

MCI Capital SA – value in IAI and Morele.net

In our opinion the very good results in the first half of the year still do not exhaust the potential for growth in the value of MCI's portfolio investments. In this context, investments in IAI and Morele.net come out to the top. The discount of the current price of MCI Capital shares to BV at the end of H1 amounts to around 35%. After updating our forecasts, we adjust our valuation of MCI Capital shares from 30.9 PLN to 41.2 PLN.

Very good first half of 2021

After a good Q1, in Q2 2021 the company generated investment earnings of PLN 310.1m vs PLN 13.2m a year earlier, EBIT of PLN 304.9m and net profit of PLN 430.6m. In total, for the entire H1 2021, earnings from investments amounted to PLN 355m and net profit to PLN 467m. Book value per share at the end of 2Q21 was PLN 34.7.

Shoper's IPO success will highlight IAI's value?

The great success of the IPO of Shoper, which successfully offered PLN 362m worth of existing shares with a valuation of 66x EV/EBITDA for 2020, shows that the Polish capital market is well mature for high valuations of such fast-growing entities. In our opinion, this will show the market the value embedded in MCI's largest portfolio investment, IAI, which posted higher financial results than Shoper in 2020 and in July this year began its international expansion with the acquisition of a controlling stake in Shoprenter, the Hungarian market leader. A simplified application of Shoper's current EV/EBITDA multiple to IAI's valuation in our view suggests that the value of the IAI package held by MCI alone exceeds the capitalization of MCI as a whole.

Record liquidity, looking for new investments

MCI takes advantage of the very good market conditions and systematically exits its investments. In 2021, exits amounted to 218 million PLN. On the other hand, the company, holding the record-breaking liquidity, which at the end of the year is to reach 1 billion PLN, prepares next large investments, although - as the management board admits - it is not easy due to high valuations.

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 (PLN38.2/share) and peers valuation to the other PE funds (PLN44.3/share) and indicates present fair price at PLN41.2/share.

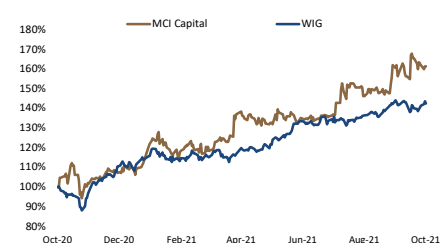
PLN m	2019	2020	2021F	2022F
Investment profits	156	167	500	213
Net profit	113	127	603	194
NAV/share	24.0	27.8	38.2	41.4
P/E (x)	10.1	9.1	1.9	5.9
P/NAV (%)	93%	80%	58%	54%

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

The preparation of report was finalized on 07/10/2021 at 8:10 a.m.. The first publication took place on 07/10/2021 at 8:20 a.m.



Current price	22.5 zł
Valuation	41.2 zł
Upside/downside	83%
Market cap.	PLN 1 157m
Free float	22%
Avg. Vol. 6M	4 819



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%

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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 2021 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	38.2	27.9	37%
Peers	0,50	44.3	33.9	31%
Average valuation		41.2	30.9	33%
Current price		22.5	19.2	16%
Upside/downside		83%	61%	

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 44.3 per share (previously PLN 33.9).**

Company	Currency	Market cap (PLN m)	P/BV (x) 2021	Div. yield
3I GROUP PLC	PLN	64 948	1.3	3.1%
GIMV NV	PLN	6 591	1.1	4.6%
EURAZEO	PLN	29 205	1.2	2.0%
DEUTSCHE BETEILIGUNGS AG	PLN	3 011	1.0	3.4%
Mean			1.16	
MCI Capital	PLN	1 157	0.59	2.4%
Premium/discount to mean (%)			-49%	
Implied fair value of MCI Capital	PLN		44.3	
Implied fair value of MCI Capital	PLN		44.3	

Source: Bloomberg, Noble Securities, data on 06/10/2021 at 2:34 p.m.

P&L (PLN m)	2019	2020	2021F	2022F
Investment management fees	na	na	36	32
Investment profits	156	167	500	213
Operating expenses	5	5	41	37
Other operating revenues and expenses	0	1	0	0
EBIT	151	164	495	208
Net financial income and expenses	-8	-8	-7	-7
Profit before taxation	143	156	488	201
Income tax	-29	-29	114	-7
Net profit	113	127	603	194

Source: MCI Capital ASI (2019, 2020), Noble Securities (forecasts, 2021F-2022F)

Balance sheet (PLN m)	2019	2020	2021F	2022F
Assets	1 527	1 695	2 213	2 379
Non-current assets	1 517	1 669	2 128	2 300
Investment certificates	1 511	1 662	2 126	2 298
Other non-current assets	6	7	2	2
Current assets	10	26	85	79
Cash and cash equivalents	8	23	25	19
Other current assets	2	2	60	60
Liabilities	1 527	1 695	2 213	2 379
Equity and liabilities	1 271	1 387	1 962	2 128
Equity	183	229	152	152
Non-current liabilities	77	96	96	96
Liabilities on bonds	105	133	13	13
Current liabilities	1	0	42	42
Liabilities on bonds	73	78	98	98
Liabilities on bills of exchange	25	49	49	49
Provisions	41	19	29	29
Other	7	10	20	20

Source: MCI Capital ASI (2019, 2020), Noble Securities (forecasts, 2021F-2022F)

Cash flow (PLN m)	2019	2020	2021F	2022F
CF from operating activities	138	15	36	28
CF from investment activities	0	0	0	0
CF from financial activities	-138	1	-34	-35
CF	1	15	2	-6
Cash at the beginning of the period	7	8	23	25
Cash at the end of the period	8	23	25	19

Source: MCI Capital ASI (2019, 2020), Noble Securities (forecasts, 2021F-2022F)

Selected indicators	2019	2020	2021F	2022F
Book value per share	24.01	27.77	38.15	41.38
Dividend per share	0.00	0.00	0.54	0.54
Net debt	135	141	150	156
Net debt/BV	11%	10%	8%	7%
Number of shares issued	53.0	50.0	51.4	51.4
P/BV	0.93	0.80	0.58	0.54

Source: MCI Capital ASI (2019, 2020), Noble Securities (forecasts, 2021F-2022F)

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FINAL REMARKS

Analyst preparing the Report: Krzysztof Radojewski

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Recent research concerning MCI Capital S.A.

Direction	na.	na.	na.	na.	na.
Date	14/05/2021 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	19.2	15.0	12.1	8.3	7.3
Valuation per share	30.9	30.4	24.9	21.9	26.5
WIG Index at the date of report	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)
Wielton	Hold	13,4	12,4	13,30	1%	28.09.2021	9M	Michał Sztabler
Ryvu Therapeutics	Accumulate	71,7	51,4	59,00	21%	23.09.2021	9M	Krzysztof Radojewski
Bioton	na	7,7	5,0	4,78	61%	09.09.2021	24M	Krzysztof Radojewski
Ailleron	na	25,2	13,7	13,45	87%	02.09.2021	24M	Dariusz Dadej
Aplisens	na	17,8	13,1	14,20	25%	31.08.2021	24M	Michał Sztabler
11 bit studios	Hold	455,3	460,2	407,60	12%	27.08.2021	9M	Maciej Kietliński
Sonel	na	15,2	11,8	11,00	38%	16.08.2021	24M	Michał Sztabler
Celon Pharma	Buy	59,4	39,3	35,50	67%	12.08.2021	9M	Krzysztof Radojewski
LW Bogdanka	Accumulate	29,3	24,9	46,15	-37%	05.08.2021	9M	Michał Sztabler
Krynicky Recykling	na	32,9	20,0	20,80	58%	13.07.2021	24M	Dariusz Dadej
Creepy Jar	Buy	977,0	836,0	732,00	33%	09.07.2021	9M	Maciej Kietliński
Selvita	Hold	87,0	84,0	72,00	21%	30.06.2021	9M	Krzysztof Radojewski
Dino Polska	Reduce	253,7	269,0	333,80	-24%	22.06.2021	9M	Dariusz Dadej
Aplisens	na	17,5	12,8	14,20	23%	08.06.2021	9M	Michał Sztabler
Boombit	Buy	32,1	26,4	20,15	59%	26.05.2021	9M	Maciej Kietliński
MCI Capital	na	30,9	19,2	22,30	39%	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	11,38	46%	06.05.2021	9M	Dariusz Dadej
OncoArendi	Hold	50,0	49,1	41,55	20%	06.05.2021	9M	Krzysztof Radojewski
TIM	na	39,6	28,4	41,50	-5%	05.05.2021	24M	Michał Sztabler
Artifex Mundi	Buy	23,1	17,0	13,30	73%	04.05.2021	9M	Maciej Kietliński
Bioton	na	8,0	5,6	4,78	68%	20.04.2021	24M	Krzysztof Radojewski
LW Bogdanka	Hold	23,2	23,9			19.04.2021	9M	Michał Sztabler
CD Projekt	Reduce	172,2	183,0	183,42	-6%	08.04.2021	9M	Maciej Kietliński
Forte	Accumulate	55,0	52,0	54,00	2%	31.03.2021	9M	Dariusz Dadej
Amica	Buy	219,3	144,2	140,60	56%	29.03.2021	9M	Michał Sztabler
Ryvu Therapeutics	Buy	66,2	53,0	59,00	12%	26.03.2021	9M	Krzysztof Radojewski
Artifex Mundi	Hold	12,8	12,5			01.03.2021	9M	Maciej Kietliński
Celon Pharma	Buy	59,6	45,8			17.02.2021	9M	Krzysztof Radojewski
Ten Square Games	Buy	687,9	529,0	503,50	37%	11.02.2021	9M	Maciej Kietliński
Wielton	Buy	10,6	8,1	13,30	-21%	05.02.2021	9M	Michał Sztabler
11 bit studios	Reduce	422,5	476,0			11.01.2021	9M	Maciej Kietliński
CD Projekt	Buy	388,5	296,0			16.12.2020	9M	Maciej Kietliński
LW Bogdanka	Reduce	16,4	18,8			11.12.2020	9M	Michał Sztabler
Krynicky Recykling	na	15,2	8,1			11.12.2020	24M	Dariusz Dadej
MCI Capital	na	30,4	15,0			11.12.2020	24M	Krzysztof Radojewski
Aplisens	na	18,0	11,2			11.12.2020	9M	Michał Sztabler
Tauron PE	Buy	2,9	2,1	3,36	-14%	03.12.2020	9M	Michał Sztabler
TIM	Buy	27,3	16,2			04.12.2020	24M	Michał Sztabler
Eurocash	Buy	18,0	13,8			02.12.2020	9M	Dariusz Dadej
Dino Polska	Sell	211,1	253,6			02.12.2020	9M	Dariusz Dadej
Aparator	Buy	28,9	22,3			27.11.2020	9M	Michał Sztabler
Bioton	Buy	7,3	4,4			06.11.2020	24M	Krzysztof Radojewski
Forte	Buy	48,3	34,5			05.11.2020	9M	Dariusz Dadej
CD Projekt	Buy	415,0	346,0			03.11.2020	9M	Maciej Kietliński
PKP Cargo	Suspended		9,9			22.10.2020	9M	Michał Sztabler
Amica	Buy	177,1	133,4			14.10.2020	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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