Quercus TFI

(Buy, TP PLN 8.6)

As of August 30th, 2024

4Q24 net profit broadly in line with our estimates. PLN 59m buy-back.

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Quercus TFI released 4Q24 figures with the following highlights:

- **4Q24 net profit** of Quercus TFI came in at PLN 19.4m (2% y/y, 145% q/q) and was 2% above our estimates (PLN 19.0m). The numbers were distorted by Capitea-related bookings, but – according to our estimates - net impact was not very material. Slightly better adjusted revenues (on the back of higher success fee) were offset by lower than expected adjusted net financial income.
- Adjusted total **revenues** in 4Q24 amounted to PLN 57m (17% y/y, 65% q/q) and were 5% above our expectations. Management fee (incl. success fee) increased 12% y/y (94% q/q) and revenues from purchase/redemption orders went up 17% y/y (1% q/q). Share of low margin debt funds in total AUM came in at 54% on average (vs. 52% in 3Q24 and 51% in 4Q23).
- In FY 2024 total **success fee** came in at PLN 31m (incl. PLN 0.9m from portfolio instruments), of which – according to our estimates – PLN 23m was reported in 4Q24 vs. our expectations of PLN 19m and vs. PLN 16.3m provision after 9M24.
- **Total adjusted costs** in 4Q24 came in at PLN 34m (8% y/y, 17% q/q) and were 4% below our estimates. Distribution costs went up 35% y/y, staff costs increased 22% y/y, external services costs grew 25% y/y.
- At the end of 4Q24 **AUM** of Quercus TFI came in at PLN 6,343m (44% y/y, 6% q/q). Y/y growth was largely driven by rising assets of QRS Ochrony Kapitału (93% y/y) and QRS Dłużny Krótkoterminowy (130% y/y). Q/q growth of total assets was driven by rising AUM of QRS Ochrony Kapitału (8% q/q), QRS Dłużny Krótkoterminowy (8% q/q) and QRS Global Growth (71% q/q). AUM of QRS Stabilny declined both y/y (-49%) and q/q (-42%).
- In 4Q24 **net flows** to Quercus TFI amounted to PLN +225m (vs. PLN 419m in 3Q24). FY 2024 net flows reached PLN 1,504m vs. PLN 693m in FY 2023 (and PLN -1,167m in 2022).
- **Management recommends buy-back (or dividend) for up to 100% of standalone earnings for 2024 (PLN 41m), but also additional buy-back for up to PLN 18m of reserve capital, translating to total DPS PLN 1.1, DY 11.9%.**
- **Teleconference** with CEO takes place today, March 21, at 11:00 via MS Teams **Dołącz do spotkania teraz**

Our view: NEUTRAL

4Q24 in Quercus comes as a very strong finish of the very strong year. Net profit came in at PLN 19.4m (2% y/y) and was broadly in line with our expectations. We point at very strong success fee, that in FY 2024 came in at PLN 31m vs. PLN 24m in 2023. In 4Q24 management fee went up 12% y/y and revenues from purchase/redemption orders in increased 17% y/y (1% q/q). 4Q24 saw further growth of AUM (44% y/y, 6% q/q) driven by solid rates of return of QRS's funds and positive flows. As a result, our FY 2024 forecast of net profit PLN 38.4m has been beaten by Quercus, that ended the year with a record high bottom line of PLN 43.2m (40% y/y). And this appears not to be the end yet – in Feb'25 AUM increased another 4% m/m (42% y/y) and net flows in Jan-Feb came in at PLN 366m.

***What we find positive is very high dividend/buy-back recommendation** for total PLN 59m, not only from 2024 earnings, but also from reserve capital translating to total DPS PLN 1.1, DY 11.9%.*

Quercus TFI – P&L, PLN mn

	4Q23	1Q24	2Q24	3Q24	4Q24	y/y	q/q	Pekao	vs. Pekao
Revenues	48.6	29.7	36.7	34.5	76.1	57%	121%	54.4	na
Total costs	-31.1	0.0	0.0	-28.6	-26.0	-16%	-9%	-34.9	na
EBIT	17.4	4.9	8.8	5.8	50.1	187%	758%	19.5	na
EBITDA	17.8	6.0	9.4	6.7	51.2	188%	667%	20.5	na
Net financial income	6.4	3.2	3.5	4.5	-25.4	-498%	-668%	4.2	na
Pre-tax profit	23.8	8.1	12.3	10.3	24.7	4%	139%	23.8	4%
Net profit	**19.0**	**6.5**	**9.4**	**7.9**	**19.4**	2%	145%	**19.0**	2%
AUM eop	4 409	5 062	5 570	6 002	6 343	44%	6%		
AUM average	4 073	4 741	5 308	5 813	6 202	52%	7%		

Source: Company, Pekao Equity Research

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Michał Fidelus	Expert, Analyst	Quercus TFI	0			

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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.

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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