

# Result Review Q1 2025



## Decent results overall, credit loss expense becomes one of key earnings risk

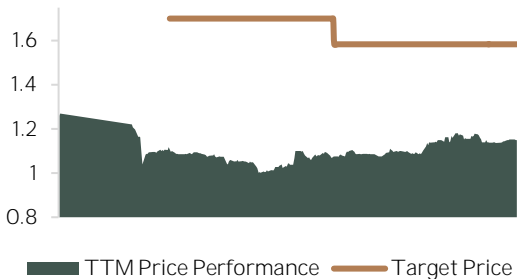
AS DelfinGroup (hereafter referred to as “DGR” or the “Group”) continued to grow its loan portfolio and revenue in Q1, broadly in line with expectations. However, credit loss expense outpaced revenues as well as loan portfolio growth and came in above our estimate. Operating expenses (OpEx) rose broadly in tandem with net revenues, reflecting sound cost control despite the added burden of entering a new market. Net profit declined q-o-q, primarily due to elevated credit losses.

In its core market (Latvia), DGR reported notable upside in revenues (+21% y-o-y) and EBT (+26% y-o-y), indicating improving profitability in its mature market. It is important to note that operations in Lithuania may take some time to break-even, and near-term profit expansion will likely remain constrained as the Group scales its presence in the market.

Loan issuance recovered during the quarter, supported by new origination activity in Lithuania, with total loan issuance advancing 9.5% q-o-q. The net loan portfolio expanded to EUR 121.0m, representing 6.6% q-o-q and 26.6% y-o-y growth, while interest income rose 5.2% q-o-q and 22.4% y-o-y. Based on our calculations, the annualized average effective interest rate on the gross loan portfolio stood at 46.5% in Q1, marking a decline of 0.6pp q-o-q and 2.9pp y-o-y. While quarterly fluctuations are expected, the recent downtrend may reflect, intensified competition or strategic pricing to gain market share in both Latvia and the recently entered Lithuanian market.

Net interest income reached EUR 11.7m, up 6.7% q-o-q and 25.2% y-o-y. Cost of debt remained flat q-o-q at 11.1%, down 0.5pp y-o-y. Approximately 56% of the Group’s debt is with floating-rate, making it sensitive to Euribor trends. As ECB has already cut rates twice in Q2/25 (cumulative 50bps), and further easing is anticipated by the market, DGR stands to benefit through a lower funding cost. This, in turn, should provide support to net interest margin, on another hand we could anticipate this to be at least partly offset by new issuances at lower rates, given the Group’s efforts to expand in new market.

Company profile	
Listing market	Nasdaq Riga
Ticker	DGR1R
Industry	Financial services
Website	<a href="https://delfingroup.lv/">https://delfingroup.lv/</a>



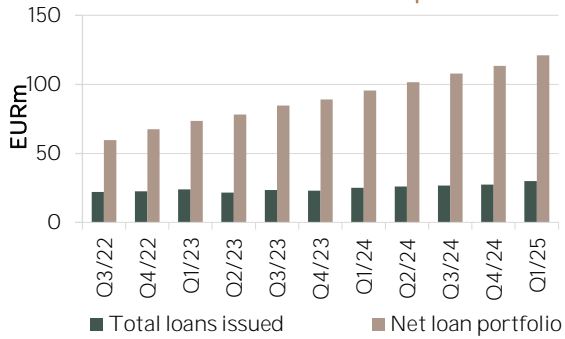
Share Data (May 8, 2025)	
Current price, EUR	1.15
Target price, EUR	1.58
Potential Upside/Downside, %	37.7
52 week Low/High, EUR	1.04/1.51
3 month av. daily volume	15968
Market cap, EURm	52.2
Ordinary shares	45.4

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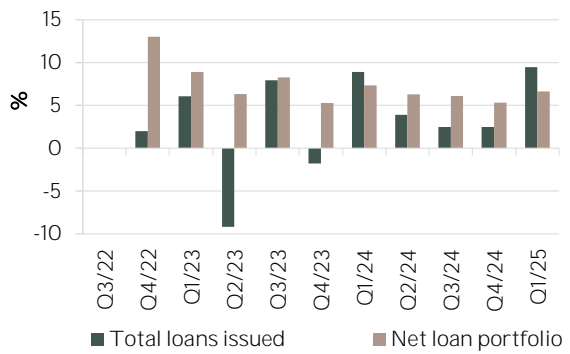
Key Numbers (EURm)	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Revenue	24.7	35.9	50.4	63.0	70.2	75.4	79.1	81.4
EBITDA	10.2	13.1	18.2	22.3	24.9	27.1	28.8	29.3
Operating Profit	5.2	7.3	8.3	9.4	12.2	14.1	15.7	15.9
EPS	0.09	0.13	0.15	0.16	0.22	0.25	0.28	0.28
Total Net Loans	43.0	67.4	89.0	113.5	124.7	138.2	146.5	154.9
Net Debt	30.3	54.5	74.2	95.4	101.8	109.9	112.4	114.9
Total Equity	17.5	18.1	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	8.8	10.4	11.9	12.1
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	5.7	5.2	4.9	4.8
P/E (x)	15.8	11.3	8.9	7.1	5.3	4.6	4.2	4.1
P/Book (x)	3.6	3.7	2.8	2.1	1.7	1.4	1.2	1.1

Source: DelfinGroup, Signet Bank for estimates. Valuation multiples 2025-2028E are calculated based on the share price EUR 1.15 at May 8, 2025.

### Loans issued vs loan portfolio



### Loans issued vs loan portfolio (Growth q-o-q)



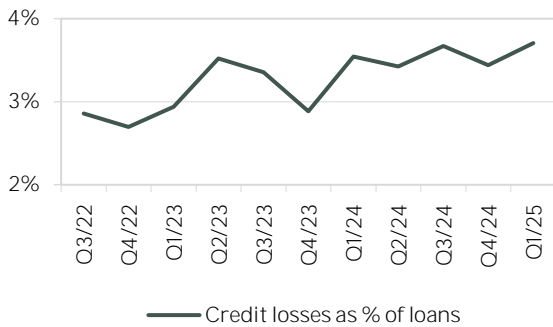
DGR's total sales of pre-owned goods (including pawn collateral sales) reached EUR 4.7m in Q1, continuing a steady q-o-q uptrend and delivering a robust 31% y-o-y increase. Online store sales advanced even more strongly, rising 36% y-o-y. Growth was supported by the opening of new Banknote XL locations in Latvia and enhanced user experience on the Group's e-commerce platform.

Credit loss expense came in at EUR 4.7m (+14.7% q-o-q, +36.1% y-o-y), increasing faster than net loan portfolio. This trend may reflect higher discounts on bad debt disposals, given the Group's efforts to recover part of the debts inhouse. We also should expect increased NPL as more bad debts are kept on balance sheet while recovered.

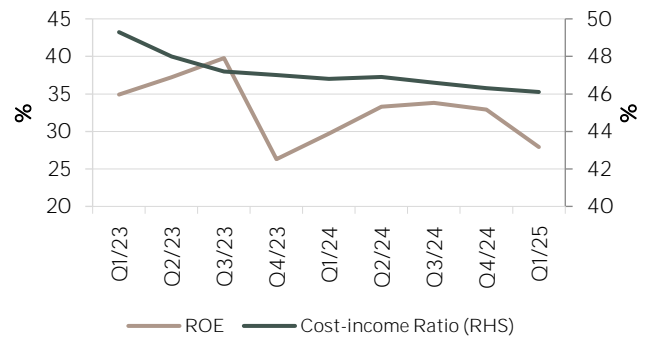
While credit loss expense is expected to remain elevated in the near term, the magnitude of future increases remains uncertain and poses a key earnings risk.

Operating expenses (OpEx) amounted to EUR 5.8m in Q1 (+6.4% q-o-q, +22.2% y-o-y). OpEx growth trailed revenue expansion, allowing the cost-to-income (C/I) ratio to improve slightly - down 0.2pp q-o-q and 0.7pp y-o-y to 46.1%. Elevated OpEx reflects additional administration in Lithuanian market and increased marketing activity, where advertising expenses surged by 82% y-o-y.

### Credit loss rate (% of gross loan portfolio)



### Cost-Income Ratio and ROE



Results Review, EURm	Q1/25A	Q1/24A	Q4/24A	% q-o-q	% y-o-y	Q1/25E Dev. Abs	Dev. %	Q2/25E12M/24A12M/23A	% y-o-y			
Net loan portfolio	121.0	95.6	113.5	6.6	26.6	114.8	6.2	5	118	113.5	89.0	27.5
Net sales (Retail)	1.0	0.8	1.1	(11.7)	18.0	0.8	0.2	23	0.8	3.6	3.1	15.1
Net interest income	11.7	9.4	11.0	6.7	25.2	11.6	0.1	1	11.9	41.4	32.6	26.9
Credit loss expenses	(4.7)	(3.4)	(4.1)	14.7	36.1	(4.1)	(0.5)	13	(4.2)	(15.1)	(10.7)	41.3
Gross profit	8.0	6.8	8.0	0.2	18.8	8.3	(0.3)	(3)	8.5	29.9	25.1	19.3
Operating expenses, net	(5.8)	(4.7)	(5.4)	6.4	22.2	(5.5)	(0.3)	5	(5.6)	(20.7)	(16.8)	23.6
EBITDA	5.6	5.0	5.9	(4.9)	12.2	5.9	(0.3)	(6)	6.0	21.9	18.2	20.3
Operating profit	2.3	2.0	2.6	(12.8)	11.0	2.8	(0.5)	(19)	2.9	9.2	8.3	10.7
Net profit	1.8	1.6	2.0	(12.8)	9.3	2.2	(0.5)	(21)	2.3	7.3	6.6	9.8

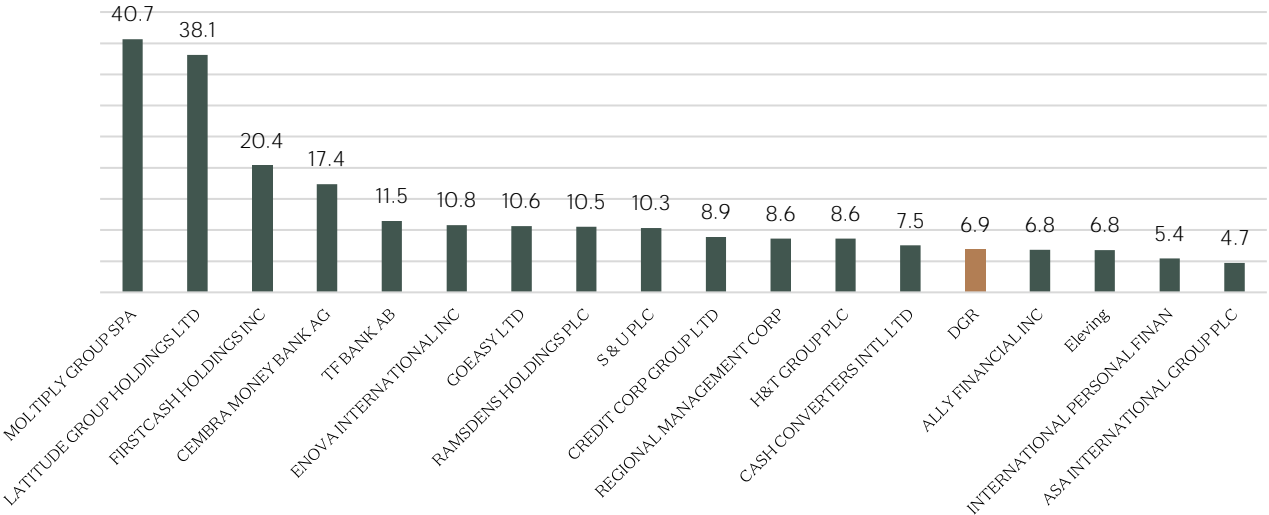
Operating profit totaled EUR 2.3m (-12.8% q-o-q, +11.0% y-o-y), while net profit amounted to EUR 1.8m (-12.8% q-o-q, +9.3% y-o-y), with the decline on a q-o-q basis primarily attributable to higher credit loss provisions.

Over the past four quarters, DGR has distributed 56% of 2024 net profit in dividends, amounting to EUR 0.0901 per share and reflecting a 7.8% dividend yield at the May 7th share price of EUR 1.15. The Group remains comfortably within covenant limits, indicating that the Group will continue to distribute nearly 50% from quarterly profits in dividends and potentially to distribute additional annual dividends, depending on capital needs for portfolio expansion in Latvia and Lithuania.

While we maintain our annual forecast, we flag the faster-than-expected increase in credit loss expense as a potential downside risk to the Group’s 2025 earnings target and our current projections.

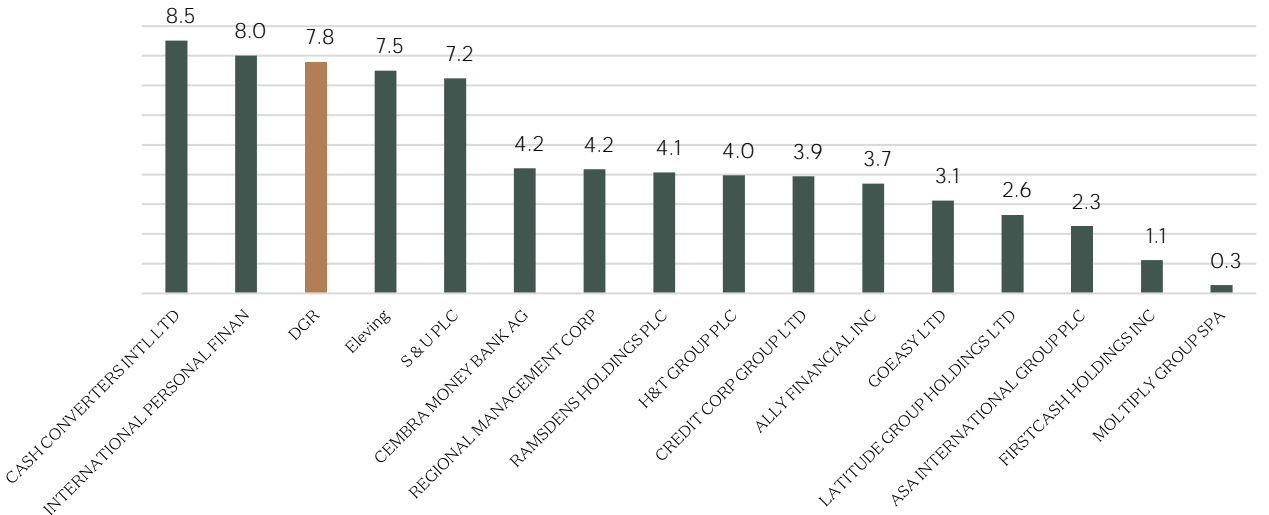
We also remind that investors should be aware of the ongoing regulatory discussions regarding commissions charged by non-bank lenders for fast loan processing. While the Consumer Rights Protection Center has accepted the practice, it is now considered to indirectly violate annual interest rate ceilings. 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.

TTM P/E (x)



Source: Bloomberg

Div Yield (%) TTM



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:

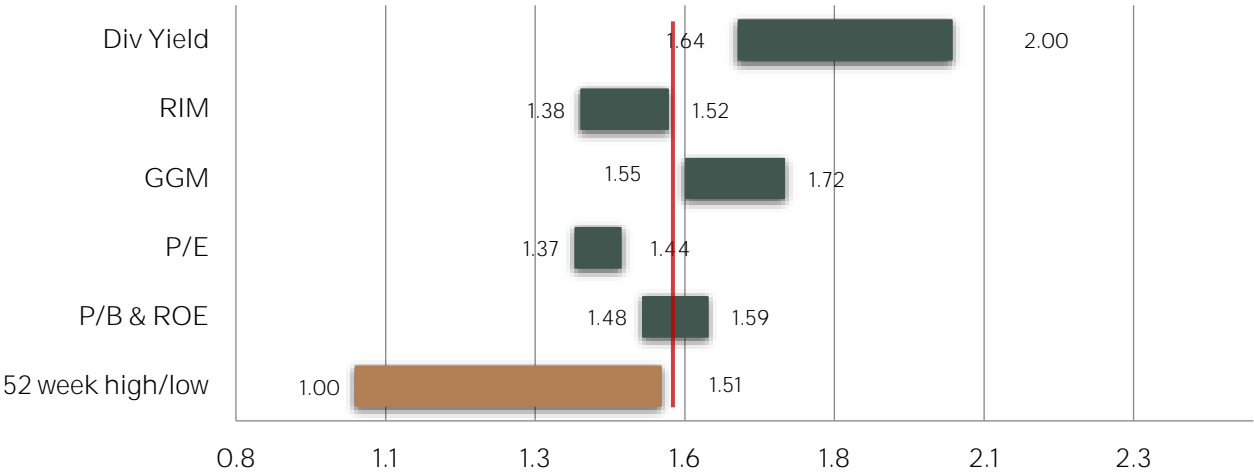
- Economic recession
  - Deterioration of portfolio quality
  - Lower lending volumes
- Stiff competition/product similarity
- Rising cost of debt cession

### 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



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**Sign-off time: May 8, 2025, 18:00**

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- 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)

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