

Results Review: Q2 2024



Positive top line growth, high credit loss and OpEx likely to limit bottom line growth in short-term

AS DelfinGroup (hereafter referred to as “DGR” or the “Group”) Q2 results fell short of our estimates, with net profit impacted by elevated credit loss expense and increased OpEx. The uptick in OpEx is primarily driven by salary and advertising expenses linked to the expansion of Lithuania’s lending operations, the opening of new Banknote branches in Latvia, and overall wage inflation. Notably, DGR’s net portfolio expanded to EUR 101.5m (+30.0% y-o-y, +6.2% q-o-q), surpassing the EUR 90m target set for 2024. This growth is attributed to an increasing market share in Latvia’s consumer lending segment, alongside a rise in both the average loan amount and term. As of year-end 2023, DGR held a 15.9% market share (+1.4 pp y-o-y) in consumer lending, with the pawn loan market share remaining stable at 53%.

Although the Group has not disclosed the size of its Lithuania loan portfolio, we believe its current contribution is modest, with more potential upside as consumer lending operations roll out and the pawn shop network gradually expands. Loan portfolio quality remains good, though NPL increased slightly to 1.9% (+0.1 pp y-o-y, +0.5 pp q-o-q), which DGR attributes to a pending cession deal on non-performing loans expected in Q3. The cost of interest-bearing liabilities have improved by 0.6pp measured against the end of 2023, however remained steady at 11.6% q-o-q. Despite relatively low P2P debt costs, DGR continues to issue subordinated bonds which comes at higher price to support loan portfolio growth and maintain covenant compliance.

DGR’s total net revenues for Q2 reached EUR 11.0m (+24.8% y-o-y, +8.0% q-o-q), slightly exceeding our estimates, driven by marginally stronger net loan portfolio growth. It’s important to note that sales of pre-owned goods can experience significant variability depending on the mix of sold goods, particularly as pawn collateral sales are recorded under interest income. Credit loss expense remained elevated at EUR 3.5m (+28.2% y-o-y, +3.8% q-o-q); however, on the positive note the top line expansion outpaced credit loss growth on a q-o-q basis. Consequently, gross profit rose to EUR 7.5m (+23.3% y-o-y, +10.2% q-o-q).

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



Share Data (Aug 12, 2024)	
Current price, EUR	1.052
Target price, EUR	1.70
Potential Upside/Downside, %	62.02
52 week Low/High, EUR	1.04/1.51
3 month av. daily volume	26153
Market cap, EURm	47.7
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	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

Operating expenses (OpEx) for Q2 came in at EUR 5.1m (+25.9% y-o-y, +8.5% q-o-q). The significant contribution to OpEx growth primarily stems from increased salary and advertising costs, likely reflecting the ongoing branch network expansion in Latvia and Lithuania, with the new market likely to require additional promotional efforts. The annualized cost-to-income ratio saw a slight increase in Q2 to 46.9% (-1.1 pp y-o-y, +0.1 pp q-o-q), though the long-term trend remains favorable. Due to relatively higher y-o-y OpEx growth, operating profit growth was slower, reaching EUR 2.3m (+17.9% y-o-y, +14.0% q-o-q), but the q-o-q trend remains positive. Net profit for Q2 was EUR 1.8m (+4.1% y-o-y, +13.8% q-o-q), though it's worth noting that last year's profit figures did not include a CIT charge on full net profits, which was introduced by the Latvian government at the end of 2023.

Overall, we view the top-line growth positively, but in the short term, elevated credit loss expenses and OpEx are likely to constrain bottom-line growth. Despite the robust net loan portfolio growth, pre-tax income appears to be trailing behind the Group's EUR 12m target for 2024. On the other hand, potential ECB rate cuts later this year could

alleviate some pressure on the cost of debt, providing a positive boost to profitability.

Additionally, DGR's board will undergo significant changes as two out of four board members depart. Sanita Pudnika (COO) left the Group as of June 2024, and Aldis Umblejs (CFO) will be in a transition period for several months before departing. A new CFO is set to join in August, though further details have not been disclosed. Additionally, supervisory board member E. Voļskis resigned in May 2024. The Group has also introduced a new management role: Chief Revenue Officer, which has been filled by Edgars Kokins. Kokins will focus on enhancing DGR's sales of services and products.

In August, DGR announced plans to raise an additional EUR 15m through a public bond offering. Investors should monitor interest rate trends closely, as they could indicate favorable shifts toward cheaper financing in the future. DGR continues to distribute nearly half of its net profits as dividends, with an annual dividend yield of 7.9%, broadly in line with our expectations and which we view as solid, particularly given the Group's strong loan portfolio growth. As such, we continue to consider DGR stock undervalued.

Results Review, EURm	Q2/24A	Q2/23A	Q1/24A	% q-o-q	% y-o-y	Q2/24E	Dev. Abs	Dev. % H1/24A	H1/23A	% y-o-y	
Net loan portfolio	101.5	78.1	95.6	6.2	30.0	94.1	7.4	7.8	101.5	78.1	30.0
Net sales	2.0	2.2	2.3	(15.9)	(12.8)	2.6	(0.6)	(24.2)	4.3	4.5	(5.8)
Cost of Sales	(1.2)	(1.4)	(1.5)	(22.6)	(16.8)	(1.7)	0.5	(30.5)	(2.7)	(2.8)	(6.1)
Net interest income	10.2	8.0	9.4	9.0	28.1	9.4	0.8	8.4	19.6	15.3	28.2
Credit loss expenses	(3.5)	(2.8)	(3.4)	3.8	28.2	(3.0)	(0.5)	17.1	(7.0)	(5.2)	33.2
Gross profit	7.5	6.1	6.8	10.2	23.3	7.3	0.2	2.2	14.2	11.8	21.1
Operating expenses, net	(5.1)	(4.1)	(4.7)	8.5	25.9	(4.6)	(0.5)	11.5	(9.9)	(8.0)	24.0
EBITDA	5.4	4.3	5.0	8.0	25.6	5.4	(0.0)	(0.5)	10.5	8.2	28.0
Operating profit	2.3	2.0	2.0	14.0	17.9	2.7	(0.4)	(13.8)	4.4	3.8	14.9
Net profit	1.84	1.77	1.6	13.8	4.1	2.1	(0.3)	(12.0)	3.5	3.4	2.3

Source: DelfinGroup, Signet Bank

Investment Case

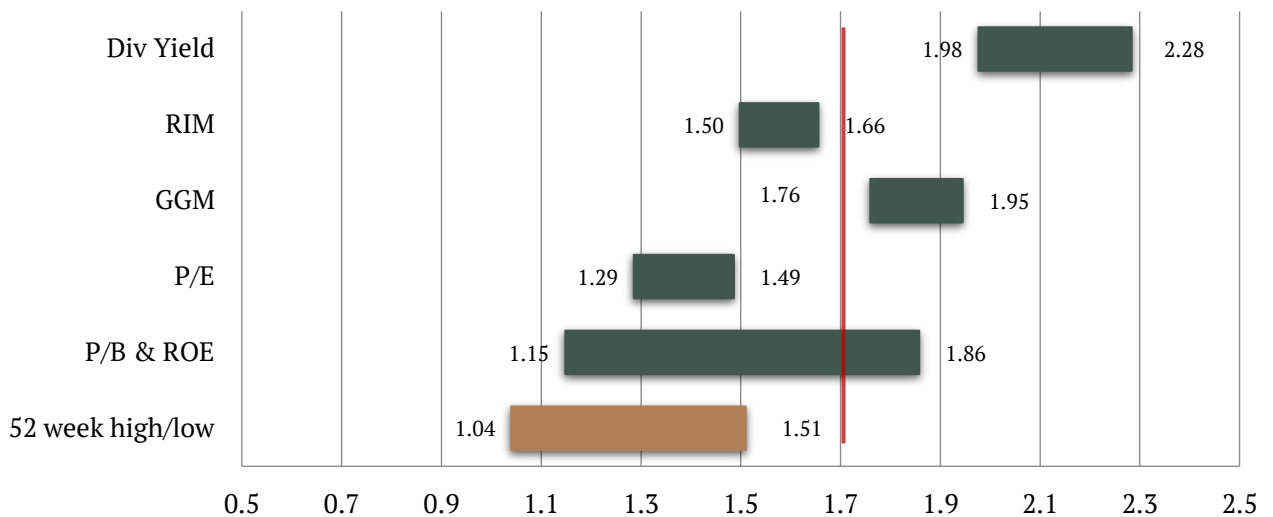
We view profitable growth and appealing dividend yields as the cornerstone of the investment case for DGR. We look positively on the Group's development of new products, consistent improvements of online channels both for consumer loans and secondary goods store, and synergy across DGR's business segments.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

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