Results Review: Q1 2024

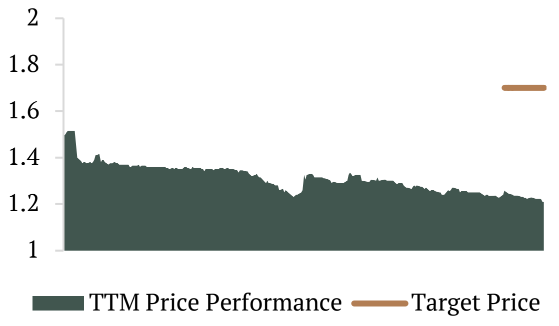
Credit loss expense continues to limit profitability

AS DelfinGroup (hereafter referred to as "DGR" or the "Group") reported its Q1 results, demonstrating stable performance with a 7.3% q-o-q growth (+30.1% y-o-y) in net loan portfolio, slightly exceeding our expectations. However, the bottom line has been under pressure due to increasing credit loss expenses and changes in Latvian tax policy. Nonetheless, the Group has managed to grow its revenues ahead of costs, maintaining a declining trend in the cost-to-income ratio. In Q1 NPL ratio increased to 2.0% (+0.6 pp y-o-y, +0.4 pp q-o-q), nonetheless, we note that the NPL may fluctuate on the timing of a regular cessions of loans. So far we consider the quality of loan portfolio as healthy.

Broadly in line with our forecast, net interest income in Q1 reached EUR 9.4m (+25.9% y-o-y, +8.6% q-o-q), but the credit loss expense was higher than anticipated, reaching EUR 3.4m (+38.7% y-o-y, +31.2% q-o-q). Understandably, credit loss expense grows along with portfolio growth, and potentially, the current macro environment and quality of newly issued loans require the provision of higher losses immediately. Furthermore, the higher portion of NPL requires higher provision of credit loss. The sale of pre-owned goods amounted to EUR 2.3m (+10.9% y-o-y, -17.8% q-o-q), while the gross margin for the segment remained stable at 35.4% (+0.8 pp y-o-y, +5.2 pp q-o-q). To better reflect the pre-owned sales activity, the Group also reports the sales numbers, including pawn collateral sales, which amounted to EUR 3.6m (+9% y-o-y, -10% q-o-q), while gross margin remained stable at 41% (+0 pp y-o-y, +2 pp q-o-q). Q1 normally should be less active compared to Q4 due to the Christmas holidays; nonetheless, we highlight that the sales growth has decelerated. Gross profit in Q1 amounted to EUR 6.8m (+18.8% y-o-y, -1.5% q-o-q)

Operating expenses increased to EUR 4.7m (+22.1% y-o-y, +3.8% q-o-q), partly driven by entry into the Lithuanian market, reflecting additional salary and marketing costs. However, the Group managed to grow its revenue streams ahead of costs, with the annualized cost-to-income ratio declining to 46.8% (-2.5 pp y-o-y, -0.2 pp q-o-q). EBITDA in Q1 reached EUR 5.0m (+28.2% y-o-y, -2.7% q-o-q), while operating profit amounted to EUR 2.0m (+11.7% y-o-y, -12.1% q-o-q).

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



Share Data (May 9, 2024)	
Current price, EUR	1.208
Target price, EUR	1.70
Potential Upside/Downside, %	41.10
52 week Low/High, EUR	1.187/1.438
3 month av. daily volume	13335
Market cap, EURm	54.8
Ordinary shares	45.4

Analyst
Valters Smiltans
Valters.Smiltans@Signetbank.com
+371 66956529

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	8.2	9.2	10.5	10.9	11.3
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	5.8	5.5	5.2	5.0	4.9
P/E (x)	15.8	11.3	8.9	5.8	5.4	4.7	4.5	4.2
P/Book (x)	3.6	3.7	2.8	2.1	1.7	1.5	1.3	1.1

Source: DelfinGroup, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 1.208 at May 9, 2024.

Net profit amounted to EUR 1.6m (+0.4% y-o-y, +24.7% q-o-q); however, one should note that the bottom line is negatively affected by the new CIT policy in Latvia, where the tax is calculated from full profit instead from the distributed dividends during last year. The Group adjusted Q4 2023 profits for the full-year additional tax, reflecting high net profit growth q-o-q.

All in all, we remain positive for the stock, considering a stable loan portfolio and net interest income growth, as well as OpEx under control. Importantly, we believe that the cost of interest-bearing liabilities has reached its peak, already witnessing decreased rates on the Mintos platform. Retail sales growth could be somewhat revived by the new Banknote XL stores in Daugavpils and Rezekne. Furthermore, the Lithuanian market could gradually start to contribute more to loan issuance and sale of pre-owned goods.

Amidst fast growth environment in 2023, the Group has distributed decent amount of dividends or EUR 0.08 per share, with pay out ratio of 49.9% and dividend yield reaching 5.9% measured against the price at the end of 2023 - EUR 1.305. In line with the previous practice, the management is proposing to distribute 49.89% from the Q1 2024 profits or EUR 0.0178 per share. We would like to highlight that the heightened credit loss expense and the new taxation policy holds negative effect on the quarterly dividend distribution by reducing the quarterly profits. Until May 16th the management will decide on the distribution of the annual dividends for 2023, however, although the Group holds some threshold above the debt covenant levels, considering the capitalization ratio standing at 27% at the end of Q1 (covenant >25%), we would view distribution to be less likely, due to capital needs for further loan portfolio growth in the next quarters. On the positive side, the bond maturing in Q3 2024 will lower the covenant level for capitalization ratio to >20%, allowing for higher dividend distribution or financing of the loan portfolio with less expensive debt.

Results Review, EURm	Q1/24A	Q1/23A	Q4/23A	% q-o-q	% y-o-y	Q1/24E	Dev. Abs	Dev. %	FY23A	FY/22	% y-o-y
Net loan portfolio	**95.6**	**73.5**	**89.0**	**7.3**	**30.1**	**90.0**	**5.6**	**6.2**	**89.0**	**67.4**	**32.0**
Net sales	2.3	2.3	2.8	(17.8)	10.9	2.6	(0.3)	(11.7)	9.2	6.5	42.4
Cost of Sales	(1.5)	(1.4)	(2.0)	(23.9)	9.7	(1.7)	0.2	(12.1)	(6.1)	(4.2)	44.8
Net interest income	9.4	7.0	8.6	8.6	25.9	9.1	0.2	2.7	32.6	24.6	32.5
Credit loss expenses	(3.4)	(2.1)	(2.6)	31.2	38.7	(3.0)	(0.5)	15.9	(10.7)	(6.2)	73.5
Gross profit	**6.8**	**5.7**	**6.9**	**(1.5)**	**18.8**	**7.1**	**(0.3)**	**(4.6)**	**25.1**	**20.7**	**20.9**
Operating expenses, net	(4.7)	(3.9)	(4.6)	3.8	22.1	(4.5)	(0.2)	4.6	(16.8)	(13.5)	24.5
EBITDA	5.0	3.9	5.1	(2.7)	28.2	5.3	(0.3)	(5.8)	18.2	12.5	45.2
Operating profit	**2.0**	**1.8**	**2.3**	**(12.1)**	**11.7**	**2.6**	**(0.5)**	**(20.8)**	**8.3**	**7.3**	**14.2**
Net profit	1.6	1.6	1.3	24.7	0.4	2.2	(0.6)	(28.0)	6.6	6.0	11.2

Source: DelfinGroup, Signet Bank

Investment Case

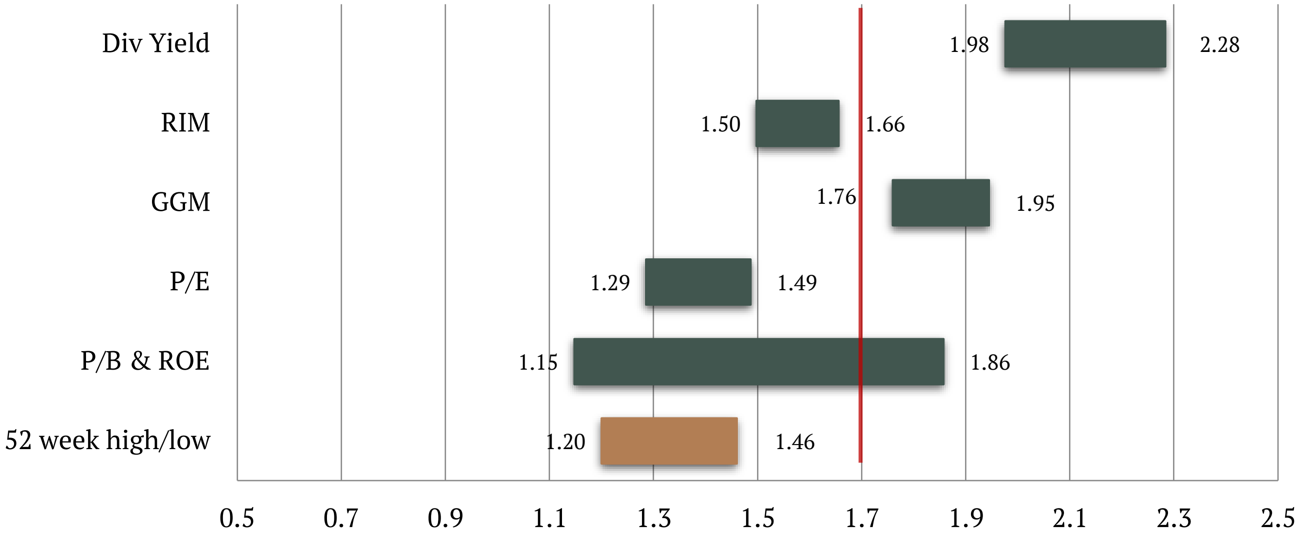
We view profitable growth and appealing dividend yields as the cornerstone of the investment case for DGR. We look positively on the Group's development of new products, consistent improvements of online channels both for consumer loans and secondary goods store, and synergy across DGR's business segments. 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.

Key Risks:

- Economic recession
    - Deterioration of portfolio quality
    - Lower lending volumes
- Stiff competition/product similarity

Key Drivers:

- Strong position in Baltic market
- Diversified sales channels
- Extensive branch network



Source: Signet Bank

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

Disclaimer

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

The report has been prepared by Signet Bank AS, hereinafter referred to as 'Signet Bank'. The copyright in this report belongs to Signet Bank. The responsible analyst for this report is Valters Smiltans. The report is prepared solely for the informational purposes, and is not construed as a personal investment advice or recommendation. Signet Bank does not recommend taking any actions based on this report. The stock analysis report is not an offer to sell or a solicitation to buy securities, and it should not be interpreted as such. The Bank and its employees shall not be liable for any losses or damages which may result from or be in connection with reliance upon the information provided.

The report may not be reproduced, redistributed or published in any form whatsoever (in whole or in part) without prior written permission of Signet Bank. The user shall be liable for any non-authorized reproduction or use of this report, whether in whole or in part, and such, reproduction may lead to legal proceedings. Signet Bank does not accept any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices.

Neither Signet Bank nor its board members nor its representatives nor its employees will accept liability for any injuries, losses or damages, direct or consequential, caused to the reader that may result from the reader's acting upon or using the content contained in the publication.

Readers of this report should be aware of that Signet Bank is constantly seeking to offer investment banking services to companies (hereinafter, 'Company' or 'Companies') mentioned in research reports or may have other financial interests in those Companies.

Historically, the Signet Bank has acted as the Arranger and Certified Adviser on Nasdaq Baltic First North in several DelfinGroup's bond issues and Signet Bank currently serves as the Calculation Agent for several DelfinGroup's floating coupon bonds. While Signet Bank currently has no active agreements with DelfinGroup regarding capital markets transactions, looking ahead, there is a possibility that Signet Bank may be engaged as the Arranger in new capital markets transactions of DelfinGroup. The Group was provided with a copy of this report, excluding the valuation section, prior to its publication in order to verify its factual accuracy and the report was subsequently changed.

All reports are produced by Signet Bank's Customer Relationship and Service department. In order to proactively prevent conflicts of interest, Signet Bank has established several procedural and physical measures. Such measures include, among other things, confidentiality measures through separation, or so-called "Chinese walls", virtual and physical barriers to limit the exchange of information between different departments, groups or individuals within Signet Bank. These measures are monitored by the Compliance department of Signet Bank. Signet Bank does everything possible to avoid the conflict of interests but it cannot guarantee that conflict of interests situations do not arise at all.

The responsible analyst(s) for the content of the report certifies that, notwithstanding any potential conflicts of interest mentioned here, the opinions expressed in this report accurately reflect the personal views of the respective analyst(s) concerning the companies and securities covered in the reports. The analyst(s) also certify that they have not received, are not receiving, and will not receive any direct or indirect compensation for expressing their views or making specific recommendations in this report.

This report is based upon information available to the general public. The information contained within has been compiled from sources deemed to be suitably reliable. However, no guarantee to that effect is given and henceforth neither the accuracy, completeness, nor the timeliness of this information should be relied upon. Any opinions expressed herein reflect a professional judgment of market conditions as at the date of publication of this document and are therefore subject to change without prior notice.

The analysis contained in this research report is based on numerous assumptions; different assumptions could result in materially different results. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of Signet Bank or any person within Signet Bank that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realized.

Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate due to currency exchange rate moves and taxation considerations specific to that investor.

The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision.

Signet Bank reviews its estimates at least once during financial reporting period and upon most major financial events.

The target price has been issued for a 12-18 month period and has been derived from a weighted approach combining both DCF valuation and relative multiple comparisons. The relative multiple comparisons further incorporate additional weighting considerations relating to the underlying metrics and time forecast periods. Company specific inputs have been forecast and a list of peer companies has been compiled by the Signet Bank analyst(s) writing this research commentary, whereas the consensus peer data has been obtained from Bloomberg. For more detailed information about the valuation methods please contact the analyst(s) using the contact details provided above. Although we do not issue explicit recommendations, for regulation compliance purposes we adhere to the following synthetic structure:

- Buy- Expected return of more than 10% within 12-18 months (including dividends)
- Neutral- Expected return from -10% to 10% within 12-18 months (including dividends)
- Sell- Expected loss more than 10% within 12-18 months (including dividends)

Signet Bank is launching equity research services and initiates its second company coverage. In the 12-month period preceding 09.05.2024 Signet Bank has issued 2 recommendation, of which 100% have been 'Buy recommendations', 0% as 'Neutral', 0% as 'Sell' and 0% as 'under review'. Of all the 'Buy recommendations' issued, 100% have been for companies for which Signet Bank has provided investment banking services in the preceding 12-month period. Of all the 'Neutral recommendations' issued, 0% have been issued to companies for which Signet Bank has provided investment banking services in the preceding 12-month period. The classification is based on the above structure

For a list of recommendations that were disseminated during the preceding 12-month period, including the date of dissemination, the identity of the person(s) who produced the recommendation, the price target and the relevant market price at the time of dissemination, the direction of the recommendation and the validity time period of the price target, please contact the analyst(s) using the contact details provided above.

Signet Bank believes this report is considered to be a minor non-monetary benefit as the product is free to everyone who wishes to receive it and is therefore not an inducement according to Ch.7 in ESMA's ''Questions and Answers on MIFIDII and MiFIR investor protection topics.

Signet Bank AS
Antonijas street 3
Riga, LV 1010, Latvia

Phone: +371 67080 000
Email: info@signetbank.com

www.signetbank.com