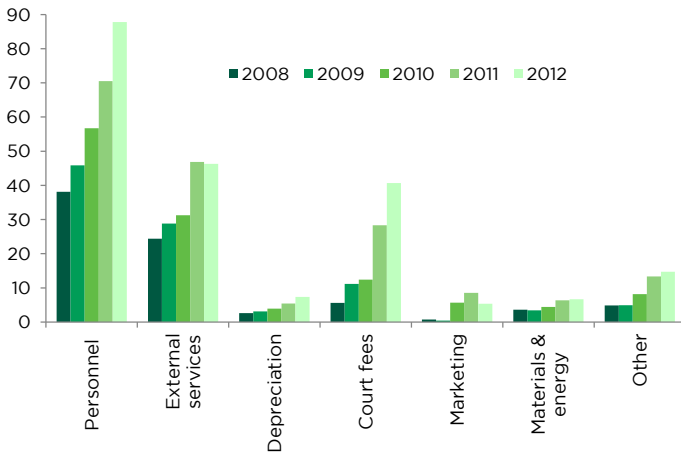
Source: Company data, Espirito Santo Investment Bank Research for estimates

Figure 6 Revenues structure



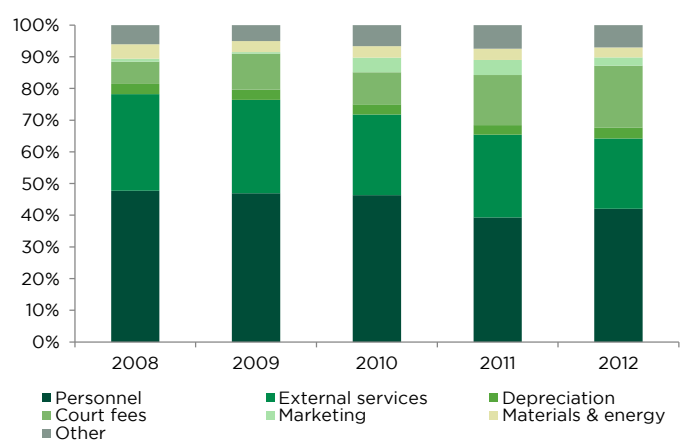
Source: Company data, Espirito Santo Investment Bank Research for estimates

Figure 7 Operating expenses (PLN m)



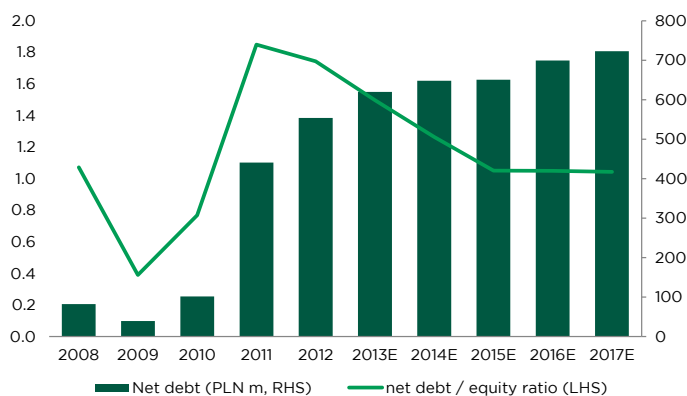
Source: Espirito Santo Investment Bank Research, Company Data

Figure 8 Operating expenses structure



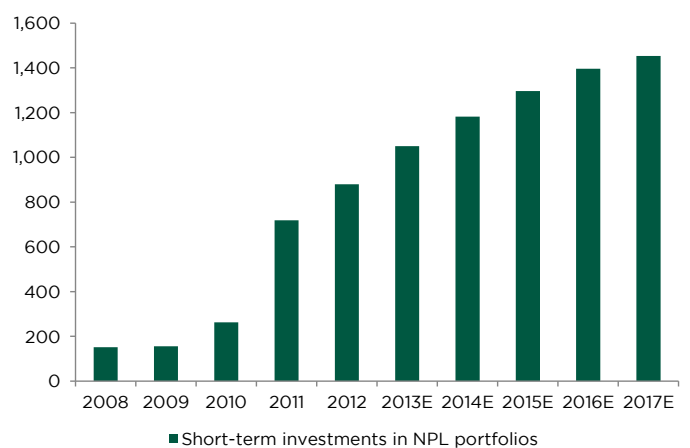
Source: Espirito Santo Investment Bank Research, Company Data

Figure 9 Net debt evolution and leverage



Source: Company data, Espirito Santo Investment Bank Research for estimates

Figure 10 Outstanding value of investments in NPL portfolios (PLN m)



Source: Company data, Espirito Santo Investment Bank Research for estimates

Table 9 P&L statement

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Cash repayments	117.2	140.4	197.9	341.1	451.3	556.5	657.5	736.6	802.7	887.6
Revenues	103.9	128.6	164.3	274.1	343.0	393.9	442.7	483.2	520.0	555.5
debt portfolios	72.5	84.7	118.1	230.4	303.0	351.6	396.5	431.9	462.4	490.1
<i>as a % of cash repayments</i>	62%	60%	60%	68%	67%	63%	60%	59%	58%	55%
of which: revaluations	9.1	6.3	18.4	19.7	4.7	0.0	0.0	0.0	0.0	0.0
debt collection services	28.7	41.8	44.1	41.0	32.9	32.4	33.3	34.5	35.7	36.9
other	2.7	2.1	2.2	2.7	7.1	10.0	12.9	16.8	21.9	28.4
Middle margin	47.6	57.0	74.7	143.7	194.1	214.8	233.2	248.3	266.2	273.3
debt portfolios	37.9	38.7	57.2	127.3	180.8	201.3	218.9	233.0	249.7	255.4
debt collection services	9.2	17.7	18.2	17.7	12.4	12.0	12.3	12.8	13.2	13.7
other	0.4	0.6	-0.7	-1.3	0.9	1.5	1.9	2.5	3.3	4.3
SG&A	19.1	21.4	28.1	40.9	50.3	52.0	53.8	55.7	57.7	59.4
EBITDA	27.4	34.8	46.5	101.4	144.0	162.8	179.4	192.6	208.5	213.9
Depreciation	2.6	3.1	3.9	5.4	7.3	8.0	9.0	9.5	10.0	10.5
EBIT	24.8	31.7	42.5	96.0	136.7	154.8	170.4	183.1	198.5	203.4
Net financial result	-8.5	-4.4	-7.0	-27.4	-51.6	-52.0	-55.4	-58.3	-60.3	-64.6
Gross profit	16.3	27.3	35.5	68.6	85.1	102.8	115.0	124.8	138.2	138.7
tax	-0.4	3.8	-0.5	2.2	3.9	6.2	6.9	7.5	8.3	8.3
Net profit	16.7	23.5	36.0	66.4	81.2	96.6	108.1	117.3	129.9	130.4
Margins %	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
<i>Middle margin</i>	45.8%	44.3%	45.4%	52.4%	56.6%	54.5%	52.7%	51.4%	51.2%	49.2%
debt portfolios	52.3%	45.7%	48.4%	55.2%	59.7%	57.3%	55.2%	54.0%	54.0%	52.1%
debt collection services	32.2%	42.5%	41.3%	43.2%	37.6%	37.0%	37.0%	37.0%	37.0%	37.0%
EBITDA	26.4%	27.1%	28.3%	37.0%	42.0%	41.3%	40.5%	39.9%	40.1%	38.5%
EBIT	23.8%	24.7%	25.9%	35.0%	39.8%	39.3%	38.5%	37.9%	38.2%	36.6%
net profit	16.1%	18.3%	21.9%	24.2%	23.7%	24.5%	24.4%	24.3%	25.0%	23.5%
C/I	76.2%	75.3%	74.1%	65.5%	60.9%	60.7%	61.5%	62.1%	61.8%	63.4%
effective tax rate	-2.5%	14.1%	-1.4%	3.1%	4.6%	6.0%	6.0%	6.0%	6.0%	6.0%

Source: Company data, Espirito Santo Investment Bank Research for estimates

Table 10 Balance Sheet statement

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Fixed assets	21.1	15.3	18.8	23.8	27.5	28.7	29.6	30.1	30.1	30.1
Tangible fixed assets	8.1	8.2	9.6	14.3	17.2	18.4	19.3	19.8	19.8	19.8
Intangible assets	3.3	4.4	6.0	7.7	7.6	7.6	7.6	7.6	7.6	7.6
Other	9.7	2.8	3.3	1.8	2.6	2.6	2.6	2.6	2.6	2.6
Current Assets	190.6	192.6	298.7	776.6	943.9	1107.2	1272.4	1394.8	1487.3	1561.0
Inventories	0.8	0.7	0.5	0.5	0.9	0.9	0.9	0.9	0.9	0.9
Receivables	7.8	9.5	10.6	12.8	12.0	11.8	13.3	14.5	15.6	16.6
Short-term investments in NPL portfolios	152.2	155.4	263.2	718.7	880.0	1050.0	1182.2	1296.0	1396.3	1452.9
Cash and equivalents	25.1	23.8	20.8	36.2	42.7	36.2	67.7	75.2	66.3	82.3
Other	4.8	3.1	3.7	8.4	8.3	8.3	8.3	8.3	8.3	8.3
TOTAL ASSETS	211.7	207.9	317.6	800.5	971.4	1135.8	1302.0	1424.9	1517.4	1591.1
Long-term liabilities	56.3	21.6	78.0	339.5	409.2	469.2	529.2	539.2	579.2	619.2
financial	56.3	13.6	78.0	339.5	409.2	469.2	529.2	539.2	579.2	619.2
non-financial	0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term liabilities	78.8	86.3	107.5	222.6	244.6	252.5	260.4	266.9	271.8	279.0
financial	50.8	49.2	44.1	137.5	187.2	187.2	187.2	187.2	187.2	187.2
payables	19.3	26.6	49.2	66.9	38.5	46.4	54.3	60.8	65.6	72.9
other	8.7	10.5	14.2	18.1	18.9	18.9	18.9	18.9	18.9	18.9
Equity	76.5	100.0	132.0	238.4	317.6	414.1	512.4	618.8	666.5	692.9
Equity Capital	27.8	28.0	24.0	105.7	103.9	103.9	103.9	103.9	103.9	103.9
Retained earnings	48.5	71.9	108.0	132.5	213.5	310.0	408.3	514.7	562.4	588.8
Minorities	0.2	0.1	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
TOTAL LIABILITIES	211.7	207.9	317.6	800.5	971.4	1135.8	1302.0	1424.9	1517.4	1591.1

Source: Company data, Espirito Santo Investment Bank Research for estimates

Table 11 Cash Flow statement

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
CFO	89.0	107.9	124.1	198.3	239.8	317.5	384.4	436.7	483.7	544.3
Cash repayments	117.2	140.4	197.9	341.1	451.3	556.5	657.5	736.6	802.7	887.6
Operating expenses	-34.6	-46.0	-60.9	-103.1	-122.2	-150.3	-177.5	-198.9	-212.7	-234.8
Debt collecting services margin	9.2	17.7	18.2	17.7	12.4	12.0	12.3	12.8	13.2	13.7
SG&A	-19.1	-21.4	-28.1	-40.9	-50.3	-52.0	-53.8	-55.7	-57.7	-59.4
Interest expenses, tax and others	16.2	17.2	-3.2	-16.5	-51.5	-48.7	-54.1	-58.1	-61.8	-62.8
CFI	-106.5	-57.6	-201.0	-578.2	-323.3	-384.1	-403.2	-428.4	-450.6	-464.5
Debt portfolios purchases	-103.8	-53.9	-194.0	-568.8	-309.2	-374.9	-393.3	-418.5	-440.6	-454.0
Other CAPEX	-2.7	-3.7	-7.0	-9.4	-14.1	-9.2	-9.9	-10.0	-10.0	-10.5
CFF	31.7	-51.6	73.9	396.3	89.9	60.0	50.3	-0.8	-42.0	-63.7
Debt and leasing	74.6	6.7	17.2	194.9	373.6	60.0	30.0	10.0	20.0	20.0
Bonds	0.0	0.0	112.0	291.0	190.0	0.0	30.0	0.0	20.0	20.0
Debt and leasing repayments	-45.9	-47.6	-37.9	-103.9	-322.5	0.0	0.0	0.0	0.0	0.0
Bond repayments	0.0	0.0	-34.0	-30.0	-120.5	0.0	0.0	0.0	0.0	0.0
Other	3.1	-10.7	16.6	44.3	-30.7	0.0	-9.7	-10.8	-82.0	-103.7
Cash at the beginning of the period	10.8	25.1	23.8	20.8	36.2	42.7	36.2	67.7	75.2	66.3
Cash at the end of the period	25.1	23.8	20.8	36.2	42.7	36.2	67.7	75.2	66.3	82.3

Source: Company data, Espirito Santo Investment Bank Research for estimates

Valuation Methodology

Kruk

Our valuation is 100% DCF-based (with the following assumptions: risk free rate of 3.9% (5.2% previously) equity risk premium of 5.0%, cost of equity of 11.5% (13.0%) for 2013E-17E and 11.2% (12.5%) in Terminal Value (TV) and after tax cost of debt of 8.4% (9.7%) for 2013E-17E and 7.2% (8.1%) in TV; we assume a long-term growth rate of 3%). We also carry out a peer multiple valuation (0% weighting) for comparison.

Kredyt Inkaso

Our valuation is 100% DCF-based (with the following assumptions: equity risk premium of 5.0%, cost of equity of 17.7% for 2012/13E-16/17E and 16.3% in Terminal Value (TV) and after tax cost of debt of 9.0% for 2012/13E-16/17E and 7.5% in TV; we assume a long-term growth rate of 2%). We also carry out a peer multiple valuation (0% weighting) for comparison.

Risks to Fair Value

Kruk and Kredyt Inkaso

- Downside risk to overall macroeconomic conditions, especially households' financial standing due to 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.

Kruk

- FX rate movements: mainly appreciation PLN against RON impacting debt portfolios' fair value and equity capital;
- Share overhang risk from Enterprise Investors, the biggest shareholder currently holding 24.8%.

Kredyt Inkaso

- 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 the 2013 and 2014 calendar year.



KRUK KRU PW



Report date	Recommendation	Fair value	Share price
2012 August 21	Buy	PLN 57.00	PLN 44.64

Source: Bloomberg, Espirito Santo Investment Bank Research

Kredyt Inkaso KRI PW



Report date	Recommendation	Fair value	Share price
2012 August 21	Buy	PLN 18.00	PLN 14.56
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.co.uk for up to date recommendation charts.



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NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months
SELL	Analyst expects at least 10% downside potential to fair value, which should be realized in the next 12 months

TRADING RATING	DEFINITION
TRADING BUY	Analyst expects a positive short-term movement in the share price (max duration 2 months from the time Trading Buy is announced) and may move out of line with the fair value estimate during that period
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Neutral	171	34.9%	17	31.5%	3.5%
Sell	91	18.6%	5	9.3%	1.0%
Restricted	5	1.0%	3	5.6%	0.6%
Under Review	0	0.0%	0	0.0%	0.0%
Trading Rating:					
Trading Buy	1	0.2%	0	0.0%	0.0%
Trading Sell	0	0.0%	0	0.0%	0.0%
Total recommendations	490	100%	54	100%	11.0%

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Contact Information

Garreth Hodgson	Senior Managing Director /Head of Sales	(212) 351-6054	ghodgson@espiritosantoib.com
Eva Gendell	Vice President	(212) 351-6058	egendell@espiritosantoib.com
James Kaloudis	Executive Director	(212) 351-6065	jkaloudis@espiritosantoib.com
Joy Bejasa	Vice President	(212) 351-6055	jbejasa@espiritosantoib.com
Lisa Gottardo	Executive Director	(212) 351-6060	lgottardo@espiritosantoib.com
Mike Williams	Vice President	(212) 351-6052	mwilliams@espiritosantoib.com
Pedro Marques	Vice President	(212) 351-6051	pmarques@espiritosantoib.com
Poorva Upadhyaya	Assistant Vice President	(212) 351-6056	pupadhyaya@espiritosantoib.com

E.S. Financial Services, Inc.
New York Branch
340 Madison Avenue, 12th Floor
New York, N.Y. 10173

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