FUNDAMENTAL **INSIGHT**

ESPIRITO SANTO INVESTMENT BANK
Research

Poland | Financial Services | Small & Mid Cap | 21-August-2012

KRUK

Good (debt) times, bad (debt) times

Kruk is a leader in the rapidly growing debt collection and debt purchases markets in Poland and Romania, with sizeable market shares of around 34% and around 68% respectively. A highly leveraged business with no severe capital requirements results in a high return on invested capital (ROE '11 36%). We initiate coverage with a BUY recommendation and a FV at PLN 57. We see the following key drivers supporting our view: (1) purchases of NPL portfolios in 2011 will deliver robust cash flow in coming quarters which can be applied to more NPL purchases; (2) we think the prospects for the debt purchasing market are good; (3) properly managed business with well-motivated management and (4) possible dividend from 2013 net profit (DY>9%). Kruk trades on a PE'12E of 9.7 and PE'13E of 7.7.

We believe that market consensus, too much afraid of the potential impact of economic slowdown, is underestimating Kruk revenues (by 8% and 7% for 2012E and 2013E respectively). Consequently we assume better cash generation and higher portfolio purchases than consensus which would be supportive to long term KRUK's earnings. We believe the prospects for the Polish debt collection market are good and would put forward both the relatively cheap Kredyt Inkaso (KRI PW, PLN 14.56, FV PLN 18) and the high quality KRUK as equally attractive BUY ideas.

Strong NPL portfolios purchases in 2011 to be the key driver

In 2011 Kruk purchased bad debt portfolios for more than PLN 0.5bn compared with some PLN 0.2bn in 2010 and a mere PLN 54m in 2009. According to the repayment curve, most of the repayments are expected within 3 years after purchase. We expect in coming quarters Kruk will receive strong cash flow, which can be used for further NPL purchases. Over 2008-2011 Kruk's investments in NPL portfolios in its balance sheet has increased almost sevenfold. We do not expect Kruk to repeat such heavy portfolio acquisitions in this year, but robust cash generation will enable either regular purchases of debt portfolios, debt reduction or dividend payment.

Deterioration in household budgets and unfavorable FX movements are key risks

We see two potential risks for Kruk in the current macro environment: a deterioration in household budgets related to higher unemployment, which could lead to lower than assumed repayments, and unfavourable FX movements (strengthening PLN against RON), causing write-downs of acquired debt portfolios. We have partially factored the first risk into our model by assuming a lower IRR obtained on Kruk's NPL portfolios. A potential supply overhang from the biggest shareholder is an additional short-term risk.

Kruk is trading on encouraging multiples

We see Kruk's revenues reaching PLN 383m this year and PLN 459m next year, which is higher than consensus by 7.8% and 7.1% respectively. We forecast net profit of PLN 81m for the current year, in line with Bloomberg consensus and PLN 102m for 2013, 6.3% higher than consensus. It translates into a PE'12E of 9.7 and a PE'13E of 7.7. We think these multiples are attractive. In comparison with its foreign peers, the stock is trading at discounts of 11% and 26% for PE'12E and PE'13E respectively. We believe this is unjustified given its profits' growth, well-motivated management, proven track record and future dividend. We think that the above average ROE explains the higher P/BV multiples..

BUY 28% upside

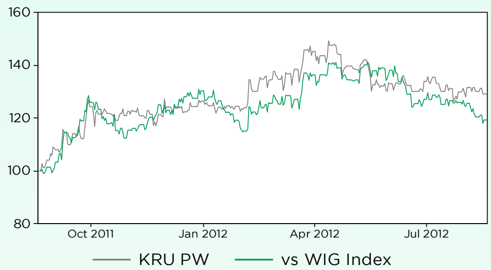
Fair Value	PLN 57.00
Bloomberg ticker	**KRU PW**
Share Price	PLN 44.64
Market Capitalisation	PLN 754.43m
Free Float	64%

PLN m Y/E 31-Dec	2011A	2012E	2013E	2014E
Debt portfolios purchases	568.8	382.5	414.0	406.5
Cash repayments	341.1	534.0	694.5	772.9
Revenues	274.1	382.8	458.8	506.0
EBITDA	96.0	139.7	163.9	179.7
Net Income	66.4	81.0	102.1	112.3

Y/E 31-Dec	2011A	2012E	2013E	2014E
Reported P/E (x)	11.8	9.7	7.7	7.0
P/BV (x)	3.2	2.4	1.8	1.7
ROE stated	35.9%	29.0%	27.5%	25.4%
Dividend yield	0.0%	0.0%	0.0%	9.2%
Reported EPS (PLN)	3.9	4.7	5.9	6.4
DPS from previous year (PLN)	0.0	0.0	0.0	4.1
BV per share (PLN)	14.1	18.7	24.4	26.4

DPS based on cash flow basis, e.g. DPS of PLN 4.1 in 2014E column is the dividend from 2013 Net Income, which will be paid in 2014.

Share Price Performance



All share price data as at close on 17-Aug-2012

Source: Espirito Santo Investment Bank Research, Company Data, Bloomberg

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Figure 1 Summary Financial Information

KRUK

Rating	**BUY**
Fair Value:	**57.0**
Share Price (17/08/2012, PLN):	44.64
Upside / Downside potential	28%
Bloomberg	KRU PW
Shares (m)(diluted)	17.5
Market Cap (PLN m)	**783**
Equity Value (PLN m)	**253**

Forthcoming Catalysts

2Q12 results publication	31 August 2012

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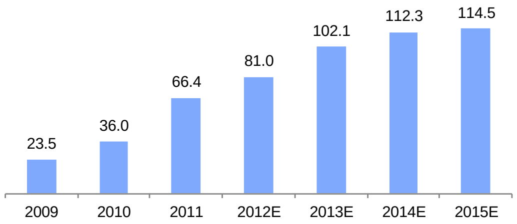
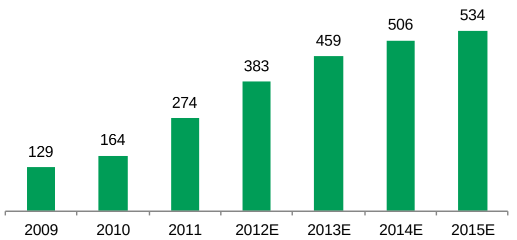
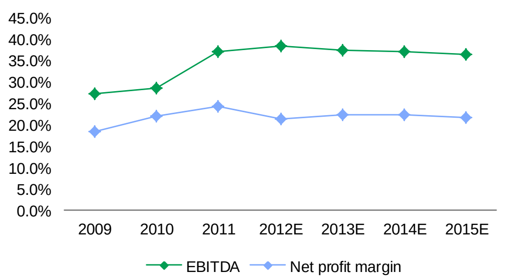
Net Profit



Revenues



Margins Trend



Valuation Metrics (Year end March)	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported P/E (x)	33.3	21.7	11.8	9.7	7.7	7.0
P/BV	0.7	5.2	3.2	2.4	1.8	1.7
ROE	26.6%	31.0%	35.9%	29.0%	27.5%	25.4%
EV / EBITDA (x)	25.9	20.8	12.7	8.8	7.5	6.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	9.2%
Buy back yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Key Ratios	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA margin	24.7%	25.9%	35.0%	36.5%	35.7%	35.5%
EBIT margin	22.3%	23.5%	33.1%	34.8%	34.2%	34.0%
C/I	75.3%	74.1%	65.0%	63.6%	64.3%	64.5%
Effective tax rate	14.1%	-1.4%	3.1%	3.0%	3.0%	3.0%
Net profit margin	18.3%	21.9%	24.2%	21.1%	22.2%	22.2%
Net Debt / EBITDA (x)	1.2	2.4	4.6	4.0	3.6	3.6
Net Debt / Equity (%)	39%	77%	185%	176%	141%	141%

Cash Flow Summary (PLN m)	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash repayments	140.4	197.9	341.1	534.0	694.5	772.9
Operating expenses	(46.0)	(60.9)	(103.1)	(158.2)	(200.7)	(226.5)
Other CFO	13.5	(13.0)	(39.7)	(55.9)	(46.5)	(48.8)
Operating Cash Flow	**107.9**	**124.0**	**198.3**	**319.9**	**447.3**	**497.6**
Debt portfolios purchases	(53.9)	(194.0)	(568.8)	(382.5)	(414.0)	(406.5)
Other CFI	(3.7)	(7.0)	(9.4)	(8.0)	(8.1)	(8.3)
Cash Flow from Investment	**(57.6)**	**(201.0)**	**(578.2)**	**(390.5)**	**(422.1)**	**(414.8)**
Change in debt	(40.9)	57.3	352.0	100.5	45.0	60.0
Other CFF	(10.7)	16.6	44.3	(52.7)	(59.9)	(136.6)
Cash Flow from Financing	**(51.6)**	**73.9**	**396.3**	**47.8**	**(14.9)**	**(76.6)**
Cash Flow Total	**(1.3)**	**(3.1)**	**16.3**	**(22.7)**	**10.4**	**6.3**

P&L Summary (PLN m, unless stated	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Revenues	**128.6**	**164.3**	**274.1**	**382.8**	**458.8**	**506.0**
% change	23.8%	27.8%	66.8%	39.7%	19.9%	10.3%
EBITDA	**31.7**	**42.5**	**96.0**	**139.7**	**163.9**	**179.7**
% change	28.0%	34.0%	125.9%	45.5%	17.3%	9.6%
% margin	24.7%	25.9%	35.0%	36.5%	35.7%	35.5%
Depreciation & Amortisation	3.1	3.9	5.4	6.6	7.0	7.5
EBIT	**28.6**	**38.6**	**90.6**	**133.1**	**156.9**	**172.2**
% change	*29%*	*35%*	*135%*	*47%*	*18%*	*10%*
% margin	*22%*	*23%*	*33%*	*35%*	*34%*	*34%*
Net Financials	(4.4)	(7.0)	(27.4)	(56.3)	(58.7)	(63.9)
Pre-Tax Profit	**27.3**	**35.5**	**68.6**	**83.5**	**105.2**	**115.7**
Income Tax Expense	3.8	(0.5)	2.2	2.5	3.2	3.5
Net Income	**23.5**	**36.0**	**66.4**	**81.0**	**102.1**	**112.3**
Reported EPS (PLN)	14.9	2.4	3.9	4.7	5.9	6.4
DPS (PLN)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**4.12**
Payout Ratio	0%	0%	0%	0%	0%	70%
Shares in Issue (Less Treasury) (m)	1.6	15.3	16.9	17.1	17.3	17.5

Balance Sheet (PLN m)	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & Equivalents	23.8	20.8	36.2	13.5	23.8	30.1
Tangible Fixed Assets	8.2	9.6	14.3	13.7	13.7	13.7
Goodwill & Intangibles	4.4	6.0	7.7	7.7	8.1	8.5
Purchased receivables (at fair value)	155.4	263.2	718.7	917.8	1055.4	1151.3
Other Assets	16.1	18.0	23.6	15.7	28.7	36.2
Total Assets	**207.9**	**317.6**	**800.5**	**968.4**	**1,129.6**	**1,239.6**
Interest Bearing Debt	62.8	122.1	477.0	576.2	621.2	681.2
Other Liabilities	145.2	195.4	323.5	392.1	508.4	558.4
Total Liabilities	**207.9**	**317.6**	**800.5**	**968.4**	**1,129.6**	**1,239.6**
Shareholders' Equity	100.0	132.0	238.2	320.1	422.2	463.0
Minority Interests	0.1	0.0	0.2	0.2	0.2	0.2
Total Equity	**100.0**	**132.0**	**238.4**	**320.3**	**422.4**	**463.2**
Net Debt	39.0	101.4	440.8	562.8	597.4	651.1

Source: Source: Company data, Reuters, Bloomberg, Espirito Santo Research Poland for estimates

Investment summary

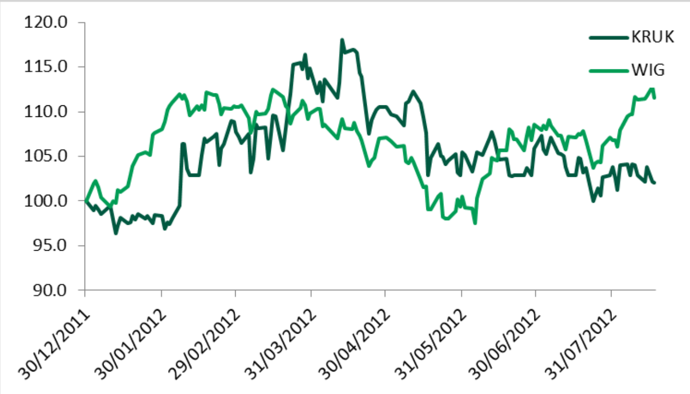
Valuation summary: initiating coverage with a BUY rating

We are initiating coverage on Kruk with a BUY recommendation. Our FV of PLN 57 is based 100% on a DCF valuation method and offers 28% upside potential to the current price. We attach a 0% weight to the peer-comparison implied fair price (PLN 50.3)

Performance

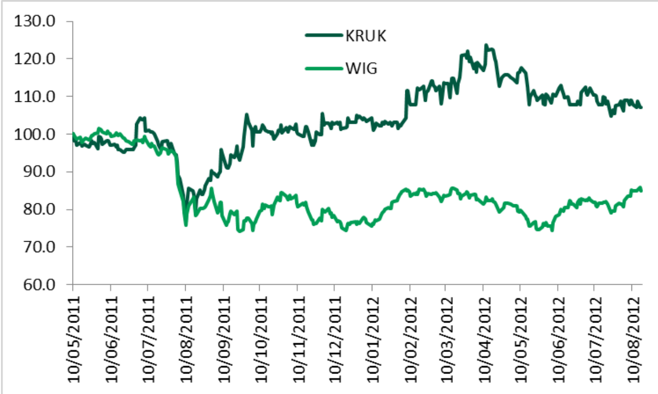
Kruk YTD performance is slightly worse than the WIG index, with Kruk gaining 2.1% versus 11.6% for broad market.

Figure 2 KRUK: YTD PERFORMANCE vs. WIG (REBASED TO 100



Source: Espirito Santo Investment Bank, Bloomberg

Figure 3 KRUK: SINCE IPO PERFORMANCE vs. WIG (REBASED TO 100)



Source: Espirito Santo Investment Bank, Bloomberg

Kruk has outperformed the broad market since IPO, especially after the sharp market collapse in August last year. Despite its share price fall being identical to the market, within two months Kruk's price had returned to the levels it had been in the first half of 2011.

Kruk is the market leader in Poland and Romania

Kruk is a leader in the Polish and Romanian debt collection and purchases markets with market shares of 34% and 68% respectively. In terms of the nominal value of portfolios sold in 2011, the Polish market at PLN 8.0bn is three times bigger than the Romanian market, but lower margin due to higher prices. Kruk's margin on acquiring portfolios in Poland stood at around 40% for the last two years, compared with around 70% in Romania. Kruk's market share in debt collection services is also higher in Poland than in Romania, at 36.5% and 11.1% respectively last year. The value of debt collection services in Poland, calculated as the nominal value of transferred debt portfolios, stood at over PLN 10bn in 2011, more than twice as large as the PLN 4.5bn in Romania.

Synergies between two main business lines

Acquiring debt packages on own account is the Company's most important segment and the biggest contributor to revenues. It accounted for more than 85% of total revenues and 79% of middle margin in 2011 and we believe it will rise to 90% and 87% respectively in 2012. The second business line is debt collection services, which creates large synergies with investments in NPL portfolios in terms of portfolios pricing and building long-term relations with financial institutions.

Rapid balance sheet and cash flows expansion

The debt purchase market was exceptionally good in 2011 and Kruk took advantage of it, increasing investment in debt packages to more than PLN 0.5bn, almost triple its 2010 investment. Rapid balance sheet expansion has boosted revenues and net profit, which in 2011 surged by 67% and 24% to PLN 274m and PLN 66.4m respectively. We expect that anticipated robust cash flow from purchased portfolios will allow Kruk to reinvest it in other debt packages, reduce debt or pay a dividend. We forecast that in a steady market the Company would invest around PLN 400m with safe debt covenants and even pay a dividend from 2013 net profit, implying a dividend yield above 9%.

Growth delivered by well-motivated management

We believe that well motivated management with a proven track record will deliver profits' growth and meet the share-based compensation program's targets of EPS growth of at least 17.5% in each of next three financial years plus either EBITDA growth at the same pace or ROE above 20%.

Russia and Turkey as a future expansion direction

The Company plans to expand its business activity into other European countries. Kruk is considering entering Russia or Turkey, but no sooner than 2013, and recently it has begun to operate in the Czech Republic though it has withdrawn its plans to enter the Hungarian market. Although we do not include into our forecast any portfolio acquisitions in Russia and Turkey and include only small purchases in the Czech Republic, we perceive the Company's prospects as bright and the prospective markets provide upside to our valuation.

Attractive valuation and growth profile

Our forecasts assume net profit growth to PLN 81m this year and PLN 102m next year, giving PE ratios of 9.7 and 7.7 respectively. Our forecasts implied 2012E-2014E revenue and EBITDA CAGR of 23% and 2012E-2014E net profit CAGR of 19%. Looking at the low multiples, healthy profit growth and possible dividend, we regard stock as undervalued.

Potential risk factors

Deteriorating macroeconomic conditions, especially its impact on households' financial standing due to a higher unemployment rate, slower GDP growth and lower wages are the main threats to the company's future performance and our fair value. Also FX rate movements, mainly the appreciation of PLN against RON impacting debt portfolios' fair value, can damage future profit growth. Kruk's business in based on leverage and so is exposed to a drought in the debt market that can limit portfolios' purchases or debt rollover. Another risk is share overhang from Enterprise Investors, the biggest shareholder currently holding 24.8%.

ESIB estimates vs. consensus

We estimate Kruk's revenues will reach PLN 383m this year and PLN 459m next year, which is higher than consensus by 7.8% and 7.1% respectively. We forecast net profit of PLN 81m for the current year, in line with Bloomberg consensus, and PLN 102m for 2013, some 6.3% higher than consensus

Table 1 ESIB vs. consensus

	2012			2013		
	ESIB	consensus	*diff.*	ESIB	consensus	*diff.*
Revenues	382.8	355.0	*7.8%*	458.8	428.3	*7.1%*
EBITDA	146.4	139.3	*5.1%*	170.9	172.0	*-0.6%*
net profit	81.0	80.3	*0.8%*	102.1	96.0	*6.3%*

Source: Espirito Santo Investment Bank, Bloomberg

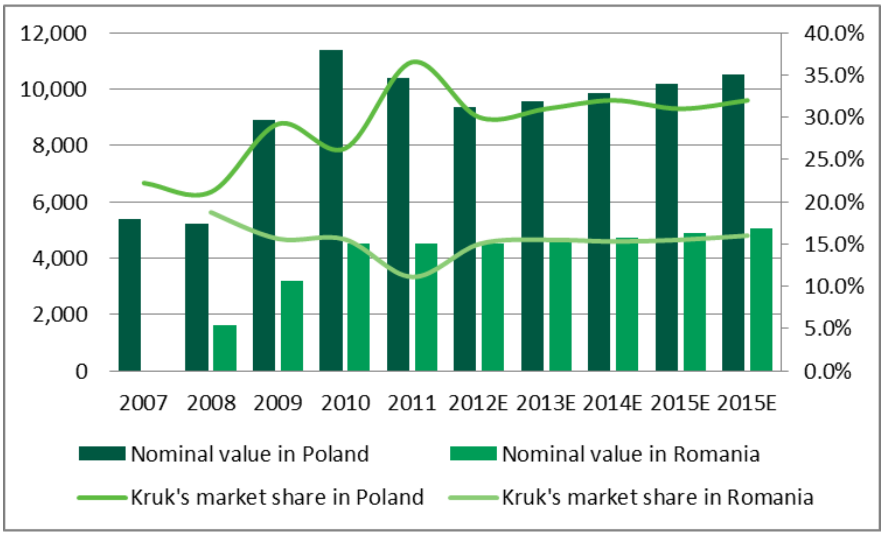
Market – review and outlook

Debt management services

Poland and Romania

Intense lending in the Polish banking system in 2008 and 2009 coupled with an acceleration in NPLs in the last two years have bolstered demand for debt management services from Polish banks. The value of the market, calculated as nominal value of debt transferred to debt collection companies, doubled in three years from PLN 5.2bn in 2008 to PLN 10.4bn last year. The debt market in Romania developed similarly, growing at a CAGR of 41% over 2008-2011. However the Romanian market is considerably smaller than the Polish one and has a nominal value of PLN 4.5bn.

Figure 4 Nominal value of debt portfolios transferred to debt collection companies and Kruk's market share



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

This strong market development has significantly increased competition. Kruk's fee earned on debt servicing has halved from 2.0% in 2008 to around 1% in 2011. Lower margins were compensated for by higher market volumes and Kruk's market share. Those factors allowed the company to keep revenues from debt servicing roughly flat. As we think the strongest market development is behind us, we expect it will grow at steady pace close to inflation and have a stable margin around 1%.

Although revenues from debt collection services accounted for only 15% of total company revenues, we believe Kruk will continue to emphasise this activity, as there are substantial synergies with purchasing debt on its own account. Long-term activity in debt collection service lets Kruk both gain wide knowledge about debt packages and build an extensive statistical data base, which is useful in valuing purchased portfolios. It also minimizes the risk of over- or underestimating the price and builds permanent business relations between Kruk and financial and non-financial institutions.

Debt purchase

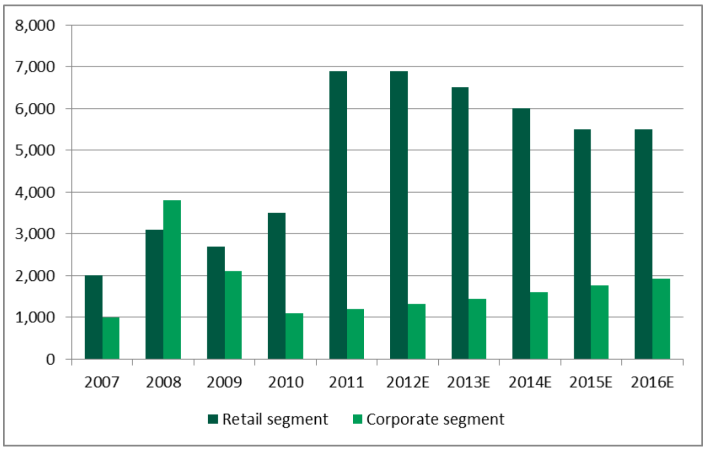
Poland

Since 2007 the debt purchase market has been growing very rapidly, increasing from barely PLN 3.0bn in 2007 to PLN 8.1bn in 2011. The fastest growing segment was retail, reaching PLN 6.9bn in 2011, almost double 2010. The fast growth of this market was as a result of the early stage of its development and low saturation. A pick-up in 2011 has activated competition and has elevated prices paid for debt portfolios, from 11%-12% to almost 17% in 2011 in the retail segment and from 1.3%-3% to slightly above 4% in the corporate segment. Prices were also higher due to better quality and shorter maturity of portfolios. In line with the company's guidance, we expect that both aforementioned factors will continue to put pressure on prices. We expect prices to rise to 19% within three years in the retail segment and almost double to 8% within four years in the corporate segment. We underline that these are quite conservative assumptions and lower prices would represent pure upside for Kruk's valuation.

In 2012 we expect the Polish market to stabilize, with debt portfolio supply around PLN 6.9bn in nominal values, flat YoY. The years after 2012 should bring a slight decrease in nominal values, but given increasing prices we think overall market expenditures will stay at a level similar to 2011.

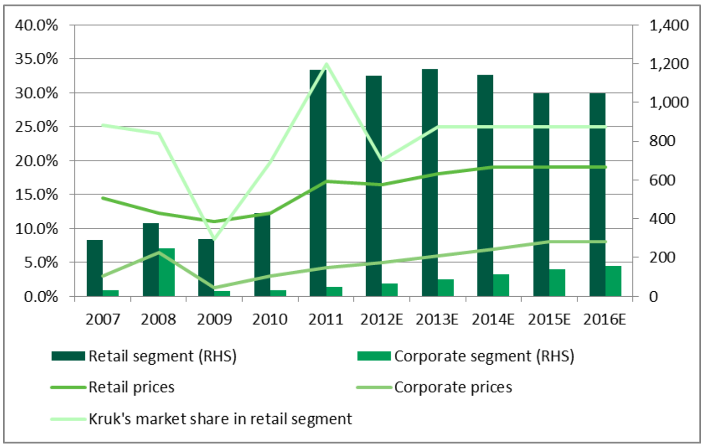
Kruk's market share in the biggest retail segment in recent years stayed around 20%-25% of total market expenditures, except for a very weak 2009, when Kruk spent a mere PLN 54m which accounted for only 8% of the total market and except very strong last year. In 2011 Kruk's market share expanded to 34%. The PLN 399m spent only in the Polish debt market should bring in robust cash flows in coming years. We do not assume that Kruk will be able to sustain market share above 30%. We believe that the company will rather slide to the 20%-25% range.

Figure 5 Nominal value of portfolios in Poland (PLN m)



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

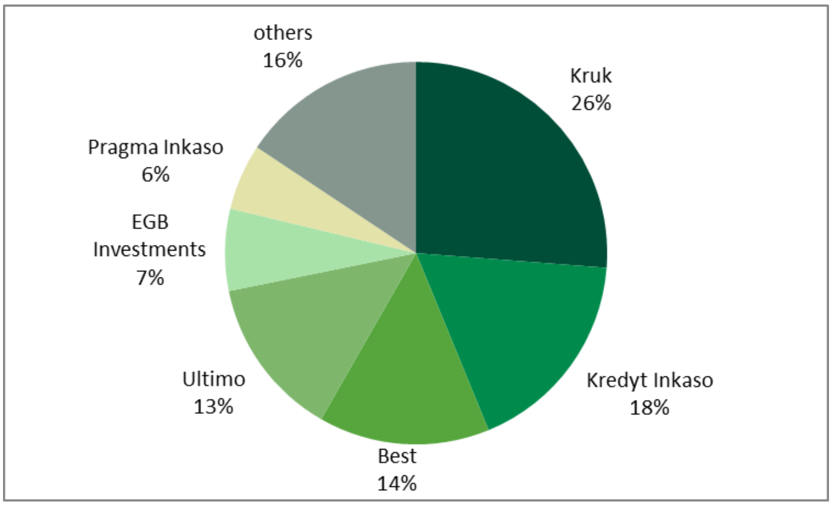
Figure 6 Market at purchase value (PLN m), average prices and Kruk's market share (%)



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

The Polish market is fragmented, with several mid-sized and small players, but more than 75% of the market is occupied by the top five market players. A favourable outlook for the debt purchase market lures new players willing to enter. As an example recently GetBack – owned by Leszek Czarnecki, main shareholder of Getin Noble Bank (GNB PW, PLN 1.67, BUY, FV PLN 1.8) and Getin Holding (Not covered) – began operating. A new player with strong financial and know-how support can gain a high market share in a relatively short period of time.

Figure 7 Polish debt purchase market in nominal value by company

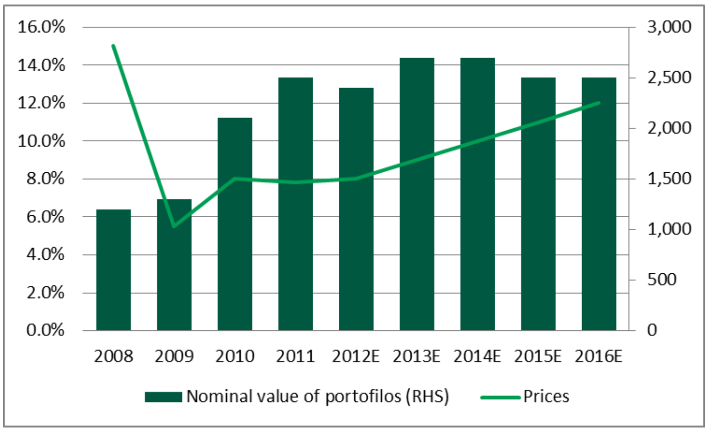


Source: Kruk

Romania

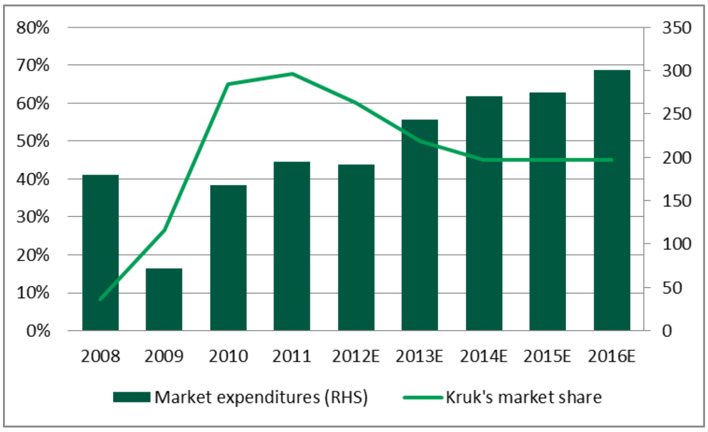
The debt purchase market in Romania is much smaller than the Polish market and therefore less competitive and saturated. With stable debt supply in 2008 and 2009 at PLN 1.2-1.3bn, the market grew by around 75% in 2010 and 2011 to PLN 2.1bn and PLN 2.5bn respectively. Weaker competition and the considerably lower quality of debt sold are reflected in lower average prices at around 8%. We expect broadly flat bad debt supply in Romania, but together with an anticipated improvement in quality, we assume prices will grow to 12% in 2016. Kruk is the leader in the Romanian market with 68% market share in 2011, slightly higher than 65% in 2010. Just as in the Polish market, we cannot imagine Kruk will maintain this high market share. We expect a gradual decrease to 55% this year to only 45% in 2015E, due to improving economic conditions in Romania that will attract new investors willing to enter this very attractive market.

Figure 8 Nominal value of portfolios in Romania (PLN m) and prices (%)



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Figure 9 Market expenditure (PLN m) and Kruk's market share (%)



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

KRUK IN BRIEF

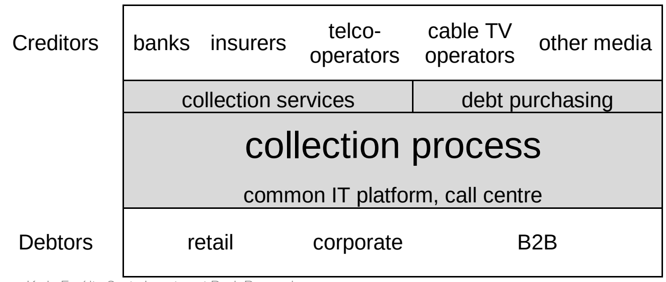
Kruk is a leader in the Polish and Romanian debt markets

Kruk is a leader in the rapidly growing debt collection and debt purchasing market in Poland and Romania and it aims to expand its business into other CEE countries. Kruk's business model is based mainly on two complementary business lines: purchasing debt portfolios and debt collection services supported by additional activities: law firm RAVEN, credit information agency ERIF, detective bureau or small loan to former debtors NOVUM. The combination of these business lines gives Kruk a unique position in the market and also brings significant synergies, both in revenues and costs lines.

Kruk's business model

The group provides services for banks, insurers, leasing companies, telcos and utility companies and the FMCG and B2B sectors, but mainly concentrates on the fastest growing financial services market - consumer debt in particular. Since 2003 Kruk has been cooperating with eight of the ten the biggest Polish financial institutions. Nowadays in Poland Kruk cooperates with more than 30 financial groups.

Figure 10 Kruk's business model



Source: Kruk, Espírito Santo Investment Bank Research

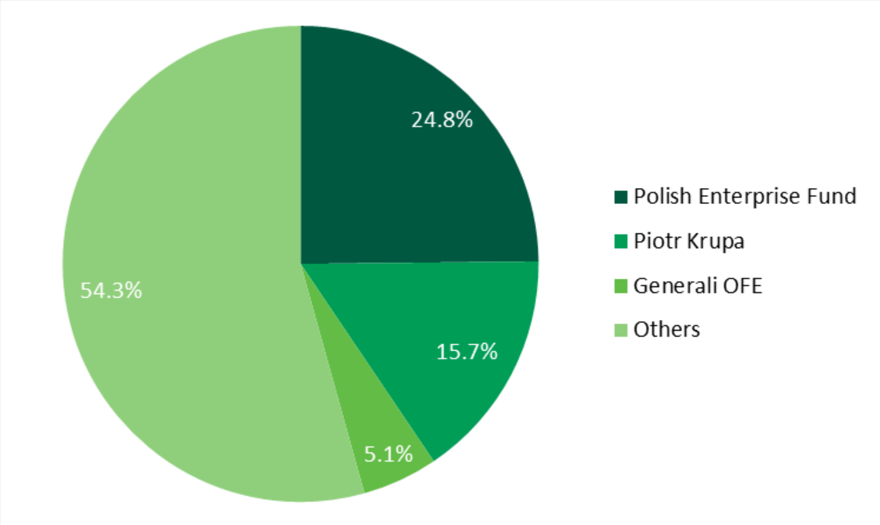
In 2008 the Company introduced an amicable settlement approach. This solution assumes that the debtor is the Company's client and allows him to repay his debt in instalments. According to company estimates, application of amicable settlement increases the probability of repayment from 40%-50% for the standard collection process to 70%-80%.

Kruk employs more than 1,200 people, with around 1,000 in Poland and 200 in Romania. The company operates through eight regional centres in Poland and two in Romania, including three call centres.

The Kruk group also includes securitization funds and a SPV in Luxembourg. The SPV invests in certificates issue by securitization funds and, thanks to favourable tax treatment between Poland and Luxembourg, allows tax optimization.

Shareholder structure

Figure 11 KRUK: Current (31.03.2012) Shareholder structure



Source: Kruk, Espirito Santo Investment Bank

Enterprise Investors invested in Kruk in 2003 and since then are the largest shareholders. After the IPO in 2011 EI decreased its stake from 78.5% and currently holds 24.8%. The EI investment strategy usually assumes total disposal of its holding, so we see a potential overhang risk. The second biggest shareholder is Piotr Krupa, founder of Kruk, owner of a 15.7% stake. We believe any significant overhang from this source is limited.

Company history

1998 – Beginning of activity

2003 – Enterprise Investors, private equity fund, invests USD 12m (70% stake)

2004 – Enterprise Investors invests further USD 10m

2005 – Securitization fund launched

2007 – Start of operations in Romania

2008 – Changing strategy into amicable settlement

2011 – Debut on WSE

Valuation: FV at PLN 57.0 with BUY rating

Valuation summary

Table 2 Kruk Valuation

DCF Valuation	2010	2011	2-4Q2012E	2013E	2014E	2015E	2016E	TV
EBIT	42.5	96.0	111.2	163.9	179.7	186.0	192.4	198.1
tax rate	*-1.4%*	*3.1%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*19.0%*
tax paid	0.6	-3.0	-3.3	-4.9	-5.4	-5.6	-5.8	-37.6
NOPAT	**43.1**	**93.0**	**107.8**	**159.0**	**174.3**	**180.4**	**186.6**	**160.5**
Depreciation	3.9	5.4	5.1	7.0	7.5	8.0	8.5	8.5
Change in WC	21.8	15.5	-3.9	11.9	7.8	5.5	2.8	0.0
Portfolios amortization	86.8	112.9	145.0	276.4	310.7	338.5	363.4	363.4
Portfolios purchases	-194.0	-568.8	-394.8	-414.0	-406.5	-385.0	-396.3	-363.4
CAPEX	-7.0	-9.4	-6.0	-8.1	-8.3	-8.4	-8.5	-8.5
FCF	**-45.2**	**-351.5**	**-146.7**	**32.2**	**85.5**	**138.9**	**156.6**	**160.5**
		discount factor	*0.89*	*0.80*	*0.72*	*0.64*	*0.57*	
		PV FCF	**-131.3**	**25.8**	**61.2**	**89.0**	**89.7**	**1164.0**
g			3%					
EV			1298.4					
Net debt (as of 31.03.2012)			409.2					
month			8					
Value of equity (today)			**977.6**					
NPV motivational program inflow			22.0					
shares number (fully diluted)			17.5					
Fair Value (PLN)			**57.0**					
upside potential			27.7%					

WACC Calculation	2012-2016	TV
Risk free rate	5.2%	5.2%
Unleveraged beta	1.0	1.0
Leveraged beta	1.6	1.5
Capital risk premium	5.0%	5.0%
Cost of equity	**13.0%**	**12.5%**
Risk free rate	5.2%	5.2%
Debt risk premium	4.8%	4.8%
tax rate	3.0%	19.0%
Cost of debt after tax	**9.7%**	**8.1%**
% debt	36%	36%
% capital	64%	64%
WACC	**11.8%**	**10.9%**

Source: Espirito Santo Investment Bank Research

Table 3 Sensitivity analysis

FAIR VALUE	Terminal growth rate (g)				
WACC	**1.0%**	**2.0%**	**3.0%**	**4.0%**	**5.0%**
10.8%	51.9	60.2	71.0	85.4	105.6
11.3%	46.9	54.2	63.5	75.6	92.2
11.8%	42.5	48.9	56.9	67.3	81.1
12.3%	38.5	44.2	51.2	60.1	71.7
12.8%	34.9	39.9	46.1	53.8	63.7

UPSIDE	Terminal growth rate (g)				
WACC	**1.0%**	**2.0%**	**3.0%**	**4.0%**	**5.0%**
10.8%	16%	35%	59%	91%	137%
11.3%	5%	21%	42%	69%	107%
11.8%	-5%	10%	28%	51%	82%
12.3%	-14%	-1%	15%	35%	61%
12.8%	-22%	-11%	3%	20%	43%

Source: Espirito Santo Investment Bank Research

Table 4 Peer group comparison

KRUK: Peer Comparison

	P/E		EV/EBITDA		P/BV		ROE	
	2012P	**2013P**	**2012P**	**2013P**	**2012P**	**2013P**	**2012P**	**2013P**
Intrum Justitia AB	13.6	12.0	10.4	9.3	2.7	2.5	19.8%	21.0%
Portfolio Recovery Associates Inc	14.0	11.4	8.8	7.3	2.4	2.1	14.1%	19.7%
Encore Capital Group Inc	9.5	8.1	9.3	7.3	1.7	1.5	18.3%	19.9%
Credit Corp Group	10.9	10.4	7.3	7.4	2.2	n/a	22.6%	22.0%
Collection House	7.3	6.8	2.2	2.0	0.8	0.8	11.8%	12.4%
Kredyt Inkaso	6.7	5.0	6.9	5.5	0.3	0.3	4.6%	5.4%
median	**10.2**	**9.3**	**8.0**	**7.3**	**1.9**	**1.5**	**16%**	**20%**
median for foreign peers only	**10.9**	**10.4**	**8.8**	**7.3**	**2.2**	**1.8**	**18%**	**20%**
KRUK	**9.7**	**7.7**	**8.1**	**7.0**	**2.4**	**1.9**	**29.0%**	**27.5%**
premium/discount	*-5.1%*	*-17.3%*	*1.3%*	*-4.2%*	*26.1%*	*26.8%*		
premium/discount for foreign peers	*-11.3%*	*-26.5%*	*-7.6%*	*-4.5%*	*12.8%*	*4.7%*		
implied Kruk's value of equity	825.2	946.5	767.9	834.9	970.7	753.3		
implied Kruk's value of equity on foreign peers	882.9	1065.0	881.3	839.4	961.1	907.5		
			median of implied value (PLN m)			882.1		
			implied price (PLN)			**50.3**		
			upside potential			*13%*		

Source: Espirito Santo Investment Bank Research for Kruk and Kredyt Inkaso, Bloomberg for estimates for other companies

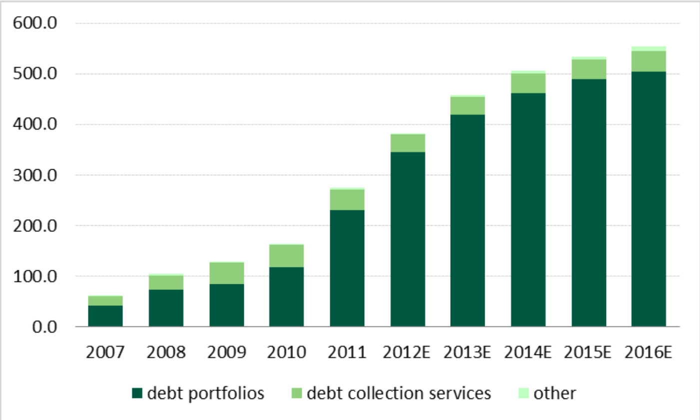
We note that implied relative value for P/BV ratio is calculated including ROE i.e. (median of P/BV) / (median of ROE) * Kruk's ROE * Equity

FINANCIALS OVERVIEW

Revenue structure

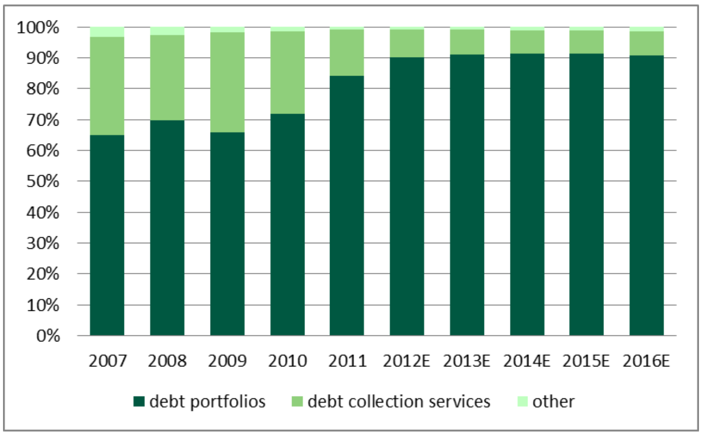
Revenues from debt packages acquired on own account contribute the majority of Kruk's revenues and reached PLN 230m last year, nearly doubling 2010's revenues. We expect that due to substantial debt portfolios purchases in recent years, especially in 2011, contribution from this segment will grow from 84% of total revenues to 90% this year and then stay flat for the next few years. The second biggest segment is debt collection services. Although revenues from this segment accounted for only 15% of total company revenues in 2011, we believe Kruk will continue to emphasise this activity, as there are many synergies with purchasing debt portfolios on own account. Other revenues came from additional activities: credit information agency, detective bureau and granting small loans (up to PLN 2.5k with interest fixed at 20%) to former debtors. Although we think they are very promising businesses, we do not incorporate much contribution from them into our forecasts.

Figure 12 Revenue split (PLN m)



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Figure 13 Revenue structure



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Going forward we estimate revenues will grow in 2012 by 40% to PLN 383m and in 2013 by 20% to PLN 459m, mainly on the back of investment in NPL portfolios last year. We estimate revenues from debt collection services will remain flat at around PLN 40m and other revenue will grow over 2012-2016 at a CAGR of 26%, but its share of group revenue will stay marginal as we are conservative about Kruk's additional business lines.

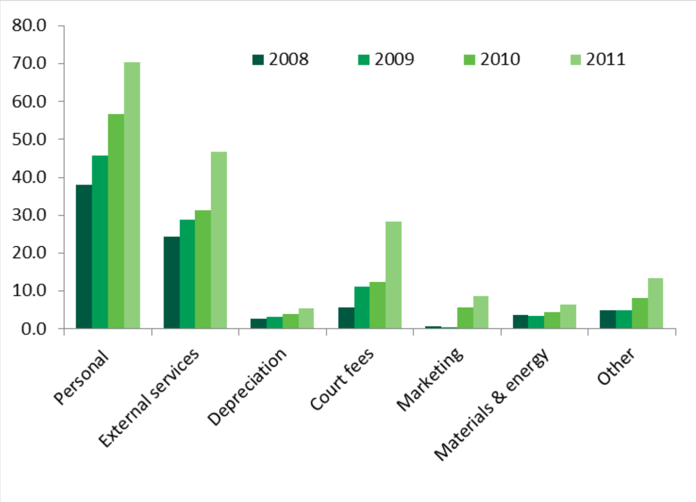
Cost structure

People are the main asset in Kruk's business model. Therefore personal expenses are the largest cost and accounted for 39% of total costs in 2011 and between 46%-48% in 2008-2010. The steady increase in personal expenses resulted from significant business growth in recent years.

External services are the second biggest expense and account for around 25%-30% all operating costs. These costs mainly include telecommunication services for call centre and postal services. Court fees, the third largest cost item, accounted for 16% total expenses in 2011.

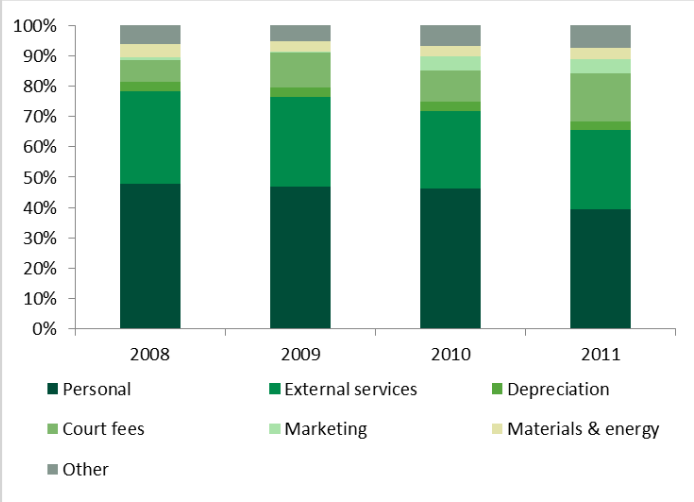
During the last two years Kruk has intensified its marketing campaign to promote its amicable settlement approach to clients. It raised marketing costs from less than PLN 1m in both 2008 and 2009 to PLN 8.5m in 2011.

Figure 14 Costs split (PLN m)



Source: Kruk

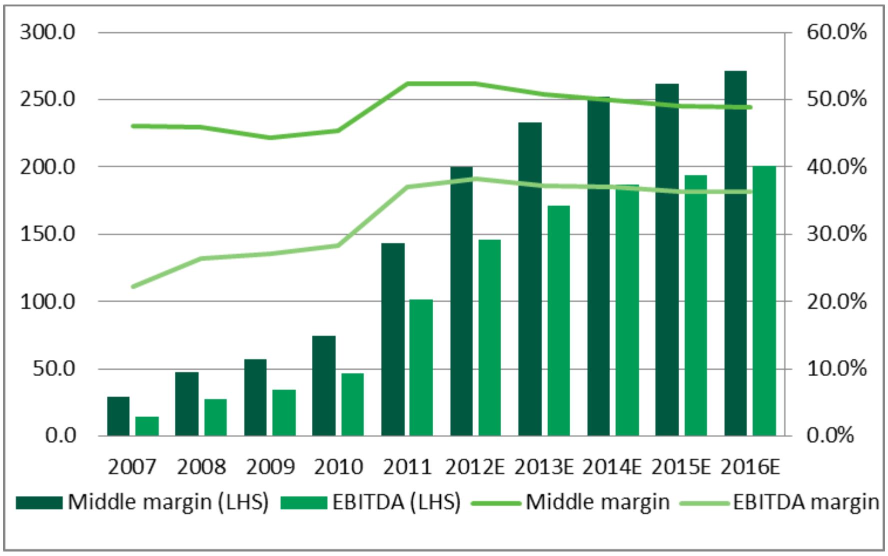
Figure 15 Costs structure



Source: Kruk

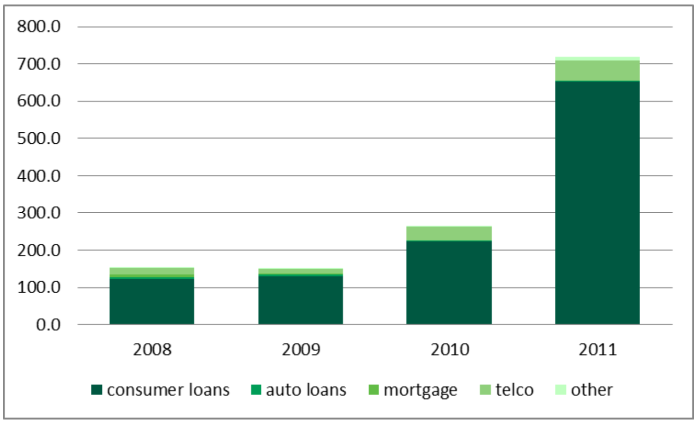
We would emphasise that the company cost structure is very flexible and can adjust to the scale of Kruk's activity. As 86% of total costs are more or less variable, we think that operational leverage in Kruk's case is moderate. Therefore we believe Kruk will be able to sustain a high EBITDA margin in the 36%-38% range over the next few years.

Figure 16 Middle margin and EBITDA (PLN m) expansion with margins (%)



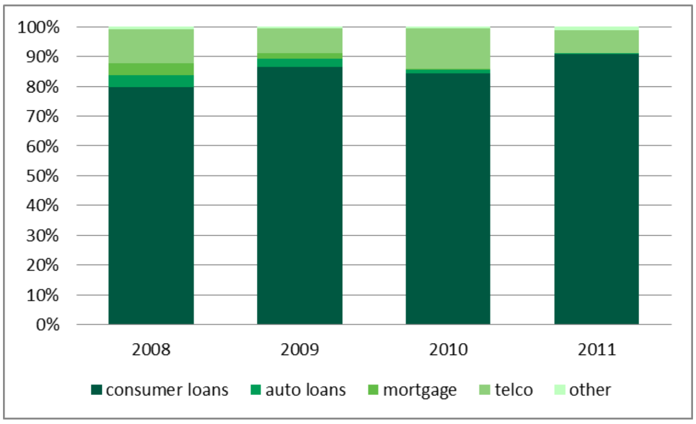
Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Figure 17 Portfolio split (PLN m)



Source: Kruk

Figure 18 Portfolio structure



Source: Kruk

Kruk's portfolio expanded rapidly in 2011, increasing from nearly PLN 265m in 2010 to nearly PLN 720m, but the structure remained largely unchanged. Banking consumer loans constitute for more than 90% of overall debts. Receivables from telecommunications services are the second biggest part of portfolio. Auto loans' and mortgages' share is marginal.

Table 5 Change in the value of the debt portfolio (PLN m)

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Beginning value of the portfolios	93	152	155	263	719	918	1,055	1,151	1,198
Purchases	104	54	194	569	383	414	407	385	396
Amortization of the portfolio	-45	-51	-87	-113	-183	-276	-311	-339	-363
Cash repayments	-117	-140	-198	-341	-534	-695	-773	-827	-867
Revenues	63	78	100	211	351	418	462	488	503
Other (e.g. Calibration of the model)	9	11	11	18	-6	0	0	0	0
End value of the portfolios	152	155	263	719	918	1,055	1,151	1,198	1,231

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimates

Share-based compensation program

In 2011 the company established a new share-based payment program for 2011-2014 for management board members (except the CEO) and key managers. Below we present the main assumptions of this program:

- Maximum issue of new shares: 844,980 (4 tranches each year of 211,254 shares), i.e. 5% total dilution;

- The company has to achieve jointly two financial indicators:

  - EPS YoY growth in a given year at a minimum 17.5% and
  - EBITDA YoY growth in a given year at a minimum 17.5% or ROE in a given year at a minimum 20%;

- Strike price at PLN 39.7 (equal to IPO price).

Our forecasts indicate that authorized employees will be granted shares in 2011, 2012 and 2013, so we use a fully diluted number of shares in our valuation.

In the table below we present the financial results the Company must achieve to meet program's minimal requirement:

Table 6 Share-based compensation program minimum requirements

	2012E	2013E	2014E
EPS (PLN)	4.6	5.6	6.9
EBITDA (PLN m)	119.2	172.0	200.8
PE	*9.5*	*7.9*	*6.4*

Source: Espirito Santo Investment Bank

Key risks

Macroeconomic risk

The level of bad debts in banking and non-banking sectors depends on overall macroeconomic conditions: GDP growth, unemployment rate, average wage level and the inflation rate. The cyclicality of the economy influences the company in two ways, which basically makes Kruk's business model counter-cyclical.

During economic growth households increase their willingness to consume and their debt. The increase in lending enlarges total indebtedness which encourages large banks to outsource the collection of non-performing loans. On the other hand, households' higher disposable income improves the quality of banks' credit books and the regularity of instalment payments in Kruk's portfolios, but simultaneously reduces banks' propensity both to outsource NPL collection and to sell NPLs.

During a macroeconomic slowdown, the tendency to outsource NPL collection is slightly lower at first and occurs after several months' delay. It takes a few years until there is a greater supply of bad debt portfolios, only after banks have exhausted their own long and costly internal processes of bad loan recovery. A higher unemployment rate and a deterioration in household income lead to worse debt servicing by both banks' and Kruk's clients.

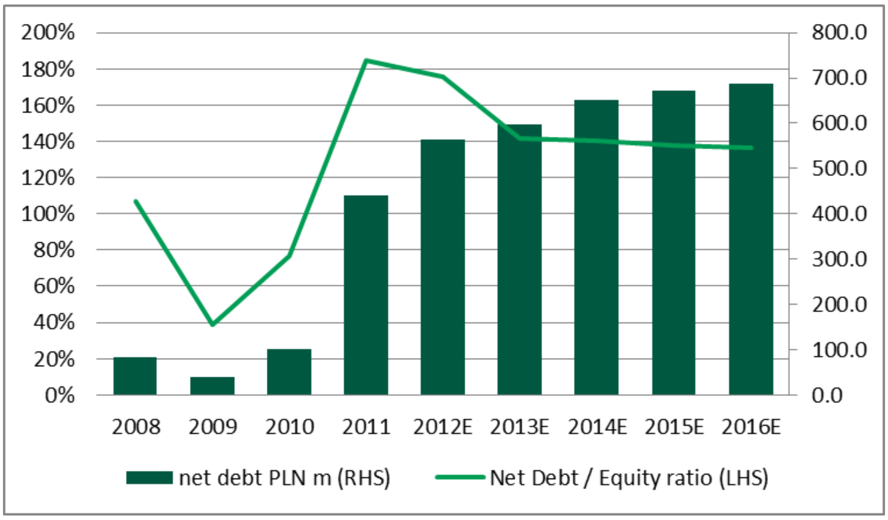
Access to external funding sources and interest rate risks

Kruk mostly funds its business by debt: through bonds issues and loans from banks. Availability to debt funding is crucial, therefore any limitation in access to external funding sources or a substantial increase in funding costs can lead to a reduction in bad debt purchases or to the need to increase equity capital. Some banks' lending policies exclude financing companies from the debt collection industry, effectively limiting the range of potential lenders.

Most of the bonds and loans on the company's balance sheet are floating. Any increase in WIBOR 1M, 3M and 6M or EURIBOR 1M affects company net profit. Spreads range between 143bps to 700bps.

The purchase of debt portfolios in recent years were funded mostly by debt, elevating interest bearing liabilities at the end of 2011 to PLN 477m from only PLN 122m at the end of 2010. The net debt/equity ratio jumped to 185% in 2011 compared with 77% in 2010. Due to covenants with creditors Kruk is obligated to keep this ratio below 250%. In the case of the ratio exceeding 220%, Kruk's spread on issued bonds will broaden by around 50bps.

Figure 19 Net debt (PLN m) and Net Debt / Equity ratio evolution



Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Although an increase in the net debt/equity ratio might seem distressing, we believe there is nothing to worry about. Cash flows due in coming quarters plus net profit generation and moderate new debt portfolio purchases should in our view allow Kruk to deleverage its balance sheet and even to pay a dividend from 2013 net profit. In recent years Kruk's dividend policy has assumed no pay-out from net profit, including 2011. The company's strong profitability, with the ROE above 30%, coupled with the excellent prospects of the debt purchase market made profit retention more reasonable. Due to cash generation in coming years and moderate appetite for debt portfolio purchases we expect Kruk will be able to pay a dividend out of 2013 profit. As we assume a pay-out ratio of 70%, translating into 9.2% dividend yield, we believe the high DY looks very appealing.

FX risk

In 2011 38% of revenues came from countries other than Poland (the bulk from Romania, a small part from the Czech Republic). Foreign activity is more profitable than Polish business. The high middle margin (69%-77%) results from softer competition and lower prices paid for acquired debt portfolios.

Table 7 Revenues and middle margin geographical breakdown (PLN m unless other stated)

		2009	2010	2011
Revenues		**103.9**	**164.3**	**274.0**
	Poland	102.3	122.7	170.0
	Other countries	1.6	41.6	104.0
Middle margin		**47.6**	**74.7**	**149.3**
	Poland	50.9	45.9	68.8
	Other countries	-3.3	28.8	80.4
Middle margin %		***46%***	***45%***	***54%***
	Poland	*50%*	*37%*	*40%*
	Other countries	*-210%*	*69%*	*77%*
Revenue mix		***2009***	***2010***	***2011***
	Poland	*98%*	*75%*	*62%*
	Other countries	*2%*	*25%*	*38%*
Margin Mix				
	Poland	*107%*	*61%*	*46%*
	Other countries	*-7%*	*39%*	*54%*

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

Appreciation of PLN against RON in particular negatively influences the fair value of debt portfolios and may result in the need for revaluation. Such a situation took place in 1Q'12. The PLN strengthened by 9% and forced Kruk to impair some Romanian portfolios by PLN 5.6m. The company does not hedge its FX risk, but tries to mitigate the currency risk by putting in additional margin when pricing the Romanian portfolios. In the table below we present the sensitivity of Kruk's 2011 net profit to a 10% depreciation of three currencies against the PLN, ceteris paribus.

Table 8 Net profit sensitivity

Currency depreciation by 10% vs. PLN	Net profit change	
	(PLN m)	%
EUR	0.3	0.4%
RON	-20.1	-30.3%
CZK	-2.6	-3.9%

Source: Kruk

Legal and taxation risk

Legal interest is one of the sources of Kruk's revenues. Since 2008 the legal interest rate in Poland has remained unchanged at 13%. Every possible reduction may negatively influence group's revenues.

Kruk's effective tax rate is far below the statutory 19% corporate income tax rate in Poland thanks to implementation the 'Luxembourgian structure', where Kruk's subsidiary, based in Luxembourg, invests in certificates issued by the securitization funds in Poland. As a Luxembourgian subsidiary can deduct any dividend or interest paid to the mother company from its taxes and is not a subject to Polish income tax, Kruk sports a significantly low tax rate. The effective tax rate in 2011 stood at 3.1%, up from -1.4% in 2010. In our valuation we assume the Company's effective tax rate will stay at 3% until 2016. We make a conservative assumption of a higher than historic CIT rate at 19% in the terminal value. It reduces our fair price by around 13% compared to case when 3% tax rate is applied. We believe this is reasonable to reflect any potential negative changes in the law in this field.

Kruk vs. Kredyt Inkaso – accounting methods comparison

Kruk and Kredyt Inkaso (KRI PW, PLN 14.56, BUY, FV PLN 18), the other debt collector listed on the WSE, use different accounting methods which determine their P&L and Balance Sheet statements. In an example below we present financial statements for both companies. We assume that:

1) At the end of FY0 company acquires individual liability for PLN 100 in cash;

2) Actual repayments differ from these implicated by assumed repayment curve for FY5 and FY6 (e.g. due to amicable settlement approach application);

3) In FY4 company revaluates portfolio based on new repayment scheme.

Table 9 Kruk vs. Kredyt Inkaso – accounting methods comparison

Assumptions	FY0	FY1	FY2	FY3	FY4	FY5	FY6	
Price paid	**100**							
Assumed repayments	**- 100**	**35**	**70**	**35**	**30**	**25**	**20**	**215**
IRR	33%							
Assumed repayments at the time of portfolio revaluation						30	25	
Actual cash repayments	- 100	35	70	35	30	30	25	**225**
Actual IRR	34%							

Balance sheet - Kruk	FY1	FY2	FY3	FY4	FY5	FY6	FY7
Assets	**100**	**133**	**165**	**185**	**207**	**219**	**225**
Receivables	100	98	60	45	37	19	- 0
Cash	-	35	105	140	170	200	225
Liabilities	**100**	**133**	**165**	**185**	**207**	**219**	**225**
Portfolio revaluation	-	-	-	-	-	-	-
Equity - retained earnings	100	133	165	185	207	219	225

P&L - Kruk	FY1	FY2	FY3	FY4	FY5	FY6	FY7	
Revenues reported		33	32	20	15	12	6	**125**
Correction of FV through P&L					7			
COGS		-	-	-	-	-	-	**-**
tax		-	-	-	-	-	-	
Net Income		**33**	**32**	**20**	**21**	**12**	**6**	**125**

Cash Flow - Kruk	FY1	FY2	FY3	FY4	FY5	FY6	FY7
CFO		35	70	35	30	30	25
CFI	-100						
CFF							
CF	**-100**	**35**	**70**	**35**	**30**	**30**	**25**

Balance sheet - Kredyt Inkaso	FY1	FY2	FY3	FY4	FY5	FY6	FY7
Assets	**159**	**163**	**176**	**185**	**196**	**211**	**225**
Receivables	159	128	71	45	26	11	-
Cash	-	35	105	140	170	200	225
Liabilities	**159**	**163**	**176**	**185**	**196**	**211**	**225**
Portfolio revaluation	59	63	71	45	26	11	0
Equity - retained earnings	100	100	105	140	170	200	225

P&L - Kerdyt Inkaso	FY1	FY2	FY3	FY4	FY5	FY6	FY7	
Revenues reported		35	70	35	30	30	25	**225**
Correction of FV through P&L								
COGS		35	65	-	-	-	-	**100**
tax		-	-	-	-	-	-	
Net Income		**-**	**5**	**35**	**30**	**30**	**25**	**125**

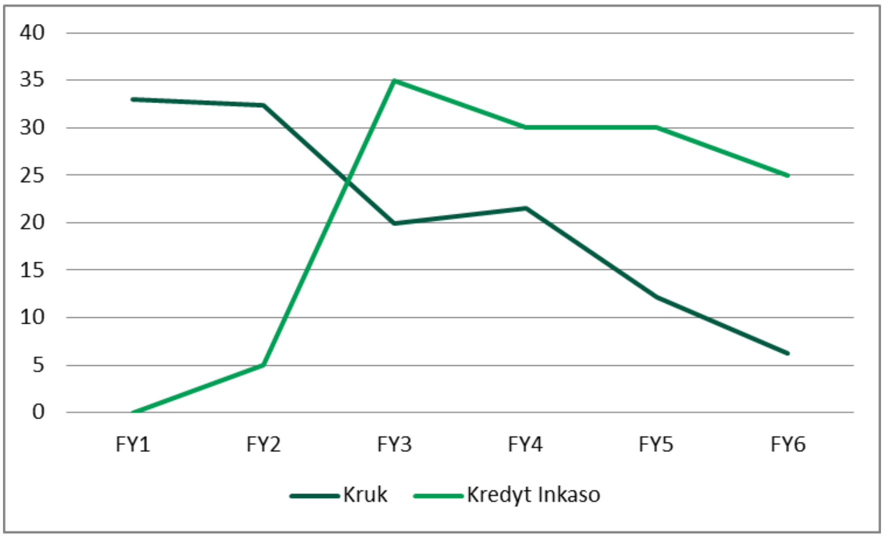
Cash Flow - Kredyt Inkaso	FY1	FY2	FY3	FY4	FY5	FY6	FY7
CFO		35	70	35	30	30	25
CFI	-100						
CFF							
CF	**-100**	**35**	**70**	**35**	**30**	**30**	**25**

Source: Espirito Santo Investment Bank

Kruk uses the effective interest rate method and splits repayments into interest (presented as revenues in P&L) and principal value. For every portfolio the Company estimates expected repayments and the discount rate (IRR). In a given period revenues are equal to the portfolio's fair value multiplied by the IRR. The difference between repayment and revenue is the portfolio's amortization and it reduces the portfolio's fair value in the balance sheet. Revaluations are recognized in the P&L and are discounted differences between actual and assumed repayments.

Kredyt Inkaso applies another method. Right after purchasing a debt portfolio, the Company makes its revaluation. In the balance sheet the portfolio's value is split into price paid and revaluation, which is the WACC-discounted sum of expected repayments less the price paid. Revenues are equal to the cash repayments that the company receives each period, against which the acquisition cost of the debt is offset until this cost is fully recovered; further repayments represent the profit on the loan and are accounted for in the period received.

Figure 20 Net Income evolution for Kruk and Kredyt Inkaso (PLN m)



Source: Espírito Santo Investment Bank Research

Above we present net income for both companies. Kruk's accounting methody recognises net profit in the P&L over the time of the loan. Kredyt Inkaso has a very conservative approach and does not show profit until costs are not fully covered by revenues. Looking at the risk, we prefer Kredyt Inkaso's method. But in the long term, the difference in accounting approaches should not favour one company over the other. Companies reinvest generated cash flows in other NPL portfolios each period and land lower profits from one portfolio are compensated for by higher profits from the others. Due to this reason we believe that Kruk should by traded similarly to Kredyt Inkaso in terms of PE multiple.

As we realize that the PE ratio is not a perfect indicator to compare Kruk and Kredyt Inkaso, we have made an analysis on a comparable data basis. Based on financial statements we have calculated an indicator that we call "cash earnings before taxes" (cash EBT or cash gross income). It is computed as (cash repayments + other cash revenues – cash expenses – financial costs). We present the results in the table below.

Table 10 Cash EBT evolution (PLN m unless other stated)

Kruk	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
Cash repayment + other cash revenues	244.1	384.8	571.7	735.2	816.7	872.7	917.3
Cash expenses	117.7	171.3	236.7	287.9	318.9	340.2	353.0
cash EBIT	126.4	213.5	335.0	447.3	497.9	532.5	564.3
cash EBIT margin	*52%*	*55%*	*59%*	*61%*	*61%*	*61%*	*62%*
financial costs	8.0	28.1	52.7	59.9	65.1	69.1	70.6
cash EBT	118.4	185.4	282.3	387.5	432.7	463.4	493.7
cash EBT margin	*48%*	*48%*	*49%*	*53%*	*53%*	*53%*	*54%*
Kredyt Inkaso	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
Cash repayment + other cash revenues	38.4	62.3	131.7	180.4	222.5	260.7	295.1
Cash expenses	6.6	14.1	20.8	25.0	30.0	36.0	43.2
cash EBIT	31.8	48.2	110.8	155.4	192.5	224.7	251.9
cash EBIT margin	*83%*	*77%*	*84%*	*86%*	*87%*	*86%*	*85%*
financial costs	5.2	16.2	33.1	38.4	43.1	46.2	47.3
cash EBT	26.6	32.0	77.7	117.0	149.4	178.5	204.6
cash EBT margin	*69%*	*51%*	*59%*	*65%*	*67%*	*68%*	*69%*
	2010	**2011**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
KRUK price / cash EBT	*6.4*	*4.1*	***2.7***	***1.9***	***1.7***	***1.6***	***1.5***
KRI price / cash EBT	*7.1*	*5.9*	***2.4***	***1.6***	***1.3***	***1.1***	***0.9***
Kruk premium / discount	-9.7%	-30.7%	10.5%	21.2%	38.6%	54.6%	66.3%

Source: Espírito Santo Investment Bank Research

Kredyt Inkaso achieved a higher cash EBIT margin with 77% in 2011 and we forecast around 85% going forward, compared with around 55% for Kruk in 2011 and 60% going forward. But due to relatively higher financial costs this difference is slightly mitigated at the cash EBT margin level. We also computed price ratios for both companies. Based on 2011 results and the current market capitalization, the multiple for Kruk is around 31% lower than for Kredyt Inkaso. Based on our forecasts this discount transforms into a premium of 21% for current year and 39% for 2013.

Repayment curve

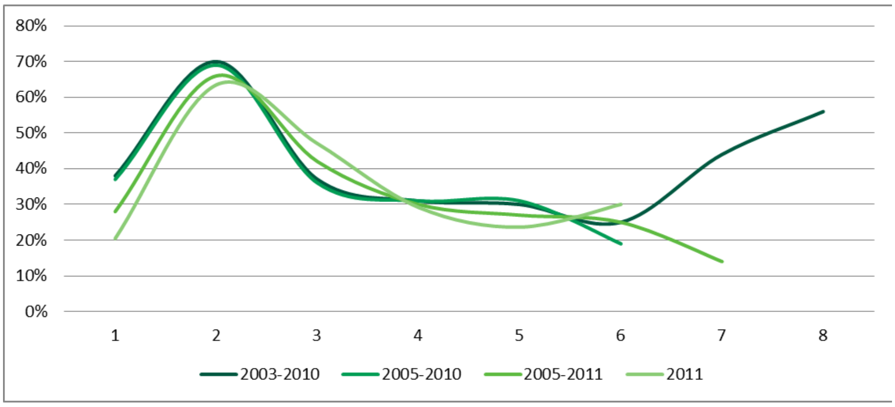
Below we present Kruk's weighted average repayment curves for different periods:

Table 11 Historical repayment curves

	1	2	3	4	5	6	7	8	TOTAL
2003-2010	38%	70%	37%	31%	30%	25%	44%	56%	331%
2005-2010	37%	69%	36%	31%	31%	19%			223%
2005-2011	28%	66%	42%	30%	27%	25%	14%		232%
2011	20%	63%	47%	29%	24%	30%			214%

Source: Kruk

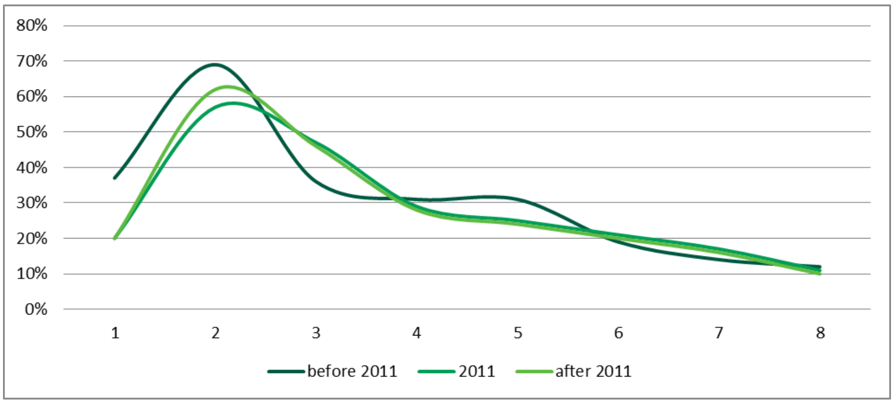
Figure 21 Historical repayment curves



Source: Kruk

Over the 2005-2010 Kruk has recovered average 223% of the price paid for a debt portfolio during first six years after purchase. Based on a longer curve for the 2003-2010 period, total recoveries rose to 331%. The strong improvement in the last two years can be partially explained by the amicable settlement process introduced in 2008 for portfolios acquired in 2003 and 2004. Amicable solution allows debtors to repay their debt in instalments. It turned out it performs very well and encourages even the most difficult debtors to start to pay back their debt.

Figure 22 Applied curves in valuation



Source: Espirito Santo Investment Bank Research for estimate

We do not expect Kruk to be able to maintain the repayment curve it enjoyed during 2003-2010. We estimate that rising competition will exert pressure on prices and with the slightly better quality of acquired debt packages and wider application of amicable settlement we expect the repayment curve to flatten with cumulative recovery within seven years at 216%. Such a shaped curve we applied in our valuation. This compares with 232% of total recovery over 2005-2011 years.

Increasing prices with no improvement in expected repayments negatively influences reported revenues and profits. According to our estimates a 10%

increase in the price paid for a debt portfolio would decrease the IRR from 29.7% to 25.5% and total revenues within eight years by 7.6%, ceteris paribus.

Table 12 Changes in revenues due to changes in repayments

Assumptions	FY0	FY1	FY2	FY3	FY4	FY5	FY6	FY7	FY8	
Price paid	**100**									**TOTAL**
Assumed repayments	**- 100**	**20**	**63**	**48**	**29**	**25**	**21**	**17**	**8**	**231**
IRR	29.7%									
Price paid	**110**									**TOTAL**
Assumed repayments	**- 110**	**20**	**63**	**48**	**29**	**25**	**21**	**17**	**8**	**231**
IRR	25.5%									
Revenues reported	FY1	FY2	FY3	FY4	FY5	FY6	FY7	FY8	FY9	
for price 100		30	33	24	16	13	9	5	2	**131**
for price 110		28	30	22	15	12	8	5	2	**121**
difference		*-5.6%*	*-7.6%*	*-7.8%*	*-7.9%*	*-8.7%*	*-9.5%*	*-10.5%*	*-11.3%*	*-7.6%*

Source: Espirito Santo Investment Bank Research

Quarterly results overview and IIQ'12E preview

Table 13 KRUK IIQ'12E results preview

	IQ'11	IIQ'11	IIIQ'11	IVQ'11	IQ'12	IIQ'12E	YoY	QoQ
Revenues	**53.2**	**70.7**	**66.8**	**83.4**	**79.9**	**81.6**	15.4%	2.1%
debt portfolios	42.9	59.5	54.8	73.2	69.8	72.8	22.3%	4.3%
of which: revaluation	-0.9	7.9	4.8	7.9	-5.6	0.0		
debt collection services	9.7	10.4	10.7	10.2	8.6	8.3	-20.0%	-3.4%
other	0.6	0.8	1.3	0.0	1.5	0.5		
Middle margin	**27.8**	**43.0**	**35.1**	**37.8**	**42.5**	**45.4**	**5.5%**	**6.8%**
debt portfolios	24.5	38.8	30.0	34.0	39.3	42.2	8.7%	7.4%
debt collection services	3.5	4.2	5.0	5.1	3.1	3.2	-24.2%	3.1%
other	-0.2	0.0	0.2	-1.2	0.1	0.0		
SG&A	8.2	10.7	10.0	12.0	12.7	13.0	21.5%	2.4%
Depreciation	1.3	1.3	1.5	1.4	1.5	1.6	24.8%	4.0%
EBIT	**18.1**	**30.6**	**23.5**	**23.8**	**28.6**	**30.8**	**0.5%**	**7.7%**
EBITDA	**19.3**	**31.9**	**25.0**	**25.2**	**30.1**	**32.4**	**1.5%**	**7.5%**
Net financial result	-3.9	-5.5	-9.6	-8.5	-12.8	-12.1		
Gross profit	14.2	25.1	13.9	15.4	15.7	18.7	-25.7%	18.5%
tax	0.1	0.0	0.9	1.1	1.7	1.3		
Net profit	**14.1**	**25.1**	**13.0**	**14.2**	**14.0**	**17.3**	**-30.9%**	**23.8%**

Margins %	IQ'11	IIQ'11	IIIQ'11	IVQ'11	IQ'12	IIQ'12E
Middle margin	52.3%	60.8%	52.6%	45.3%	53.1%	55.6%
debt portfolios	57.1%	65.2%	54.7%	46.4%	56.3%	58.0%
debt collection services	36.3%	40.1%	46.4%	49.6%	35.6%	38.0%
EBIT	34.0%	43.3%	35.2%	28.6%	35.7%	37.7%
EBITDA	36.3%	45.1%	37.4%	30.2%	37.7%	39.7%
net profit	26.5%	35.5%	19.5%	17.1%	17.5%	21.3%
C/I	65.4%	56.2%	64.6%	70.8%	64.7%	62.3%
effective tax rate	0.8%	0.1%	6.4%	7.4%	11.0%	7.0%

Dynamics YoY%	IQ'11	IIQ'11	IIIQ'11	IVQ'11	IQ'12	IIQ'12E
Revenues	59.3%	72.1%	45.4%	90.1%	50.3%	15.4%
debt portfolios	94.6%	104.3%	61.7%	121.8%	62.7%	22.3%
EBIT	134.5%	182.4%	45.6%	204.9%	58.1%	0.5%
EBITDA	124.3%	170.9%	46.0%	182.3%	55.8%	1.5%
Net profit	96.6%	142.9%	15.4%	96.8%	-0.5%	-30.9%

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

1Q'12 net profit stood at PLN 14m, flat YoY. Revenues came in at PLN 79.9m, a robust +50% YoY, despite being negatively influenced by PLN 5.6m on revaluation of the Romanian portfolios due to PLN appreciation versus RON. A roughly stable middle margin and SG&A dynamics YoY comparable to revenues resulted in 56% EBITDA growth to PLN 30.1m. Considerably higher financial costs were related to an increase in financial liabilities used to finance the sizeable debt portfolio purchases in 2011. We highlight that robust CFO at PLN 59m coupled with relatively low new debt purchases at only PLN 12m allowed Kruk to lower net debt at the end of March'12 to PLN 409m from PLN 441m at the end of 2012.

We expect Q2'12 to be good with net profit slightly above PLN 17m, -31% YoY, but +24% QoQ. The main drivers will be:

- still strong revenues from acquired portfolios – PLN 72.8 up 22% YoY;
- slightly higher middle margin at 55.6%;
- SG&A costs up by 21% YoY and nearly flat QoQ;
- slightly lower financial costs due to a decrease in interest bearing liabilities.

We do not expect a large impact from revaluations, as negative revaluations due to changes in PLN/RON forward rates should be compensated by better performance in Polish portfolios. We conservatively assume a quite high effective tax rate of 7%. As a consequence we see Q2'12 results as neutral.

FINANCIAL STATEMENS

P&L

Table 14 P&L statement

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Revenues	**103.9**	**128.6**	**164.3**	**274.1**	**382.8**	**458.8**	**506.0**	**534.2**	**553.8**
debt portfolios	72.5	84.7	118.1	230.4	345.1	418.1	462.2	488.4	503.3
of which: revaluation	9.1	6.3	18.4	19.7	-5.6	0.0	0.0	0.0	0.0
debt collection services	28.7	41.8	44.1	41.0	34.7	36.7	38.7	39.1	41.8
other	2.7	2.1	2.2	2.7	3.0	4.0	5.1	6.7	8.7
Middle margin	**47.6**	**57.0**	**74.7**	**143.7**	**200.2**	**233.2**	**252.6**	**261.7**	**270.9**
debt portfolios	37.9	38.7	57.2	127.3	186.8	217.4	235.7	244.2	251.7
debt collection services	9.2	17.7	18.2	17.7	13.3	15.8	16.6	16.8	18.0
other	0.4	0.6	-0.7	-1.3	0.1	0.0	0.3	0.7	1.3
SG&A	19.1	21.4	28.1	40.9	54.2	62.3	65.4	67.7	70.1
Depreciation	2.6	3.1	3.9	5.4	6.6	7.0	7.5	8.0	8.5
EBIT	**24.8**	**31.7**	**42.5**	**96.0**	**139.7**	**163.9**	**179.7**	**186.0**	**192.4**
EBITDA	**27.4**	**34.8**	**46.5**	**101.4**	**146.4**	**170.9**	**187.2**	**194.0**	**200.9**
Net financial result	-8.5	-4.4	-7.0	-27.4	-56.3	-58.7	-63.9	-67.9	-69.4
Gross profit	16.3	27.3	35.5	68.6	83.5	105.2	115.7	118.0	122.9
tax	-0.4	3.8	-0.5	2.2	2.5	3.2	3.5	3.5	3.7
Net profit	**16.7**	**23.5**	**36.0**	**66.4**	**81.0**	**102.1**	**112.3**	**114.5**	**119.2**
Margins %	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
Middle margin	45.8%	44.3%	45.4%	52.4%	52.3%	50.8%	49.9%	49.0%	48.9%
debt portfolios	52.3%	45.7%	48.4%	55.2%	54.1%	52.0%	51.0%	50.0%	50.0%
debt collection services	32.2%	42.5%	41.3%	43.2%	38.4%	43.0%	43.0%	43.0%	43.0%
EBIT	23.8%	24.7%	25.9%	35.0%	36.5%	35.7%	35.5%	34.8%	34.7%
EBITDA	26.4%	27.1%	28.3%	37.0%	38.2%	37.3%	37.0%	36.3%	36.3%
net profit	16.1%	18.3%	21.9%	24.2%	21.1%	22.2%	22.2%	21.4%	21.5%
C/I	76.2%	75.3%	74.1%	65.0%	63.6%	64.3%	64.5%	65.2%	65.3%
effective tax rate	-2.5%	14.1%	-1.4%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Dynamics YoY%	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**
Revenues	64.9%	23.8%	27.8%	66.8%	39.7%	19.9%	10.3%	5.6%	3.7%
debt portfolios	76.8%	16.8%	39.4%	95.1%	49.8%	21.2%	10.5%	5.7%	3.1%
EBIT	125.2%	28.0%	34.0%	125.9%	45.5%	17.3%	9.6%	3.5%	3.4%
EBITDA	95.6%	27.1%	33.4%	118.4%	44.3%	16.8%	9.5%	3.6%	3.5%
Net profit	85.4%	40.7%	53.3%	84.5%	21.9%	26.1%	10.0%	2.0%	4.1%

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

BALANCE SHEET

Table 15 Balance Sheet statement

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
Fixed assets	**21.1**	**15.3**	**18.8**	**23.8**	**23.2**	**23.6**	**24.1**	**24.7**	**25.2**
Tangible fixed assets	8.1	8.2	9.6	14.3	13.7	13.7	13.7	13.7	13.7
Intangible assets	3.3	4.4	6.0	7.7	7.7	8.1	8.5	8.9	9.3
Other	9.7	2.8	3.3	1.8	1.8	1.9	2.0	2.1	2.2
Current Assets	**190.6**	**192.6**	**298.7**	**776.6**	**945.2**	**1106.0**	**1215.5**	**1266.0**	**1295.0**
Inventories	0.8	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Receivables	7.8	9.5	10.6	12.8	11.5	13.8	15.2	16.0	16.6
Short-term investments in NPL portfolios	152.2	155.4	263.2	718.7	917.8	1055.4	1151.3	1197.7	1230.6
Cash and equivalents	25.1	23.8	20.8	36.2	13.5	23.8	30.1	29.6	24.2
Other	4.8	3.1	3.7	8.4	1.9	12.4	18.4	22.1	23.1
TOTAL ASSETS	**211.7**	**207.9**	**317.6**	**800.5**	**968.4**	**1129.6**	**1239.7**	**1290.6**	**1320.2**
Long-term liabilities	**56.3**	**21.6**	**78.0**	**339.5**	**459.1**	**504.1**	**564.1**	**584.1**	**594.1**
financial	56.3	13.6	78.0	339.5	459.1	504.1	564.1	584.1	594.1
non-financial	0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term liabilities	**78.8**	**86.3**	**107.5**	**222.6**	**188.9**	**203.1**	**212.3**	**218.6**	**222.0**
financial	50.8	49.2	44.1	137.5	117.1	117.1	117.1	117.1	117.1
payables	19.3	26.6	49.2	66.9	60.2	74.4	83.6	89.9	93.4
other	8.7	10.5	14.2	18.1	11.6	11.6	11.6	11.6	11.6
Equity	**76.5**	**100.0**	**132.0**	**238.4**	**320.3**	**422.4**	**463.2**	**487.9**	**504.1**
Equity Capital	27.8	28.0	24.0	105.7	106.7	106.7	106.7	106.7	106.7
Retained earnings	48.5	71.9	108.0	132.5	213.5	315.5	356.3	381.0	397.2
Minorities	0.2	0.1	0.0	0.2	0.2	0.2	0.2	0.2	0.2
TOTAL LIABILITIES	**211.7**	**207.9**	**317.6**	**800.5**	**968.4**	**1129.6**	**1239.7**	**1290.6**	**1320.2**

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

CASH FLOW

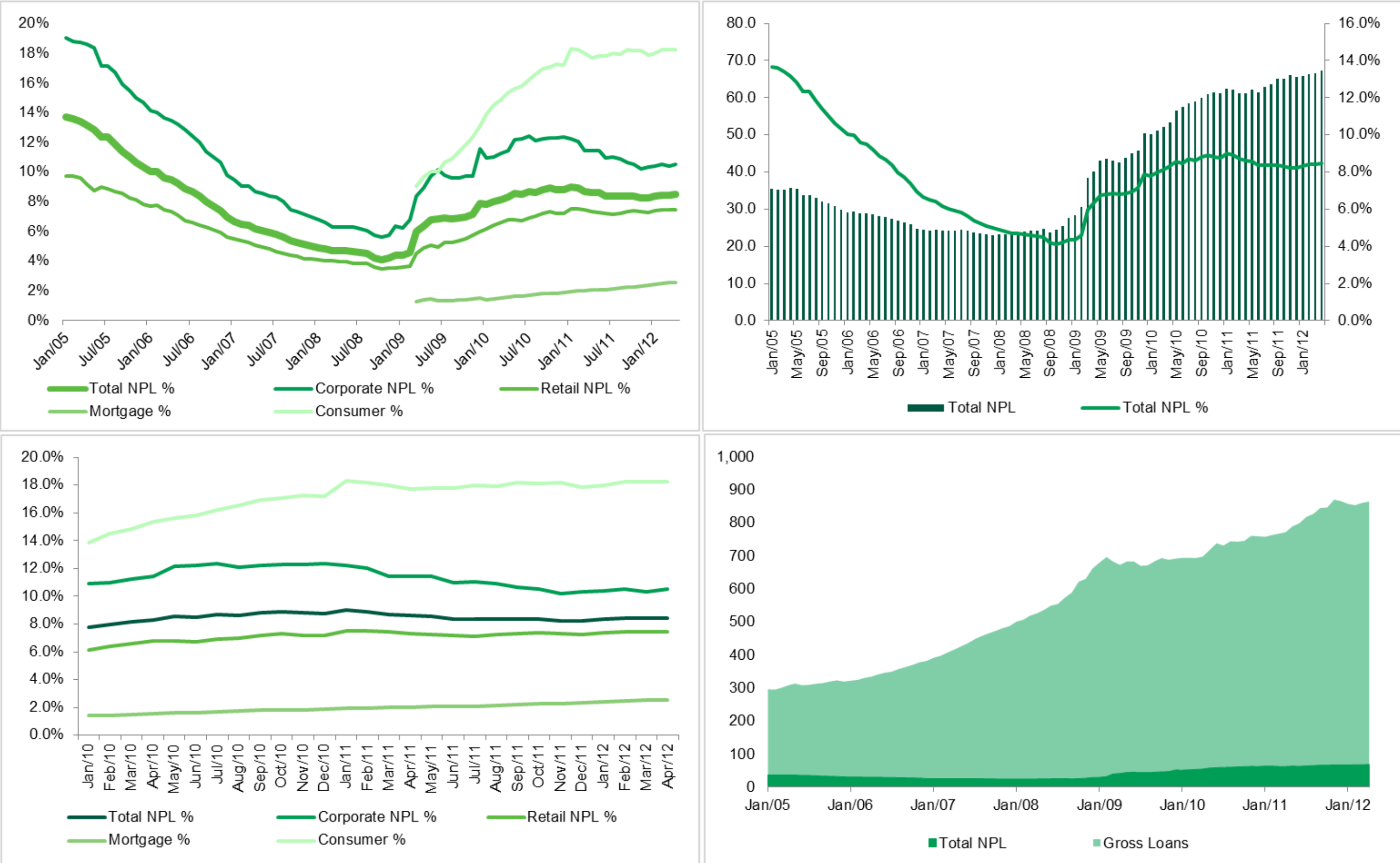
Table 16 Cash Flow statement

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E
CFO	**89.0**	**107.9**	**124.1**	**198.3**	**319.9**	**447.3**	**497.6**	**531.8**	**563.0**
Cash repayments	117.2	140.4	197.9	341.1	534.0	694.5	772.9	826.9	866.8
Operating expenses	-34.6	-46.0	-60.9	-103.1	-158.2	-200.7	-226.5	-244.2	-251.7
Debt collecting services margin	9.2	17.7	18.2	17.7	13.3	15.8	16.6	16.8	18.0
SG&A	-19.1	-21.4	-28.1	-40.9	-54.2	-62.3	-65.4	-67.7	-70.1
Other	16.2	17.2	-3.2	-16.5	-15.0	0.0	0.0	0.0	0.0
CFI	**-106.5**	**-57.6**	**-201.0**	**-578.2**	**-390.5**	**-422.1**	**-414.8**	**-393.4**	**-404.8**
Debt portfolios purchases	-103.8	-53.9	-194.0	-568.8	-382.5	-414.0	-406.5	-385.0	-396.3
Other CAPEX	-2.7	-3.7	-7.0	-9.4	-8.0	-8.1	-8.3	-8.4	-8.5
CFF	**31.7**	**-51.6**	**73.9**	**396.3**	**47.8**	**-14.9**	**-76.6**	**-138.9**	**-163.6**
Debt and leasing	74.6	6.7	17.2	194.9	130.0	15.0	30.0	20.0	10.0
Bonds	0.0	0.0	112.0	291.0	130.0	30.0	30.0	0.0	0.0
Debt and leasing repayments	-45.9	-47.6	-37.9	-103.9	-143.6	0.0	0.0	0.0	0.0
Bond repayments	0.0	0.0	-34.0	-30.0	-15.9	0.0	0.0	0.0	0.0
Other (interest expenses, dividend)	3.1	-10.7	16.6	44.3	-52.7	-59.9	-136.6	-158.9	-173.6
Cash at the beginning of the period	10.8	25.1	23.8	20.8	36.2	13.5	23.8	30.1	29.6
Cash at the end of the period	**25.1**	**23.8**	**20.8**	**36.2**	**13.5**	**23.8**	**30.1**	**29.6**	**24.2**

Source: Kruk for historical data, Espírito Santo Investment Bank Research for estimate

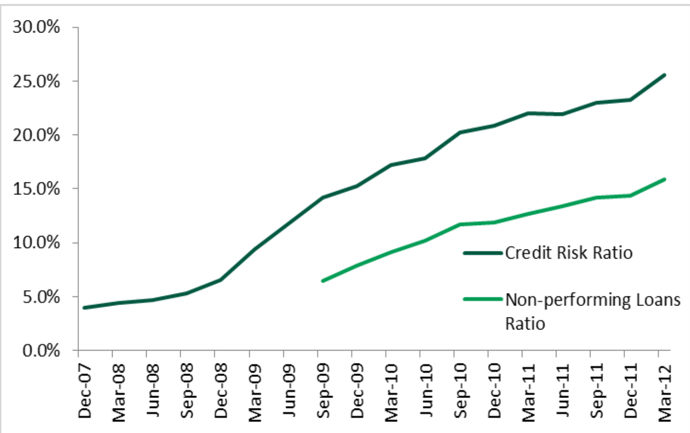
APPENDIX

Figure 23 NPL in Polish banking system



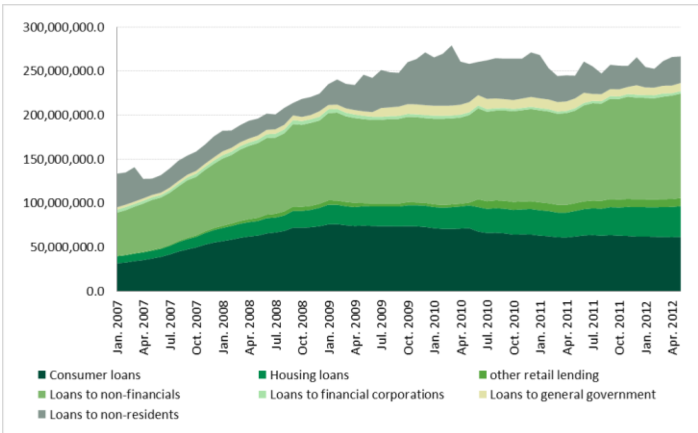
Source: National Bank of Poland, Polish Financial Supervisory Authority.

Figure 24 NPL ratio in Romanian banking system (%)



Source: National Bank of Romania

Figure 25 Total lending in Romanian banking system (RON k)



Source: National Bank of Romania

Valuation Methodology

Our valuation is 100% DCF-based (with the following assumptions: equity risk premium of 5.0%, cost of equity of 13.0% for 2012-2016 and 12.5% in Terminal Value (TV) and after tax cost of debt of 9.7% for 2012-2016 and 8.1% in TV; we assume a long-term growth rate of 3%). We also carry out a peer multiple valuation (0% weighting) for comparison.

Risks to Fair Value

- Downside risk to overall macroeconomic conditions, especially households' financial standing due to higher unemployment rate, slower GDP growth or lower wages;
- FX rate movements: mainly appreciation PLN against RON impacting debt portfolios' fair value;
- Share overhang risk from Enterprise Investors, the biggest shareholder currently holding 24.8%.

KRUK *KRU PW*

Report date	Recommendation	Fair value	Share price
Recommendation history is not available			

Source: Bloomberg, Espirito Santo Investment Bank Research

Please visit our website at www.EspiritoSantoIB-Research.com for up to date recommendation charts.

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NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months
SELL	Analyst expects at least 10% downside potential to fair value, which should be realized in the next 12 months

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TRADING BUY	Analyst expects a positive short-term movement in the share price (max duration 2 months from the time Trading Buy is announced) and may move out of line with the fair value estimate during that period
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12 Month Rating:					
Buy	232	48.0%	29	67.4%	6.0%
Neutral	172	35.6%	8	18.6%	1.7%
Sell	72	14.9%	2	4.7%	0.4%
Restricted	5	1.0%	4	9.3%	0.8%
Under Review	0	0.0%	0	0.0%	0.0%
Trading Rating:					
Trading Buy	0	0.0%	0	0.0%	0.0%
Trading Sell	2	0.4%	0	0.0%	0.0%
Total recommendations	483	100%	43	100%	8.9%

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