

Wednesday, 14 February 2024 | update

XTB: buy (reiterated)

XTB PW; XTB.WA | Financials, Poland

Hats Off to a Retail Mogul

We raise our target price for XTB to PLN 47.95 with a reiterated buy recommendation.

We correctly predicted the next steps in the Company's strategy in our previous research reports on XTB (as evidenced by their titles: 'Enter the Mass Market' and 'New Products, New Clients'), and, looking at what is ahead today, it seems to us XTB wants to build on the momentum gained in the past year and continue its expansion into an online trading investing mogul. A product mix broadened soon to include bonds (incl. fractional), pension accounts, social trading, and virtual payment cards is designed to attract even more clients and build long-term value.

XTB served an upside surprise by delivering 4Q'23 results over and above our high expectations, and, more importantly, by upgrading the guidance on new client acquisition, which combines very well with the new product offensive. XTB currently aims to acquire 65-90k new clients per quarter in 2024 (with 38k new clients added in January alone), numbers that top our initial assumption of ca. 60k quarterly additions and that prompt us to upgrade our long-term acquisition forecasts.

Our investment case for XTB has not changed: we still see a growing client base as a long-term value creator, but we have adjusted our expectations to better reflect the changing profile of an XTB client and a new definition of an 'active client.' As a result, we currently expect XTB to acquire 320k/280k/240k new clients, respectively, in 2024/25/26, and we assume that traded lots per client will decrease to fifteen annually with the share of long-term active clients in total clients holding close to 35%.

'Active Client' Redefined Equals Fewer Lots Per Client

XTB has changed its definition of an 'active client' to include, aside from traders who have made a trade in a period, traders who have opened positions. This captures clients which are more interested in passive investing strategies.

The broadening of definition resulted in a spike in active clients and their share in total clients, but, on the other traded, it caused a decrease in lots per client to 5.8 in 4Q'23, the lowest figure on record that shows a need to revisit key KPIs.

Growth Plus Value

XTB grew its active client base at 2018-23 CAGR of ca. 80% (73% under the old 'active client' definition in force thru 9M'23), but that has not curbed its capacity to pay hefty dividends. Our 2024 DPS forecast at a 74.5% payout ratio is 5.02zł, and in 2024-26 we forecast cumulative dividends of PLN 14.40.

Unique Bet on Volatility and Trends

XTB is neither a cyclical nor an anticyclical play since its earnings are not directly linked to the general state of the economy – rather, they depend on market volatility. That makes XTB a decent hedge in times of heightened uncertainty and turmoil.

Higher Per lot Profitability Only in the Medium Term

Our model assumes a linear trajectory of profitability per lot in 2024-2026 to reach our long-term target of PLN 166. A rollover of the explicit forecast period to 2024-26 has resulted in markedly higher net profit estimates for 2024 and 2025, but at the same time our target price has increased only around 10%, which can be explained by a lack of significant change in profitability per lot expected in the long term.

(PLN m)	2022	2023E	2024E	2025E	2026E
Revenues	1,444	1,588	1,706	1,698	1,622
EBITDA	898	900	852	775	651
EBIT	886	895	846	768	644
Net profit	766	791	767	714	628
P/E	6.5	6.3	6.5	7.0	7.9
EV/EBITDA	4.0	3.8	3.4	3.3	3.6
DPS	1.50	4.85	5.01	4.86	4.53
Div Yield.	3.5%	11.5%	11.9%	11.5%	10.7%

current price*	PLN 42.30
target price	PLN 47.95
mCap	PLN 4.96bn
free float	PLN 2.43bn
ADTV (3M)	PLN 11.3m

*Price as of February 13, 2024, 5:00 PM

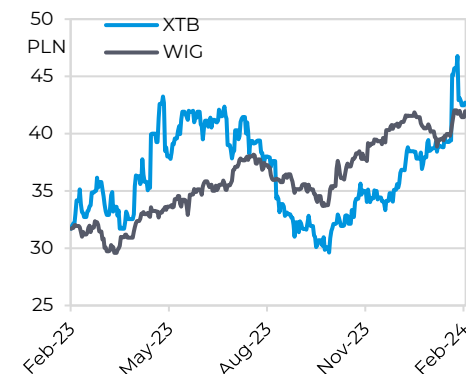
Ownership

XXZW Investment Group S.A	50.93%
Others	49.07%

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	47.95	43.27	buy	buy

name	current price	target price	upside
	XTB	42.30	47.95

Forecast Update (% change)		2024E	2025E
Revenue		+13.3%	+19.8%
EBIT		+14.2%	+34.1%
EBITDA		+14.1%	+33.7%
Net profit		+13.5%	+34.0%

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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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HOLD – we expect that the rate of return from an investment will range from 0% to +10%
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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 issued the following recommendations for XTB in the 12 months prior to this publication:

XTB (Mikołaj Lemańczyk)

Rating	buy	buy	accumulate	accumulate
Rating date	2023-12-01	2023-07-03	2023-05-17	2023-02-15
Target price (PLN)	43.27	45.93	43.39	35.75
Price on rating day	33.32	41.52	38.36	32.16

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