

Quercus TFI

Gaining momentum

We initiate a coverage of Quercus TFI with Buy rating and TP of PLN 5.3 (27% upside). After difficult 2022, the company is back on the growth path with rising AUM and positive net flows supported by solid rates of return of managed investment funds. In 2023e we expect Quercus to deliver net profit at PLN 24m followed by PLN 21m in 2024e. Given encouraging EPS outlook, dividend/buy-back, we see the current valuation at 10/11x P/E as undemanding.

AUM on the growth path... – At the end of Aug'23 AUM of Quercus TFI increased to PLN 3,696m (19% y/y, 1% m/m) supported by strong growth of assets of *QRS Agresywny*, *QRS Dłużny Krótkoterminowy* and *QRS Ochrony Kapitału*. In our earnings estimates we expect total AUM to improve to PLN 3.9bn (28% y/y) at the end of 2023e and to PLN 4.6bn (18% y/y) at the end of 2024e.

...supported by solid rates of return and declining interest rates – We expect growth of AUM to be driven by positive net flows (PLN 276m YTD in Aug'23) and solid performance of managed investment funds (strong double-digit results in equity-based funds and 8-10% returns in debt-based strategies). We believe also, that incoming interest rate cuts shall prompt clients to look for alternative saving opportunities and turn to investment funds.

Strong numbers ahead – After PLN 14m reported in 2022, we expect QRS's net profit to jump to PLN 24m (68% y/y) in 2023e and to slightly decelerate to PLN 21/20m in 2024/25e. We expect strong support from fixed fee on the back of rising AUM, but also solid success fee.

Dividend or buy-back – Over the last years Quercus TFI used to distribute almost 100% of its earnings as a dividend/buy-back. From 2023/24e earnings we expect 95% dividend/buy-back implying healthy DY of 10/9%.

Undemanding multiples – At our 2023/24e estimates Quercus TFI is trading at 9.7/11.1x 2023/24e P/E, with 26/3% discount to foreign peers. Given encouraging EPS outlook coupled with stable dividend/buy-back, we see the valuation as undemanding.

Key risks – Regulatory risk, dependence on market developments and investment funds' results are key risks to our valuation and estimates.

Quercus TFI - Key figures, 2021-2026e

PLNm unless otherwise stated

| | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|--------------------|------|------|-------|-------|-------|-------|
| Revenues | 83.0 | 93.1 | 109.3 | 119.4 | 125.0 | 127.6 |
| EBITDA | 27.1 | 19.2 | 23.4 | 22.7 | 23.5 | 23.6 |
| Net profit | 25.1 | 14.1 | 23.7 | 20.7 | 20.2 | 19.3 |
| - y/y change | 40% | -44% | 68% | -13% | -2% | -4% |
| Dividend yield (%) | 7.3% | 9.5% | 5.5% | 10.0% | 8.8% | 8.6% |
| P/E (x) | 9.8 | 16.7 | 9.7 | 11.1 | 11.4 | 11.9 |
| P/BV | 2.7 | 2.9 | 2.5 | 2.5 | 2.5 | 2.5 |

Source Company, Pekao Equity Research

Buy (initiation)

Target price **PLN 5.3**

Upside to TP **+27%**
 Price on 6 September 2023 **PLN 4.17**

ESG rating **B**
Final ESG Score **1.14**

Relative share price performance vs. WIG



UPCOMING EVENTS

3Q23 results 20 October

STOCK DATA

Bloomberg QRS PW
 Free float (%) 43.5
 Market capitalization (PLNm) 236
 Diluted no. of shares (mn) 56.5

Shareholders
 Sebastian i Anna Buczek 17.8%
 Jakub Głowacki 16.7%
 Betpay Capital Sp. z o.o. 9.0%
 OFE NN 7.3%
 Q1 FIZ 5.8%
 Other 43.5%

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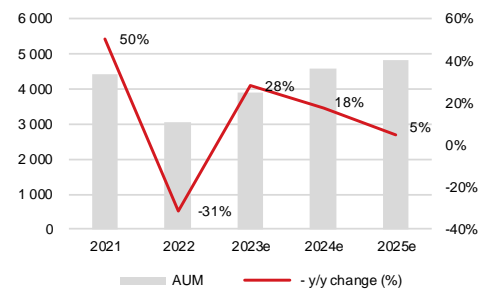
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Key financials

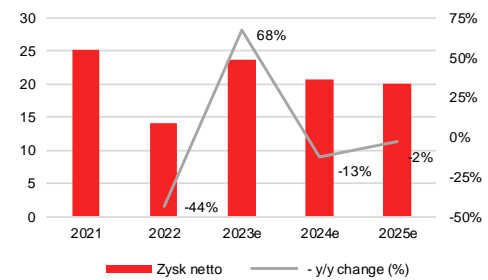
| P&L | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---|--------------|--------------|--------------|---------------|---------------|---------------|
| Revenues | 83.0 | 93.1 | 109.3 | 119.4 | 125.0 | 127.6 |
| - Management fee | 54.1 | 47.4 | 48.8 | 60.4 | 66.0 | 68.7 |
| - Purchase/redemption orders | 7.8 | 39.0 | 42.1 | 45.3 | 45.3 | 45.4 |
| Expenses | -57.5 | -78.1 | -89.5 | -100.4 | -105.3 | -108.0 |
| Distribution costs | -24.0 | -37.3 | -39.7 | -50.5 | -53.8 | -55.1 |
| Staff costs | -19.2 | -20.8 | -27.0 | -26.2 | -27.0 | -27.8 |
| External services | -2.5 | -6.1 | -6.4 | -6.9 | -7.2 | -7.5 |
| Other operating costs | -10.2 | -9.6 | -12.7 | -13.1 | -13.5 | -13.6 |
| D&A | -1.6 | -4.3 | -3.6 | -3.7 | -3.8 | -4.0 |
| EBIT | 25.6 | 14.9 | 19.8 | 19.0 | 19.7 | 19.7 |
| EBITDA | 27.1 | 19.2 | 23.4 | 22.7 | 23.5 | 23.6 |
| Net financial income | 5.0 | 2.8 | 10.3 | 7.4 | 6.1 | 5.0 |
| Pre-tax profit | 30.5 | 17.7 | 30.0 | 26.4 | 25.7 | 24.6 |
| Income tax | -5.4 | -3.0 | -5.7 | -5.0 | -4.9 | -4.7 |
| Net profit | 25.1 | 14.7 | 24.3 | 21.3 | 20.8 | 20.0 |
| Net profit for majority shareholders | 25.1 | 14.1 | 23.7 | 20.7 | 20.2 | 19.3 |
| Balance sheet | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
| Tangible assets | 4.7 | 5.9 | 5.9 | 5.9 | 6.1 | 6.5 |
| Financial assets | 66.9 | 72.9 | 75.1 | 78.6 | 83.5 | 90.3 |
| Fixed assets | 82.0 | 88.1 | 90.2 | 93.9 | 98.9 | 106.1 |
| Receivables | 29.7 | 10.9 | 10.9 | 10.9 | 10.9 | 10.9 |
| Cash & equivalents | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 | 52.8 |
| Current assets | 114.2 | 69.9 | 79.5 | 75.6 | 70.7 | 64.6 |
| Total assets | 196.2 | 158.0 | 169.8 | 169.5 | 169.6 | 170.6 |
| Equity for majority shareholders | 89.6 | 81.1 | 92.8 | 91.0 | 91.6 | 91.7 |
| Provisions for liabilities | 15.1 | 15.1 | 15.4 | 15.7 | 15.5 | 15.7 |
| Leasing | 1.3 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Long-term liabilities | 16.7 | 18.7 | 19.0 | 19.3 | 19.1 | 19.3 |
| Trade liabilities | 2.7 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Liabilities to customers | 68.9 | 39.8 | 39.4 | 40.4 | 40.0 | 40.5 |
| Short-term liabilities | 89.9 | 53.0 | 52.7 | 53.9 | 53.7 | 54.3 |
| Equity and liabilities | 196.2 | 158.0 | 169.8 | 169.5 | 169.6 | 170.6 |
| Cash flow | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
| Net profit | 25.1 | 14.7 | 24.3 | 21.3 | 20.8 | 20.0 |
| D&A | 1.6 | 4.3 | 3.6 | 3.7 | 3.8 | 4.0 |
| Financial expenses | 0.3 | 0.2 | 0.3 | 0.1 | 0.1 | 0.1 |
| Other | -14.2 | -20.3 | -0.1 | 1.3 | -0.5 | 0.7 |
| Operating cash flow | 12.8 | -1.1 | 28.2 | 26.5 | 24.2 | 24.7 |
| Proceeds from financial assets sales | 15.0 | 7.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Capex | -0.7 | -1.5 | -2.1 | -2.3 | -2.5 | -2.8 |
| Financial assets spending | -21.0 | -5.7 | -7.0 | -8.4 | -9.7 | -11.7 |
| Investing cash flow | 49.4 | 3.4 | -5.6 | -7.2 | -8.8 | -11.0 |
| Shares issue | 22.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend/buy-back | -17.9 | -22.3 | -12.6 | -23.1 | -20.3 | -19.8 |
| Other | -0.8 | -2.5 | -0.3 | -0.1 | -0.1 | -0.1 |
| Financial cash flow | 3.8 | -24.9 | -12.9 | -23.2 | -20.4 | -19.9 |
| Cash at the beginning of period | 14.8 | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 |
| Cash at the end of period | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 | 52.8 |
| Key data | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
| AUM (PLNm) | 4 438 | 3 054 | 3 911 | 4 603 | 4 827 | 4 983 |
| - y/y change (%) | 50% | -31% | 28% | 18% | 5% | 3% |
| Average AUM (PLNm) | 3 682 | 3 512 | 3 482 | 4 257 | 4 715 | 4 905 |
| - y/y change (%) | 48% | -5% | -1% | 22% | 11% | 4% |
| ROE (%) | 28% | 17% | 27% | 23% | 22% | 21% |
| ROA (%) | 18% | 8% | 14% | 12% | 12% | 11% |
| Net profit margin (%) | 30% | 15% | 22% | 17% | 16% | 15% |
| Margin on average AUM (%) | 0.7% | 0.4% | 0.7% | 0.5% | 0.4% | 0.4% |
| Dividend payout/buy-back ratio | 100% | 89% | 86% | 95% | 95% | 95% |
| Dividend yield (%) | 7.3% | 9.5% | 5.5% | 10.0% | 8.8% | 8.6% |
| Number of shares (m) | 58.8 | 56.5 | 55.2 | 55.2 | 55.2 | 55.2 |
| P/E (x) | 9.8 | 16.7 | 9.7 | 11.1 | 11.4 | 11.9 |
| P/BV (x) | 2.7 | 2.9 | 2.5 | 2.5 | 2.5 | 2.5 |

* From year's earnings; Source: Company, Pekao Equity Research

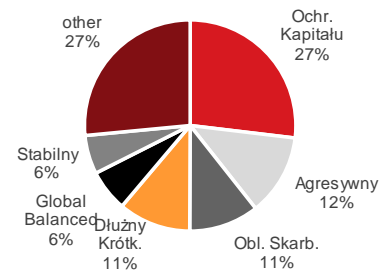
AUM (PLNm) and y/y change (%)



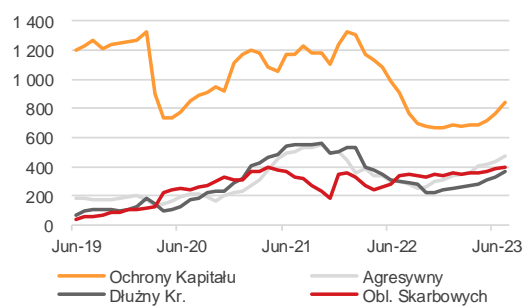
Net profit (PLNm) and y/y change (%)



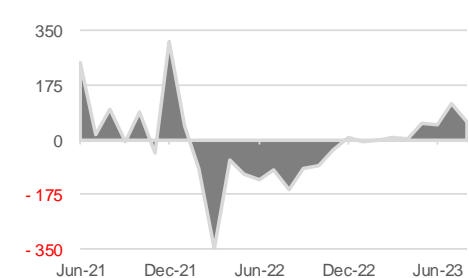
AUM structure (%), Aug'23



AUM of key funds (PLNm)



Net flows (PLNm)





Investment story

- **Independent fund manager with strong brand in Poland** – Quercus TFI is an independent asset manager with c. PLN 3.7bn of assets under management and c. 2% market share in total AUM of open-end funds. It offers wide range of investment funds including debt, equity or commodity based products. According to Analizy.pl at end of 1H23 Quercus had 8,170 clients.
- **AUM on the growth path** – At the end of Aug'23 AUM of Quercus TFI increased to PLN 3,696m (19% y/y, 1% m/m) supported by strong growth of assets of *QRS Agresywny*, *QRS Ochrony Kapitału* and *QRS Dłużny Krótkoterminowy* (59% y/y, 24% y/y and 34% y/y, respectively). In our earnings estimates we expect total AUM to improve to PLN 3.9bn (28% y/y) at the end of 2023e and to PLN 4.7bn (18% y/y) by the end of 2024e.
- **... supported by positive net flows...** – Very strong year 2021 (net flows at PLN +1.3bn), was followed by demanding 2022 (PLN -1.2bn). Recent months though, saw stabilization and in Aug'23 YTD net flows reached PLN 276m (vs. PLN -961m of outflows in the same period of 2022). We expect positive trends to be continued in the following months supported by solid rates of return and declining competition from banking deposits.
- **...and solid rates of return** – In 2023 YTD rates of returns of Quercus TFI's funds (as of Aug'23) are encouraging with strong double-digit results in equity-based funds, but also high (c. 8-10%) returns in debt-based strategies (*QRS Ochrony Kapitału*, *QRS Dłużny Krótkoterminowy*, *QRS Obligacji Skarbowych*). Solid performance of QRS's funds shall support flows and company's revenues also in the following quarters, we believe.
- **Support from rate cuts** – Over the last quarters competitive environment for fund managers was challenging due to increased competition from banking deposit or retail Treasury bonds. We point though, that if rates start to go down clients will look for alternative investment opportunities and will likely be attracted by solid rates of returns of both debt- and equity based investment funds.
- **Strong numbers ahead** – After PLN 14m reported in 2022, we expect Quercus TFI's net profit to jump to PLN 24m (68% y/y) in 2023e and to slightly decelerate to PLN 21/20m in 2024/25. We expect strong support from fixed fee on the back of rising AUM, but also solid success fee (we assume PLN 15/10m in 2023/24e).
- **Stable and high dividend/buy-back** – Over the last years Quercus TFI used to distribute almost 100% of its earnings as a dividend/buy-back. From 2023/24e earnings we expect 95% dividend/buy-back implying healthy DY of 11/9%.
- **Undemanding valuation** – At our 2023/24e estimates Quercus TFI is trading at 9.7/11.1x 2023/24e P/E, with 26/3% discount to foreign peers, respectively. Given solid financial results ahead coupled with stable dividend/buy-back, we see the current valuation as undemanding.



Key risk factors

- **Dependence on market developments** – Fund management business is strictly determined by global markets developments. We see a risk, that negative market performance or unexpected turbulence related to equities, bonds, commodities, currencies etc. may have negative impact on rates of return of managed funds, flows and company's revenues.
- **Risk of high interest rates environment** – We assume, that declining interest rates environment shall prompt clients to look for alternative investment opportunities and move part of their savings from banking deposits to investment funds. We see a risk though, that clients may stay with banks/Treasury bonds if interest rates in Poland remain high for a longer period of time or rate cuts are smaller than expected.
- **Risk of weak performance of managed funds** – AUM and flows to funds are to a large extent determined by performance of managed funds. We point, that negative or relatively weak rates of return of funds managed by Quercus TFI (in comparison with other fund managers or competitive products) may result in outflow of funds, drop of AUM and weaker than expected company's financial results.
- **Regulatory risk** – Fund management in Poland is strictly regulated by domestic and European authorities. We point at a risk of new regulations that may limit fund management business or make it less profitable.
- **Distribution risk** – Quercus TFI is an independent fund manager with distribution based not only on DI Xelion, but also on other intermediaries. We see a risk, that changes in external distribution channels may negatively affect flows to Quercus TFI's funds and company's financial results.
- **Key fund managers leave risk** – Rates of return of Quercus TFI funds are delivered by experienced fund managers. We point at risk of deterioration of rates of return if key fund managers decide to leave the company.

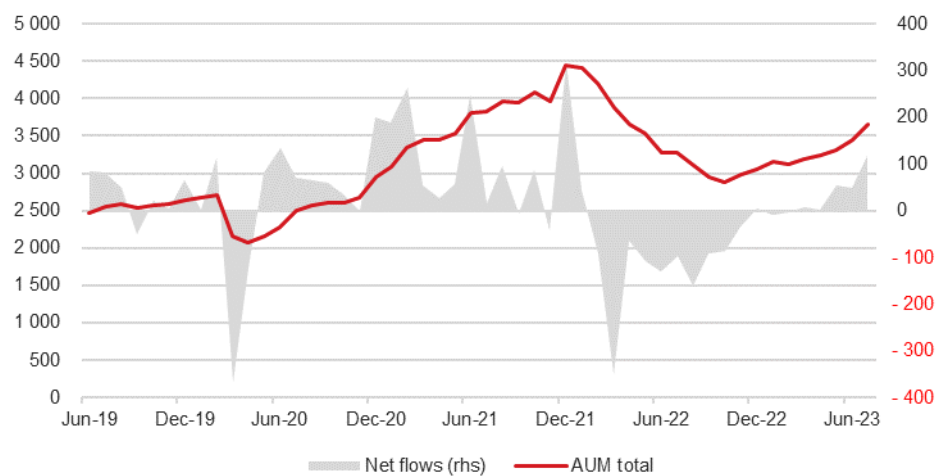
Strategy and business model

Independent asset manager with almost 2% market share in AUM in Poland

Quercus TFI is an independent asset manager with c. PLN 3.7bn of assets under management and c. 2% market share in total AUM of open-end funds. It offers wide range of investment funds including debt, equity or commodity based products. According to *Analizy.pl* at end of 1H23 Quercus had 8,170 clients. In Oct'21 the company purchased DI Xelion – the biggest independent distributor of investment funds in Poland.

Quercus TFI – AUM and net flows

PLNm



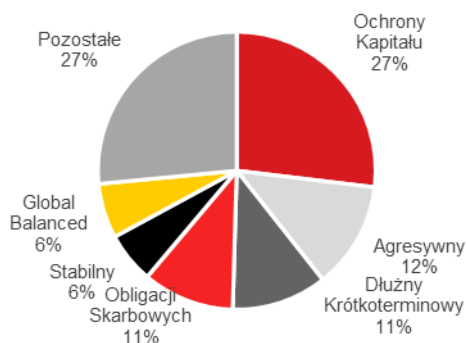
Source: Company, Pekao Equity Research

AUM on the growth path – up 11/48% in 1/3Y

At the end of Aug'23 AUM of Quercus TFI reached PLN 3,696m (19% y/y, 1% m/m). Structure of assets was dominated by *QRS Ochrony Kapitału* (27% share), followed by *QRS Agresywny* (12%) and *QRS Dłużny Krótkoterminowy* (11%). The biggest three funds represent 50% of total AUM.

Quercus TFI – AUM structure, Aug'23

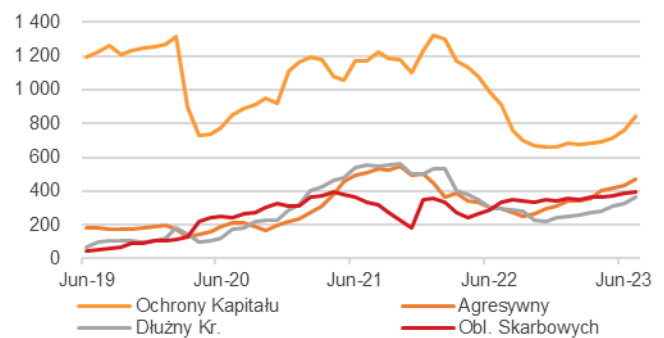
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Source: Company, Pekao Equity Research

Quercus TFI – AUM of selected funds

PLNm



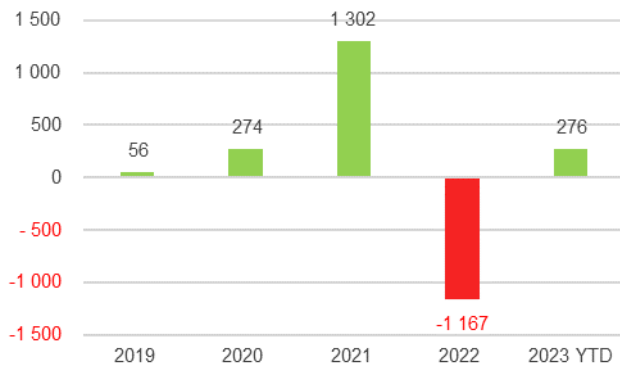
Source: Company, Pekao Equity Research

Aug'23 brought continuation of growth trend in AUM observed over the last quarters. Asset under management of Quercus TFI have been growing since Nov'22 after hitting the bottom in Oct'22 at PLN 2.9bn negatively affected by turbulence on equity and bond markets on the back of Russian invasion on Ukraine. Previous deep drop of assets under management took place in Mar'20 after breakout of COVID-19 pandemic. Between May'20 and Dec'21 though company's AUM saw continuous growth climbing to a peak of PLN 4.4bn. Over the last 3 years AUM of Quercus TFI grew 40% y/y with assets of *QRS Stabilny*, *QRS Dłużny Krótkoterminowy* and *QRS Agresywny* rising the most (205%, 118% and 106% respectively).

Net flows turning positive

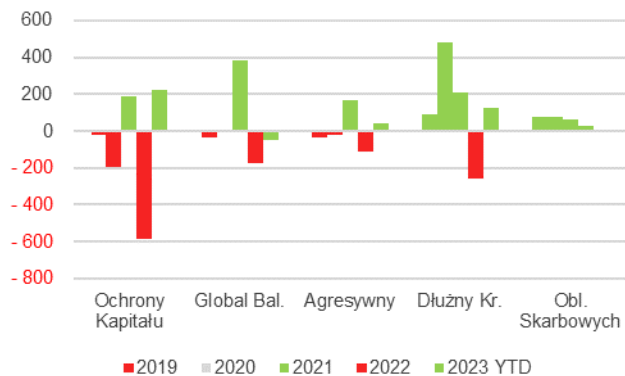
Changes in AUM have been largely driven by flows to/from funds. Very strong year 2021, with net flows at PLN +1,302m, was followed by very difficult 2022, that saw heavy outflows at PLN -1,167m. Recent months though, saw some stabilization and starting Mar'23 Quercus TFI has been experiencing positive (and largely rising) net flows to its investment products. In Aug'23 net flows came in at PLN 58m after PLN 118m in Jul'23 and PLN 50m in Jun'23. In Aug'23 YTD net flows reached PLN 276m (vs. PLN -961m of outflows in the same period of 2022). Clients have been attracted mostly by *QRS Ochrony Kapitału* and *QRS Dłużny Krótkoterminowy* (PLN +227m and PLN +122m, respectively), but also – although to a lower extent - by *QRS Agresywny* (PLN 39m).

Quercus TFI – Net flows*
%



* YTD as of Aug'23, Source: Company, Pekao Equity Research

Quercus TFI – Net flows to selected funds*
PLNm



* YTD as of Aug'23, Source: Company, Pekao Equity Research

Solid rates of return of QRS's funds

AUM and flows are to a large extent driven by rates of return of managed funds. While 2022 was demanding, in 2023 YTD rates of returns of Quercus TFI's funds (as of Aug'23) are encouraging with strong double-digit results in equity-based funds, but also high (c. 8-10%) returns in debt-based strategies (*QRS Ochrony Kapitału*, *QRS Dłużny Krótkoterminowy*, *QRS Obligacji Skarbowych*). We note also, that long-term (3-5Y) results in most of Quercus TFI's funds are solid as well with equity based funds outperforming WIG index.

Quercus TFI – Rates of return*

| % | 2021 | 2022 | 2023 YTD |
|------------------------------|------|------|----------|
| QRS Global Growth | 11% | -28% | 29% |
| QRS Agresywny | 41% | -16% | 26% |
| QRS lev | 26% | -44% | 23% |
| QRS Absolute Return FIZ | 32% | -2% | 15% |
| QRS Stabilny | 7% | -8% | 13% |
| QRS Multistrategy FIZ | 19% | -4% | 12% |
| QRS Obligacji Skarbowych | -10% | -12% | 10% |
| QRS Dłużny Krótkoterminowy | 0% | 3% | 9% |
| QRS Ochrony Kapitału | 0% | 3% | 8% |
| QRS Global Balanced | 8% | -20% | 8% |
| QRS Global Balanced Plus FIZ | 14% | -19% | 7% |
| QRS Gold | -6% | 1% | 6% |
| QRS Silver | -12% | 5% | 2% |
| Acer Multistrategy FIZ** | 82% | 13% | -2% |
| QRS short | -17% | 19% | -7% |
| WIG | 22% | -17% | 18% |

* YTD as of Aug'23, ** as of Jun'23, Source: Company, Pekao Equity Research

Quercus TFI – Long-term rates of return*

| % | 12M | 36M | 60M |
|----------------------------|------|------|------|
| QRS lev | 74% | 7% | -48% |
| QRS Agresywny | 42% | 79% | 97% |
| QRS Stabilny | 23% | 16% | 18% |
| QRS Global Growth | 22% | 21% | 35% |
| QRS Dłużny Krótkoterminowy | 12% | 13% | na |
| QRS Global Balanced | 12% | -2% | na |
| QRS Ochrony Kapitału | 11% | 13% | 17% |
| QRS Silver | 33% | na | na |
| QRS Obligacji Skarbowych | 11% | -12% | na |
| QRS Gold | 13% | -3% | 45% |
| QRS Multistrategy FIZ | 19% | 38% | 64% |
| QRS short | -23% | -21% | -11% |
| WIG | 40% | 33% | 16% |

* As of 5th of Sep'23, Source: Analizy.pl, Pekao Equity Research

Structure of revenues and costs

Revenues of Quercus TFI are based on management fee (53% share in 1H23) and purchase/redemption orders income (42% share). Management fee is driven by value and structure of AUM with typically higher margin in equity-based strategies and lower in debt funds. Management fee includes also success fee, that depends on funds' rates of return in comparison with benchmark. Purchase/redemption orders income is driven by distribution of funds by DI Xelion. In 1H23 total revenues of Quercus TFI decreased -13% y/y with both management fee and purchase/redemption income down -10% y/y.

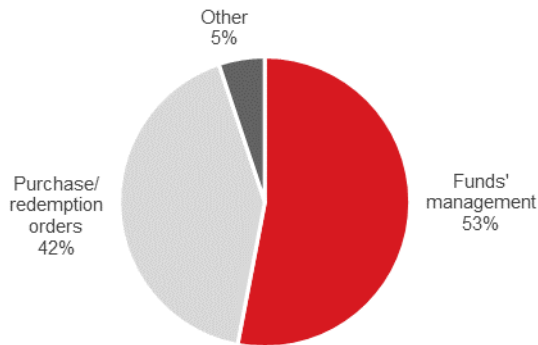
Quercus TFI – Fixed and success fee formula, as of 2022

| | Fixed fee | Success fee |
|------------------------------|-----------|-------------------------------|
| QRS Ochrony Kapitału | 1.0% | 20% of profit above WIBID 6M |
| QRS Global Balanced | 2.0% | 20% from profit (incl. HWM) |
| QRS Agresywny | 2.0% | 20% of profit above WIG |
| QRS Dłużny Krótkoterminowy | 0.8% | 20% above WIBID 6M + 25bp |
| QRS Obligacji Skarbowych | 1.0% | 20% above TBSP index |
| QRS lev | 2.0% | na |
| QRS short | 2.0% | na |
| QRS Gold | 2.0% | na |
| QRS Stabilny | 2.0% | 20% from profit (incl. HWM) |
| QRS Global Growth | 2.0% | 20% of profit above MSCI ACWI |
| QRS Silver | 2.0% | na |
| QRS Dłużny 1 | 1.0% | na |
| QRS Dłużny 2 | 1.0% | na |
| QRS Absolute Return FIZ | 2.8% | 20% above 10% |
| QRS Global Balanced Plus FIZ | 3.0% | 10% above 0% |
| Acer Multistrategy FIZ | 3.0% | 1.7% of profit if profit >10% |
| QRS Multistrategy FIZ | 3.0% | 10% above 0% |

Source: Company, Pekao Equity Research

Quercus TFI – Revenues structure, 1H23

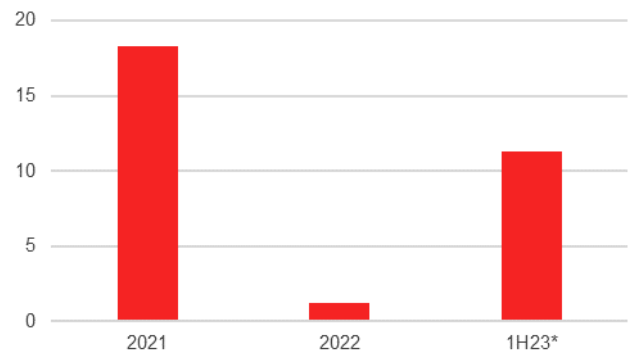
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*Source: Company, Pekao Equity Research

Quercus TFI – Success fee, 2021-1H23

PLNm

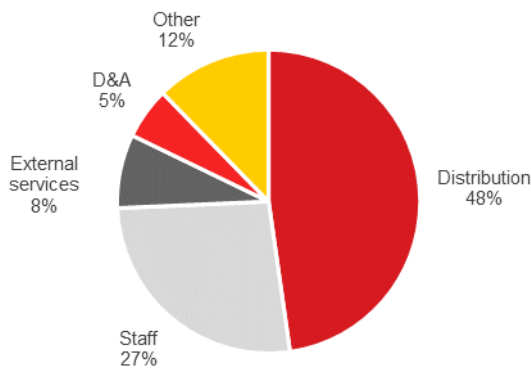


* Provision, Source: Company, Pekao Equity Research

Costs in Quercus TFI are based on distribution and staff costs that in 2022 represented 42% and 33% of cost base, respectively. Staff costs depend on headcount and wages partly driven by investment results of managed funds. Distribution costs are mostly driven by sales and include remuneration of intermediaries and sales force. In 1H23 total costs of Quercus TFI were flat (-1% y/y), with distribution costs down -12% y/y, staff costs up 2% y/y and other costs higher 49% y/y.

Quercus TFI – Structure of costs, 2022

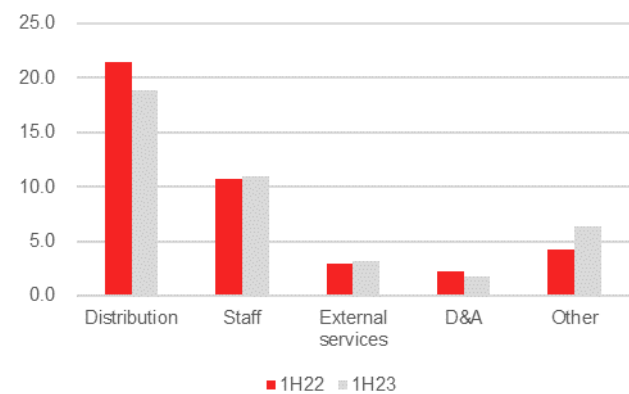
%



Source: Company, Pekao Equity Research

Quercus TFI – Costs, 1H22-1H23

PLNm

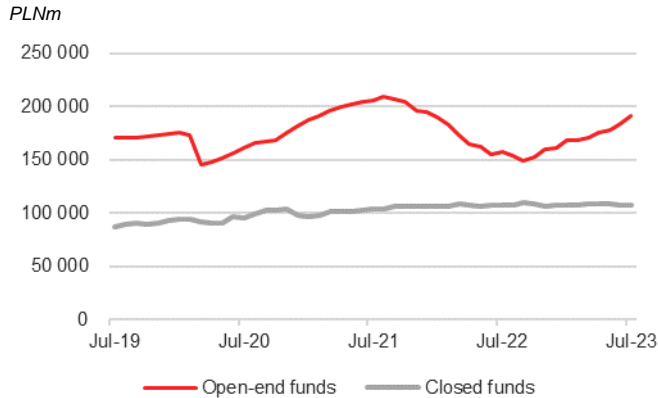


Source: Company, Pekao Equity Research

Investment fund market in Poland

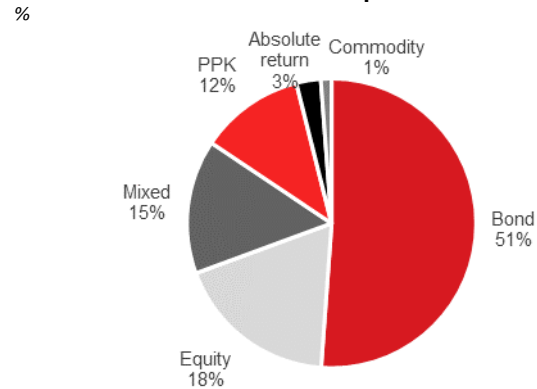
At the end of Jul'23 total AUM of investment funds in Poland reached PLN 299bn with PLN 191bn (64%) in retail funds and PLN 108bn (36%) in closed funds. AUM of retail funds increased 21% y/y and assets of closed funds remained flat y/y. 3Y change in value of AUM in retail funds was similar (18%) as in 2022 value of assets saw a deep decline on the back of global market developments. AUM of retail funds are based on bond assets (51% share) with much lower share of both equity and mixed funds (18% and 15%, respectively). According to *Analizy.pl* in Jul'23 net flows to retail funds reached PLN 2.3bn (vs. PLN -0.3bn in Jul'22) and YTD improved to PLN 8.5bn (vs. PLN -5.6bn in Jul'22 YTD).

AUM in Poland



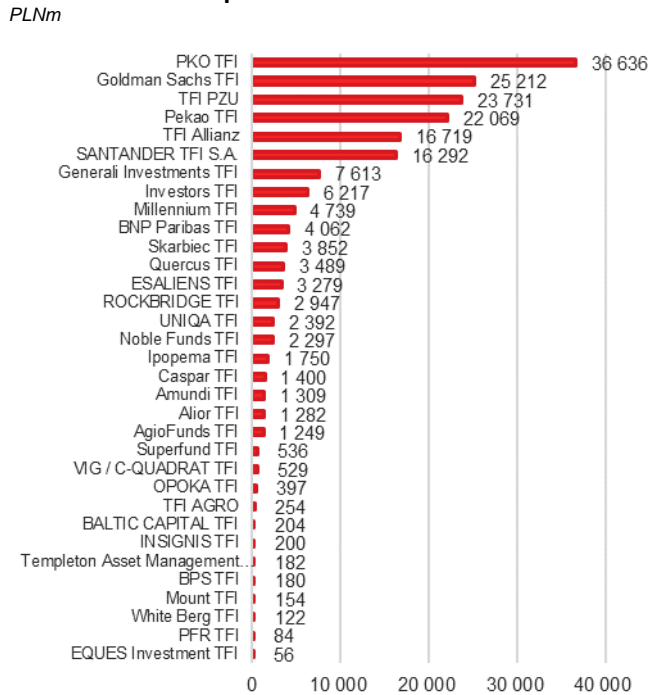
Source: Company, Pekao Equity Research

AUM in Poland – structure of open-end funds



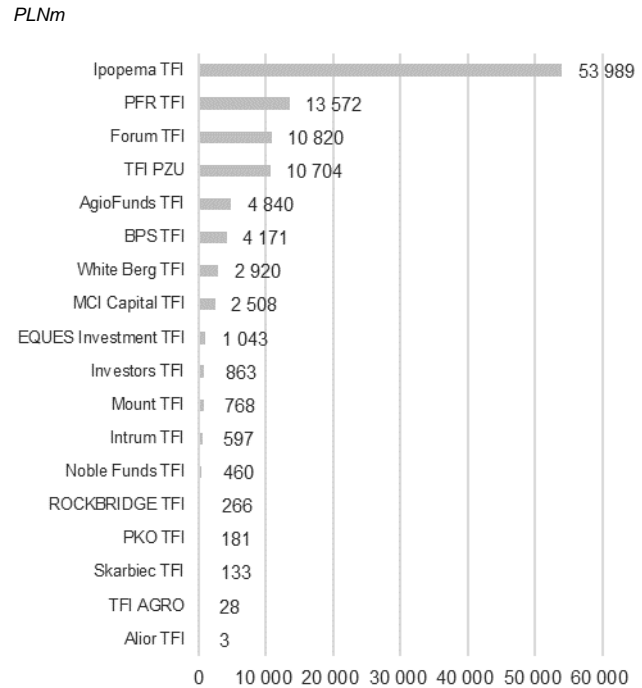
Source: Company, Pekao Equity Research

AUM in Poland – Open-end funds*



* As of end of Jul'23, Source: Anality.pl, Pekao Equity Research

AUM in Poland – Closed funds*



* As of end of Jul'23, Source: Anality.pl, Pekao Equity Research

AUM in Poland – Flows to retail funds

| | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 |
|--------------|-------------|---------------|---------------|---------------|-------------|------------|------------|------------|------------|--------------|--------------|--------------|
| Equity | -58 | -189 | -86 | 88 | 73 | 47 | 15 | -37 | -80 | -61 | -98 | -7 |
| - domestic | -60 | -41 | 3 | 16 | 43 | 35 | -37 | 29 | 62 | 39 | -67 | 42 |
| - foreign | 2 | -147 | -89 | 72 | 30 | 13 | 53 | -65 | -142 | -99 | -31 | -49 |
| Debt | -93 | -645 | -1 834 | -1 156 | -296 | 548 | 713 | 892 | 1 324 | 2 185 | 1 521 | 2 259 |
| Mixed | -56 | -184 | -264 | -77 | 128 | 20 | -10 | -59 | 13 | 45 | 82 | 85 |
| Commodity | -47 | -120 | -96 | -73 | -60 | -95 | -124 | -103 | -145 | -118 | -77 | -33 |
| Other | -3 | 34 | 29 | -113 | -328 | -68 | 16 | -113 | -37 | 126 | 105 | -37 |
| Total | -315 | -1 292 | -2 337 | -1 243 | -410 | 500 | 626 | 544 | 995 | 2 117 | 1 435 | 2 260 |

Source: Company, Pekao Equity Research

Valuation summary

Our valuation of Quercus TFI is based on discounted cash flow method (DCF) and comparative approach. With 80/20% weights, respectively, we arrive at target price of 5.3/share offering 27% upside potential.

Quercus TFI – Summary of valuation

PLN unless otherwise stated

| | |
|------------------------------|------------|
| DCF | 5.3 |
| Comparative valuation | 5.3 |
| Wighted average | 5.3 |
| Target price | 5.3 |
| Market price | 4.17 |
| Upside/downside (%) | 27% |

Source: Pekao Equity Research

Our discounted cash flow (DCF) model is based on expected free cash flows discounted with weighted average cost of capital (WACC). In our cost of equity calculation we use 5.8% risk free rate (4.0% in terminal), 6.0% risk premium (5.0% in terminal) and 1.0 Beta. We use also growth rate (g) at 3%. Our DCF model implies Quercus TFI's equity value at PLN 5.3/share.

Quercus TFI – Discounted cash flow (DCF) model

PLNm unless otherwise stated

| | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | Terminal |
|------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenues | 109 | 119 | 125 | 128 | 130 | 133 | 135 | 135 |
| - y/y change | 17% | 9% | 5% | 2% | 2% | 2% | 2% | 2% |
| EBIT | 20 | 19 | 20 | 20 | 20 | 20 | 21 | 21 |
| - y/y change | 32% | -4% | 3% | 0% | 2% | 2% | 2% | 2% |
| - EBIT margin | 18% | 16% | 16% | 15% | 15% | 15% | 15% | 15% |
| Tax | -4 | -4 | -4 | -4 | -4 | -4 | -4 | -4 |
| NOPLAT | 16 | 15 | 16 | 16 | 16 | 17 | 17 | 17 |
| - y/y change | 29% | -4% | 3% | 0% | 2% | 2% | 2% | 2% |
| D&A | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| - y/y change | -16% | 3% | 3% | 3% | 0% | 0% | 0% | 0% |
| Capex | -2 | -2 | -3 | -3 | -4 | -4 | -4 | -4 |
| - y/y change | 40% | 10% | 10% | 10% | 42% | 0% | 0% | 0% |
| Change in working capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FCF | 18 | 17 | 17 | 17 | 16 | 17 | 17 | 17 |
| DFCF | 17 | 15 | 14 | 12 | 10 | 10 | 9 | 9 |
| Sum of discounted FCF | 87 | | | | | | | |
| Terminal value | 306 | | | | | | | |
| Discounted TV | 163 | | | | | | | |
| Enterprise value | 250 | | | | | | | |
| Net debt (2022) | -48 | | | | | | | |
| Minorities | 5 | | | | | | | |
| Equity value | 293 | | | | | | | |
| Number of shares (m) | 55.2 | | | | | | | |
| Target price (PLN) | 5.3 | | | | | | | |
| Market price (PLN) - 5th of Sep'23 | 4.2 | | | | | | | |
| Upside/downside | 27% | | | | | | | |

Source: Pekao Equity Research

Quercus TFI – WACC calculation

PLNm unless otherwise stated

| | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | Terminal |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Risk free rate | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 4.0% |
| Equity risk premium | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 5.0% |
| ESG discount/premium | -0.4% | -0.4% | -0.4% | -0.4% | -0.4% | -0.4% | -0.4% |
| Beta | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Cost of equity | 11.4% | 11.4% | 11.4% | 11.4% | 11.4% | 11.4% | 8.7% |
| Cost of debt | 8.8% | 8.8% | 8.8% | 8.8% | 8.8% | 8.8% | 7.0% |
| After tax cost of debt | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 5.7% |
| Equity weight | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| WACC | 11.4% | 11.4% | 11.4% | 11.4% | 11.4% | 11.4% | 8.7% |

Source: Pekao Equity Research

Quercus TFI – Sensitivity of DCF model to risk free rate and Beta

PLN unless otherwise stated

| | | Risk free rate (%) | | | | | | |
|------|-----|--------------------|------|------|------|------|------|------|
| | | 2.8% | 3.8% | 4.8% | 5.8% | 6.8% | 7.8% | 8.8% |
| Beta | 0.7 | 7.4 | 7.2 | 6.9 | 6.7 | 6.5 | 6.3 | 6.1 |
| | 0.8 | 6.8 | 6.6 | 6.4 | 6.2 | 6.0 | 5.8 | 5.6 |
| | 0.9 | 6.3 | 6.1 | 5.9 | 5.7 | 5.5 | 5.4 | 5.2 |
| | 1.0 | 5.8 | 5.6 | 5.5 | 5.3 | 5.2 | 5.0 | 4.9 |
| | 1.1 | 5.5 | 5.3 | 5.1 | 5.0 | 4.8 | 4.7 | 4.6 |
| | 1.2 | 5.1 | 5.0 | 4.8 | 4.7 | 4.6 | 4.5 | 4.3 |
| | 1.3 | 4.8 | 4.7 | 4.6 | 4.5 | 4.3 | 4.2 | 4.1 |

Source: Pekao Equity Research

Quercus TFI – Sensitivity of DCF model to risk free rate and risk premium

PLN unless otherwise stated

| | | Risk free rate (%) | | | | | | |
|--------------|----|--------------------|------|------|------|------|------|------|
| | | 2.8% | 3.8% | 4.8% | 5.8% | 6.8% | 7.8% | 8.8% |
| Risk premium | 3% | 6.5 | 6.3 | 6.1 | 5.9 | 5.7 | 5.5 | 5.4 |
| | 4% | 6.2 | 6.0 | 5.9 | 5.7 | 5.5 | 5.3 | 5.2 |
| | 5% | 6.0 | 5.8 | 5.7 | 5.5 | 5.3 | 5.2 | 5.0 |
| | 6% | 5.8 | 5.6 | 5.5 | 5.3 | 5.2 | 5.0 | 4.9 |
| | 7% | 5.6 | 5.5 | 5.3 | 5.1 | 5.0 | 4.9 | 4.7 |
| | 8% | 5.4 | 5.3 | 5.1 | 5.0 | 4.8 | 4.7 | 4.6 |
| | 9% | 5.3 | 5.1 | 5.0 | 4.8 | 4.7 | 4.6 | 4.5 |

Source: Pekao Equity Research

Quercus TFI – Comparative valuation summary

| | 2023 | 2024 |
|------------------------------|------------|------|
| Foreign peers average | 13.2 | 11.5 |
| Quercus P/E | 9.7 | 11.1 |
| premium/discount to average | -26% | -3% |
| Implied fair value | 5.7 | 4.3 |
| Weight | 70% | 30% |
| Fair value | 5.3 | |

Source: Pekao Equity Research

Our comparative valuation is based on P/E multiples of foreign peers in years 2023-2024e and implies Quercus TFI's equity value at PLN 5.3/share.

Quercus TFI – Comparative valuation

| | Country | MCAP (EURm) | AuM [mln EUR] | P/E | | P/BV | | ROE | | Dividend yield | |
|-----------------------------|---------|-------------|---------------|------|------|------|------|------|------|----------------|------|
| | | | | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 |
| ASHMORE GROUP PLC | GB | 1 576 | 74 342 | 14.6 | 14.9 | 1.4 | 1.5 | 10% | 11% | 9% | 9% |
| HARGREAVES LANSDOWN PLC | GB | 4 224 | 143 805 | 11.4 | 12.0 | 5.3 | 4.9 | 49% | 41% | 5% | 6% |
| JUPITER FUND MANAGEMENT | GB | 613 | 56 701 | 7.7 | 8.2 | 0.6 | 0.6 | 8% | 7% | 9% | 6% |
| MAN GROUP PLC/JERSEY | GB | 2 889 | 133 788 | 9.4 | 6.1 | 1.4 | 1.3 | 15% | 21% | 6% | 7% |
| SCHRODERS PLC | GB | 7 735 | 696 332 | 12.7 | 11.7 | 1.5 | 1.4 | 12% | 13% | 5% | 5% |
| AFFILIATED MANAGERS GROUP | US | 4 429 | 607 600 | 7.1 | 6.7 | 1.5 | 1.4 | 18% | 19% | 0% | 0% |
| ALLIANCEBERNSTEIN HOLDING | US | 3 297 | 603 492 | 11.6 | 10.1 | na | na | 7% | 8% | 9% | 10% |
| APOLLO GLOBAL MGMT INC | US | 45 592 | 511 294 | 12.3 | 10.2 | 3.9 | 2.8 | 49% | 35% | 2% | 2% |
| ARTISAN PARTNERS ASSET MA-A | US | 2 901 | 119 402 | 13.5 | 12.0 | na | na | na | na | 7% | 7% |
| BLACKROCK INC | US | 98 733 | 8 023 980 | 19.8 | 17.6 | 2.7 | 2.6 | 14% | 15% | 3% | 3% |
| BLACKSTONE INC | US | 118 167 | 909 974 | 23.4 | 17.1 | 9.7 | 8.7 | 47% | 62% | 3% | 5% |
| CARLYLE GROUP INC/THE | US | 10 941 | 347 952 | 10.5 | 8.0 | 1.6 | 1.4 | 21% | 24% | 4% | 5% |
| FRANKLIN RESOURCES INC | US | 12 474 | 1 325 230 | 10.2 | 8.5 | 0.5 | 0.4 | 5% | 7% | 5% | 5% |
| KKR & CO INC | US | 49 635 | 470 448 | 17.7 | 12.9 | 2.1 | 1.8 | 14% | 16% | 1% | 1% |
| T ROWE PRICE GROUP INC | US | 23 561 | 1 190 085 | 15.1 | 14.7 | 2.7 | 2.7 | 17% | 18% | 4% | 4% |
| PERPETUAL LTD | AU | 1 450 | 11 300 | 14.7 | 11.6 | 1.2 | 1.0 | 13% | 9% | 7% | 7% |
| AMP LTD | AU | 2 084 | 94 859 | 17.2 | 15.0 | 0.9 | 0.9 | 5% | 6% | 4% | 4% |
| INSIGNIA FINANCIAL LTD | AU | 1 027 | 180 194 | 8.7 | 9.1 | 0.7 | 0.8 | 8% | 8% | 8% | 7% |

Source: Bloomberg, Pekao Equity Research

ESG rating

Our ESG rating is based on assessment of a number of E-S-G related criteria with respectively 30/40/30% weight in total rating. **Our methodology implies final ESG Score for Quercus TFI at 1.14 and ESG Rating “B”.**

Quercus TFI – ESG rating summary

| Financials | E | S | G |
|------------------------|-------------|------|------|
| Score | 0.80 | 1.21 | 1.38 |
| Sector weight | 30% | 40% | 30% |
| Final ESG Score | 1.14 | | |
| ESG Rating | B | | |

Source: Pekao Equity Research

According to our methodology, rating “B” translates to 7.5% discount for equity risk premium (as % of RFR) in our cost of equity calculation.

Quercus TFI – ESG rating methodology

| | score from: | to | Rating | WACC risk premium impact (% of RFR) |
|------------------|-------------|-----|----------|-------------------------------------|
| ESG Score | 1.5 | 2 | A | -15.00% |
| | 1 | 1.5 | B | -7.50% |
| | 0.5 | 1 | C | 0% |
| | 0 | 0.5 | D | 15.00% |

Source: Pekao Equity Research

Financials and earnings estimates

Quercus TFI – Key data, 2020-2026e

ths. unless otherwise stated

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|
| EPS adjusted | 0.3 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.3 |
| Revenue | 63.1 | 83.0 | 93.1 | 109.3 | 119.4 | 125.0 | 127.6 |
| Gross Margin % | 34% | 37% | 19% | 27% | 22% | 21% | 19% |
| EBIT | 17.4 | 25.6 | 14.9 | 19.8 | 19.0 | 19.7 | 19.7 |
| EBITDA | 18.0 | 27.1 | 19.2 | 23.4 | 22.7 | 23.5 | 23.6 |
| Net income | 17.9 | 25.1 | 14.1 | 23.7 | 20.7 | 20.2 | 19.3 |
| Net debt | -14.7 | -80.7 | -48.4 | -67.8 | -63.9 | -59.0 | -52.8 |
| BPS | 1.1 | 1.5 | 1.4 | 1.7 | 1.6 | 1.7 | 1.7 |
| DPS | 0.4 | 0.3 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 |
| ROE | 29% | 28% | 17% | 27% | 23% | 22% | 21% |
| ROA | 20% | 18% | 8% | 14% | 12% | 12% | 11% |
| Depreciation & Amortization | 0.0 | 1.6 | 4.3 | 3.6 | 3.7 | 3.8 | 4.0 |
| FCF | 8.1 | 13.6 | 35.0 | 17.5 | 16.8 | 17.2 | 17.1 |
| CAPEX | 1.4 | 0.7 | 1.5 | 2.1 | 2.3 | 2.5 | 2.8 |

Source: Company, Pekao Equity Research estimates

Quercus TFI – P&L, 2020-2026e

PLNm unless otherwise stated

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Revenues | 63.1 | 83.0 | 93.1 | 109.3 | 119.4 | 125.0 | 127.6 |
| Expenses | -30.3 | -57.5 | -78.1 | -89.5 | -100.4 | -105.3 | -108.0 |
| EBIT | 17.4 | 25.6 | 14.9 | 19.8 | 19.0 | 19.7 | 19.7 |
| EBITDA | 18.0 | 27.1 | 19.2 | 23.4 | 22.7 | 23.5 | 23.6 |
| Net financial income | 4.3 | 5.0 | 2.8 | 10.3 | 7.4 | 6.1 | 5.0 |
| Pre-tax profit | 21.7 | 30.5 | 17.7 | 30.0 | 26.4 | 25.7 | 24.6 |
| Income tax | -3.8 | -5.4 | -3.0 | -5.7 | -5.0 | -4.9 | -4.7 |
| Net profit | 17.9 | 25.1 | 14.7 | 24.3 | 21.3 | 20.8 | 20.0 |
| Net profit for majority shareholders | 17.9 | 25.1 | 14.1 | 23.7 | 20.7 | 20.2 | 19.3 |

Source: Company, Pekao Equity Research estimates

Quercus TFI – Key data, 2020-2026e

ths. unless otherwise stated

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|
| AUM (PLNm) | 2 949 | 4 438 | 3 054 | 3 911 | 4 603 | 4 827 | 4 983 |
| - y/y change (%) | 12% | 50% | -31% | 28% | 18% | 5% | 3% |
| Average AUM (PLNm) | 2 480 | 3 682 | 3 512 | 3 482 | 4 257 | 4 715 | 4 905 |
| - y/y change (%) | -4% | 48% | -5% | -1% | 22% | 11% | 4% |
| Net profit margin (%) | 28% | 30% | 15% | 22% | 17% | 16% | 15% |
| Margin on average AUM (%) | 1% | 1% | 0% | 1% | 0% | 0% | 0% |
| Dividend yield (%) | 9% | 7% | 9% | 5% | 10% | 9% | 9% |
| Number of shares (m) | 55 | 59 | 56 | 55 | 55 | 55 | 55 |

Source: Company, Pekao Equity Research estimates

Quercus TFI – Balance sheet, 2020-2026e*PLNm unless otherwise stated*

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Tangible assets | 1.7 | 4.7 | 5.9 | 5.9 | 5.9 | 6.1 | 6.5 |
| Financial assets | 36.5 | 66.9 | 72.9 | 75.1 | 78.6 | 83.5 | 90.3 |
| Fixed assets | 38.3 | 82.0 | 88.1 | 90.2 | 93.9 | 98.9 | 106.1 |
| Receivables | 18.6 | 29.7 | 10.9 | 10.9 | 10.9 | 10.9 | 10.9 |
| Cash & equivalents | 14.7 | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 | 52.8 |
| Current assets | 51.9 | 114.2 | 69.9 | 79.5 | 75.6 | 70.7 | 64.6 |
| Total assets | 90.2 | 196.2 | 158.0 | 169.8 | 169.5 | 169.6 | 170.6 |
| Equity for majority shareholders | 60.0 | 89.6 | 81.1 | 92.8 | 91.0 | 91.6 | 91.7 |
| Provisions for liabilities | 10.5 | 15.1 | 15.1 | 15.4 | 15.7 | 15.5 | 15.7 |
| Long-term liabilities | 4.3 | 16.7 | 18.7 | 19.0 | 19.3 | 19.1 | 19.3 |
| Short-term liabilities | 6.6 | 89.9 | 53.0 | 52.7 | 53.9 | 53.7 | 54.3 |
| Equity and liabilities | 90.2 | 196.2 | 158.0 | 169.8 | 169.5 | 169.6 | 170.6 |

*Source: Company, Pekao Equity Research estimates***Quercus TFI – Cash flow, 2020-2026e***PLNm unless otherwise stated*

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|--|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Net profit | 17.9 | 25.1 | 14.7 | 24.3 | 21.3 | 20.8 | 20.0 |
| D&A | 0.6 | 1.6 | 4.3 | 3.6 | 3.7 | 3.8 | 4.0 |
| Other | -3.0 | -14.2 | -20.3 | -0.1 | 1.3 | -0.5 | 0.7 |
| Operating cash flow | 15.5 | 12.8 | -1.1 | 28.2 | 26.5 | 24.2 | 24.7 |
| Proceeds from financial assets sales | 0.3 | 15.0 | 7.9 | 5.0 | 5.0 | 5.0 | 5.0 |
| Capex | -1.4 | -0.7 | -1.5 | -2.1 | -2.3 | -2.5 | -2.8 |
| Financial assets spending | -18.2 | 35.1 | -3.0 | -8.5 | -9.9 | -11.2 | -13.2 |
| Investing cash flow | -19.3 | 49.4 | 3.4 | -5.6 | -7.2 | -8.8 | -11.0 |
| Shares issue | 0.0 | 22.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend/buy-back | -19.6 | -17.9 | -22.3 | -12.6 | -23.1 | -20.3 | -19.8 |
| Financial cash flow | -19.6 | 3.8 | -24.9 | -12.9 | -23.2 | -20.4 | -19.9 |
| Cash at the beginning of period | 38.2 | 14.8 | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 |
| Cash at the end of period | 14.7 | 80.7 | 58.2 | 67.8 | 63.9 | 59.0 | 52.8 |

Source: Company, Pekao Equity Research estimates

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This investment analysis is a general recommendation.

This recommendation is an investment research within the meaning of Art. 36 sec. 1 of the Commission Delegated Regulation (EU) 2017/565 and was prepared in accordance with legal requirements ensuring the independence of investment research.

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Current potential conflicts of interests involve following stocks (see definition of keys below):

AB S.A. 3; Alior 3; Allegro 3; Astarta S.A. 3; Asseco Poland 3, 4; CCC 3; CD Projekt 3, 4; Cyfrowy Polsat 3, 4; Dino Polska 3; ENEA 3; ENERGA 3; GPW 3, 4; JSW 3; KGHM 3; LPP 3; Lotos 3; LW Bogdanka 4; mBank 4; Mercator 3; Orange Polska 3, 4; PGE 3; PGNiG 3, 4; PKN Orlen 3; PKO BP 3; PKP Cargo 4; Play 3; Santander Bank Polska 3; Tauron PE 3; Stalprodukt S.A. 3; WP Holding 4;

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Key 1: Issuer owns at least 5% of the capital stock of Bank Pekao S.A.

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| Analyst | Position | Financial instrument | Number of instruments | Exposure (long/short) | Average transactions price | Transactions dates |
|----------------|-----------------|----------------------|-----------------------|-----------------------|----------------------------|--------------------|
| Michał Fldelus | Expert, Analyst | Quercus TFI | n.a. | n.a. | n.a. | n.a. |

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METHODS USED TO FORMULATE OUR RECOMMENDATIONS:

Our company valuations are based on two valuation methods selected from among the following: discount model, multiples-based model or asset-based valuation method.

Discount models are characterized by simultaneous and comprehensive consideration of key determinants of intrinsic value, e.g. operating cash flow, capex, cost of capital (WACC). They are theoretically appealing and provide a direct computation of intrinsic value. However, discount model valuations are highly sensitive to changes in assumptions, particularly the risk free rate and terminal growth rate. Moreover, projections cannot be stated with certainty; unforeseen future events can cause income or earnings projections to be invalid.

Multiples-based models are based on the analysis of the valuation multipliers of a given company in relation to other similar companies in the industry. Among strengths of multiplier models we can highlight their simplicity, as they are easy to compute as well as to understand. Moreover, only the key statistics for investors are chosen for valuation. On the other hand, multiples are based on historic data or near-term forecasts. Valuations based on multiples will therefore fail to capture differences in projected performance over the longer term. Finally, it may be problematic to select a suitable peer group.

Asset-based models can be used even if a company has a brief record of earnings or its future existence is uncertain. However, it may be challenging to determine market value of some assets, particularly intangibles. Additionally, asset-based models do not take into account future changes in financial results, nor do they include non-balance sheet items, such as know-how.

Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly.

The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward. In the tables and charts throughout this report, we designate the years with an "E" to denote that the figures presented are forecasts and estimates.

Definition of ratings used in our publications:

We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):

A **Buy** is applied when the expected total return over the next twelve months is higher than 15%.

A **Hold** is applied when the expected total return over the next twelve months is within the range of 0% to 15%.

A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

We employ three further categorizations for stocks in our coverage:

Restricted: A rating and/or financial forecasts and/or target price is not disclosed owing to compliance or other regulatory considerations such as blackout period or conflict of interest.

Coverage in transition: Due to changes in the research team, the disclosure of a stock's rating and/or target price and/or financial information are temporarily suspended. The stock remains in the research universe and disclosures of relevant information will be resumed in due course.

Under review: A rating and/or financial forecasts and/or target price is at the moment under revision of an analyst and the previous rating and/or financial forecasts and/or target price should not be relied on.

Not rated: We do not issue company-specific recommendations and we do not plan to issue them in the foreseeable future.

EXPLANATION OF THE PROFESSIONAL TERMINOLOGY USED IN THE REPORT:

P/E – „Price/Earnings” is the ratio of the financial instrument price to the net financial result for the issuer of the financial instrument.

P/B – „Price/Book Value” is the ratio of the price of the financial instrument to the issuer's equity capital.

EPS – „Earnings per Share”, i.e. net profit per share.

BVPS – „Book Value per Share”.

FWD – „Forward” - stands for the ratio (eg. P/E) calculated on the basis of the expected results.

DPS – „Dividend per Share”.

DY – „Dividend Yield”, a ratio calculated as dividends per share divided by the current share price.

EBIT – „Earnings Before Interest and Taxes”.

EBITDA - „Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization”.

EV/EBITDA – “Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization” is the company's market capitalization (price x number of shares) increased by the value of net financial debt and the value of minority shareholders divided by the operating result increased by the value of the company's asset depreciation.

AGM – Annual General Meeting