Result Review Q4 2024

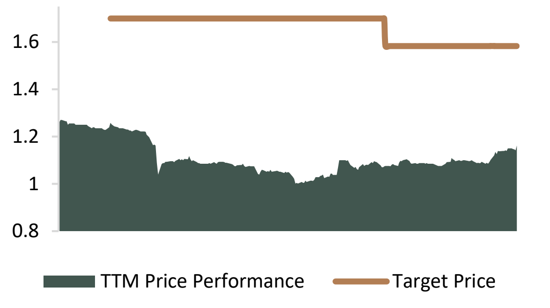
Results in line with expectations; Gradually advancing profits

AS DelfinGroup (hereafter referred to as "DGR" or the "Group") reported its 2024 results in line with our expectations and nicely landing on the management targets. Latest market data shows non-bank consumer lending loan portfolio in 1H24 reported strong 20% y-o-y growth. DGR continued to expand its loan portfolio ahead of the market, increasing its market share in consumer loan segment from 15.9% at the end of 2023 to 16.7% (+0.8pp) in 1H24, while pawn loan segment market share increased by 1pp to reach 54%. Despite robust loan portfolio growth, the Group' s profits were constrained by high credit loss expense, elevated OpEx and somewhat lower loan yields. The Group comfortably meets it debt covenants, retaining room for loan portfolio growth and sustaining strong dividend profile, including quarterly dividends and potential additional annual dividends.

At the end of the year net loan portfolio reached EUR 113.5m (+27.5% y-o-y and +5.3% q-o-q), with consumer loan portfolio expanding 28% y-o-y but pawn loan portfolio 18% y-o-y. On quarterly basis loan portfolio continued to exceed loan issuance volumes, indicating that the loan portfolio growth is additionally driven by the increase in average term of loans issued. Net interest income advanced broadly in the same pace as net loan portfolio, reaching EUR 11.0m (+28.2% y-o-y). Although cost of debt in Q4 fell to 11.1% (-1.1pp y-o-y), the positive impact was offset by lower yields. In Q4 the annualized yield on average gross loan portfolio reduced by 2 pp y-o-y to 47%. Credit loss expense continued broadly stable levels this year and in Q4 grew at higher rate than loan portfolio coming at EUR 4.1m (+55.7% y-o-y).

Retail sales of pre-owned goods rose to EUR 3.4m (+22.5% y-o-y), maintaining a stable gross margin of 31.7%. It is important to note that reported retail sales exclude collateral sold from pawn loans, which is instead accounted for under pawn loan interest income. To provide a clearer view of retail sales dynamics, DGR reports a separate sales figure that includes pawn collateral sales, which reached EUR 4.6m (+15% y-o-y).

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



Share Data (Feb 28, 2024)	
Current price, EUR	1.162
Target price, EUR	1.58
Potential Upside/Downside, %	36.3
52 week Low/High, EUR	1.00/1.27
3 month av. daily volume	21977
Market cap, EURm	52.8
Ordinary shares	45.4

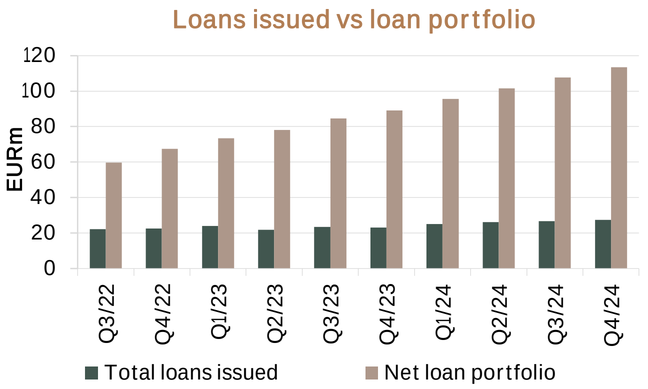
Analyst
Valters Smiltans
Valters.Smiltans@Signetbank.com
+371 66956529

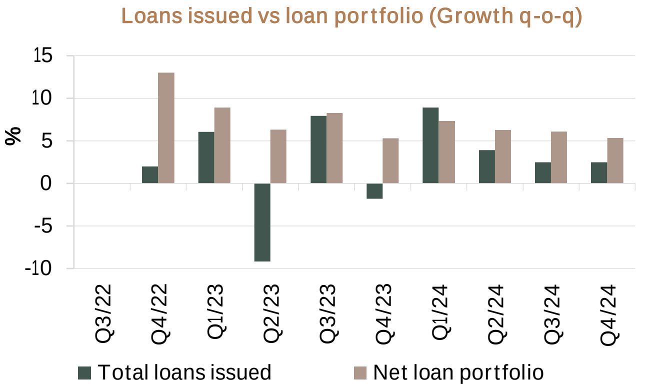
Key Numbers (EURm)	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Revenue	24.7	35.9	50.4	63.0	70.2	75.4	79.1	81.4
EBITDA	10.2	13.1	18.2	22.3	24.9	27.1	28.8	29.3
Operating Profit	5.2	7.3	8.3	9.4	12.2	14.1	15.7	15.9
EPS	0.09	0.13	0.15	0.16	0.22	0.25	0.28	0.28
Total Net Loans	43.0	67.4	89.0	113.5	124.7	138.2	146.5	154.9
Net Debt	30.3	54.7	74.2	95.4	101.8	109.9	112.4	114.9
Total Equity	17.4	18.0	21.3	25.1	30.3	36.2	42.5	49.0
Dividends	3.7	5.4	3.5	3.7	4.6	5.4	6.2	6.3
Dividend Yield (%)	5.9	8.1	5.9	7.1	9.4	11.1	12.7	12.9
ROE (%)	29.8	33.5	33.6	31.9	35.3	33.9	31.9	27.9
EV/EBITDA (x)	9.4	9.7	7.3	6.4	5.0	4.6	4.3	4.2
P/E (x)	15.8	11.3	8.9	7.1	5.0	4.3	3.9	3.8
P/Book (x)	3.6	3.7	2.8	2.1	1.6	1.4	1.1	1.0

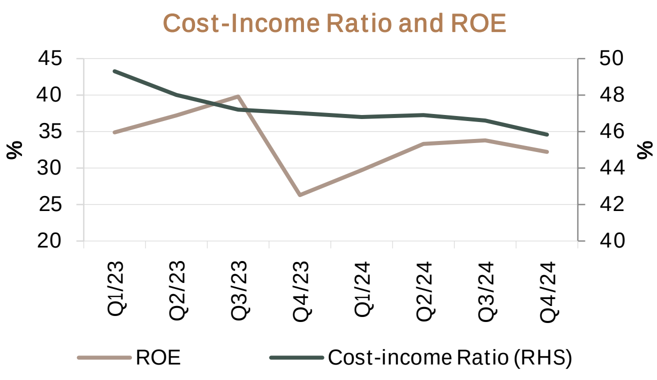
Source: DelfinGroup, Signet Bank for estimates. Valuation multiples 2025-2028E are calculated based on the share price EUR 1.162 at Feb 28, 2025.

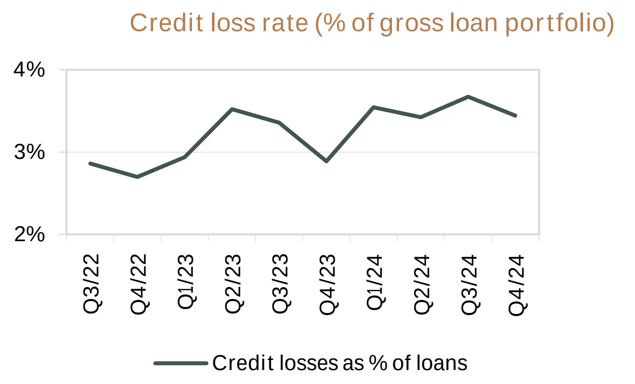
Encouragingly, DGR's online store upgrades have delivered strong results, with online sales growing by 48% y-o-y, significantly outpacing total sales growth. This indicates increasing traction in the digital channel, supporting long-term scalability and customer reach.

The Group managed to expand its revenues ahead of costs with C/I ratio decreasing to 45.8% (-1.2 pp y-o-y and -0.8 pp q-o-q). However, due to high credit loss expense OpEx continued to exceed gross profit growth, hindering bottom line advancement. Operating profit reached EUR 2.6m (+11.9% y-o-y and +7.3% q-o-q) while net profit amounted to EUR 2.0m (+56.2% y-o-y and +5.9% q-o-q). We note that profits had higher y-o-y upside due to changes in CIT legislation last year and full year additional tax was accounted in 4Q23 period. For comparison yearly net profit expanded only by 6.6% y-o-y.









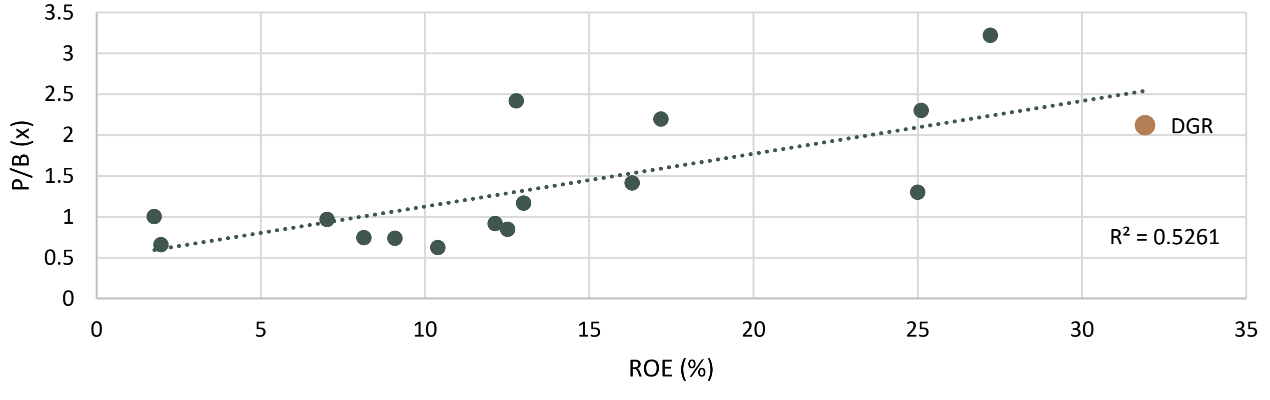
Results Review, EURm	Q4/24A	Q4/23A	Q3/24A	% q-o-q	% y-o-y	Q2/24E	Dev. Abs	Dev. %	Q2/25E	12M/24A	12M/23A	% y-o-y
Net loan portfolio	**113.5**	**89.0**	**107.7**	**5.3**	**27.5**	**113.1**	**0.4**	**0**	**115**	**113.5**	**89.0**	**27.5**
Net sales (Retail)	1.1	0.9	0.9	22.2	27.9	0.8	0.3	38	0.8	3.6	3.1	15.2
Net interest income	11.0	8.6	10.8	1.4	27.4	11.4	(0.4)	(4)	11.6	41.4	32.6	26.9
Credit loss expenses	(4.1)	(2.6)	(4.1)	(0.3)	55.7	(4.1)	0.1	(1)	(4.1)	(15.1)	(10.7)	41.3
Gross profit	**8.0**	**6.9**	**7.7**	**5.0**	**16.8**	**8.1**	(0.1)	**(1)**	**8.3**	**21.9**	**18.2**	**20.3**
Operating expenses, net	(5.4)	(4.6)	(5.2)	3.9	19.2	(5.5)	0.0	(0)	(5.5)	(20.5)	(16.8)	22.4
EBITDA	5.9	5.1	5.7	3.5	15.7	5.8	0.1	2	5.9	22.1	18.2	21.6
Operating profit	**2.6**	**2.3**	**2.4**	**7.3**	**11.9**	**2.6**	**(0.1)**	**(2)**	**2.8**	**9.4**	**8.3**	8.3
Net profit	2.0	1.3	1.9	5.9	56.2	2.1	(0.1)	(4)	2.2	7.4	6.6	6.6

Source: DelfinGroup

All in all, with DGR's 2024 results aligning with our estimates and no major surprises in the outlook, we view the results as neutral and confirm our price target, which still reflects a solid upside of +35% against the current market price. P/B & ROE peer comparison highlights that DGR trades at an undeserved discount, with an ROE of 31.9%, implying an 18% upside. Looking ahead, we expect DGR to continue delivering stable profit growth, driven by scaling of net loan portfolio and benefiting from a declining cost of debt.

While the dividend payment approval for Q4 is pending the Group has distributed EUR 3.7m dividends in 2024 which roughly accounts for 50% of total profits and would generate 7.1% dividend yield. Currently the DGR comfortably meets its debt covenants, thus giving good confidence for additional annual dividends to be distributed in June. Currently, the Group notably exceeds the peer median dividend yield of 3.7%.

Investors should be aware of the ongoing regulatory discussions regarding commissions charged by non-bank lenders for fast loan processing. While the Consumer Rights Protection Center has accepted the practice, it is now considered to indirectly violate annual interest rate ceilings. At this stage, DGR has not disclosed the potential impact on profitability if regulators decide to reverse their stance on these additional commissions. It also remains uncertain whether the Group could partially offset the effect through higher interest rates. We continue to monitor the situation for further regulatory developments and Group's announcements.

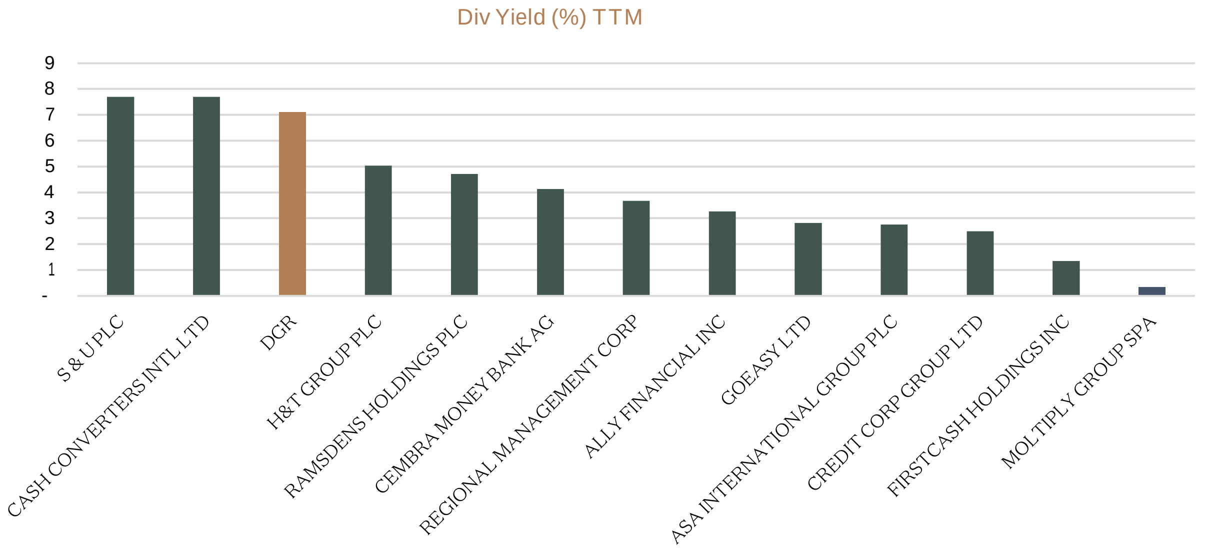


Source: Bloomberg. Peer group chosen from our latest valuation report. Outliers excluded.

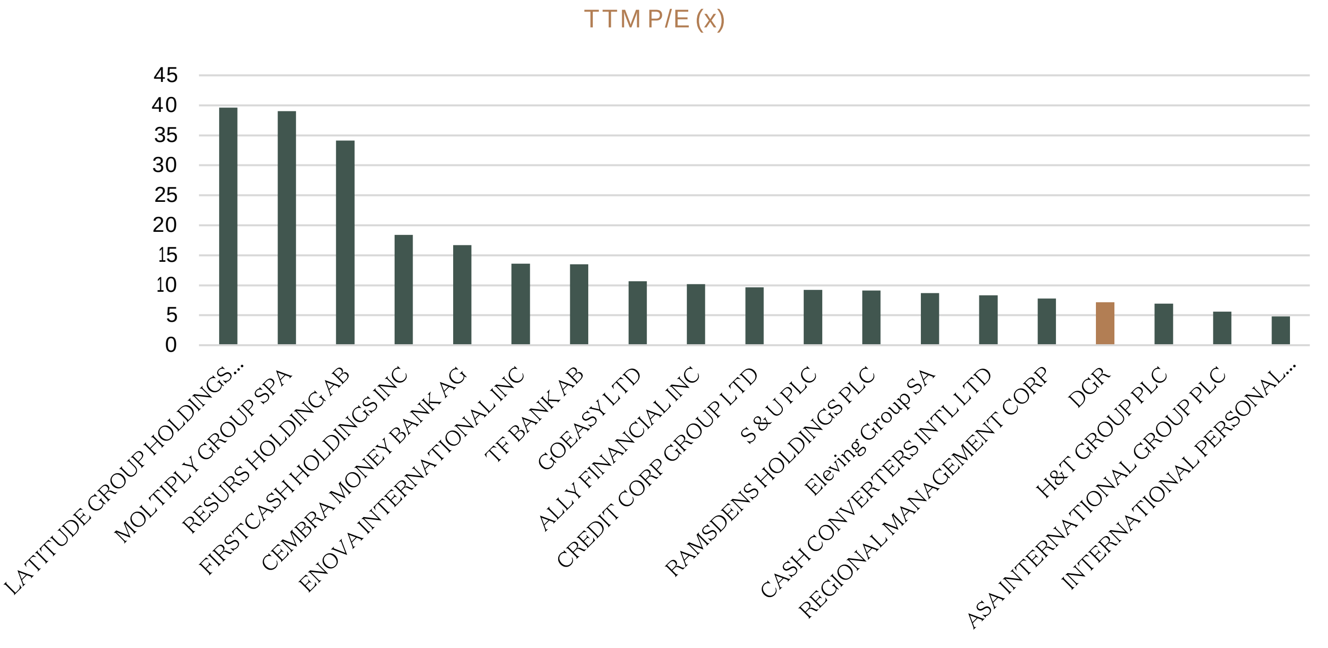
Management's guidance						
Indicator	2024 target	2024 actuals	Deviation	2025 target	Estimated growth	2024 target
Net loan portfolio (EURm)	105.0	113.5	8%	125.0	10%	105.0
EBITDA (EURm)	21.8	22.1	2%	26.0	17%	21.8
Pre-tax profit (EURm)	9.4	9.4	0%	12.2	30%	9.4
Cost-income Ratio (%)	<45%	45.8	X	<45%		<45%
ROE (%)	>30%	31.9	✓	>30%		>30%
Equity Ratio (x)	>20%	26.7	✓	>20%		>20%
Dividend payout ratio (%)	>50%	TBD		>50%		>50%

Source: Signet Bank. Dividend payout ratio depends on the approval of Q4 2024 dividends and approval of annual dividends in spring 2025.

Amidst solid loan portfolio growth, DGR offers one of the highest dividend yields among our selected peers, reflecting the relatively low valuation of the stock. The median of peer group P/E ratio indicates that DGR trades at 30% discount to its peers.



Source: Bloomberg



Source: Bloomberg

Investment Case

DGR's profitable growth and appealing dividend yields form the core of its investment case. We view favorably the Group's development of new products, enhancements in online channels for both consumer loans and secondary goods sales, and the synergistic benefits across its business segments. DGR also holds a unique competitive advantage with the largest branch network in the country within the financial sector. The Group has demonstrated consistent profitability and a strong dividend-paying capacity, reinforcing its attractiveness to investors. Having solidified its market position in Latvia, DGR has now expanded into Lithuania, targeting further loan portfolio growth. Given the Group's proven track record in Latvia, Lithuania presents an attractive opportunity to scale its operations and drive sustained expansion.

Key Risks:

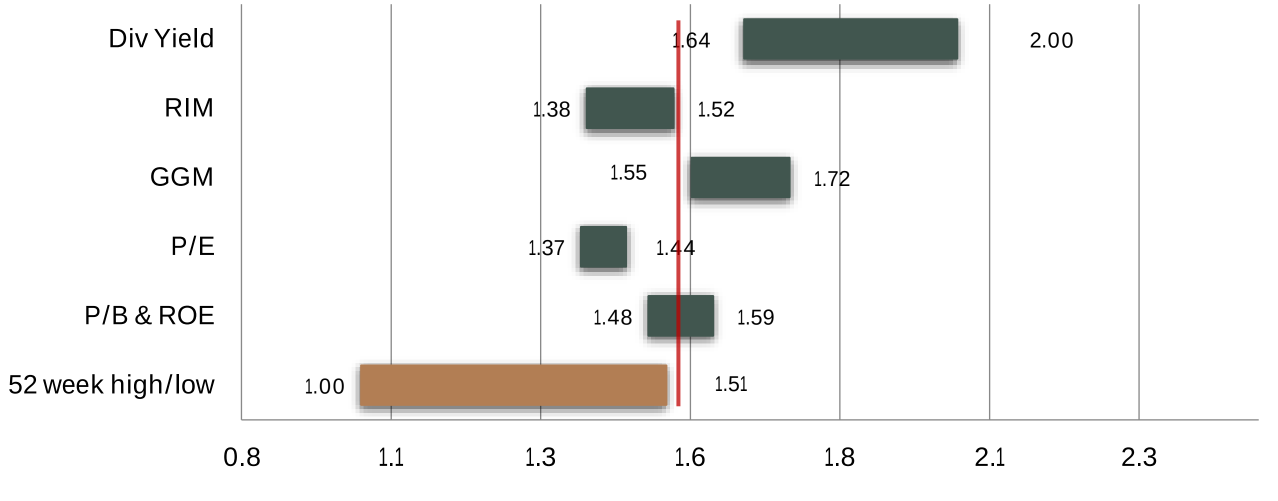
- Economic recession
    - Deterioration of portfolio quality
    - Lower lending volumes
- Stiff competition/product similarity

Key Drivers:

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

Weighted Value Per Share, EUR	Period weights			Period weighted value	Weights	Contribution to value
	2024E	2025E	2026E			
Method	33%	33%	33%			
RIM				1.53	35%	0.54
GGM				1.63	35%	0.57
Dividend Yield	1.86	1.64	2.00	1.83	10%	0.18
P/B & ROE	1.48	1.59	1.52	1.53	10%	0.15
P/E	1.37	1.44	1.37	1.39	10%	0.14
Total weighted value per share						**1.58**

Source: Signet Bank



Source: Signet Bank

Disclaimer

Sign-off time: February 28, 2025, 18:00

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

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

www.signetbank.com