Quercus TFI

1Q24 net profit slightly below our estimates, but very strong provision for success fee.

Michał Fidelus
michal.fidelus@pekao.com.pl

Quercus TFI released 1Q24 figures with the following highlights:

- **1Q24 net profit** of Quercus TFI came in at PLN 6.5m (vs. PLN 19.0m in 4Q23 and PLN 3.3m in 1Q23) and was 12% below our estimates (PLN 7.3m). Slight earnings miss was driven by higher administrative costs (+14% vs. our estimates), that were only partly offset by slightly better revenues (+2% vs. our estimates) and higher net financial income. Both other operating costs and net financial income were inflated by Capitea related bookings, but net impact was marginal.
- Total **revenues** in 1Q24 amounted to PLN 29.7m (42% y/y, -39% q/q) and were 2% above our expectations. Management fee (incl. success fee) increased 58% y/y (-49% q/q) and revenues from purchase/redemption orders went up 25% y/y (4% q/q). Share of low margin debt funds in total AUM came in at 53% on average (vs. 51% in 4Q23 and 43% in 1Q23).
- In 1Q24 **provision for success fee** came in at PLN 11.4m (vs. PLN 23.8m success fee booked in FY2023 and vs. PLN 6.8m of provision in 1Q23).
- **Total costs** in 1Q24 came in at PLN 24.7m (25% y/y, -21% q/q) and were 14% above our estimates. Distribution costs went up 36% y/y, staff costs increased 25% y/y, external services costs dropped -2% y/y and other costs increased 9% y/y.
- At the end of 1Q24 **AUM** of Quercus TFI came in at PLN 5,062 (59% y/y, 15% q/q). Y/y growth was driven by rising assets of QRS Ochrony Kapitału (124% y/y), QRS Agresywny (108% y/y) and QRS Dłużny Krótkoterminowy (185% y/y). Q/q growth of total assets was mostly driven by rising AUM of QRS Ochrony Kapitału (27% q/q) and QRS Dłużny Krótkoterminowy (49% q/q), although AUM of QRS Agresywny saw decent growth as well (12% q/q).
- In 1Q24 **net flows** to Quercus TFI amounted to PLN 484m (vs. PLN 261m in 4Q23 and vs. PLN -4m in 1Q23) and vs. FY2023 net flows at PLN 693m (vs. PLN -1,167m in 2022).
- **Teleconference** with CEO takes place today, April 19, at 11:00 via MS Teams **Kliknij aby dołączyć do spotkania**

Our view: POSITIVE

1Q24 net profit of Quercus TFI came in at PLN 6.5m and was 12% below our estimates (PLN 7.3m). Slight earnings miss was driven by higher administrative costs (+14% vs. our estimates), that were only partly offset by slightly better revenues (+2% vs. our estimates) and higher net financial income. Despite higher costs though, we find 1Q24 results of Quercus TFI as positive because of two reasons: First, 1Q24 net profit, while slightly lower than expected, was still very strong – if this was the level to be repeated in the following quarters FY 2024 bottom line would reach c. PLN 26m. Second, provision for success was very strong (PLN 11.4m) and higher than we had assumed. 1Q24 saw further growth of AUM (15% q/q) supported by continuously strong rates of return of QRS's funds and high inflows (PLN 484m). Quercus has been successfully taking advantage of supportive environment. As a result, after outstanding 2023, first quarter of 2024 brings continuation of positive trends. While in our earnings estimates we assume 2024/25 net profit at PLN 28/26m, solid 1Q24 results make our estimates for this year look conservative (assuming no material deterioration in equity and bond market environment).

Quercus TFI – P&L, PLN mn

	1Q23	2Q23	3Q23	4Q23	1Q24	y/y	q/q	Pekao	vs. Pekao
Revenues	20.9	23.8	25.2	48.6	29.7	42%	-39%	29.1	2%
Total costs	-19.8	-19.8	-19.8	-31.1	-24.7	25%	-21%	-21.8	14%
EBIT	1.1	2.6	3.7	17.4	4.9	363%	-72%	7.4	-33%
EBITDA	2.0	3.5	4.6	17.8	6.0	202%	-66%	7.7	-22%
Net financial income	3.1	2.6	2.5	6.4	3.2	3%	-50%	2.1	55%
Pre-tax profit	4.2	5.2	6.1	23.8	8.1	96%	-66%	9.4	-14%
Net profit	**3.3**	**4.0**	**4.7**	**19.0**	**6.5**	97%	-66%	**7.3**	-12%
AUM eop	3 187	3 441	3 821	4 409	5 062	59%	15%		
AUM average	3 129	3 296	3 653	4 073	4 741	52%	16%		

Source: Company, Pekao Equity Research

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Michał Fidelus	Expert, Analyst	Quercus TFI	0			

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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.

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