

Quercus TFI

2Q22 Call Highlights

Highlights from 2Q22 conference with management include:

- **Net profit outlook:** According to CEO Quercus TFI should be able to generate quarterly net profit of few million zlotys in 2H22.
- **Market outlook:** In the following months, the CEO sees further outflows diminishing in scale and magnitude in the 2H22 and return of inflows in 2023. Strong positive results of the debt-focused-funds already in July, should be supportive (assuming the baseline scenario of the target market interest rate level around 7% achieved in September). Quercus TFI remains cautiously sceptical in case of equity markets in 2H22, as central banks still act against capital markets. Equity funds should return to inflows in 2023, after core central banks will stop monetary tightening.
- **Xelion contribution:** Net profit contribution came at PLN 0.9m (+4% y/y) in 1H22. The 1H22 was relatively successful, with a strong 1Q22, but AUM were under pressure from negative valuations. Xelion closed sales on a 'positive zero'. New offer of structured products – improves up-sale and allows new client's acquisition.
- **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:** Contributed with AUM @ PLN 620m in 1H22.
- **Dividend:** Dividend policy (buy-back or dividend) of up to 100% of stand-alone net profit (PLN 7.39m in 1H22; +11% y/y) has been maintained.
- **Shares:** Quercus plans to call AGM on redemption of 2m of own shares, bought in June's buy-back. New number of shares @ 56,488,487
- **ESG:** According to CEO, Quercus TFI does not plan to create a dedicated ESG fund, as it is hard to find a fully-compliant companies both in PL and abroad. It will apply the ESG strategy/rules to existing funds. The company is compliant with all the ESG regulations.
- **New regulations:** The CEO does not expect any further negative regulations, as it could lead to stability concerns of some asset management companies.

Opinion: Neutral. In line with management statements following 1Q22 results.

Figure 1. Financial Data summary

Quercus TFI P&L (PLN m)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	q/q	y/y	lpop	vs. lpo	Cons.	vs. Cons
Revenues	11.6	13.3	15.3	42.8	25.6	23.4	-8%	76%	22.3	5%	22.7	3%
Management fee	11.6	13.3	15.0	14.4	13.8	12.3	-11%	-8%	13.4	-9%		
Success fee	0.0	0.2	0.3	17.7	0.0	0.0	n.m.	-100%	0.0			
Distribution fee	0.0	0.0	0.0	9.6	11.7	11.1	-5%	n.m.	8.8			
OPEX	7.0	7.9	10.1	32.5	19.4	18.0	-7%	129%	17.4	4%		
Distribution	4.3	5.0	5.4	9.4	11.5	9.9	-14%	98%	8.7	13%		
SG&A	2.7	2.9	4.7	23.2	7.9	8.1	3%	183%	8.7	-6%		
Net Other Income	-2.4	-2.7	0.0	0.0	0.1	-2.1			1.0			
EBIT	2.1	2.8	5.3	15.3	6.3	3.4	-47%	21%	4.9	-31%	3.8	-12%
Gross profit	4.2	4.3	5.1	16.9	5.4	4.1	-25%	-4%	3.9	6%		
Tax	0.5	0.7	1.0	3.1	0.9	0.7			0.7	2%		
Minorities					0.1	0.1				0.2		
Net profit	3.7	3.5	4.1	13.8	4.5	3.3	-27%	-8%	3.1	4%	3.3	-1%

Source: Company, IPOPEMA Research

Financials

QUERCUS TFI

U/R

Price as of 11 August 2022 PLN 3.30

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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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Buy	17	71%
Hold	5	21%
Sell	2	8%
Total	24	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	-	-	-