

Wednesday, 15 February 2023 | research report

XTB: accumulate (new)

XTB PW; XTB.WA | Financials, Poland

Enter the Mass Client

We initiate coverage of XTB with an accumulate recommendation and a target price of PLN 35.75.

In 2022, XTB recorded its highest-ever profit driven by remarkably strong client acquisition and very specific, favorable market conditions in terms of volatility and trends, which resulted in elevated trading volumes combined with above-average profitability per lot (PLN 227). While establishing sustained optimal conditions for maintaining this level of profitability in long run is underpinned by too much uncertainty, client acquisition is a different story.

XTB is focusing more and more on growing its appeal among mass-market clients, deploying a marketing campaign and promotional offers. In 2022, XTB acquired close to 200k new clients, and in 2023 it is aiming for 160-240k new accounts. In January 2023 alone, a special Free Stock bonus up to \$30 and account top-up drew in an impressive 42k new clients (the free share offer is limited to 15k clients). XTB is already working on new products, set to be launched by the end of 1Q'23, which should attract more new clients, with more products to follow in the future. Details are yet to be revealed but we suspect that the new offer may address the savings needs of the client base as XTB aims to transform from a mostly CFD broker to a one-stop shop for investments as well as savings.

Nevertheless, our investment case for XTB is built mainly on client acquisition, providing a counterbalance to a more conservative approach regarding profitability per lot and client activity. We assume that XTB will be able to acquire at least 220k new clients in 2023, followed by 200k in 2024 and 180k in 2025, and that the number of active clients in those years will increase to 190k/213k/227k, respectively.

If we look at XTB's P/E ratio, we can see that, on our estimates, the stock is trading at a discount close to 23% vis-à-vis the historical average while, on the other hand, on EV/EBITDA the company is valued at a premium of 11%.

It is important to note XTB's generous dividend policy, especially the expected 2023 DPS at PLN 4.89, implying 15% yield at the current price. Cumulatively, we assume 40% of XTB's current market capitalization will be distributed to shareholders in the 2023-2025 period.

Growing base of active clients

In the last five years, XTB delivered impressive CAGR of 64% in active clients, far outpacing the growth achieved by its peers in the same period. Looking ahead, we assume CAGR in 2022-2025 will slow to about 15% but the mix of new and existing active clients should allow XTB to keep its profits heightened in 2023 and 2024 even without the help of extremely favorable market conditions.

Impressive dividends on the horizon

Having met the requirements for a 2023 distribution, we assume XTB will offer a record-high payout this year in nominal and relative terms at PLN 4.89 per share (15% yield). Dividends in the following years can be expected to be kept at satisfactory levels.

Trading at discount

XTB is trading at discount to its long-term average P/E ratio which implies that earnings in 2023 will be only about a half of the 2022 figure. What is more, the company is trading at discount to peer multiples despite the strong earnings growth in the last few years.

(PLN m)	2021	2022E	2023E	2024E	2025E
Revenues	623	1,444	1,524	1,454	1,288
EBITDA	286	898	850	691	459
EBIT	277	886	835	674	439
Net profit	238	766	745	615	414
P/E	15.9	4.9	5.1	6.1	9.1
EV/EBITDA	10.47	2.68	2.40	2.62	3.71
Div Yield.	5.2%	4.6%	15.2%	14.8%	12.2%

current price*	PLN 32.16
target price	PLN 35.75
mCap	PLN 3.77bn
free float	PLN 1.25bn
ADTV (3M)	PLN 7.2m

*Price as of February 14, 2023, 5:00 PM

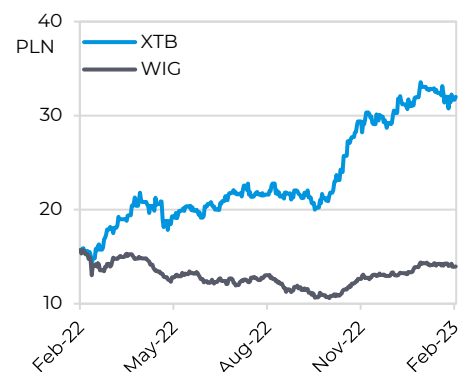
Ownership

XXZW Investment Group S.A	66.99%
Others	33.01%

About XTB

XTB offers a trading platform in over 1,700 financial instruments. The retail segment accounts for the majority revenues and costs, however, the company also offers services and solutions for institutional clients. XTB's geographic footprint ranges from CEE and Western Europe to Latin America and the Middle East.

XTB vs. WIG



name	target price		recommendation	
	new	old	new	old
XTB	35.75	-	accumulate	-

name	current price	target price	upside
	XTB	32.16	35.75

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)
EBITDA margin - EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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The production of this recommendation was completed on February 15, 2023, 7:39 AM.
 This recommendation was first disseminated on February 15, 2023, 8:30 AM.

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NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

mBank did not issue any recommendations for XTIB in the 12 months prior to this publication

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