

Quercus TFI

1Q22 Results Call Highlights

Highlights from 1Q22 conference with management include:

- **Revenues/profitability:** Reduced maximum fees in PL to 2% in 2022 from 2.5% in 2021 will put pressure on profitability of the assets management business.
- **Success fee:** CEO has confirmed that cup has been lifted by KNF on all Quercus subfunds as of April 1. However, CEO admitted that looking at the market prospects and performance, it is difficult to expect significant revenues from the success fee this year.
- **Market outlook:** CEO sees further outflows in April, however the magnitude should be smaller than in March (PLN 8bn). In the following months, the outflows should diminish, but the latest reports on the increase in interest rates on deposits by banks pose a risk for this scenario. In the fall, the market may experience inflows into debt market funds, after a few months of good performance (assuming the baseline scenario of the target market interest rate level around 6% achieved in June-July). Equity funds may show better results and thus report inflows in 2023.
- **Xelion contribution:** Net profit contribution came at PLN 0.5m (+40% y/y) in 1Q22. The management mid-term ambition is Xelion's net profit to return to some PLN 5m annually. At the same time the management focus on the independence of the distribution business.
- **M&As** – CEO confirmed Quercus TFI's appetite for M&As both in TFI and distribution business. At the same time, the management sees lack of potential willingness to consolidate the business by other market players as the biggest obstacle, however drop in profitability of the AM business this year, may be a trigger for market players to change the approach.
- **iWealth:** CEO sees current structure of shareholders in iWealth as optimal. The company will continue to focus on profitability, following break-even achievement in 2021.
- **Dividend:** Dividend policy (buy-back or dividend) of up to 100% of stand-alone net profit (PLN 22.3m) has been maintained. This will be voted at the April's AGM. DY @ 10%, to be distributed to shareholders in June.

Opinion: Neutral. In line with management statements following 4Q21 results.

Figure 1. Financial Data summary

Quercus TFI P&L (PLN m)	1Q21	1Q22	y/y	lpop	vs. lpo
	cons.	cons.		cons.	
Revenues	11.6	25.6	121%	18.5	38%
Management fee	11.6	13.8	19%	12.0	15%
Success fee	0.0	0.0		0.5	
Distribution fee	0.0	11.7		6.0	
OPEX	7.0	19.4	175%	11.7	66%
Distribution	4.3	11.5	166%	5.8	99%
SG&A	2.7	7.9	191%	5.9	33%
Net Other Income	-2.4	0.1		0.0	
EBIT	2.1	6.3	194%	6.8	-7%
Gross profit	4.2	5.4	30%	5.8	-6%
Tax	0.5	0.9		1.1	-16%
Minorities		0.1		0.0	
Net profit	3.7	4.5	22%	4.7	-5%

Source: Company, IPOPEMA Research

Financials

QUERCUS TFI

U/R

Price as of 21 April 2022 PLN 3.76

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The definitions of terms used in the document include:

NII – Net interest income – interest income minus interest expense.

Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.

LLP – loan loss provisions – an expense set aside as an allowance for bad loans.

NPL – non-performing loan – loans that are in default or close to be in default.

Cost/Income – operating expenses divided by total banking revenue.

ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.

ROA – return on assets – net income (or adjusted net income) divided by the average assets.

EBIT – earnings before interests and tax.

EBITDA – earnings before interests, tax, depreciation and amortization.

EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding.

P/E – price to earnings ratio – price divided by earnings per share.

PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.

CAGR – compound annual growth rate.

BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.

P/BV – price to book value - price divided by the BVPS.

DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.

DY – dividend yield – dividend of a given year divided by the current price.

DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.

FV – Fair Value, calculated based on valuation methods outlined in the document.

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	Number	%
Buy	12	71%
Hold	3	18%
Sell	2	12%
Total	17	100%

Rating History – Quercus TFI

Date	Recommendation	Fair Value	Price at recommendation	Author
25.06.2021	BUY	PLN 5.98	PLN 5.02	Łukasz Jańczak
26.07.2021	BUY	PLN 6.63	PLN 4.51	Łukasz Jańczak
14.12.2021	U/R	-	-	-