

# Quercus TFI

## 4Q16 Results Preview

**Opinion: success fees decreased slightly last quarter vs. 3Q16, bottom line on double digit decline YoY, but AuM grow**

We expect 4Q16 net profit of PLN 10.5m (+70% QoQ, -13% YoY) driven by:

- **AuM and yield:** Average AuM reached PLN 4,080m in the quarter, which is 4% higher on a quarterly basis and 19% YoY. We estimate management fee yield to drop slightly to 2.14% vs. 2.17% in 3Q16 due to higher share of lower margin funds.
- **Revenues:** As a result of abovementioned we estimate management fee will total PLN 21.8m (+2% QoQ). Success fee is expected to reach PLN 7.8m, which is marginally below compared to PLN 8.1m that company could have recorded as of end of 3Q16.
- **OPEX:** Total expenses are expected to grow 28% QoQ what is related to additional compensation for distributors and bonuses for employees for success fee and we assume them to reach 14% and 20% of SF revenues respectively.

As a result we expect Quercus TFI will report net profit of around PLN 28.1m in 2016E, what translates into P/E of 11.3x vs. 15.0x for global peers. We calculate that current asset base allows company to generate some PLN 25m of net profit excluding success fee.

Chart 1: Summary of Financial Data

P&L	4Q15	1Q16	2Q16	3Q16	4Q16E	QoQ	YoY
<b>Revenues</b>	<b>33.6</b>	<b>20.8</b>	<b>22.3</b>	<b>22.5</b>	<b>32.1</b>	<b>42%</b>	<b>-4%</b>
Management fee	20.3	19.7	20.8	21.3	21.8	2%	7%
Distribution fee	1.2	1.1	1.4	1.2	2.5		
Success fee	12.1	0.0	0.0	0.0	7.8		
<b>OPEX</b>	<b>18.8</b>	<b>14.1</b>	<b>15.4</b>	<b>15.1</b>	<b>19.3</b>	<b>28%</b>	<b>3%</b>
Sales costs	15.5	12.2	13.3	13.3	16.3	22%	5%
Other costs	3.3	1.8	2.1	1.8	3.0	71%	-10%
<b>EBITDA</b>	<b>14.9</b>	<b>6.9</b>	<b>6.9</b>	<b>7.5</b>	<b>12.9</b>	<b>71%</b>	<b>-13%</b>
<b>EBIT</b>	<b>14.8</b>	<b>6.8</b>	<b>6.9</b>	<b>7.5</b>	<b>12.8</b>	<b>72%</b>	<b>-13%</b>
Financial income	0.2	0.3	0.2	0.2	0.2		
Financial expenses	0.0	0.0	0.0	0.0	0.0		
<b>Gross profit</b>	<b>15.0</b>	<b>7.0</b>	<b>7.1</b>	<b>7.6</b>	<b>13.0</b>	<b>70%</b>	<b>-13%</b>
Tax	2.9	1.3	1.3	1.4	2.5		
<b>Net profit</b>	<b>12.1</b>	<b>5.7</b>	<b>5.7</b>	<b>6.2</b>	<b>10.5</b>	<b>70%</b>	<b>-13%</b>
<b>Key figures</b>	<b>4Q15</b>	<b>1Q16</b>	<b>2Q16</b>	<b>3Q16</b>	<b>4Q16E</b>	<b>QoQ</b>	<b>YoY</b>
Average AuM (PLN m)	3,419	3,562	3,820	3,926	4,080	4%	19%
Management fee yield	2.38%	2.21%	2.18%	2.17%	2.14%	-2%	-10%
Success fee*	0.1	1.2	3.1	2.7	-0.2		
Sales costs / revenues	46%	59%	60%	59%	51%		
Total OPEX / revenues	56%	68%	69%	67%	60%		
Effective tax rate	19.2%	19.0%	19.0%	19.0%	19.0%		

\* after costs due to distributors. Success fee is usually booked in P&L in 4Q only. During the year company recognizes contingent asset and liability.

Source: Company, IPOPEMA Research

## QUERCUS TFI Not covered

Price as of 3 Jan 2017 PLN 5.27

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Chart 2: AuM (PLN bn) and estimated AuM yield

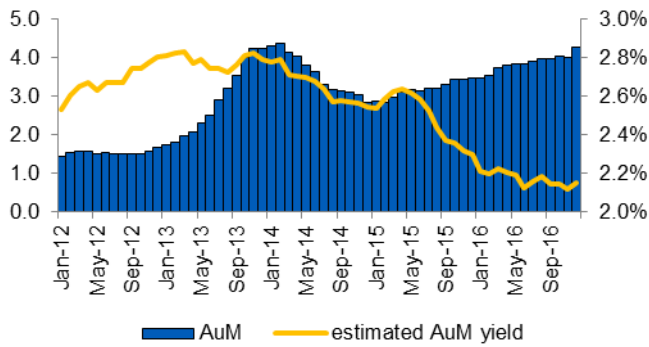
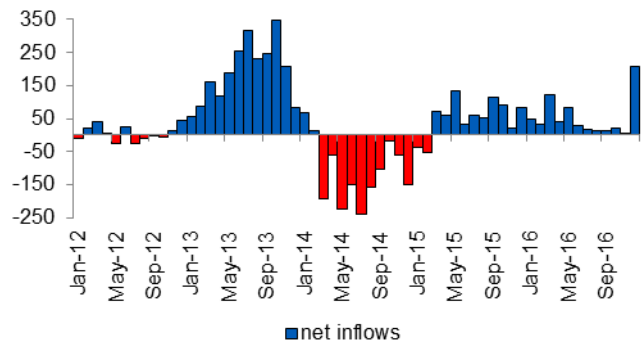


Chart 3: Net inflows/outflows (PLN m)



Source: Company, IPOPEMA Research

Chart 4: Global peers multiples

Ticker	Company	Country	M Cap USD m	Price (LCU)	P/E			Dividened yield		
					2016E	2017E	2018E	2016E	2017E	2018E
BLK US Equity	BLACKROCK INC	UNITED STATES	62,818	383.84	19.8	17.1	15.2	2.4%	2.5%	2.8%
BEN US Equity	FRANKLIN RES INC	UNITED STATES	22,513	39.58	14.1	14.8	14.3	1.8%	2.0%	2.1%
TROW US Equity	T ROWE PRICE GRP	UNITED STATES	18,321	75.26	17.2	15.2	14.5	2.9%	3.0%	3.2%
IVZ US Equity	INVESCO LTD	UNITED STATES	12,395	30.34	13.5	11.8	10.5	3.7%	3.9%	4.2%
SDR LN Equity	SCHRODERS PLC	BRITAIN	9,982	3035.00	17.1	15.6	14.6	3.0%	3.2%	3.5%
ADN LN Equity	ABERDEEN ASSET	BRITAIN	4,365	270.20	13.3	12.3	11.4	7.6%	7.0%	7.2%
HGG LN Equity	HENDERSON GROUP	BRITAIN	3,300	237.90	15.9	13.5	12.5	4.4%	4.6%	5.1%
EMG LN Equity	MAN GROUP PLC	BRITAIN	2,467	119.80	13.6	9.5	7.3	5.7%	6.3%	7.5%
LM US Equity	LEGG MASON INC	UNITED STATES	3,021	29.91	9.5	6.6	n/a	3.2%	3.5%	n/a
EV US Equity	EATON VANCE CORP	UNITED STATES	4,774	41.88	19.6	17.0	15.2	2.6%	2.7%	2.9%
AZM IM Equity	AZIMUT HOLDING	ITALY	2,535	17.02	15.3	12.8	11.7	6.5%	7.3%	8.0%
JUP LN Equity	JUPITER FUND	BRITAIN	2,530	451.00	14.7	13.3	12.3	5.8%	6.4%	7.0%
PTM AU Equity	PLATINUM ASSET	AUSTRALIA	2,243	5.30	16.5	14.9	11.0	5.7%	5.9%	7.2%
OZM US Equity	OCH-ZIFF CAPIT-A	UNITED STATES	1,586	3.31	n/a	6.6	5.2	0.2%	9.3%	12.3%
GAM SW Equity	GAM HOLDING AG	SWITZERLAND	1,901	12.20	22.4	16.0	13.7	5.6%	5.6%	5.8%
JNS US Equity	JANUS CAPITAL GR	UNITED STATES	2,423	13.27	15.4	13.6	12.2	3.2%	3.6%	3.9%
ASHM LN Equity	ASHMORE GROUP PL	BRITAIN	2,454	283.00	14.7	13.0	n/a	5.8%	6.4%	n/a
WDR US Equity	WADDELL & REED-A	UNITED STATES	1,616	19.51	9.1	11.4	12.6	9.4%	9.4%	9.4%
AB US Equity	ALLIANCEBERNSTEIN	UNITED STATES	2,223	23.45	13.7	12.2	10.9	7.4%	8.1%	9.1%
WETF US Equity	WISDOMTREE INVES	UNITED STATES	1,519	11.14	39.5	41.0	31.1	2.9%	2.9%	2.9%
LIO LN Equity	LIONTRUST ASSET	BRITAIN	215	385.00	12.0	10.4	n/a	4.1%	4.7%	n/a
<b>median</b>					<b>15.0</b>	<b>13.3</b>	<b>12.4</b>	<b>4.1%</b>	<b>4.7%</b>	<b>5.5%</b>

Source: Company, IPOPEMA Research, Bloomberg, prices as of 30.12.2016

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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.  
TP – target price, calculated based on valuation methods outlined in the document.

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Sell	1	11%
Total	9	100%