AS DelfinGroup

Initiation of Coverage Report

April 9, 2024

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Investment Summary

Pawn Stars of Latvia

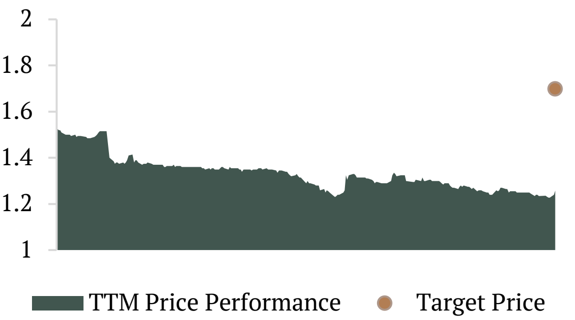
Company overview

- AS DelfinGroup (hereafter referred to as "DelfinGroup", "DGR" or the "Group") is a top 3 non-bank consumer lending company and the largest pawn loan provider in Latvia. The Group provides consumer loans and pawn loans operating through three brands - Banknote, VIZIA, and "Rīgas Pilsetas Lombards". Additionally, DGR has developed a pre-owned goods retail, supporting pawn shop and BNPL loan operations. The Group has initiated its operations in Lithuania, aiming to offer full scope of services in near future.
- In Latvia, DGR operates over 90 branches, of which 40 are located in Riga, and recently added 5 branches in Vilnius. DGR has coverage in all populated areas with at least 4,000 inhabitants, thereby earning the distinction of being the most geographically accessible financial service brand in Latvia.
- Since 2014, DelfinGroup has been known on the Nasdaq Riga Stock Exchange as an experienced bond issuer. In 2021 the Group conducted an Initial Public Offering raising EUR 8.1m or 73% from its base offer, and is listed on the Baltic Main List.

Sector overview

- Non-bank consumer lenders, assuming higher risk, have taken significant share of the consumer lending market, holding roughly 40% of the market share.
- Over the past five years, the non-bank consumer loan portfolio has demonstrated consistent growth, experiencing a slight setback in 2020 due to Covid-19 yet achieving a notable 5Y CAGR of 13.9% at the end of H1 2023. Despite encountering challenging economic conditions throughout 2022 and H1 2023, the consumer loan portfolio exhibited robust expansion, recording y-o-y growth rates of 26.6% and 12.2%, respectively. Similarly, pawn loan portfolio has shown y-o-y growth of 25.5% in 2022 and 14.6% in H1 2023, however, still lags 4.6% behind 2019 level. Analysis indicates that the growth witnessed in the last two years has been primarily propelled by inflation.

Company profile	
Listing market	Nasdaq Riga
Ticker	DGR1R
Industry	Financial services
Website	https://delfingroup.lv/



Share Data (April 9 2024)	
Current price, EUR	1.26
Target price, EUR	1.70
Potential Upside/Downside, %	35.49
52 week Low/High, EUR	1.20/1.46
3 month av. daily volume	12557
Market cap, EURm	57.1
Ordinary shares	45.4

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Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenue	24.7	35.9	50.4	58.8	63.3	67.9	70.7	72.8
EBITDA	10.2	13.1	18.2	22.1	23.4	25.0	25.9	26.5
Operating Profit	5.2	7.3	8.3	11.7	12.7	14.5	15.1	15.7
EPS	0.09	0.13	0.15	0.2	0.2	0.3	0.3	0.3
Total Net Loans	43.0	67.4	89.0	98.0	107.8	117.8	124.6	130.5
Net Debt	30.3	54.7	74.2	78.3	83.6	88.1	89.4	89.2
Total Equity	17.4	18.0	21.3	26.2	31.4	37.3	43.4	50.2
Dividends	3.7	5.4	3.5	4.5	5.1	5.7	6.0	6.2
Dividend Yield (%)	5.9	8.1	5.9	7.9	8.9	10.1	10.5	10.9
ROE (%)	29.8	33.5	33.6	39.6	35.4	34.0	30.0	27.8
EV/EBITDA (x)	9.4	9.7	7.3	5.9	5.6	5.3	5.1	4.9
P/E (x)	15.8	11.3	8.9	6.1	5.6	4.9	4.7	4.4
P/Book (x)	3.6	3.7	2.8	2.2	1.8	1.5	1.3	1.1

Source: DelfinGroup, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 1.26 at April 9, 2024.

- While we recognize the market's relatively high entry barriers, we assess the competitive landscape as challenging given the similarity between competitors, loan pricing transparency and ease of switching loan providers. The market share data validates the stiff competition in the sector, where the distribution is quite similar between several main market players.
- Our estimate indicates a 6.3% 6Y CAGR (2022-2028) for the total market consumer loan portfolio growth. We project the Group to gain approximately 0.5% market share annually, reaching 18.3% by 2028 (15.4% at the end of H1 2023), thereafter remaining stable.
- The pawn loan market has seen substantial consolidation in the past years. The number of licensed pawn loan providers have decreased by 4x, or from 16 to 4. We project pawn loan market portfolio to expand at a 4.1% 6Y CAGR (2022–2028) to reach EUR 8.3m at the end of 2028. Although we see DGR to be competitive in the pawn loan segment, we look at the potential organic growth carefully, predicting an increase in its market share by 1% annually, aiming to achieve a 58% market share by 2028 (53% at the end of H1 2023), and maintaining stability thereafter. Furthermore, the growth through acquisitions could potentially be limited by the Competition Council of Latvia.

Financials

- We expect that DGR will continue to surpass its loan portfolio targets, recording a gross consumer loan portfolio of EUR 130.9m at the end of 2028, reflecting a 5Y CAGR of 8.2%, but pawn loan portfolio to amount to EUR 8.9m (incl. collateral inventory) at the end of 2028, reflecting a 5Y CAGR of 3.6%.
- We estimate the average effective interest rate for DGR loan portfolio to gradually decline from 50.8% at the end of 2023 to 44.3% at the end of 2028, largely attributable to the DGR ambitions to expand its market share in consumer loan segment.
- At the end of 2023, the Group has expanded its pre-owned goods sales with a 5Y CAGR of 17.1%, reaching EUR 9.2m. Considering the appealing features of the Banknote Shop, we anticipate the Group to increase its sales volumes, achieving an 8.9% CAGR over the next five years, reaching EUR 14.1m by the end of our forecast period.
- The Group has effectively increased its income streams ahead of costs, reflected in cost-to-income ratio, which stood at 47.0% at the end of 2023. This represents a decrease of more than 12pp compared to 2021. We expect this ratio to decline further to 44.0% by the end of 2024 and gradually continue to decrease to 40.4% by the end of our forecast period. We broadly expect the Group's long-term ROE ratio to normalize at 30%.
- Contrary to loan portfolio dynamics, we have taken more conservative view on pre-tax profit compared to the Group's targets due to rise in the cost of debt, inflationary pressures on operating costs, and increased credit loss expense. We anticipate the Group to grow its pre-tax profit with 5Y CAGR of 13.6%, reaching EUR 15.7m at end of our forecast period.

Valuation

- We have approached our valuation of DGR with a combination of an income and market approaches. Considering the Group's promising growth prospects and the scarcity of comparable listed peers, we believe that the income approach better suits DGR's valuation. Hence, we allocated 70% to the income-based valuation using the Residual Income Model (RIM) and the modified Gordon Growth Model (GGM), which essentially derives the fair P/B ratio-based valuation for the Group. The remaining 30% is attributed to peer valuation.
- Based on our current projections and underlying assumptions, we've set our target price for the Group at EUR 1.70 per share, implying a noticeable potential upside to the current market price at EUR 1.26 per share (at April 9, 2024). The share price dynamics show that DGR's share price has been largely influenced by the two largest shareholder public secondary offering of discounted Group's shares in May 2023. Since then the share price has not recovered, despite the Group's performance being in line with the previously set financial targets. This disparity may suggest investor expectations of potential future public offerings of discounted shares.
- We anticipate the Group to be able to maintain the payout ratio of 50% throughout our forecast period. Estimating against the current share price of EUR 1.26, we anticipate the Group to generate decent dividend yield in 2024E, reaching 7.9%, afterwards increasing to 8.9% in 2025E and 10.1% in 2026E.
- The key risk factors to our valuation include economic recession resulting in slower than projected growth in consumer lending volumes and deterioration of the credit quality; downward pressure on loan rates due to rising competition.

Company Overview

Since its inception in 2009 as a solitary pawnshop, DelfinGroup has evolved into the second-largest non-bank consumer loan provider in Latvia and recently expanded its footprint into Lithuania. Over the years, the Group has developed an extensive branch network across Latvia, ensuring coverage in all populated areas with at least 4,000 inhabitants, thereby earning the distinction of being the most geographically accessible financial services brand in the nation.

The Group offers a variety of loan options - consumer loans, pawn loans, buy now pay later loans (BNPL), and credit line loans, operating through three brands – Banknote, VIZIA, and "Rīgas Pilsetas Lombards". Importantly, the Group actively sells pre-owned goods through its physical stores and online platform, creating synergy throughout its pawn loan, BNPL, and sale of pre-owned goods operations.

The Group's expansion into Lithuania commenced in late 2023 with the establishment of five Banknote branches in Vilnius, accompanied by the launch of an online marketplace dedicated to pre-owned goods. Initially, the Group will focus on providing pawn loan services and facilitating the sale and purchase of pre-owned and lightly used goods, with a gradual rollout of its full suite of offerings.

Since 2014, DelfinGroup has been known on the Nasdaq Riga Stock Exchange as an experienced bond issuer. Additionally, in order to accelerate growth and strengthen its capital base, in 2021 the Group conducted an Initial Public Offering raising EUR 8.1m or 73% from its base offer, and is listed on the Baltic Main List.

Consumer Loans

The consumer loan operations were introduced in 2011. Throughout a few rebranding stages, Banknote as we know it today was introduced in 2015, later in 2017 complementing with online platform. As of 2018, the Group also operates through the VIZIA brand, which provides consumer loans solely online and is positioning itself to be a more appealing brand to the young customer segment. Banknote operates directly under AS DelfinGroup; however, VIZIA is managed through its subsidiary SIA ViziaFinance. Both entities hold a lending license, which reduces operational and legislative risk in case the license of one entity is revoked.

DGR's latest product offers a Banknote virtual payment card with a credit line. The virtual card integrates with mobile payment solutions such as Apple Pay and Google Wallet digital wallets.

Pawn Loans

The pawn loan business was the genesis of DelfinGroup´s evolution. The first pawnshop was opened in 2009, bearing the label Lombards24. By 2010, the Group was already operating 50 branches in major Latvian cities. In 2014, Riga City Pawnshop was acquired; it is the oldest pawnshop in Latvia, having begun operations in 1802. Its product portfolio consists of luxury goods such as jewelry, paintings, watches, etc. Currently, the Group operates more than 90 pawnshops under the Banknote brand and one branch under the "Riga City Pawnshop". The Group has the widest pawnshop branch network in Latvia.

Buy Now Pay Later Loans (BNPL) – Banknote Pirkumiem

DelfinGroup initiated BNPL operations at the end of 2020 under the Banknote brand. It allows customers to acquire goods with installments. Notably, the loan is interest-free if settled within a 30-day timeframe. Banknote Pirkumiem is exclusively partnering with Banknote shop.

Pre-owned Goods

The retail segment, focused on the sale of pre-owned goods, operates synergistically with the pawn loan segment by facilitating the disposition of unredeemed collateral, constituting ca. 50% of pawn loan collateral. Goods can be bought on-site in Banknote stores as well as on Banknote Veikals online shop.

In addition to handling unredeemed collateral, Banknote shops engage in the acquisition of goods from individuals. These items are subsequently placed on the resale market. Moreover, the Group is actively expanding collaborations with prominent online retailers in the region, acquiring returned goods. These items, being briefly utilized by customers, are ineligible for sale as brand new on online platforms.

Banknote

RĪGAS PILSĒTAS LOMBARDS

VIZIA

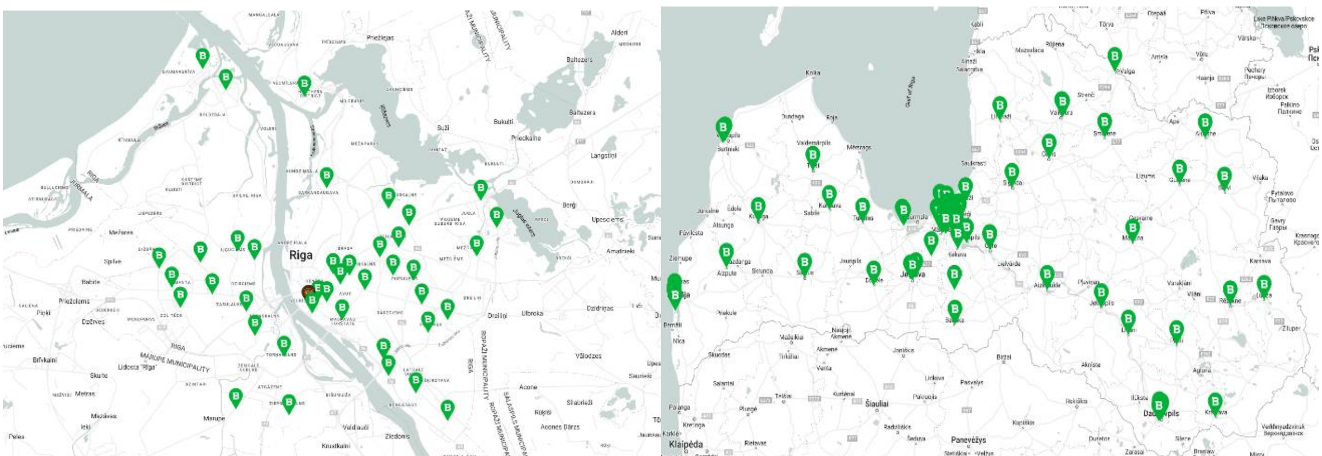
Source: DelfinGroup

Overall, Banknote utilizes four distinct categories of suppliers for its pre-owned goods: a) unredeemed pawn loan collateral; b) walk-in customers selling personal items; c) other pre-owned goods wholesalers; and d) returned goods sourced from online retailers. By acquiring goods at a significant discount, representing a margin of the eventual selling price, Banknote injects liquidity into the pre-owned goods market. DelfinGroup is inherently championing a circular economy by promoting resale and breathing new life into products through repair and reuse. In 2022, DelfinGroup sold more than 200 thousand used goods.

Branches

In Latvia, DGR operates over 90 branches, of which 40 are located in Riga, and recently added 5 branches in Vilnius. The first branch was opened in 2009, solely as a pawnshop, but by 2010, the number of branches had expanded to 50. All branches, with the exception of one operating under "Rigas Pilsetas Lombards", are operating under the Banknote brand. Banknote branches provide an extensive array of services, including consumer loans, retail and redemption of pre-owned goods, pawn loans, and BNPL loans. On the other hand, Riga City Pawnshop specializes in offering pawn loans and retail services, focusing on high-end luxury goods.

Branch network in Latvia

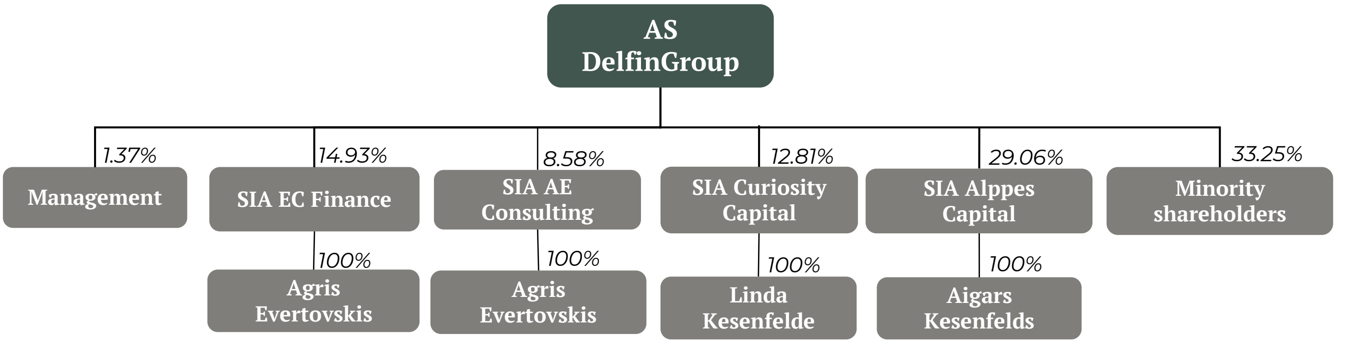


Source: DelfinGroup

Source: DelfinGroup (Mārupe branch)

Source: DelfinGroup (Riga City Pawnshop)

Shareholder structure



Source: DelfinGroup

Shareholders

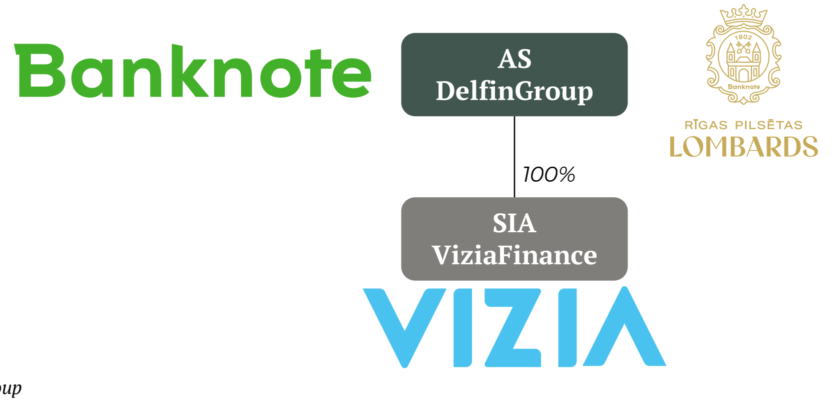
The majority ownership of the Group is held by SIA Alppes Capital (29.06%) and SIA Curiosity Capital (12.81%), controlled by the Kesenfeld's family, furthermore, we have estimated that ca. 5.7% stake is held individually. SIA EC Finance (14.93%) and SIA AE Consulting (8.58%) are controlled by the Group's founder, Agris Evertovskis. The Management holds 1.36% of the shares as part of the incentive program.

During the IPO process, investors subscribed for 5.3m new shares, representing 11.74% of DelfinGroup. However, in 2022 and 2023, the two largest shareholders conducted two public offerings, selling their existing shares to the market, making a partial exit besides increasing the Group's free-float. Slightly exceeding the IPO amount a total of 5.4m shares were offered.

The first offering saw a low demand as subscription amounted to only 13.7% of the total offer, despite a 5% discount on the shares relative to the market price at the day of announcement. The second offering that offered shares at a larger (10.6%) discount to the prevailing market price was oversubscribed by 1.12 times. Consequently, DGR achieved a free-float share of 27.51%.

Before becoming one of the largest shareholders of DGR in late April 2021, Aigars Kesenfelds has demonstrated successful involvement in the fintech and consumer lending sector for a significant period of time. He co-founded prominent entities such as 4Finance, Eleving Group, and Mintos, while also holding interests in various consumer lending companies (e.g., Sun Finance), both within and beyond Latvia. From our perspective, Mr. Kesenfelds' extensive experience and proficiency in execution contribute substantial value to DelfinGroup, given his role as a major shareholder in the company. Mr. Kesenfelds has conveyed his appreciation for DelfinGroup's financial stability, strategic approach, and corporate governance, identifying these factors as pivotal considerations in his investment decisions.

Group's structure



Source: DelfinGroup

Management Board

The Group's Management Board is comprised of the Chief Executive Officer, the Chief Operating Officer, Chief Financial Officer and Chief Innovation Officer. A Member of the Management Board is elected to office for a term of five years.

Didzis Ādmīdiņš (Chief Executive Officer)

- Working for the Company since 2010.
- CEO of the Company since 2018 and a Member of the Management Board since 2014.
- He has held various management positions in the Company since 2010.
- Previous experience as Chief Operating Officer at several real estate companies (2008-2010); Retail Credit Specialist at Swedbank (2007-2008).
- Responsible for developing and implementing business strategy in collaboration with the Supervisory Board, as well as overseeing operational management.
- Master's degree in Economics and Business Administration from Riga Technical University.
- Directly owns 605,000 (1.33%) DelfinGroup shares.

Sanita Pudnika (Chief Operations Officer)

- Working for the Company since 2021.
- Previous experience: Country Manager for Latvia at P2P lending platform Twino Group (2018-2020); Product Manager of Consumer Lending in Retail Product Development Division at Citadele (2016-2018); and Head Manager of Projects with Partners in the Department of Consumer Lending at Citadele (2015-2016).
- Responsible for overseeing the day-to-day administrative and operational functions of the Company.
- BA in Philology from the University of Latvia and Leadership training, Consaltum AB (in association with Stockholm School of Economics in Riga).
- Directly owns 5,050 (0.01%) DelfinGroup shares.

Aldis Umblejs (Chief Financial Officer)

- Working for the Company since 2021.
- Previous experience: Member of the Management Board and Chief Financial Officer at a fintech company Finitera (2019-2021); CFO at DCE Solution (2017-2020); Manager at EY (2016-2017); CFO at Scandagra Latvia (2014-2016).
- Responsible for supporting the CEO in developing and implementing the strategy and for reporting the financial and operational performance of the Company.
- BSc in Business Administration from BA School of Business and Finance; CFA charter holder, CFA Institute; and Member of the Association of Chartered Certified Accountants (FCCA).
- Directly owns 11,650 (0.03%) DelfinGroup shares.

Nauris Bloks (Chief Innovation Officer)

- Working for the DelfinGroup since 2022.
- Held various positions, including Member of Supervisory Board, Member of the Management Board, Chief Technology Officer, in P2P lending platform TWINO (2016-2022)
- Certified Business Analysis professional and holds a Bachelor's degree in e-Business Management from University of Latvia.
- Directly owns 0 DelfinGroup shares.

Non-bank consumer lending is a relatively new sector in Latvia, whose beginnings are deemed to be in 2007. The major driver was the large proportion of society unserved by the banks. Non-bank lenders utilized the potential and now hold the significant share of consumer lending volumes. At end of H1 2023, non-bank consumer lending consumer loan portfolio, excluding mortgages and pawn loans, reached EUR 489.6m while bank consumer loan portfolio recorded EUR 708.7m. Accordingly, we estimate that non-bank credit companies hold ca. 41% market share. According to the Credit Information Bureau, looking at the risk profile of the customer portfolio - banks vs. non-banks, we see that 80% of bank customers are in the A-C category, while the credit rating of non-bank customers is mostly in the B-D category. This means that licensed non-bank consumer lenders, assuming higher risk, have taken notable share of the consumer lending market.

The market has seen continuous consolidation in the past years due to increasingly tighter regulation, especially in 2019 where licensing fees were increased, requiring high economies of scale in order to cover the costs. The difference can be clearly seen among active licensed creditors. In the last five years, the number of licensed non-bank creditors, specializing in consumer loans, have decreased by 41%, or from 32 to 19. An even more notable difference is observed for pawn loan providers that have decreased by 4x, or from 16 to 4. But here is the catch: many smaller pawn shop owners operate under one entity (Finance 360 SIA) to split the licensing fees. Most market players predominantly focus on specific types of loans, rarely offering a broad range of loan options.

Legislative environment

Following the emergence of non-bank consumer lending, the industry initially lacked significant regulation specific to its operations. However, in 2011, a significant shift occurred in the regulatory landscape with the implementation of licensing requirements for non-bank consumer lending, designating the Consumer Rights Protection Center as the regulatory authority. Amendments to the Consumer Rights Protection Law mandated that only companies holding a special permit (license) were authorized to provide lending services to consumers.

Policymakers have implemented substantial changes in the non-bank lending sector, transitioning it from an unregulated environment to one characterized by stringent regulations. This transition has resulted in market consolidation, heightened barriers to entry, constrained loan profitability, and increased difficulties in customer acquisition. While these regulations may potentially impede industry expansion, they have also mitigated reputational risks compared to the pre-regulatory era.

Regulatory aspects to consider:

- The maximum total cost of credit to the consumer is 0.07% per day. However, lenders may apply certain extra commission payments for extra services that eventually result in a higher interest rate. Exclusion from this rule is applied to pawn loans. According to the formula provided in the legislation, the Annual Percentage Rate (APR) can be slightly over 50%.
- Before October 2019, the fees for obtaining a license were EUR 71,140 for the issuance state fee and EUR 14,225 for the annual state fee. The fees increased to EUR 250,000 (a 251% increase) and EUR 55,000 (a 287% increase), respectively.
- From 2016, companies seeking a license must have a paid-up share capital of EUR 425,000.
- Non-bank lending companies are subject to European Anti-Money Laundering, Combating Financing of Terrorism, and Certified Financial Planner Regulations.
- The law puts the responsibility on consumer loan service providers to thoroughly evaluate the ability of a borrower to repay the loan following the guidelines.
- Loan providers cannot encourage consumers for a loan application through advertising channels like TV, radio, banners and printing in public places; however, the essential exemption is given to consumer creditor brand name/logo advertisements.
- Can advertise their services through channels such as emails and calls.
- Consumer creditors can operate within the time limit from 7:00 a.m. to 23:00 p.m.

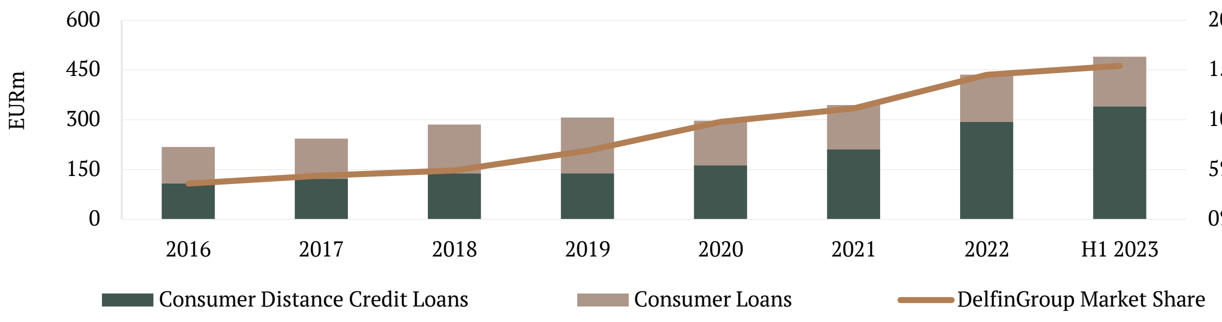
Consumer loan market

Over the past five years, the non-bank consumer loan portfolio has demonstrated consistent growth, experiencing a slight setback in 2020 due to Covid-19 yet achieving a notable 5Y CAGR of 13.9% as of the end of H1 2023. Despite encountering challenging economic conditions throughout 2022 and 2023, the consumer loan portfolio exhibited robust expansion, recording y-o-y growth rates of 26.6% and 12.2%, respectively. Analysis indicates that the growth witnessed in the last two years has been primarily propelled by inflation. Specifically, in comparison to 2021, the issued loan count increased by 10.7%, while the issued loan volumes in monetary terms surged by 46.5%.

According to market data reporting standards, we note that distance loans classify as consumer loans but settled through online channels, but consumer loans are settled on-site. Furthermore, we refer to consumer loans excluding leasing (e.g., car loans) and mortgages.

While capitalizing on general market growth, DelfinGroup has been outpacing competition and increasing its market share. In a five-year time span, DGR has consistently grown its market share, totaling ca. 10.5pp, holding 15.4% at the end of H1 2023.

Consumer Loan Credit Portfolio



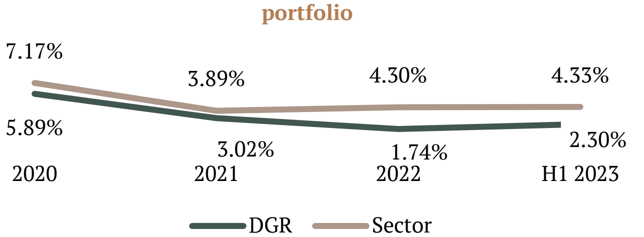
Source: Consumer Rights Protection Centre Republic of Latvia (CRPC)

Despite the good performance of the sector in the midst of the recession, we consider the macroeconomic risk and the respective implications to remain. The main risks that a recession can hold for the sector are extensive credit defaults and a reduction in loan demand as consumption plummets. However, we believe that such times can also be a potential opportunity. Well-capitalized lenders with good liquidity can offer loans with reasonable costs to build a strong client base.

In the long term, the portfolio quality of non-bank consumer lending providers has quite notably improved and is likely to be driven by improved risk management measures and interest rate limitations. Distance consumer loans without delay are performing slightly worse than consumer loans issued on-site. DelfinGroup states that it is a common situation and is linked to higher young consumer proportions applying for credit through network channels, and observation is that the young consumer segment is performing slightly worse in credit payback. Notably, the market's portfolio quality has remained stable with minor fluctuations throughout 2022 and 2023. At the end of H1 2023, non-performing loans (over 90 days) formed 3.7% for distance loans and 5.7% for consumer loans, but loans without delay formed 86.1% and 89.3%, respectively. We observe that at end of H1 2023 the inflationary pressures have resulted in increased non-performing loans of consumer loans by 1.54pp compared to 2021, however, distance loans have remained steady. One should note that lenders maintain portfolio quality through methods such as loan ceding, selling, and write-offs. However, the cessation of overdue loans (e.g., >90 days) in these loan types do not necessarily guarantee an increase for the rest of the portfolio in solvency or customer commitment to fulfilling obligations in the future.

Comparing DelfinGroup's non-performing loan rate (delay of more than 90 days) with the sector, it highlights DelfinGroup's implementation of effective and data-driven risk management systems. The Group's non-performing loan ratio with minor fluctuations has recorded consistent improvements, and at the end of H1 2023 amounted to 2.30%, by 2.03pp below the sector average.

Loans delaying over 90 days vs total consumer loan portfolio



Source: Consumer Rights Protection Centre Republic of Latvia (CRPC); DelfinGroup

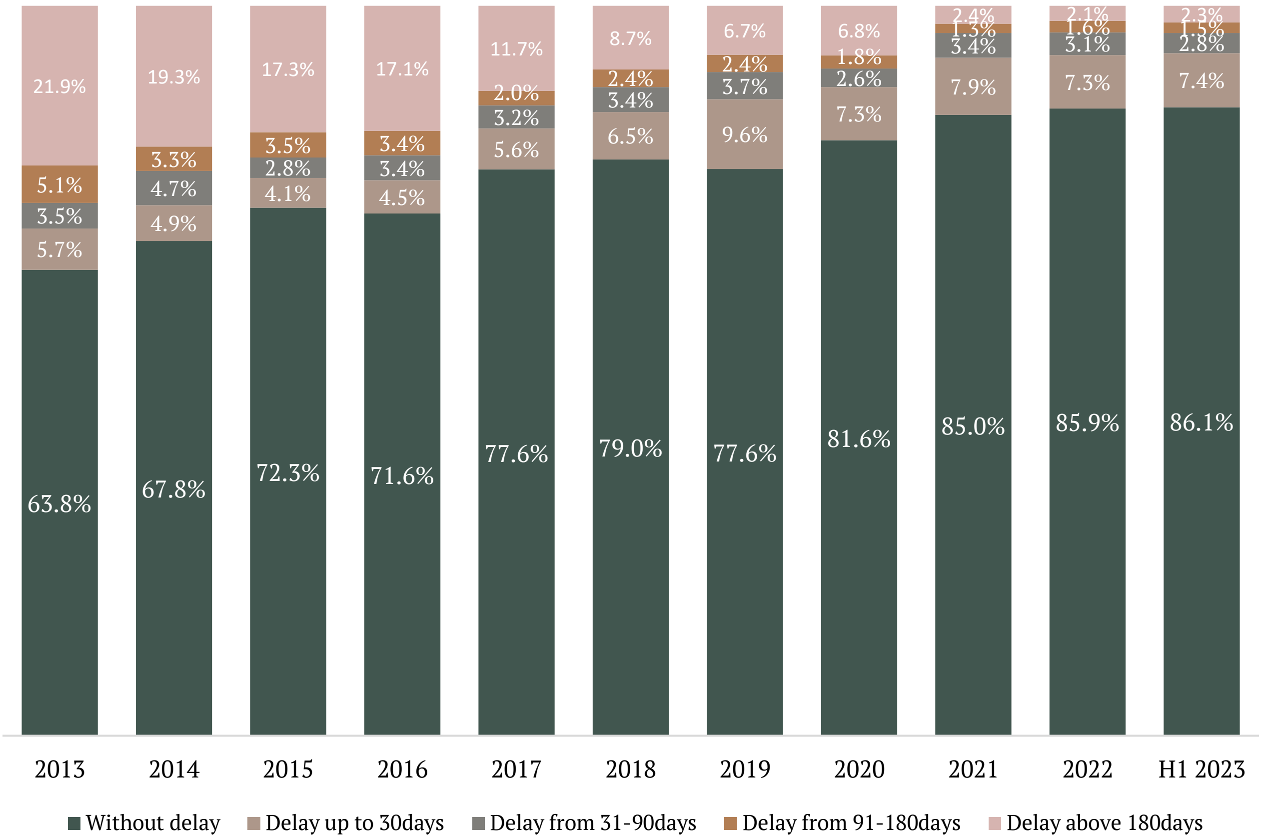
While we recognize the market's relatively high entry barriers, we assess the competitive landscape as challenging given the similarity between competitors, loan pricing transparency and ease of switching loan issuers. The market share data validates the stiff competition in the sector, where the distribution is quite similar between several main market players. We believe the main drivers for client acquisition are service availability, user experience, pricing structures (specifically interest rates), scale of loan amounts, term durations, and brand recognition. As we have displayed in portfolio data, technological solutions and user experience have become especially prominent as of the pandemic, bringing along rapid adoption of digitalization.

Examining the landscape, prominent credit providers exhibit considerable similarity in user experience (UX) and loan terms. We think that DelfinGroup's positive brand public relations have been significantly boosted by the "byproduct" of an IPO and active engagement in sponsorships. Furthermore, we consider its new credit card product to attract new clients as turning existing clients into potentially more active borrowers, notably facilitating the borrowing process. Last but not least, DelfinGroup stands out with an extensive branch network, conferring a competitive edge, especially for the 30.5% of the market inclined towards in-person service preferences. This distinct advantage caters to a significant segment of the consumer base seeking on-site services, setting DelfinGroup apart in this aspect. We believe this customer segment is concentrated more on the older generation. DGR data shows that at the end of H1 2023, nearly 30% of clients are in the age group 60+.

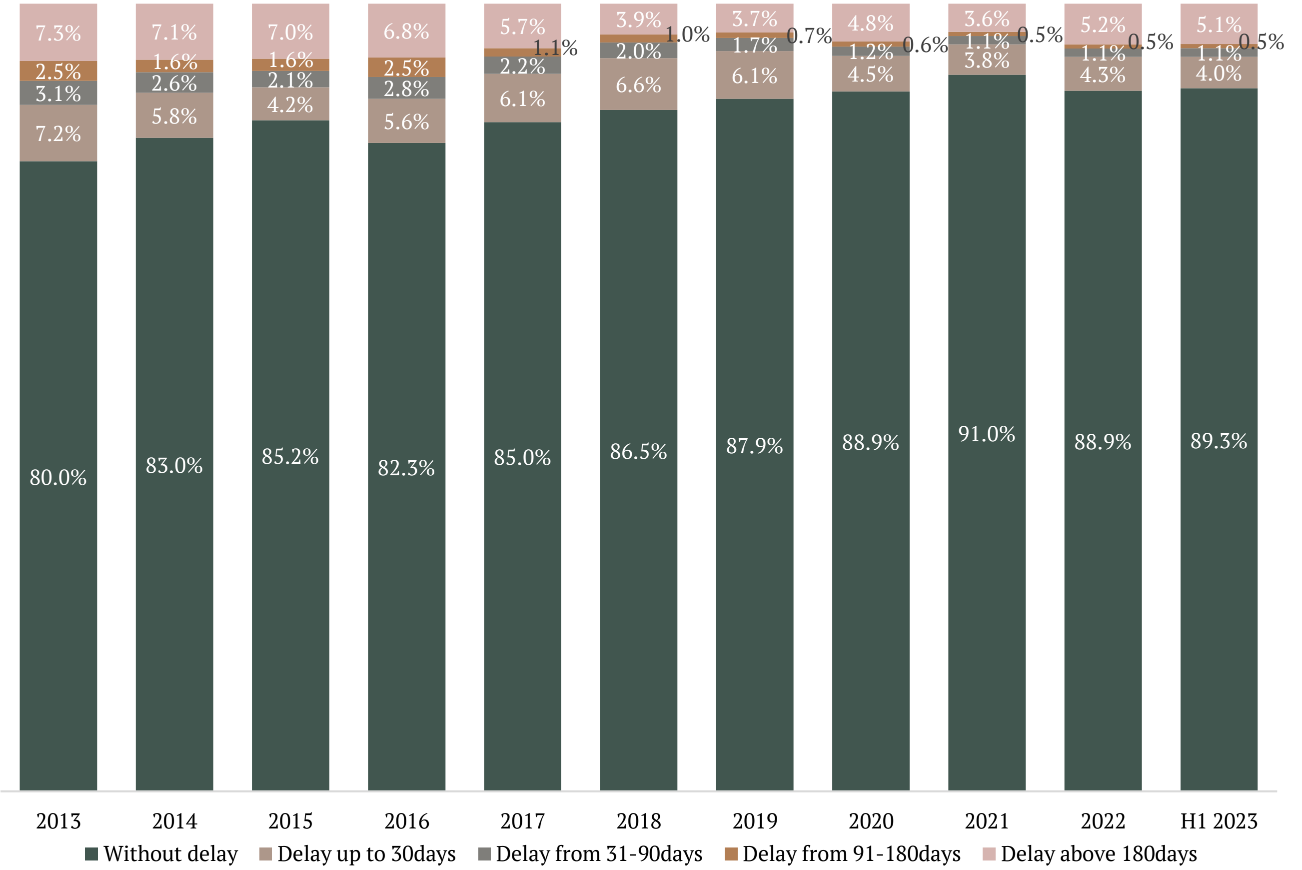
Competitor	Loan Portfolio (2022)	~Market share
Inbank	74	17%
4finance	70	16%
Aizdevums.lv	48	11%
Incredit group	46	11%
IPF Digital Latvia	43	10%

Source: Respective company financial statements

Portfolio quality, distance consumer loans



Portfolio quality, consumer loans



Source: Consumer Rights Protection Centre Republic of Latvia (CRPC)

Pawn Loan market

The dynamics of the pawn loan market have generally exhibited stability over the long term, except during the pandemic years. Unlike the consumer loan market, the pawn loan sector faced significant disruption due to the requirement of a physical presence to secure a loan. However, with the lifting of restrictions, the market swiftly rebounded. Similar to consumer loans, we assess that inflation has been a key driver of the pawn loan portfolio's performance in the past two years. Although the pawn loan portfolio has shown y-o-y growth of 25.5% in 2022 and 14.6% in H1 2023, it still lags 4.6% behind 2019 level.

Data from the Consumer Rights Protection Center (CRPC) indicates that in 2022, the issued value of pawn loans grew by 18.4%, while the issued amount experienced a slight decline of 2.8% y-o-y. In 2023, the trend continued, with the issued value increasing by 26.1% and the issued amount rising by 12.4% y-o-y. Consequently, it appears that the market is driven more by the higher value per loan rather than by loan volumes.

As previously discussed, the market consolidation trend is notably more pronounced in the pawn loan segment compared to the consumer loan segment. A prominent example of this is DGR's acquisition of AS Moda Kapitāls in 2021, a key player in the market with a broad pawnshop network spanning across Latvia, encompassing 25 branches. This acquisition further solidified DelfinGroup's position and contributed to the ongoing consolidation within the market. The transaction encompassed inventories valued at EUR 0.4m and a pawn loan portfolio worth EUR 0.3m. Driven by organic and inorganic growth, DGR has become a leader in the pawn loan market, reporting 53.3% market share at the end of H1 2023. We note that the market share is measured against DGR' s active pawn loan portfolio (excluding inventories of collateral for sale).

In the pawn loan segment, we identify several key factors driving competitiveness, including the branch network's reach, the scope of accepted collateral, loan terms and brand recognition. We have assessed that DGR has quite strong advantage in branch network (+90 branches) and we have observed slightly wider scope of accepted types of collateral, compared to other main players. On the other hand, the wider scope of accepted collateral increases the risk of illiquid inventory, leading to large discount sales giving lower average effective interest rate. All in all, we consider DGR has quite rigid position in the pawn loan market.

Given DelfinGroup's dominant market share, we could anticipate heightened scrutiny from regulatory bodies such as the Competition Council in the foreseeable future, thus potentially limiting the growth through acquisitions.

Key Competitor	Branches
Vita Lombards	27
E-Lats	25

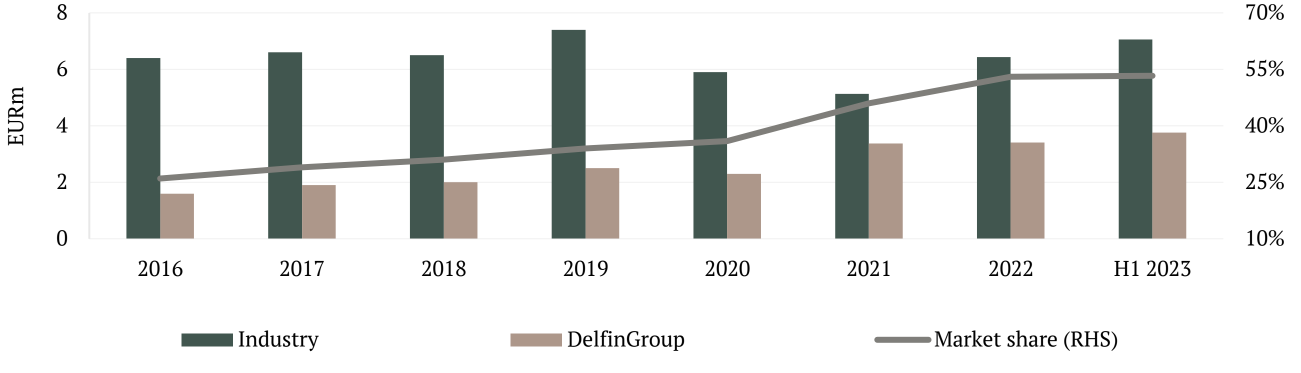
Source: Respective company websites

Buy Now Pay Later Loans (BNPL)

As BNPL loans are gaining traction in Latvia, we're dealing with a segment that has limited data. BNPL loans follow the same regulations as consumer loans, but here's an interesting twist: credit issuers often offer a 0% rate by splitting the cost with retailers from their product profits. We've noticed popular retailers in Latvia, both online and in physical stores, promoting BNPL loan offers for a variety of products.

Digging into the market, it's clear that Lateko, Inbank, and Aizdevums.lv are the big players in the Latvian BNPL loan scene. Competition for partnerships with major retailers is pretty tough, considering there aren't many big retail players in Latvia. A notable partnership is between Banknote Pirkumiem (BNPL loan) and the Banknote shop, giving Banknote Pirkumiem the exclusive rights to offer consumer loans for purchases. The success of DelfinGroup's BNPL loans segment seems tied to how well the Banknote Shop does, given the strong market presence of established players and limited partnership options.

DelfinGroup vs Industry Pawn Loan Portfolio



Source: Consumer Rights Protection Centre Republic of Latvia (CRPC)

Name	Type	BNPL loan partnerships
1a.lv	Online retailer, product assortment – mixed, mostly electronics	Inbank Lateko
220.lv	Online retailer, product assortment – mixed	Inbank
TopShop	Online and physical retailer, product assortment – household goods	Inbank Aizdevums.lv
RD Electronics	Online and physical retailer, product assortment –electronics	Citadele VIZIA Lateko Aizdevums.lv
Euronics	Online and physical retailer, product assortment – electronics	Inbank Incredit
Kurši	Physical and online retailer, product assortment – construction	Inbank
IKEA	Physical and online retailer, product assortment – mixed	Aizdevums.lv

Source: Respective companies

Pre-owned goods market

The secondary market holds appeal for a segment of society conscious of sustainability, as it champions the principles of a circular economy. For many individuals, opting for the secondary market is driven by the affordability of goods, to satisfy themselves with things that are rather luxurious or bring high price-performance ratio. On the flip side, there's a group that aims to capitalize on assets that have been replaced or are no longer necessary. In essence, the secondary market serves as a dual-purpose space—one where consumers find economic and environmental value and another where individuals seek to extract value from underutilized or surplus possessions.

It is quite hard to estimate the total value of the market due to the scarcity of data. Here we would concentrate on the positive aspects of the DGR pre-owned goods platform compared to other popular platforms like SS.lv, Andelemandele.lv, Facebook Marketplace, eBay, Alibaba, and Amazon.

In light of the opportunities facilitated by the internet and modern logistics, competition within the pre-owned goods market is predominantly global, albeit with notable constraints. Particularly, items sourced from outside the European Union may face various obstacles, including customs duties, value-added tax (VAT), customs declarations, or relatively high delivery expenses and long delivery duration. While platforms such as eBay, Alibaba, and Amazon provide mechanisms for returns and refunds, navigating these processes can often be intricate and time-consuming.

However, despite the global reach, consumers often opt for local vendors for various reasons. These include the desire to inspect goods personally, minimize delivery time and costs, and seek additional protection against fraud. In Latvia, key local vendors include ss.lv, Andele Mandele, and Facebook Marketplace. Yet, these platforms lack the consumer protection measures provided by larger platforms.

Additionally, when transactions occur remotely, a mutual distrust often arises, leading to concerns about the sequence of “money or delivery first“.

While consumers generally have the right to raise claims if received merchandise falls short of expectations, the absence of a written contract diminishes the chances of proving a case, making it less worthwhile in terms of time and money. Despite a substantial portion of consumers opting for pre-owned goods, the market's growth is hindered by a lack of protective measures and trust-building mechanisms, limiting its full potential.

The DelfinGroup's product range is comprehensive, encompassing almost everything except cars and real estate, with an emphasis on electronics (smartphones, TVs, cameras) and jewelry. The DGR online platform, complemented by an extensive branch network, is designed to address the challenges mentioned.

Notably, DGR operates as an official retailer, ensuring that buyers receive a purchase approval or receipt. This official status obliges DGR to provide a warranty for all goods sold. Warranty up to 24 months is applied, depending on the condition of the goods: new goods: 24 months; lightly used goods: 12 months; used goods: 6 months; long-term used goods: 14 days. All jewelry is covered by a 24-month warranty. For online purchases, the law allows a 14-day return period for any reason. Importantly, customers benefit from an added layer of trust in the quality of merchandise, as DGR employs trained personnel to conduct thorough quality checks on goods, thereby minimizing the risk of latent defects.

In conclusion, we firmly believe that DGR's second-hand marketplace excels in terms of credibility, user experience, and product assortment, positioning it as a highly competitive and likely preferred option for those in search of products within the secondary market.

Lithuanian consumer loan market

Although we see some analogies between the Lithuanian and Latvian markets, there are differences between the two. Due to data scarcity and yet uncertain DGR strategic targets, we will look at the market very broadly. DGR is currently providing only pawn loan services and the sale of pre-owned goods in Lithuania; however, somewhere in the near future, are targeting to provide a full range of services.

The pawn loan market in Lithuania exhibits a lower level of regulatory oversight and a scarcity of data. Notably, there is no consolidated data considering the market participants and credit portfolio size. Nevertheless, a reasonable estimation suggests that the market size is at least comparable to that of Latvia, considering Lithuania's larger economy and population. The market is characterized by fragmentation, featuring numerous smaller players in contrast to the Latvian landscape. Lombas, Montes Aure, and Auksinis Garantas are identified as key participants, each managing no more than eight pawnshops across Vilnius and/or Kaunas. Analogous to Latvia, there is no statutory maximum Annual Percentage Rate (APR) for pawn loans. A distinctive factor lies in the exemption from license fees, contributing to the fragmentation of the market.

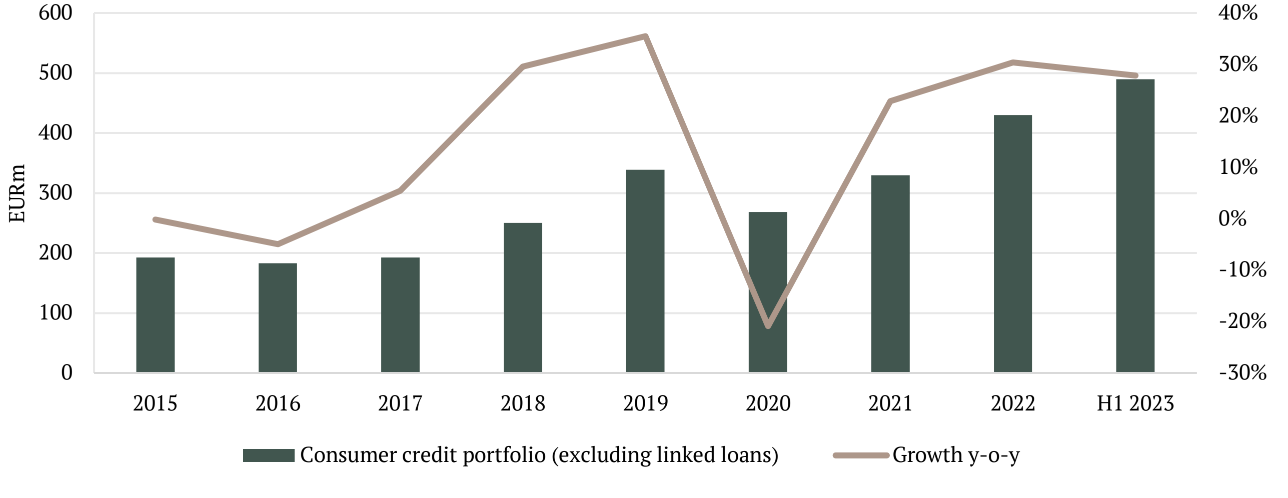
We believe Banknote emerges as a competitive contender in the Lithuanian market, given its broad collateral acceptance scope and relatively advanced operating model.

The consumer loan market is overseen by the Central Bank of Lithuania. As of the conclusion of H1 2023, the size of the non-bank consumer loan market in Lithuania closely paralleled that of Latvia and reached EUR 489.8m. Unfortunately, specific data pertaining to consumer loans issued by banks is currently unavailable. The consumer loan portfolio has achieved a remarkable 5Y CAGR of 17.4%. The market experienced substantial growth beginning in 2018, with a notable y-o-y increase of 30%, followed by a further surge of 36% in 2019. We believe that one of the reasons for elevated growth might have been the growing popularity of peer-to-peer lending platforms, making consumer loans more available and in a more convenient way compared to traditional lenders. Despite encountering setbacks during the pandemic, we maintain the view that inflationary pressures have continued to drive the market in the last two years.

Notably, the Lithuanian consumer loan market exhibits a higher degree of fragmentation compared to Latvia, with just over 50 registered consumer credit providers as opposed to 35 in Latvia. But one should note that the number represents all types of consumer lending providers, so it is hard to estimate the actual number of direct competitors. This heightened market fragmentation can be attributed, in part, to considerably lower licensing and supervision fees, amounting to EUR 149 and up to EUR 3,000, respectively.

Moreover, Lithuania lacks statutory capital requirements for consumer lending entities, a departure from Latvia, where such requirements stand at EUR 450,000. Legislative constraints in Lithuania dictate that the fixed Annual Percentage Rate (APR) must not exceed 200%. It is crucial to underscore that as a additional rule the annual aggregate cost of credit cannot surpass the total credit amount. Last but not least, the advertisement regulations seem to be more relaxed compared to Latvia; for example, with proper disclosures, consumer credit providers are allowed to advertise themselves on TV.

We consider the market conditions satisfying enough for Banknote to establish a recognizable brand and be competitive in the consumer loan segment. However, due to a lack of strategic targets, it is quite hard to estimate banknote development in the market. We anticipate the Group to test the market initially and proceed carefully with its expansion.



Source: Lithuania Central Bank

DelfinGroup has demonstrated a robust track record of profitability and growth since 2010, consistently rewarding shareholders with dividends. With a strengthened capital base from the IPO, along with new products and service quality improvements, in the last two years, DelfinGroup has continued to increase its market share in both of its lending segments and increase its pre-owned goods sales. Furthermore, the Group has successfully met its management strategic goals for 2023. While the loan portfolio has grown notably faster than expected, profitability metrics are broadly in line. The divergence is explainable by the unpredictability of the rise in the cost of debt, inflationary pressures on operating costs, and increased credit loss expense. We consider the management loan portfolio guidance for the upcoming years to be reasonable and broadly attainable, but we are more conservative on pre-tax profit for the reasons explained above.

We also acknowledge that DelfinGroup has launched operations in Lithuania, for the time being offering pawn loans and the sale of pre-owned goods, but one should note that the Group targets launching consumer lending operations in the near future. We believe that the addition of a new market is likely to hold a positive impact on the Group's sales and profits; however, we have decided to remain on the conservative side for the time being due to a lack of strategic targets for the market.

Loan portfolio

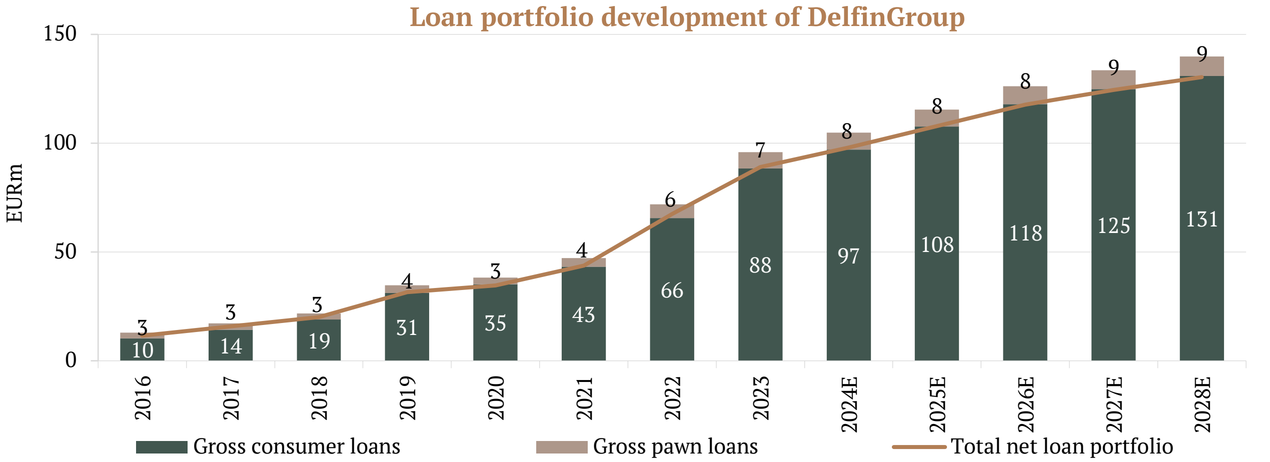
In the past five years, the Group has expanded its consumer loan gross portfolio with a CAGR of 36.1% to reach EUR 88.5m at the end of 2023. Understandably, part of the high growth results from a low base effect, but one should note that the main driver has been the expansion of market share for the Group to become one of the leading non-bank lending institutions in Latvia. The inflationary trend has notably fueled the growth of the consumer loan portfolio over the past two years. However, with slowing inflation and relatively sluggish economic growth expected in the foreseeable future, we anticipate a deceleration in market growth. We anticipate that the market will closely align with expected private consumption and core inflation trends. While data for the H2 2023 is unavailable, our estimate indicates a 6.3% six-year CAGR (2022-2028) for the total market consumer loan portfolio growth. We project the Group to gain approximately 0.5% market share annually, reaching 18.3% by 2028, thereafter remaining stable. Ultimately, we expect DGR to reach a gross consumer loan portfolio of EUR 130.9m at the end of 2028, reflecting a 5Y CAGR of 8.2%. Our projection adopts a more conservative approach compared to historical growth, recognizing that the consumer loan market encompasses BNPL loans, a segment where DelfinGroup's prominence may not see significant expansion. Additionally, as the Group expands its market share, we anticipate heightened competitive pressures among key industry players. Last but not least, the Group has indicated that the recent slowdown in new loan issuance has been somewhat deliberate. Taking into account the portfolio growth ahead of targets, the Group is now focusing on portfolio quality improvements, optimizing the cost of financing, profitability, and strengthening its capital base.

Over the past five years, DGR's pawn loan portfolio has demonstrated a noteworthy CAGR of 20.8%, reaching EUR 7.4m (including inventory) at the end of 2023. Given the displayed stability of the pawn loan market in the long run, we anticipate the pawn loan market portfolio to track closely with expected core inflation in the foreseeable future, projecting a 4.1% six-year CAGR (2022–2028) to reach EUR 8.3m at the end of 2028. Although we see DGR to be competitive in the pawn loan segment, we look at the potential organic growth carefully, predicting an increase in its market share of 1% annually, aiming to achieve a 58% market share by 2028, and maintaining stability thereafter. Furthermore, the growth through acquisitions could be limited by the Competition Council of Latvia.

On average, one branch adds ca. EUR 0.08m to the Group's pawn loan portfolio. Given the similarity of the Lithuanian market, we broadly expect the market to add ca. EUR 0.08m per branch to the pawn loan portfolio. DGR currently has five branches in Lithuania. All in all, we expect DGR to reach a pawn loan portfolio of EUR 8.9m at the end of 2028, reflecting a 5Y CAGR of 3.6%. We note that the Group reported pawn portfolio includes collateral inventory available for sale, while the portfolio excluding the inventory part is used to measure market share.

Management's guidance	2022 target	2022 actual	2023 target	2023 actual	2024 target	2025 target
Net loan portfolio (EURm)	62.0	67.4	77.0	89.2	90.0	100.0
EBITDA (EURm)	12.7	13.1	17.0	18.2	23.0	26.0
Pre-tax profit (EURm)	7.5	7.3	8.0	8.3	12.0	15.0
Cost-income Ratio (%)	<52%	51%	<45%	47%	<45%	<45%
ROE (%)	>30%	34%	>30%	33.6%	>30%	>30%
Equity Ratio (x)	>25%	23%	>20%	20.3%	>20%	>20%
Dividend payout ratio (%)	>50%	128%	>50%	49.9%	>50%	>50%

Source: DelfinGroup



Source: DelfinGroup, Signet Bank for estimates

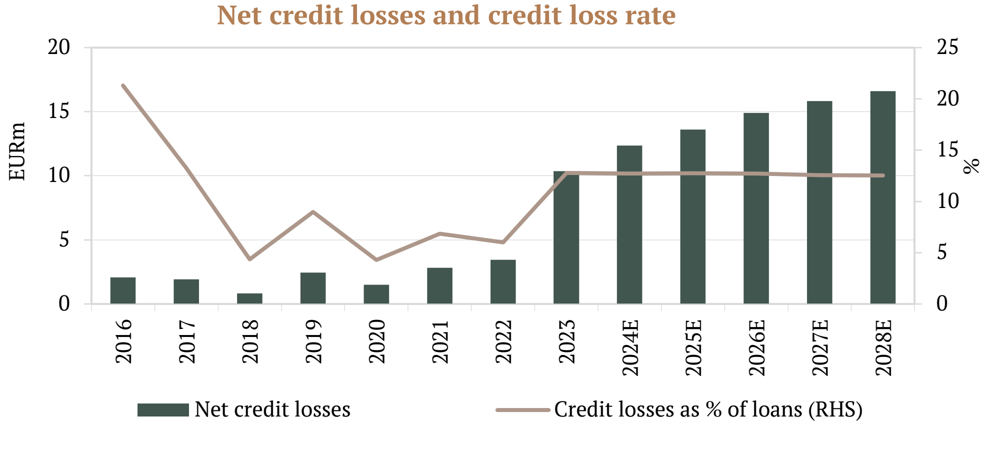
Economic activity (annual changes; %; at constant prices)	2024E	2025E	2026E
Private consumption	2.8	4.0	3.6
Core inflation	4.0	3.6	2.9

Source: Latvia Central Bank (March, 2024 forecast)

Credit losses

Non-bank loan providers are largely servicing financially disadvantaged individuals or groups with lower income levels. Such groups include individuals close to or in their retirement age, rural area inhabitants, and underbanked individuals. Understandably, financing for such customers comes with a risk premium or higher interest rates. Considering accounting principles, on the balance sheet, the Group reports its net consumer loan portfolio, which includes loan receivables and accrued interest but excludes expected credit loss (ECL) allowances.

In income statement, DelfinGroup presents credit loss expenses as a separate item, reflecting movements in ECL, including the effect of the reversal of cessions and write-offs from ECL allowances. DelfinGroup has signed a contract with a third party for the regular cession of overdue loans, normally collecting around two-thirds of the outstanding loan balance of such debtors. Although the average cost of risk for the Group, calculated as a percentage of net credit losses to average gross loans, has fluctuated significantly over the past few years, the overall trend shows improvements in the average credit quality. In current economic circumstances the likelihood of credit defaults increases, thus increasing the portion of immediate provisions and increasing the net credit loss rate measured against the gross consumer loan portfolio. Accordingly, net credit losses to the gross portfolio have risen from 5.5% in 2021 to 10.1% in 2022 and 12.8% in 2023. Given the geopolitical uncertainty and its implications for the economy, we have decided to keep the rate stable for the upcoming years.



Source: DelfinGroup, Signet Bank for estimates

Lending rates

Loan rates have been influenced by various factors in recent years, including shifts in product offerings, the competitive landscape, and regulatory changes. DGR's consumer loan rates have decreased significantly from 92.5% in 2016 to 45.9% by the end of 2023, primarily due to regulatory tightening since 2016. Conversely, pawn loan rates are not subject to such regulatory constraints and are determined by the competitive dynamics within the pawn loan market, potentially adjusted based on the quality of the collateral offered and the client's redemption history.

Our calculations indicate that the average effective rate for pawn loans, measured against the average gross pawn loan portfolio at the end of 2023, stood at 122.4%, coming down from 134.0% in 2022 and 146.4% in 2021. One should note that as of 2021 the Group have made changes in its accounting approach of pawn loan portfolio, namely, the portfolio includes additional inventories and the income from sale of collateral is accounted in interest income. Accordingly, this change distorts the yield comparison to the previous periods. However, the downside in yield can be observed the last three years which could be a result of competitive forces in the market and accumulation of inventory or collateral. The accumulation of inventory may eventually lead to sell-offs at a high discount, resulting in lower interest yields.

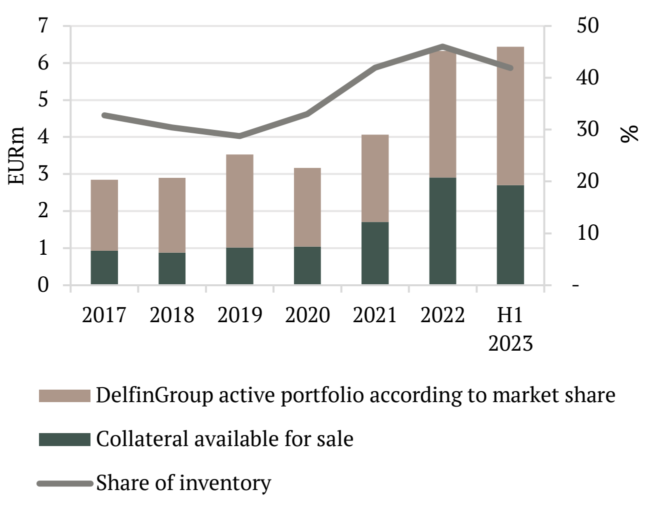
For consumer loan rates, we anticipate a gradual decline from 45.9% at the end of 2023 to approximately 40% by 2028. This projected trend is attributed to several factors. Firstly, as the proportion of online consumer loans grows, competition intensifies, leading to downward pressure on interest rates. Additionally, the Group's aspirations to expand its market share may require attracting a younger customer segment with higher income levels, potentially necessitating more competitive interest rates. Lastly, we anticipate that the average term of loans will increase over time, resulting in a reduction in the average interest rate. For pawn lending rates, we broadly expect stability going forward with no major fluctuation in average effective pawn loan interest rate.

Sale of second-hand goods

DGR has shown a decent growth track record for its second-hand goods sales in the last five years, recording a CAGR of 22.2%. As we discussed, DGR has good pre-conditions to attract customers, both in densely populated areas and rural areas. Furthermore, the development of its online sales platform in 2018 and recent improvements in the user experience had a positive effect on further sales growth. We note that the Group in financial statements report goods sold that have originated from other sources than pawn collateral, which contributes to the interest income. For a better view of retail sales, the Group presents the sales numbers combined for the two types of goods. Here we would like to highlight the steep increase of sales in Q3 2022 (+26.9% q-o-q), in our view propelled by the updated online sales platform and effective PR campaign, namely, in 2023 the Group has more than doubled its sold units at online store y-o-y.

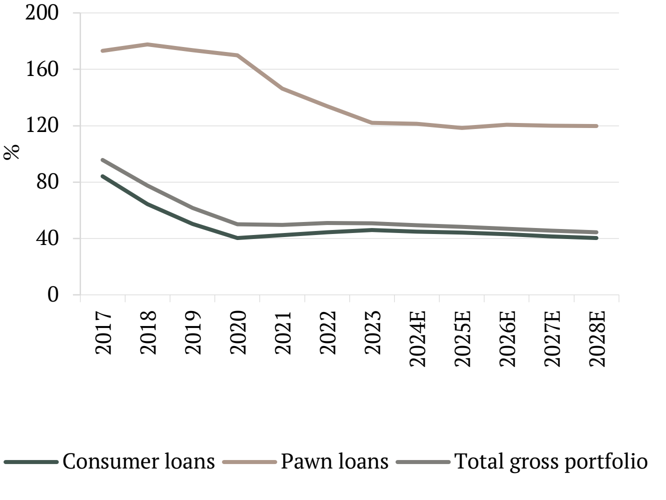
DelfinGroup separates its sales into three categories: the sale of goods, the sale of precious metals, and other sales income, including mostly sales commissions, storage fees, and other related revenues. The sales have been mostly driven by the sales of goods, increasing with a 5Y CAGR of 22.2%, but sales of precious metals have recorded a 5Y CAGR of 8.3% and other sales 7.9%. One should note that the sale of precious metals can fluctuate considering its price movements and could be stored if the price is expected to be higher in the following quarters. In total, at the end of 2023, the Group has expanded its sales of pre-owned goods with a 5Y CAGR of 17.1% to reach EUR 9.2m. Considering the appealing features of the Banknote Shop, we anticipate the Group to grow its sales volumes and record a 8.9% 5Y CAGR to reach EUR 15.6m at the end of our forecast period.

Pawn loan portfolio and inventory*



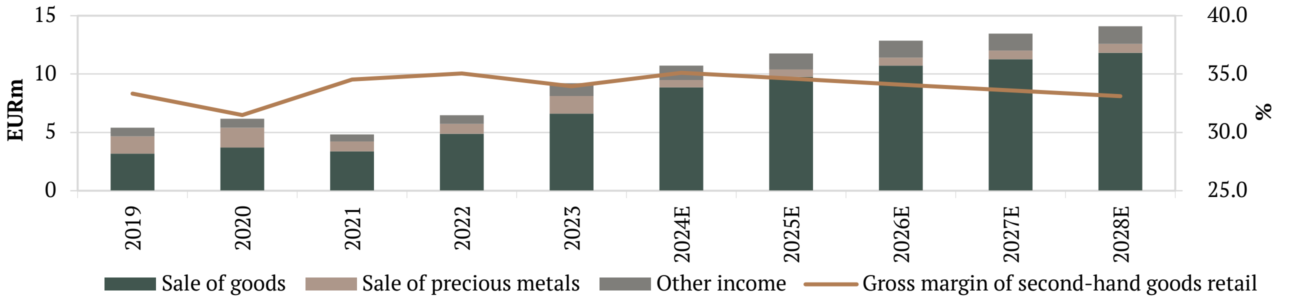
*Source: DelfinGroup *Share of inventory increases due to change in accounting method of pawn loan portfolio.*

Average effective interest rates on loans**



*Source: DelfinGroup, Signet Bank for estimates **Pawn loan average effective rate includes sales commissions, storage fees, and other related revenues from other sales income.*

Net sales development of DelfinGroup



Source: DelfinGroup, Signet Bank for estimates

In terms of profitability, the gross margin for the sale of goods has exhibited relative stability, normally fluctuating between 40% and 45%, but can exhibit lower levels in the event of sales campaigns to sell slow-moving inventory. Notably, the wholesale of precious metals typically yields a slim margin, which may fluctuate based on price levels. Over the past five years, the gross margin for precious metals has ranged from 1% to 4%. In 2024, we anticipate the total gross margin for the segment to slightly recover from 34.0% in 2023 to 35.1%. The decrease in gross margin was the effect of a one-off sales campaign for slow-moving inventory at the end of 2023. In the long term, we anticipate a gradual decline in the margin for the sale of goods, driven by strategies aimed at increasing sales through offering attractive deals. Looking ahead, we forecast the combined gross margin to gradually decline from 35.1% at the end of 2024 to 33.1% by the end of our forecast period.

Debt funding

The Group has been successfully attracting funds from bond markets since 2013. Currently, the Group has four outstanding bonds in the amount of EUR 41.5m, with two bonds totaling EUR 25m listed on the Baltic Nasdaq First North list, subordinated bond (EUR 4.8m) and unsecured bond (EUR 11.7m). In general, over time, DGR has increased investor confidence and decreased the coupon rates considerably since the first issue in 2013. At that time, the coupon rate amounted to 14%, with the following bond coupons retaining a similar level until 2019, then gradually lowering to 8% in 2021. However, one should note that in current market circumstances, investors require higher returns; accordingly, DGR new bond issues hold higher rates. Looking forward, higher interest rates, compared to pre-war levels, are likely to be present beyond 2024. We estimate the Group to hold bond financing levels relatively steady throughout our forecast period, with the average effective interest rate gradually coming down from 11.7% in 2023 to 10.9% at the end of our forecast period.

Alongside bond financing, since 2016, DGR has actively financed its loan portfolio through a global lending platform, Mintos, employing a P2P model. Since joining the platform, DelfinGroup has expanded its financing rapidly, reaching EUR 29.4m at the end of 2023, accounting for 51.7% of total debt. The rates on the platforms are largely decided by demand and supply forces, therefore can fluctuate accordingly. Furthermore, Mintos is able to set the interest rate floor if it observes decreased investor activity. Similarly, as for other debt instruments, at current market conditions, investors require higher returns on Mintos notes backed by loans. DelfinGroup's weighted average annual interest rate as of the end of 2023 stood at 10.7%, sharply declining from 12.2% at the end of Q3 2023; however, still noticeably above 2021 when the weighted average interest rate stood at 8.3%. We have observed that loan rates for newly issued loans on the Mintos platform have come down recently. According to Mintos, DGR holds an average interest rate of 9.2% for available loans; consequently, we would expect the effective average interest rate to decline gradually. Given the sharp decline in rates, we expect our calculated average effective interest rate to decline from 14.7% in 2023 to 9.8% in 2024, gradually declining to 9.1% at the end of our forecast period.

List of bond issues of the Group	Total amount EUR m	Issued	Maturity	Coupon %	Secured	Listing
Bond issue 1	5.0	2013	Nov 2018	14.0	Secured	Nasdaq Main List
Bond issue 2	3.5	2014	Dec 2020	15.0	Unsecured	Nasdaq Main List
Bond issue 3	5.0	2016	Oct 2021	14.0	Unsecured	Nasdaq First North
Bond issue 4	5.0	2019	Nov 2022	14.0	Secured	Nasdaq First North
Bond issue 5	3.5	2020	Nov 2022	12.0	Unsecured	No
Bond issue 6	5.0	2021	Aug 2023	9.75	Unsecured	No
Bond issue 7	10.0	2021	Nov 2023	8.00	Unsecured	Nasdaq First North
Bond issue 8	10.0	2022	Sep 2024	8.75 + 3M EURIBOR	Unsecured	Nasdaq First North
Bond issue 9	5.0	2023	Jul 2028	11.5% + 3M EURIBOR	Subordinated	No
Bond issue 10	15.0	2023	Feb 2026	9.0% + 3M EURIBOR	Unsecured	Nasdaq First North
Bond issue 11	15.0	2023	Jul 2026	9.0% + 3M EURIBOR	Unsecured	No

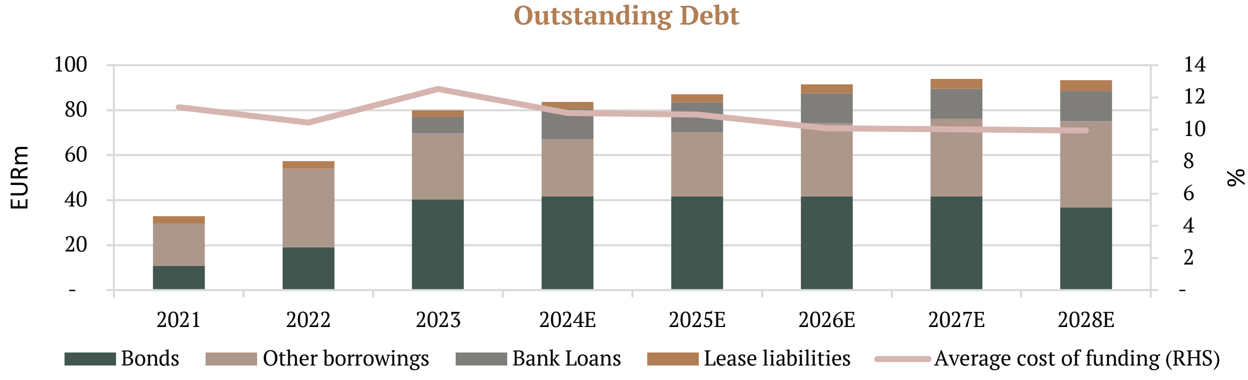
Source: DelfinGroup

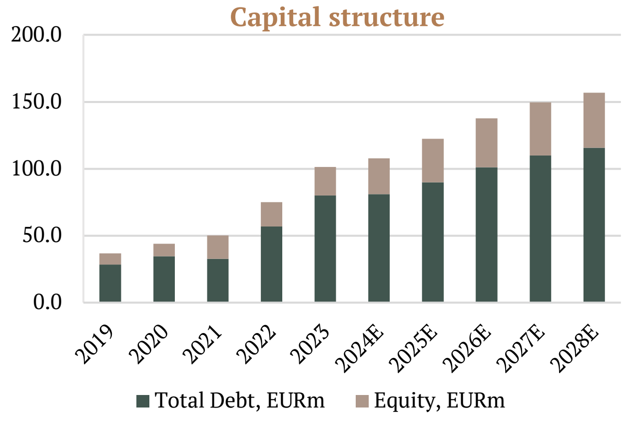
At the end of 2023, the Group expanded its diversification of funding, adding loans from credit institutions to its capital structure, aiming to mitigate financing risks, increase flexibility, and optimize the cost of debt. Currently, the Group has signed a credit line agreement with Multitude Bank p.l.c. for EUR 11m with a term of 2 years. Guiding from the Group's indications, the bank loans are backed by part of its loan portfolio and hold a floating rate. Although the interest rate on bank loans is not disclosed, according to the latest quarterly data, we estimate the interest rate for the bank loan to be ca. 8% +3M EURIBOR.

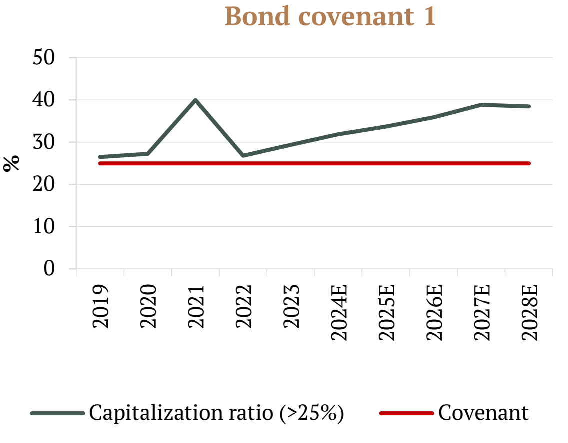
All in all, we expect the average effective cost of funding to decline from 12.5% in 2023 to 11.0% in 2024, mainly driven by the ability to raise cheaper financing on the Mintos platform and stabilization of Euribor rates, continuing to gradually decline to 9.9% at the end of 2028. One should note that last year, due to bond covenant restrains the Group was limited to employ debt financing for its loan portfolio growth. As a solution, DGR issued EUR 5m subordinated bond which according to covenant rules is accounted as equity. Furthermore, after the 8.75% + 3M Euribor bond that matures in Sep 2024, DGR capitalization ratio covenant should decline from 25% to 20%, giving more room to finance growth with debt financing. We anticipate that the Group will continue to reinvest 50% of its net profits to finance portfolio growth and total debt to increase by EUR 4m reach EUR 84m at the end of 2024, thereafter increasing to EUR 87.3m in 2025 and EUR 93.7m at the end of our forecast period. Accordingly, we anticipate the Group to keep safely its leverage and interest coverage ratios floating above the covenant thresholds, opening the possibility for higher dividend payouts.

Operating costs

Administrative and selling costs predominantly consist of staff-related expenses, constituting 56.4% of total OpEx at the end of 2023. The Group employs more than 300 people, with a significant portion directly engaged in the operations of the branch network. The second-largest item is depreciation related to right-of-use asset rental expenses. Other considerable expense positions include advertising, bank commissions, office, and IT expenses. Despite relatively stable headcount and branch numbers, operating expenses have seen quite a noticeable increase, driven by inflationary pressures. In 2022 and 2023, operating expenses increased by 27.8% and 24.5% y-o-y, respectively. Looking ahead, we anticipate operating expenses to record a 5Y CAGR of 5.4%, with a 11.9% y-o-y increase expected in 2024, gradually slowing down thereafter. We expect operating costs to be driven by general salary inflation, DGR's ambitions to increase market share, reflecting marketing expense and other promotions, and the launch of operations in Lithuania.

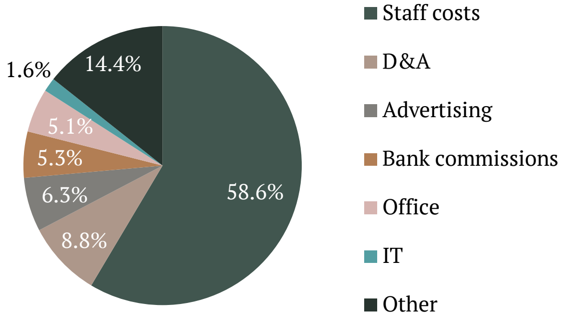




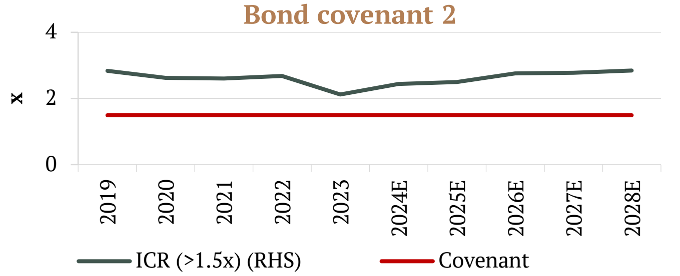


Source: DelfinGroup, Signet Bank for estimates

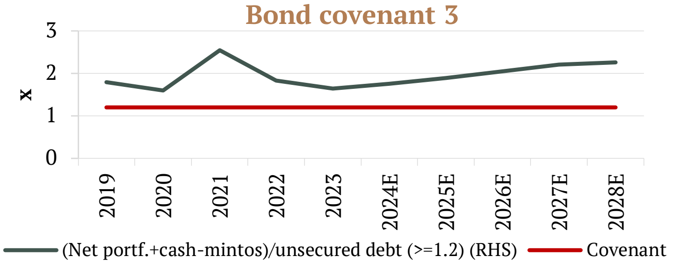
DelfinGroup operating cost structure 2023



Bond covenant 2



Bond covenant 3



Profitability

The Group has effectively increased its income streams ahead of costs, demonstrating consistent improvements in the cost-to-income ratio, which stood at 47.0% at the end of 2023. This represents a decrease of more than 12 pp compared to 2021. While slightly lagging behind management's target of under 45%, this result has been largely constrained by inflationary pressures. Overall, we anticipate the Group will continue to successfully expand its revenues ahead of costs, assuming that the anticipated growth goes smoothly, supported by the stabilization of inflation and somewhat reduced pressure on the cost of debt. All in all, we expect the cost-to-income ratio to come down to 44.0% at the end of 2024 and gradually continue to decline to 40.4% by the end of our forecast period.

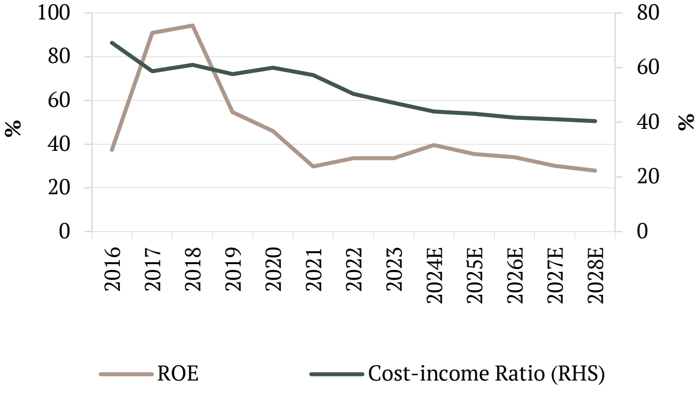
In recent years, DGR has maintained a respectable return on equity (ROE) hovering above 30%, depending on fluctuations in leverage and dividend generosity. We broadly expect the Group to normalize its long-term ROE at 30%.

Dividends

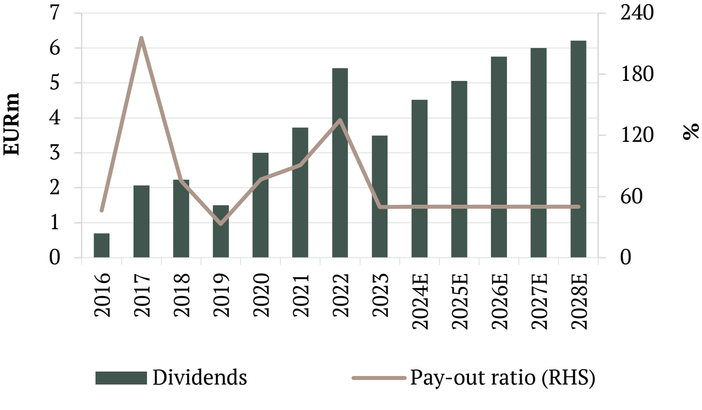
The Group's dividend policy outlines dividend payments of up to 50% of its quarterly consolidated net profits, typically distributed by the end of the following quarter. Additionally, the Group intends to pay additional annual dividends each year, targeting a minimum payout ratio of 50% from the consolidated profits, in conjunction with preceding quarterly payments. The annual dividends are decided taking into account the financial conditions of the Group and ensuring the optimal capital structure to maintain sustainable operations. Historically, the Group has delivered robust payouts to shareholders, with significant dividends distributed following the IPO, resulting in a payout ratio surge to 128.4% from 2021 net profit. In 2023, the Group has maintained a stable 49.9% payout ratio, constrained by the covenants associated with the issued bonds. Consequently, the Group retains a larger proportion of net profits to support its capital structure.

In our view the Group will be able maintain 50% payout ratio throughout our forecast period. Furthermore, we would like to highlight that our capital structure estimates show quite solid room for the Group to distribute additional yearly dividends, thus shareholders could potentially expect higher payout ratios in the future.

Cost-Income Ratio and ROE



Dividends and Pay-out ratio



Source: DelfinGroup, Signet Bank for estimates

Valuation

Valuation summary

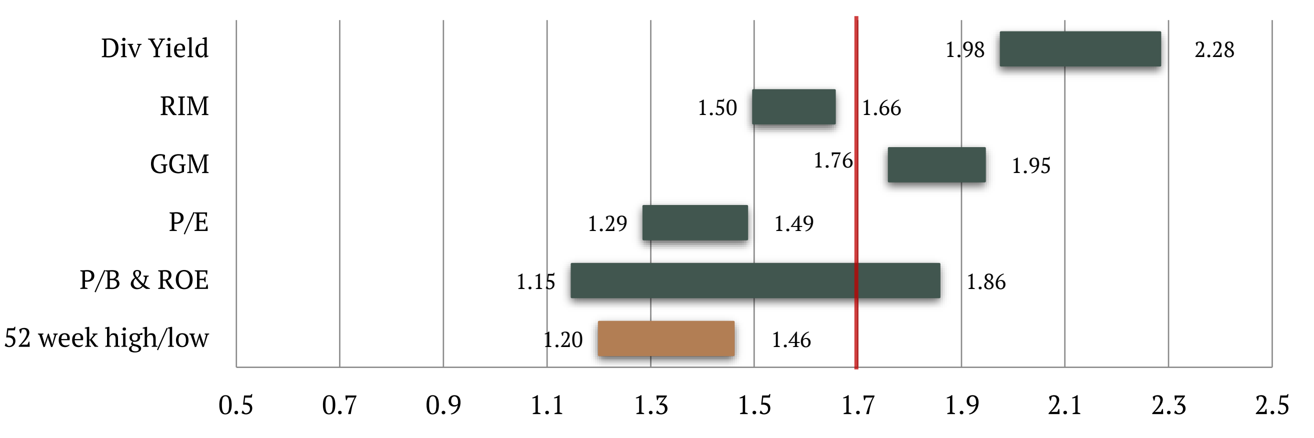
We have approached the valuation of DGR using income and market approach. Considering the Group's promising growth prospects and the scarcity of comparable listed peers, we believe that the income approach better suits DGR's valuation. Hence, we allocated 70% to the income-based valuation using the Residual Income Model (RIM) and the modified Gordon Growth Model (GGM), which essentially derives the fair P/B ratio-based valuation for the Group. The remaining 30% is attributed to peer valuation. In terms of the peer group, in addition to P/E and Dividend Yield comparison, we pay attention to a correlation between ROE and P/B values for the selected peers, which is quite a common approach for the financial sector companies. Overall, based on our current estimates for the Group and other assumptions, we set our target price for at EUR 1.70 per share.

In light of the Group's historical growth trajectory, DGR has consistently provided substantial dividend payments to its shareholders. Rapid growth in the past two years have limited the current payout ratio to 50% in order to strengthen its capital structure. Looking ahead, we anticipate the Group to be able to maintain the payout ratio of 50% throughout our forecast period, allowing for the possibility of higher levels, given our expectations that the Group will comply with its covenants with noticeable margin. Estimating against the current share price of EUR 1.26 (April 9, 2024), we anticipate the Group to generate decent dividend yield in 2024E, reaching 7.9%, afterwards increasing to 8.9% in 2025E and 10.1% in 2026E.

In summary, we view profitable growth and appealing dividend yields as the cornerstone of the investment case for DGR. We look positively on the Group's development of new products, consistent improvements of online channels both for consumer loans and secondary goods store, and synergy across DGR's business segments. Notably, the Group holds distinction by having the largest branch network in the country in the financial sector. The Group has maintained an attractive track record of profitability and dividend capacity, despite allocating significant funds towards expanding its credit portfolio while ensuring adequate credit quality. The key risk factors to our valuation include economic recession resulting in slower than projected growth in consumer lending volumes and deterioration of the credit quality. Furthermore, key risks include downward pressure on loan rates due to rising competition.

Weighted Value Per Share, EUR	Period weights			Period weighted value	Weights	Contribution to value
	2024E	2025E	2026E			
Method	33%	33%	33%			
RIM				1.58	35%	0.55
GGM				1.85	35%	0.65
Dividend Yield	2.23	1.98	2.28	2.16	10%	0.22
P/B & ROE	1.86	1.39	1.15	1.46	10%	0.15
P/E	1.47	1.29	1.49	1.41	10%	0.14
Total weighted value per share						**1.70**

Source: Signet Bank



Source: Signet Bank

Residual income model

We have approached this valuation method by looking at the extra return on equity generated by the Group. We are calculating the residual income by subtracting the Cost of Equity from our estimated ROE to conclude residual income yield. The discounted values are added to the residual income to the opening book value at end of 2023. We chose two-step model, including five-year forecast followed by terminal value calculations.

Our RIM model assumes 14.5% Cost of Equity. Considering the relatively small size of the Group, low liquidity of its shares, and relatively high-risk operating model, we applied company-specific risk premium of 4.0% besides other cost of capital assumptions.

Based on our calculations we have derived our equity value at EUR 1.58 per share.

Cost of Equity Assumptions:	
Risk free rate	2.5%
Market risk premium	5.1%
Levered Beta	1.2
Country Risk Premium	1.8%
Add. comp. risk premium	4.0%
Cost of Equity	**14.5%**
Terminal sales growth	2.0%

Source: Signet Bank

Residual Income Model (EURm)	2024E	2025E	2026E	2027E	2028E	Term
ROE (%)	39.6	35.4	34.0	30.0	27.8	30.0
Cost of Equity (%)	14.5	14.5	14.5	14.5	14.5	14.5
Residual Income Yield (%)	25.1	20.9	19.5	15.5	13.3	15.5
Total Equity (eop)	26.2	31.4	37.3	43.4	50.2	50.2
Residual Income (RI=Equity*RI %)	6.0	6.0	6.7	6.3	6.2	50.9
Discounted Residual Income	5.6	4.9	4.8	3.9	3.4	27.7
Sum of PV of RI						50.2
Opening Equity						21.3
Equity Value						**71.6**
Equity Value per share (EUR)						**1.58**

Source: Signet Bank

Gordon Growth Model

The GGM based P/B model is commonly utilized to value stocks in the banking sector. Given the operational similarities between DGR and banking entities, we deemed this method suitable for evaluating the Group's value. The appropriate P/B ratio is derived using the formula: P/B = (ROE - g) / (COE - g).

We opted for a two-step model with a five-year forecast period, followed by a terminal value calculation. The assumed long-term normalized Return on Equity (ROE) stands at 30%, with other inputs such as the Cost of Equity (COE) and long-term growth rate sourced from RIM assumptions.

We anticipate the Group to maintain a solid dividend payout of at least 50% from net profits, with gradual upside from 2026 onwards, eventually reaching 80% in 2028. Based on modified GGM model, the price per share amounts to EUR 1.85.

Fair P/B Model (Gordon Growth Approach, EURm)		2024E	2025E	2026E	2027E	2028E	Term
Long-term normalised ROE (%)	30.0						
Cost of Equity (%)	14.5						
Long-term growth rate (%)	2.0						
Fair P/B=(ROE-g)/COE-g)	**2.24**						
Total Equity (end of period)		26.2	31.4	37.3	43.4	50.2	50.2
Fair terminal P/BV							
Terminal Value (based on fair P/BV)							
Dividends Distributed		4.5	5.1	5.7	6.0	6.2	6.2
PV of dividends + TV		**4.2**	**4.1**	**4.1**	**3.7**	**3.4**	**64.5**
Equity Value	84.1						
Equity Value per share (EUR)	1.85						

Source: Signet Bank

Sensitivity of GGM target value to changes in assumptions (EUR)

		ROE						
		28.5%	29.0%	29.5%	30.0%	30.5%	31.0%	31.5%
Terminal growth rate	**1.1%**	1.73	1.76	1.78	1.80	1.82	1.85	1.87
	1.4%	1.75	1.77	1.80	1.82	1.84	1.86	1.89
	1.7%	1.76	1.79	1.81	1.83	1.86	1.88	1.91
	2.0%	1.78	1.80	1.83	1.85	1.88	1.90	1.92
	2.3%	1.80	1.82	1.85	1.87	1.90	1.92	1.94
	2.6%	1.81	1.84	1.86	1.89	1.92	1.94	1.97
	2.9%	1.83	1.86	1.88	1.91	1.94	1.96	1.99

Source: Signet Bank

Peer valuation

In our peer analysis, we have compiled a list of companies involved in consumer lending and pawnshop operations. Some peers operate online platforms offering lending products globally. To ensure a broader comparison, we have included a few companies from the US. Median values have been applied to our comparative analysis, adjusted with a 10% liquidity and size discount.

We have assessed peer valuation by examining P/E and Dividend yield ratios, as well as the correlation between Return on Equity (ROE) and Price-to-Book (P/B) ratios.

The latter measure helps determine a reasonable market-driven fair P/B ratio for the company under consideration. Our peer group data indicates a relatively weak correlation between estimated ROE and P/B values for each year, with R^2 correlation coefficients ranging from 0.33 to 0.66 for the 2025-2026 period. Anticipating the growth to decelerate in the upcoming years, we have weighted our periods equally, attaching each year 33.3%.

Peer comparison table

Company	Country	Market Cap	P/E (x)			Dividend Yield (%)			P/B (x)			ROE (%)		
		EURm	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
INTERNATIONAL PERSONAL FINAN	Britain	284	5.7	4.5	3.7	10.0	11.0	12.0				8.5	10.5	12.3
H&T GROUP PLC	Britain	188	6.5	6.0	5.5	5.0	5.4	5.7				13.3	13.3	12.7
RESURS HOLDING AB	Sweden	279	7.0	5.0	4.8	7.5	11.4	12.2	0.4	0.4	0.4	6.5	9.1	9.1
RAMSDENS HOLDINGS PLC	Britain	70	7.9	7.6		5.8	6.0							
GRUPPO MUTUIONLINE SPA	Italy	1 528	24.1	20.5	12.2	0.7	0.7	1.0	3.9	3.5	2.1	17.6	17.5	17.0
HARMONEY CORP LTD	New zealand	27.9		20.5	8.3	0.0	0.0	0.0	0.5	0.5	0.5	-0.2	3.2	6.1
LATITUDE GROUP HOLDINGS LTD	Australia	739	17.0	9.7	7.9	3.2	7.0	8.5	0.9	0.9	0.9	5.7	9.5	11.5
OPORTUN FINANCIAL CORP	United states	70	15.6	7.5					0.2	0.2		-1.0	2.3	
ASA INTERNATIONAL GROUP PLC	Netherlands	56	3.8	2.6	1.6	8.0	11.6	18.0				27.8	35.9	45.3
CREDIT CORP GROUP LTD	Australia	727	19.0	11.7	10.5	2.7	4.1	4.4	1.5	1.4	1.3	7.3	11.6	12.8
REGIONAL MANAGEMENT CORP	United states	222	6.2	3.8		4.9	4.9		0.7	0.6		11.2	16.1	
ENOVA INTERNATIONAL INC	United states	1 594	7.8	6.4					1.5	1.0		18.6	20.0	
GOEASY LTD	Canada	1 838	9.5	8.0	7.3	2.9	3.3	4.0	2.1	1.8	1.5	24.3	24.0	22.7
CASH CONVERTERS INTL LTD	Australia	82	7.2	5.8	4.3	9.3	9.3	10.2	0.6	0.6		9.0	10.8	14.0
TF BANK AB	Sweden	314	7.7	5.8	4.9	0.7	1.7	3.3	1.5	1.2	1.0	22.2	23.2	22.1
FIRSTCASH HOLDINGS INC	United states	5 195	18.0	15.4		1.1	1.1	1.1	2.7	2.5		14.1	14.9	14.1
EZCORP INC-CL A	United states	542	10.1	9.5	8.0									
Median (Excluding outliers)			**7.9**	**6.4**	**6.4**	**4.1**	**5.1**	**5.0**	**0.9**	**0.9**	**1.0**	**11.2**	**12.5**	**12.8**
Average (Excluding outliers)			10.8	7.3	6.6	4.4	5.5	6.7	1.2	1.0	1.1	12.3	13.3	14.0
Quartile 1			6.9	5.8	4.7	1.5	2.1	2.7	0.6	0.6	0.7	6.9	10.0	12.1
Quartile 3			15.9	9.7	8.1	7.0	8.7	10.7	1.7	1.5	1.4	18.1	18.7	18.3
Company size discount applied		10%												
Respective financial result of Delfin (EURm)			9.4	10.2	11.7	4.5	5.1	5.7	26.2	31.4	37.3			
Estimated ROE for Delfin (%)												39.6	35.4	34.0
P/B and ROE correlation Implied P/B (x)												3.2	2.0	1.4
Implied equity value based on Median (EURm)			**66.8**	**58.3**	**67.5**	**101.2**	**89.7**	**103.6**				**84.3**	**63.0**	**52.1**
Implied value per share (EUR)			**1.47**	**1.29**	**1.49**	**2.23**	**1.98**	**2.28**				**1.86**	**1.39**	**1.15**

Source: Bloomberg, Signet Bank

Balance Sheet (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Assets								
Intangible assets	0.6	0.9	1.9	2.3	2.7	3.1	3.5	3.9
Property, plant and equipment	3.5	3.2	3.7	3.7	3.8	3.9	4.1	4.3
Non-current financial assets	28.6	46.2	66.7	73.4	80.8	88.2	93.3	97.7
Total non-current assets	**32.7**	**50.3**	**72.3**	**79.3**	**87.2**	**95.2**	**100.9**	**105.9**
Inventories	1.3	2.3	3.4	3.0	3.3	3.6	3.8	4.0
Loans & receivables	15.2	21.4	22.3	24.6	27.1	29.6	31.3	32.7
Other	0.5	0.9	1.1	2.0	2.1	2.2	2.2	2.3
Cash and cash equivalents	2.5	2.4	5.9	5.7	3.9	3.7	4.8	4.5
Total current assets	**19.4**	**26.9**	**32.8**	**35.2**	**36.3**	**39.1**	**42.1**	**43.5**
Total assets	**52.2**	**77.2**	**105.1**	**114.6**	**123.5**	**134.3**	**143.0**	**149.4**

Equity and liabilities								
Equity								
Share capital	11.4	11.5	11.6	11.6	11.6	11.6	11.6	11.6
Retained earnings	6.1	6.6	9.7	14.6	19.8	25.7	31.8	38.6
Total equity	**17.5**	**18.1**	**21.3**	**26.2**	**31.4**	**37.3**	**43.4**	**50.2**

Liabilities								
Borrowings	18.0	19.3	48.2	68.0	42.8	66.5	63.5	65.5
Finance lease liabilities	2.7	2.4	2.3	2.5	2.7	2.9	3.1	3.3
Total non-current liabilities	**20.6**	**21.7**	**50.5**	**70.5**	**45.5**	**69.4**	**66.6**	**68.8**
Borrowings	11.4	34.6	28.8	12.5	40.7	21.0	26.0	23.0
Finance lease liabilities	0.7	0.6	0.8	1.0	1.2	1.4	1.6	1.8
Trade payables	0.8	0.9	1.0	0.9	1.0	1.1	1.2	1.2
Taxes and social insurance	0.4	0.6	1.4	1.0	2.3	2.6	2.7	2.9
Accrued liabilities	0.8	0.7	1.2	1.3	1.3	1.4	1.4	1.5
Total current liabilities	**14.1**	**37.4**	**33.2**	**17.9**	**46.6**	**27.6**	**33.0**	**30.4**
Total liabilities	**34.7**	**59.1**	**83.7**	**88.3**	**92.1**	**97.0**	**99.6**	**99.2**
Total Equity and Liabilities	**52.2**	**77.2**	**105.1**	**114.6**	**123.5**	**134.3**	**143.0**	**149.4**

Source: DelfinGroup for historicals, Signet Bank for estimates

Income Statement (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Net turnover	4.8	6.5	9.2	10.7	11.8	12.9	13.5	14.1
Cost of sales	(3.2)	(4.2)	(6.1)	(7.0)	(7.7)	(8.5)	(8.9)	(9.4)
Interest and similar income	20.4	29.3	41.2	48.1	51.5	55.1	57.2	58.7
Interest and similar expenses	(3.8)	(4.7)	(8.6)	(9.1)	(9.4)	(9.0)	(9.3)	(9.3)
Credit loss expenses	(2.8)	(6.2)	(10.7)	(12.3)	(13.6)	(14.9)	(15.8)	(16.6)
Gross profit	15.4	20.7	25.1	30.5	32.6	35.5	36.6	37.5
Selling expense	(6.1)	(7.5)	(8.7)	(10.1)	(10.9)	(11.5)	(11.8)	(11.9)
Administrative expense	(4.2)	(5.8)	(7.7)	(8.2)	(8.5)	(9.0)	(9.2)	(9.3)
Other operating income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other operating expense	(0.1)	(0.3)	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.7)
Operating profit	5.0	7.3	8.3	11.7	12.7	14.5	15.1	15.7
Profit before tax	5.0	7.3	8.3	11.7	12.7	14.5	15.1	15.7
Corporate income tax (incl. deferred)	(1.0)	(1.3)	(1.7)	(2.3)	(2.5)	(2.9)	(3.0)	(2.7)
Net profit for the period	4.0	6.0	6.6	9.4	10.2	11.7	12.1	13.0
D&A	(1.1)	(0.6)	(1.3)	(1.3)	(1.4)	(1.4)	(1.5)	(1.5)
EBITDA	10.0	12.5	18.2	22.1	23.4	25.0	25.9	26.5

Cash Flow Statement Summary (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Profit before tax	5.0	7.3	8.3	11.7	12.7	14.5	15.1	15.7
Adjustments for:								
- Amortisation and depreciation	1.1	1.2	1.3	1.3	1.4	1.4	1.5	1.5
- Change in loans and receivables	(11.3)	(29.9)	(34.7)	(9.0)	(9.9)	(10.0)	(6.8)	(5.9)
- Change in inventories	0.3	(1.0)	(1.1)	0.4	(0.3)	(0.3)	(0.2)	(0.2)
- Change in payables and accrued liabilties	(0.1)	0.0	1.2	(0.4)	0.2	0.3	0.1	0.2
- Other adjustments	2.4	5.5	11.4	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Cash generated from operations, gross	(2.6)	(17.0)	(13.6)	4.1	4.1	5.9	9.7	11.2
Corporate income tax paid	(0.8)	(1.0)	(1.3)	(2.0)	(2.4)	(2.7)	(2.9)	(2.6)
Net cash flows from operating activities	(3.3)	(18.0)	(14.9)	2.1	1.7	3.2	6.7	8.6
Purchase of intangible assets and PPE, net	(0.5)	(0.7)	(1.2)	(1.3)	(1.4)	(1.6)	(1.6)	(1.7)
Other Investments, net	0.5	-	-	-	-	-	-	-
Net cash flows from investing activities	(0.1)	(0.7)	(1.2)	(1.3)	(1.4)	(1.6)	(1.6)	(1.7)
Dividends paid	(3.7)	(5.4)	(3.5)	(4.5)	(5.1)	(5.7)	(6.0)	(6.2)
Changes in Equity	7.4	-	-	-	-	-	-	-
Loans repaid & received, net	0.8	16.8	2.2	2.0	3.0	4.0	2.0	4.0
Bonds repaid & received, net	(2.4)	8.2	22.0	1.4	-	0.0	-	(5.0)
Finance lease liabilities, net	(0.9)	(0.9)	(1.0)	-	-	-	-	-
Net cash flows from financing activities	1.2	18.6	19.7	(1.0)	(2.1)	(1.7)	(4.0)	(7.2)
Change in cash and cash equivalents for the year	(2.1)	(0.1)	3.6	(0.2)	(1.8)	(0.1)	1.1	(0.3)
Cash and cash equivalents at the beginning of the year	4.6	2.5	2.4	5.9	5.7	3.9	3.7	4.8
Cash and cash equivalents at the end of the year	2.5	2.4	5.9	5.7	3.9	3.7	4.8	4.5

Source: DelfinGroup for historicals, Signet Bank for estimates

Report tables

Main Ratios	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth, %								
Revenues (%)	6.4	42.0	40.9	16.6	7.6	7.3	4.0	3.0
Gross Profit (%)	7.6	34.8	20.9	21.5	7.1	9.0	3.0	2.4
EBITDA (%)	4.3	25.8	45.2	21.3	6.2	6.4	3.7	2.6
Pre-tax Profit (%)	2.9	45.2	14.2	40.8	9.0	14.2	3.9	3.8
Net Profit (%)	(2.0)	48.4	11.2	42.1	8.3	14.3	3.8	7.6
Margins and profitability, %								
Gross margin	61.1	58.0	49.7	51.8	51.5	52.3	51.8	51.5
EBITDA margin	39.6	35.0	36.1	37.5	37.1	36.7	36.6	36.5
Operating margin	19.8	20.3	16.4	19.9	20.1	21.4	21.4	21.5
Net margin	16.0	16.7	13.1	16.0	16.1	17.2	17.1	17.9
Return ratios								
Capital Employed (EUR m)	50.2	75.0	101.5	110.3	118.8	129.1	137.6	143.8
ROCE (%)	10.6	11.6	9.4	11.0	11.1	11.7	11.3	11.1
ROE (%)	29.8	33.5	33.6	39.6	35.4	34.0	30.0	27.8
ROA (%)	8.2	9.2	7.3	8.6	8.6	9.0	8.7	8.9
Leverage								
Net Debt, EURm	30.3	54.5	74.2	78.3	83.6	88.1	89.4	89.2
Net gearing, x	1.7	3.0	3.5	3.0	2.7	2.4	2.1	1.8
Debt/Equity ratio, x	1.9	3.1	3.8	3.2	2.8	2.5	2.2	1.9
Net debt/EBITDA, x	3.0	4.4	4.1	3.5	3.6	3.5	3.5	3.4
Other, %								
Average yield on earning assets	49.6	51.0	50.8	49.5	48.2	47.0	45.5	44.3
Cost of interest-bearing liabilities	11.4	10.4	12.5	11.0	10.9	10.1	10.0	9.9
Net credit losses to gross loans	6.9	6.0	12.8	12.7	12.7	12.7	12.6	12.5
Cost-income ratio	57.3	50.3	47.0	44.0	43.1	41.8	41.1	40.4
Dividend payout ratio	90.8	135.0	49.9	50.0	50.0	50.0	50.0	50.0
Bond covenants								
Captalization ratio (%)	39.9	26.8	29.3	31.9	33.7	35.9	38.8	38.5
ICR (x)	2.6	2.7	2.1	2.4	2.5	2.8	2.8	2.8
(Net portf.+cash-mintos)/unsecured debt (x)	2.6	1.8	1.6	1.8	1.9	2.1	2.2	2.3
Valuation								
Dividend yield (%)	5.9	8.1	5.9	7.9	8.9	10.1	10.5	10.9
EV/Revenue (x)	3.7	3.4	2.6	2.2	2.1	1.9	1.9	1.8
EV/EBITDA (x)	9.4	9.7	7.3	5.9	5.6	5.3	5.1	4.9
P/E (x)	15.8	11.3	8.9	6.1	5.6	4.9	4.7	4.4
P/BV (x)	3.6	3.7	2.8	2.2	1.8	1.5	1.3	1.1

Source: DelfinGroup, Signet Bank for estimates. Valuation multiples 2023-2028E are calculated based on the share price EUR 1.26 at April 9, 2024.

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Sign-off time: April 9, 2024, 18:00

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