

MCI Management

Poland, PE/VC fund

Reuters: MCIM.WA Bloomberg: MCI PW

25 March 2011

Time to grow

Recommendation BUY. Target Price at PLN 10.30

MCI Management published FY'10 figures showing record high quarterly and annual profits of PLN 99m and PLN 156m. MCI has also announced FY'11 official guidance for a net profit of PLN 171m, a BVPS of PLN 10.76 and an AUM of PLN 1.2bn (including committed funds, value as of Mar'12). The company set a target AUM of PLN 1.8bn before Mar'13 and new investments to the value of PLN 242m. If this scenario materializes, MCI could enter a golden age and its share price may accelerate its march north. The company looks cheap even on trailing figures, with a 12m trailing P/E of 3.1x. If management delivers on its promises, 2011's P/E will settle at 2.8x, a stunning number compared to its peer group level of 11.6x. Our more conservative predictions suggest a 2011 bottom-line of PLN 80m, indicating a P/E level of 6.8x. Moreover, 4Q'10 NAV exceeded MCI's market capitalization and we believe that the company's NAV is now PLN 470m – very close to its current valuation. We believe that MCI's valuation should exceed its current NAV, if future earnings and the value of the management firm are taken into account. Since our HOLD recommendation in Dec'10, MCI's share price has fallen by 3.4%, underperforming the broad market (the WIG rose by 2.3%). Updating our forecasts for MCI, we are increasing our 12-month Target Price to PLN 10.30 and changing our recommendation to BUY on the basis of a 24% upside potential.

MCI reported healthy figures for the whole of FY'10, beating our net profit estimates by 25%. A bottom-line of PLN 156m indicates a P/E of 3.1x, while its peer group is trading at 12x. The main net profit driver was ABC Data's share price, however, even without this contribution, MCI would have reported a ca. PLN 46m gain indicating a trailing 10.4x P/E ratio. AUM grew to PLN 763m – a stunning 80% y/y growth.

MCI remains optimistic about its future performance and has set an official FY'11 guidance for its bottom-line at PLN 171m and for an AUM of PLN 1.2bn, or a PLN 2.6 gain per share (P/E 3.2x). Our more conservative approach suggests a PLN 80m gain, or a PLN 1.2 gain per share (P/E 6.9x). This discrepancy may result from the fact that we value MCI's management firm separately and then add this to our valuation while MCI may try to make an IPO of MCI Partners on New Connect this year. If this scenario materializes, MCI's net profit would be boosted significantly. In our opinion, without this transaction it will be difficult for MCI to deliver on its guidance figures, unless ABC Data's share price sky-rockets.

As we see this, investors should pay close attention to MCI's forecasts for AUM – PLN 1.2bn in 2011 and PLN 1.8bn in 2012. We believe that, while net profit may be volatile, AUM inflows should rise steadily. MCI's guidance indicates that the company would like to raise at least PLN 200m of external funds in 2011, more than doubling their current external AUM.

We believe there are two significant risk factors for MCI's share price short-term performance. Firstly, in the case of a **stock market pullback**, MCI's share price could under-perform the market due to its historical volatility and high beta. Secondly, there is a **share supply risk** from holders of series B convertible bonds. Bonds are deep in the money (strike price PLN 6.25) and out of 8m shares outstanding, 1.4m were converted before 2010/12/31 while an additional 0.9m have been converted this year.

Based on an adjusted net assets value, the DCF valuation of MCI's management company and assuming a core net profit of PLN 80m for 2011, we value MCI's equity at PLN 680m and set a 12-month Target Price of PLN 10.30 per fully diluted share. The entailed 24% upside potential prompts us to upgrade our rating to BUY.

MCI: Financial summary

PLN in millions, unless otherwise stated

	2008	2009	2010	2011E	2012E	2013E
Revenues	1.1	8.8	11.5	18.9	26.7	32.5
EBIT	31.6	50.0	163.7	90.3	133.1	162.2
Net profit	21.6	44.4	156.1	80.1	122.3	150.7
P/E (x)	16.4	8.6	2.7	6.8	4.5	3.6
BVPS	4.6	5.6	7.5	8.8	10.7	13.0

Source: Company data, DM BZ WBK estimates, 2010 multiples based on average number of shares, 2011+ estimates based on fully diluted number of shares

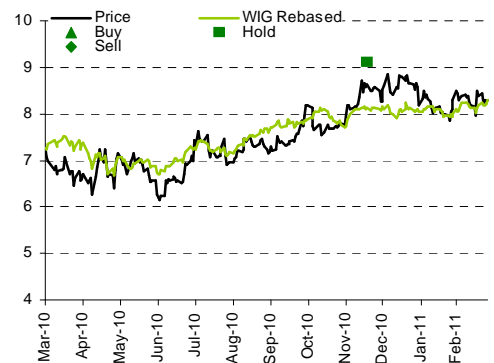
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Recommendation
BUY
Portfolio weighting

–

Price (PLN, 25 March 2011)	8.30
Target price (PLN, 12M)	10.30
Market cap. (PLN m)	477
Free float (%)	53.0
Number of shares (m)	66.0*
Average daily turnover 3M (shares)	157k
EURPLN	3.99
USDPLN	2.84

*fully diluted



The chart measures performance against the WIG index. On 25/03/2011, the WIG index closed at 48,626.

Rec.	Date	Price		Performance	
		on issue date	12 month target	absolute	Relative (p.p)
Hold	12/17/2010	8.59	9.10	-3.4%	-5.7

Main shareholders	% of votes
Tomasz Czechowicz and related entities	47.0%

Company description

MCI Management is a private equity/venture capital fund operating in Central and Eastern Europe. MCI invests in innovative companies in the following sectors: Internet, mobile technology, e-commerce, wireless technologies, software, IT, biotechnology/life science and media.

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Valuations

Fig. 1. MCI management company: DCF analysis

PLN in millions, unless otherwise stated

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
AUM	300	351	422	507	609	732	880	1,057	1,270	1,526
Management fee	6.9	9.8	11.6	13.9	16.7	20.1	24.2	29.1	34.9	41.9
EBITDA	3.5	4.9	5.8	7.0	8.4	10.1	12.1	14.5	17.5	21.0
Tax	0.7	0.9	1.1	1.3	1.6	1.9	2.3	2.8	3.3	4.0
Free cash flow	2.8	4.0	4.7	5.6	6.8	8.2	9.8	11.8	14.1	17.0
WACC	12.7%									
PV FCF 2011-2020	39									
Terminal growth	1.0%									
Terminal Value (TV)	175									
PV TV	53									
Total EV (1 Jan 2011)	92									
Month	3									
Total EV (1 Mar 2011)	95									
12-month Target EV	108									
AUM growth	87.5%	16.9%	20.4%	20.1%	20.2%	20.2%	20.2%	20.2%	20.2%	20.2%
Management fee growth	110.8%	41.4%	18.8%	20.3%	20.1%	20.2%	20.2%	20.2%	20.2%	20.2%
FCF growth	110.8%	41.4%	18.8%	20.3%	20.1%	20.2%	20.2%	20.2%	20.2%	20.2%
EBITDA margin	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%

Source: DM BZ WBK estimates, encompasses only external funds

Fig. 2. MCI: DCF valuation summary table

PLN in millions unless otherwise stated

	EV	Total EV	Total value per share
Management company	108		
adj. NAV	571		
		680	10.30

Source: DM BZ WBK estimates, fully diluted number of shares

Comparable valuation

Fig. 3. MCI: Peer group multiples

Company	Price	Currency	Market Cap (EURm)	P/E			AUM USD bn	MC/AUM %	MC/NAV %
				2011E	2012E	2013E			
MCI Management SA	8.3	PLN	119	6.8	4.5	3.6	0.3	62.6%	95.6%
Alternative Asset Managers									
Blackstone Group LP	18.74	USD	15,830	12.3	9.7	8.1	119	18.7%	276.5%
Fortress Investment Group LLC	5.57	USD	1,859	8.3	7.1	7.6	44	5.9%	267.3%
KKR & Co LP	17.84	USD	8,755	8.6	7.4	6.6	55	22.4%	32.5%
Och-Ziff Capital Management Group LLC	16.46	USD	4,323	11.6	10.0	8.7	26	23.4%	1351.2%
Partners Group Holding AG	172.2	CHF	3,552	16.0	13.2	11.1	9	53.6%	774.8%
Median				11.6	9.7	8.1	44	22.4%	276.5%

Source: Bloomberg, DM BZ WBK estimates

Fig. 4. MCI: Comparable valuation

In PLN

	P/E			AUM	NAV/MC	Average
	2011E	2012E	2013E			
Average	14.2	18.0	18.4	2.6	20.9	
			16.9			13.4

Source: DM BZ WBK estimates, fully diluted number of shares

Financial statements and forecasts

Fig. 5. MCI: Income statement forecasts

PLN in millions, unless otherwise stated

	2008	2009	2010	2011E	2012E	2013E
AUM	283	418	760	1180	1553	1775
Net sales	1.1	8.8	11.5	18.9	26.7	32.5
COGS	0.3	1.7	4.0	5.7	8.0	9.7
Gross profit	0.8	7.1	7.5	13.3	18.7	22.7
SG&A	7.1	5.4	7.3	11.3	14.8	17.0
Other operating income, net	37.8	48.3	163.5	88.3	129.3	156.5
Operating profit	31.6	50.0	163.7	90.3	133.1	162.2
Financials, net	-6.4	-7.5	-7.9	-9.8	-10.1	-10.4
Profit before tax	25.1	42.4	155.8	80.5	123.1	151.8
Income tax	-4.3	-2.5	0.9	0.4	0.7	1.1
Net profit	29.4	45.0	154.9	80.1	122.3	150.7
from discontinued operations	8.3	0.6	-1.2	0.0	0.0	0.0
Minority interest	0.4	0.0	0.0	0.0	0.0	0.0
Net profit for shareholders	21.6	44.4	156.1	80.1	122.3	150.7
AUM growth		48%	82%	55%	32%	14%
Sales growth		699%	31%	65%	41%	22%
Gross profit growth		744%	7%	76%	41%	22%
EBIT growth		58%	228%	-45%	47%	22%
Net profit growth		106%	252%	-49%	53%	23%

Source: Company data, DM BZ WBK estimates

Fig. 6. MCI: Balance sheet forecasts

PLN in millions, unless otherwise stated

	2008	2009	2010	2011E	2012E	2013E
Current assets	18.1	57.0	30.2	27.5	20.6	14.9
cash and equivalents	8.1	1.1	19.6	16.9	10.0	4.2
other short term investments	0.3	53.6	2.1	2.1	2.1	2.1
accounts receivable	9.5	2.2	8.5	8.5	8.5	8.5
inventories	0.1	-	-	-	-	-
prepaid expenses	-	-	-	-	-	-
Fixed assets	281.9	276.7	604.8	693.1	822.4	978.8
PPE	1.1	0.1	0.1	0.1	0.1	0.1
long-term investments	267.0	272.2	591.6	679.9	809.2	965.7
intangibles	0.6	0.5	0.4	0.4	0.4	0.4
goodwill	1.8	-	-	-	-	-
long-term receivables	9.5	0.3	7.1	7.1	7.1	7.1
Long-term deferred charges	1.9	3.6	5.6	5.6	5.6	5.6
Total assets	300.0	333.7	635.0	720.6	843.0	993.7
Current liabilities	69.4	14.8	18.7	18.7	18.7	18.7
bank debt	0.3	5.3	5.5	5.5	5.5	5.5
accounts payable	11.2	1.2	2.5	2.5	2.5	2.5
other current liabilities	57.9	7.2	10.1	10.1	10.1	10.1
Deferred income		1.0	0.5	0.5	0.5	0.5
Long-term liabilities	22.7	52.9	118.1	118.1	118.1	118.1
bank debt	21.3	52.5	63.3	63.3	63.3	63.3
other long-term liabilities	1.3	0.4	38.6	38.6	38.6	38.6
Provisions	0.0	-	16.1	16.1	16.1	16.1
Equity	206.2	266.0	498.1	583.7	706.1	856.8
share capital	44.7	47.313	52.0	57.6	57.6	57.6
capital reserves	140.0	174.4	290.0	446.1	526.2	648.5
net income	21.6	44.4	156.1	80.1	122.3	150.7
Minority Interest	1.7	-	0.1	0.1	0.1	0.1
Total liabilities and equity	300.0	333.7	635.0	720.6	843.0	993.7
Net debt	71.4	63.9	59.4	62.1	69.0	74.7

Source: Company data, DM BZ WBK estimates

Fig. 7. MCI: Cash flow statement forecasts

PLN in millions, unless otherwise stated

	2008	2009	2010	2011E	2012E	2013E
Cash flow from operations	74.2	(111.2)	57.5	(10.2)	(10.8)	(11.5)
Net profit	21.6	44.4	156.1	80.1	122.3	150.7
Provisions	-	1.0	15.6	-	-	-
Depreciation and amortization	-	-	-	-	-	-
Changes in WC, o/w	9.1	(2.6)	(4.9)	-	-	-
inventories	(0.1)	0.1	-	-	-	-
receivables	0.3	7.3	(6.2)	-	-	-
payables	9.0	(10.0)	1.3	-	-	-
Return on investments	(31.6)	(50.0)	(163.7)	(90.3)	(133.1)	(162.2)
Other, net	75.0	(104.0)	54.4	-	-	-
Cash flow from investment	(116.3)	54.3	(126.1)	2.0	3.8	5.8
Additions to PPE and intangibles	(0.6)	1.1	0.2	-	-	-
Change in long-term investments	(40.0)	44.8	(155.7)	2.0	3.8	5.8
Other, net	(75.7)	8.4	29.4	-	-	-
Cash flow from financing	43.0	49.8	87.1	5.6	0.0	(0.0)
Change in long-term borrowing	21.3	31.1	10.9	-	-	-
Change in short-term borrowing	(10.2)	5.0	0.2	-	-	-
Change in equity and profit distribution	31.5	15.4	76.0	5.6	0.0	(0.0)
Dividends (paid)	-	-	-	-	-	-
Other, net	0.3	(1.7)	0.1	-	-	-
Net change in cash and equivalents	0.8	(7.0)	18.5	(2.6)	(7.0)	(5.7)
Beginning cash and equivalents	7.3	8.1	1.1	19.6	16.9	10.0
Ending cash and equivalents	8.1	1.1	19.6	16.9	10.0	4.2

Source: Company data, DM BZ WBK estimates

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In preparing this document DM BZ WBK S.A. made use of the following valuation methods:

- 1) discounted cash flows ("DCF")
- 2) comparative.

The DCF valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

Explanations of special terminology used in the recommendation:

EBIT – earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization

P/E – price-earnings ratio

EV – enterprise value (market capitalisation plus net debt)

PEG - P/E to growth ratio

EPS - earnings per share

CPI – consumer price index

WACC - weighted average cost of capital

CAGR – cumulative average annual growth

P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio

NOPAT – net operational profit after taxation

FCF - free cash flows

BV – book value

ROE – return on equity

P/BV – price-book value

Recommendation definitions:

Buy - indicates a stock's total return to exceed more than 15% over the next twelve months.

Hold - indicates a stock's total return to be in range of 0%-15% over the next twelve months.

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During the last 12 months DM BZ WBK S.A. was a member of syndicate for financial instruments issued by Issuer.

DM BZ WBK S.A. did not buy or sell any financial instruments issued by the Issuer on its own account, in order to realize investment subissue or service agreements.

DM BZ WBK S.A. does not act as market maker, on principles specified in the Regulations of the Warsaw Stock Exchange, for the shares of Issuer.

DM BZ WBK S.A. does not act as issuer's market maker, on principles specified in the Regulations of the Warsaw Stock Exchange, for the shares of Issuer.

During the last 12 months DM BZ WBK S.A. has received remuneration for providing services for the Issuer. These services covered public offering of shares issued by Issuer and acting as member of syndicate.

During the last 12 months Bank Zachodni WBK S.A. which is connected with Dom Maklerski BZ WBK S.A. has not received any remuneration for providing investment banking services for the Issuer. In the future Bank Zachodni WBK S.A. is going to receive remuneration.

DM BZ WBK S.A. does not hold shares of the Issuer or any financial instruments of the Issuer being the subject of this document, exceeding 5% of the share capital.

Bank Zachodni WBK S.A., which is connected with DM BZ WBK S.A., is indirectly connected with Issuer.

DM BZ WBK S.A. does not rule out that in the period of preparing this document any Affiliate of DM BZ WBK S.A. might purchase shares of the Issuer or any financial instruments being the subject of this document which may cause exceeding 5% of the share capital.

Subject to the above, the Issuer may be bound by other contractual relationship with DM BZ WBK S.A. DM BZ WBK S.A. does not, directly or indirectly, hold financial instruments issued by the Issuer or financial instruments whose value depends on the value of financial instruments issued by the Issuer. However, it cannot be ruled out that, in the period of the next twelve months or the period in which this document is in force, DM BZ WBK S.A. will submit an offer to provide services for the Issuer or will purchase or dispose of financial instruments issued by the Issuer or whose value depends on the value of financial instruments issued by the Issuer. Except for broker agreements with clients under which DM BZ WBK S.A. sells and buys the shares of the Issuer at the order of its clients, DM BZ WBK S.A. is not party to any agreement which would depend on the valuation of the financial instruments discussed in this document.

Remuneration received by the persons who prepare this document may be dependent, in an indirect way, from financial results gained from investment banking transactions, related to financial instruments issued by the Issuer, made by DM BZ WBK S.A. or its Affiliates.

In the opinion of DM BZ WBK S.A., this document has been prepared with all due diligence and excludes any conflict of interests which could influence its content. DM BZ WBK S.A. is not obliged to take any actions which could cause financial instruments that are the subject of the valuation contained in this document to be valued by the market in accordance with the valuation contained in this document.

DM BZ WBK S.A. is subject to the supervision of the Financial Supervision Commission and this document has been prepared within the legal scope of the activity of DM BZ WBK SA.

The date on the first page of this report is the date of preparation and publication of the document.

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Dom Maklerski BZ WBK S.A. with its registered office in Poznan, Pl. Wolności 15, 60 - 967 Poznan, registered by the District Court in Poznan – Nowe Miasto i Wilda, Division VIII Commercial of the National Court Register under the number KRS 0000006408, Taxpayer Identification No. 778-13-59-968, with share capital amounting to PLN 45 073 400 fully paid up.