

MCI Capital SA – time to invest

The dynamic improvement of MCI Capital's results in the first three quarters of 2021 was slightly hampered by the market downturn at the end of 2021 and the beginning of 2022 related to the situation in Ukraine and Russia. However, taking into account the Group's high liquidity of approximately PLN 810 million, this creates an opportunity for attractive acquisitions. One of the acquisitions this year will be eSky.pl, purchased at very attractive valuation ratios. We estimate the discount of the current price of MCI Capital shares to book value at the end of 1Q 2022 at ca. 43%. Having updated our forecasts, we adjust our valuation of MCI Capital shares from PLN 41.2 to PLN 33.1.

End of 2021 and beginning of 2022 influenced by repricing

In 2021, the company generated investment gains of PLN 380 million and, due to the reversal of an income tax provision, a net profit of PLN 466 million. Book value per share was PLN 35.16. The end of the year and 1Q22 was already a period of market downturn and increased risk aversion due to the situation in Ukraine. We estimate that the net asset value per share at the end of 1Q22 amounted to ca. PLN 33.4. This means that the discount in valuation of shares to NAV still remains at over 40%.

MCI prepared for acquisitions

Liquidity of the MCI Group at the end of the year 2021 was about 810 million PLN, of which 542 million PLN was cash and cash equivalents located in the MCI.EV FIZ Subfund (and indirectly in MCI.CV) and available credit lines for about 190 million PLN. The management points to normalization of valuations on the market and expects the company to make 3 investments this year. One of them, the acquisition of eSky.pl for ca. PLN 158m, is to be closed in Q2 2022.

Management plans to recommend a dividend of 2% of net assets

The Management Board has indicated that it intends to recommend a dividend yield of 2% of net assets, which according to our estimates amounts to ca. PLN 36m (PLN 0.69/share) and implies a dividend yield of ca. 3.6%.

Risks for our forecasts and valuation

Main risk factors for our valuation are limited portfolio liquidity, high concentration of portfolio investments and the adopted valuation method for certain portfolio companies.

Our valuation is equally based on NAV (PLN33.4/share) and peers valuation to the other PE funds (PLN32.8/share) and indicates present fair price at PLN33.1/share.

PLN m	2020	2021	2022P	2023P
Investment profits	162	380	0	98
Net profit	134	465	-21	77
NAV/share	27.1	35.2	33.4	34.2
P/E (x)	7.2	2.1	na	12.4
P/NAV (%)	69%	53%	56%	55%

Source: MCI Capital ASI (2019-20), Noble Securities (2021F-2022F)

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Current price	19.0 zł
Valuation	33.1 zł
Upside/downside	74%
Market cap.	PLN 977m
Free float	22%
Avg. Vol. 6M	9 798



Source: Bloomberg, Noble Securities

COMPANY PROFILE

MCI Capital is a one of the leading private equity fund in Central-Eastern Europe. Since 1999 group realised over 100 investment projects and finished over 58 exits. Assets under management are estimated over PLN 2B.

SHAREHOLDERS

Tomasz Czechowicz	77,7%
Others	22,3%

Krzysztof Radojewski

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VALUATION

We calculated the value of one share of MCI Capital using Net Asset Value (NAV) method on the basis of book value of investment portfolio at the end of 2022 and peers valuation to the other few European PE companies. We give both methods equal weights.

In table below we present valuation summary:

Valuation summary	Weight (x)	Per share (PLN)	Previously (PLN)	change %
Net asset value (NAV)	0.50	33.4	38.2	-12%
Peers	0.50	32.8	44.3	-26%
Average valuation		33.1	41.2	-20%
Current price		19.0	22.5	-16%
Upside/downside		74%	83%	

Source: Noble Securities

PEER VALUATION

Valuation of MCI Capital's assets is based on book value, which shall reflect fair value. **We do not find any arguments for the necessity of book value adjustment in our calculations.** The discount in the company's market valuation relative to book value has started to decrease slightly in recent quarters, which we attribute to profitable exits at valuations near or above book value. Also worth noting is the company's implementation of a dividend policy and first dividend payment in 2021. Below are the P/BV valuation ratios of selected European PE companies. The main difference between these companies and MCI Capital is their higher market capitalization. Based on the valuation ratios of European PE companies, **we value the company with the peer valuation method at PLN 32.8 per share (previously PLN 44.3).**

Company	Currency	Market cap (PLN m)	P/BV (x) 2021	Div. yield
3I GROUP PLC	PLN	71 776	1.1	3.1%
GIMV NV	PLN	6 836	1.1	4.6%
EURAZEO	PLN	27 289	0.9	2.6%
DEUTSCHE BETEILIGUNGS AG	PLN	2 592	0.8	4.5%
Mean			0.98	
MCI Capital	PLN	962	0.56	3.7%
Premium/discount to mean (%)			-43%	
Implied fair value of MCI Capital	PLN		32.8	
Implied fair value of MCI Capital	PLN		32.8	

Source: Bloomberg, Noble Securities, data on 04/29/2022 at 2:43 p.m.

P&L (PLN m)	2020	2021	2022P	2023P	2024P
Investment management fees	nd	31	26	26	26
Investment profits	162	380	0	98	99
Operating expenses	5	41	37	37	37
Other operating revenues and expenses	1	0	0	0	0
EBIT	180	358	-3	95	96
Net financial income and expenses	-12	-11	-18	-18	-18
Profit before taxation	168	346	-21	77	78
Income tax	-34	119	0	0	0
Net profit	134	465	-21	77	78

Source: MCI Capital ASI (2020, 2021), Noble Securities (forecasts, 2022F-2024F)

Balance sheet (PLN m)	2020	2021	2022P	2023P	2024P
Assets	1 793	2 064	2 008	2 049	2 091
Non-current assets	1 718	2 014	1 974	1 992	1 976
Investment certificates	1 662	2 009	1 969	1 987	1 970
Other non-current assets	56	5	5	5	5
Current assets	75	50	34	56	115
Cash and cash equivalents	39	21	4	27	86
Other current assets	36	29	29	29	29
Liabilities	1 793	2 064	2 008	2 049	2 091
Equity	1 356	1 808	1 752	1 793	1 835
Non-current liabilities	279	137	137	137	137
Liabilities on bonds	135	110	110	110	110
Deferred tax liabilities	131	11	11	11	11
Others	12	16	16	16	16
Current liabilities	158	119	119	119	119
Liabilities on bonds	63	17	17	17	17
Liabilities on bills of exchange	28	66	66	66	66
Other	67	36	36	36	36

Source: MCI Capital ASI (2020, 2021), Noble Securities (forecasts, 2022F-2024F)

Cash flow (PLN m)	2020	2021	2022P	2023P	2024P
CF from operating activities	31	79	37	77	113
CF from investment activities	0	-2	0	0	0
CF from financial activities	0	-95	-53	-54	-54
CF	30	-18	-16	23	59
Cash at the beginning of the period	8	39	21	4	27
Cash at the end of the period	39	21	4	27	86

Source: MCI Capital ASI (2020, 2021), Noble Securities (forecasts, 2022F-2024F)

Selected indicators	2020	2021	2022P	2023P	2024P
Book value per share	27.14	35.16	33.40	34.18	34.99
Dividend per share	0.00	0.54	0.69	0.69	0.69
Net debt	188	172	189	166	107
Net debt/BV	14%	10%	11%	9%	6%
Number of shares issued	50.0	51.4	52.5	52.5	52.5
P/BV	0.83	0.53	0.56	0.55	0.53

Source: MCI Capital ASI (2020, 2021), Noble Securities (forecasts, 2022F-2024F)

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FINAL REMARKS

Analyst preparing the Report: Krzysztof Radojewski

Date and time of completion of the Report: 05/02/2022 at 8.25 a.m. Date and time of the first dissemination of the Report: 05/02/2022 at 8.30 a.m..

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Recent research concerning MCI Capital S.A.

Direction	na.	na.	na.	na.	na.	na.
Date	10/07/2021 at 8:20 a.m.	05/14/2021 at 10:19 a.m.	11/12/2019 at 11:50 a.m.	30/06/2020 at 5:20 p.m.	12/03/2020 at 4:08 p.m.	28.06.2019 at 2:55 p.m.
Stock price at the date of report	22.5	19.2	15.0	12.1	8.3	7.3
Valuation per share	41.2	30.9	30.4	24.9	21.9	26.5
WIG Index at the date of report	71 789.34	62 004.52	56 230.40	49 569.17	37 164.02	60187.43

All recommendations distributed by NS in last 12 months:

Company	Direction	Target price	Price at publication	Current price	Difference to price target	Date of publication (1)	Validity date (2)	Prepared by (3)
Bioton	na	7,2	4,1	4,06	76%	19.04.2022	24M	Krzysztof Radojewski
Selvita	Buy	96,2	78,5	77,00	25%	08.04.2022	9M	Krzysztof Radojewski
Mobruk	Buy	500,9	398,0	381,50	31%	07.04.2022	9M	Dariusz Dadej
Artifex Mundi	Buy	13,2	10,1	8,50	55%	28.03.2022	9M	Maciej Kietliński
Celon Pharma	Buy	42,2	24,8	22,10	91%	16.03.2022	9M	Krzysztof Radojewski
Creepy Jar	Buy	812,0	700,0	680,00	19%	15.03.2022	9M	Maciej Kietliński
LW Bogdanka	Hold	57,9	55,6	53,50	8%	11.03.2022	9M	Michał Sztabler
Tauron PE	Buy	3,5	2,7	3,35	6%	10.03.2022	9M	Michał Sztabler
Ailleron	na	19,1	11,4	11,90	61%	03.03.2022	24M	Dariusz Dadej
BoomBit	Buy	22,9	18,3	14,78	55%	04.02.2022	9M	Maciej Kietliński
Krynicky Recykling	na	31,8	19,6	22,50	41%	05.01.2022	24M	Dariusz Dadej
Sonel	na	11,8	10,6	10,40	13%	22.12.2021	24M	Michał Sztabler
CD Projekt	Reduce	176,4	193,0	120,98	46%	21.12.2021	9M	Maciej Kietliński
Dino Polska	Reduce	295,0	338,0	288,10	2%	03.12.2021	9M	Dariusz Dadej
Eurocash	Accumulate	12,2	10,9	11,90	3%	03.12.2021	9M	Dariusz Dadej
Aparator	Hold	19,1	18,7	17,46	9%	29.11.2021	9M	Michał Sztabler
OncoArendi	Buy	48,1	38,4	26,50	82%	16.11.2021	9M	Krzysztof Radojewski
Amica	Accumulate	157,6	131,6	91,80	72%	18.10.2021	9M	Michał Sztabler
Ten Square Games	Buy	549,3	382,6	155,40	253%	18.10.2021	9M	Maciej Kietliński
TIM	na	62,3	42,6	36,60	70%	14.10.2021	24M	Michał Sztabler
Forte	Hold	51,5	53,5	38,20	35%	11.10.2021	9M	Dariusz Dadej
MCI Capital	na	41,2	22,5	19,00	117%	07.10.2021	24M	Krzysztof Radojewski
Wielton	Hold	13,4	12,4	7,00	91%	28.09.2021	9M	Michał Sztabler
Ryvu Therapeutics	Accumulate	71,7	51,4	39,80	80%	23.09.2021	9M	Krzysztof Radojewski
Bioton	na	7,7	5,0			09.09.2021	24M	Krzysztof Radojewski
Ailleron	na	25,2	13,7			02.09.2021	24M	Dariusz Dadej
Aplisens	na	17,8	13,1	13,20	35%	31.08.2021	24M	Michał Sztabler
11 bit studios	Hold	455,3	460,2	530,00	-14%	27.08.2021	9M	Maciej Kietliński
Sonel	na	15,2	11,8			16.08.2021	24M	Michał Sztabler
Celon Pharma	Buy	59,4	39,3			12.08.2021	9M	Krzysztof Radojewski
LW Bogdanka	Accumulate	29,3	24,9			05.08.2021	9M	Michał Sztabler
Krynicky Recykling	na	32,9	20,0			13.07.2021	24M	Dariusz Dadej
Creepy Jar	Buy	977,0	836,0			09.07.2021	9M	Maciej Kietliński
Selvita	Hold	87,0	84,0			30.06.2021	9M	Krzysztof Radojewski
Dino Polska	Reduce	253,7	269,0			22.06.2021	9M	Dariusz Dadej
Aplisens	na	17,5	12,8	13,20	33%	08.06.2021	9M	Michał Sztabler
Boombit	Buy	32,1	26,4			26.05.2021	9M	Maciej Kietliński
MCI Capital	na	30,9	19,2			14.05.2021	24M	Krzysztof Radojewski
Krynicky Recykling	na	25,1	19,8			10.05.2021	24M	Dariusz Dadej
Eurocash	Accumulate	16,6	14,4			06.05.2021	9M	Dariusz Dadej
OncoArendi	Hold	50,0	49,1			06.05.2021	9M	Krzysztof Radojewski
TIM	na	39,6	28,4			05.05.2021	24M	Michał Sztabler
Artifex Mundi	Buy	23,1	17,0			04.05.2021	9M	Maciej Kietliński
Bioton	na	8,0	5,6			20.04.2021	24M	Krzysztof Radojewski
LW Bogdanka	Hold	23,2	23,9			19.04.2021	9M	Michał Sztabler

(1) Date of publication is simultaneously date of first publication,

(2) recommendation is valid for a period of 9 months, unless it is previously updated,

(3) Job position: Krzysztof Radojewski – Senior Analyst, Michał Sztabler – Equity Analyst, Dariusz Dadej – Equity Analyst, Maciej Kietliński - Equity Analyst

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