Economic moat = sustainable +7% yield

We believe DelfinGroup (DGR) has an economic moat resulting in a sustainable superior ROE and dividend yield. The DGR share has clearly outperformed the market since the IPO and we see more potential.

DGR has a strong economic moat

Using Morningstar's moat methodology, DGR fulfills the moat conditions (switching costs, intangible assets, network effect, cost advantage, efficient scale). Hence, we believe DGR has long-term competitive advantages enabling an ROE of +30% and dividend yield of 8-9% in 2022-24E.

Pawn loans fill an important function

In our view, pawn loans play an important role on the private loan market as it often enables people to get a loan in crucial moments of their lives. The borrower is liable only with the value of collateral and in the event of default the interest and principal obligations are cancelled upon it. If managed correctly, pawn loans can be more profitable and less risky (all pawn loans have collateral) than other types of private loans.

Outperformer

The DGR share is up 3% in 2022 widely outperforming the Baltic Benchmark Index (down 18%). Since the IPO in Oct. last year, the share is down 5% but investors have received dividends equivalent to a yield of 7% based on the IPO price of EUR 1.52. We see further appreciation potential and initiate coverage with a Base case FV of EUR 2.00/shr.

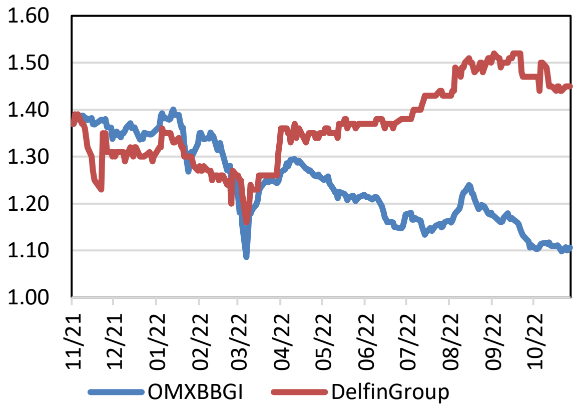
Key figures (MEUR)

	2020	2021	2022E	2023E	2024E
Net sales	23.7	25.5	34.5	44.8	54.9
Net sales growth	6.7%	7.7%	35.5%	29.7%	22.5%
EBITDA	9.5	10.2	12.7	19.0	24.5
EBITDA margin	40.2%	40.1%	36.8%	42.5%	44.7%
EBIT	4.9	5.2	7.5	12.0	16.0
EBIT margin	20.5%	20.4%	21.7%	26.8%	29.2%
EV/Sales	3.7	3.8	3.2	2.6	2.2
EV/EBITDA	9.2	9.4	8.8	6.2	4.9
EV/EBIT	18.0	18.5	14.9	9.8	7.6
P/E adj.	7.4	8.2	6.5	4.3	3.3
P/BV	6.2	3.8	3.5	2.8	2.2
EPS adj.	0.10	0.09	0.13	0.22	0.29
EPS growth adj.	-96.07%	-9.07%	42.36%	62.16%	34.02%
Div. per share	0.08	0.10	0.11	0.16	0.22
Dividend yield	5.21%	6.99%	7.82%	11.21%	15.02%

Source: Company data, Enlight Research estimates

Fair value range (EUR)	
Bull (term. EBIT marg. 23%)	2.26
Base (term. EBIT marg. 20%)	2.00
Bear (term. EBIT marg. 17%)	1.73

Key Data	
Price (EUR)	1.44
Ticker	DGR1R
Country	Latvia
Listed	Riga
Market Cap (EURm)	65
Net debt (EURm)	n.a.
Shares (m)	45.3
Free float	15%



Price range	
52-week high	1.52
52-week low	1.16

Analyst
ResearchTeam@enlightresearch.net

Coverage frequency
On Demand

Table of Contents

Key investment factors

Pawn loans fill an important function

We believe pawn loans play an important role on the private loan market as it often provides loans to people in crucial moments of their lives. If managed correctly, pawn loans can be more profitable and less risky compared to other private loan types. Assuming the collateral is correctly valued, a defaulted pawn loan will not result in a write-down for the pawn lender. In some respects, the borrower also takes less risk as the interest and principal obligations are cancelled upon default while on other types of loans, these obligations continue.

Worth noting is that in addition to offering pawn loans against collateral, DelfinGroup offers to purchase an item without a loan involved (the item is then sold in one of its 90+ stores or on its e-store). In 2021, over 161K items were sold in DelfinGroup's stores including the e-store (about 80-90% of all items are listed on the e-store). An often unknown fact is that the majority of the goods sold in DelfinGroup's stores are purchased from clients and then re-sold without a pawn loan involved. We believe the secondhand stores is an undervalued part of DelfinGroup, both in terms of monetary value, but also in terms of the contribution to the circular economy. In DelfinGroup's ESG report, it is estimated that the sale of goods on the secondary market saved over 10K tons of CO_2 emissions in 2021. We regard DelfinGroup as a reputable lender with high ethical standards.

Secondhand stores contribution to circular economy

	2018	2019	2020	2021
Items sold on secondary market (thous.)	145	151	157	162
Saved CO_2 emissions (tonnes)	9,870	10,281	10,771	10,793

Source: Company ESG report

Comparison of loan types at default

Cash need	Collateral	Loan default	Borrower credit history at default
Pawn loan	Get cash with pawned item as a collateral	Collateral taken, debt ends	Not affected
Consumer loan	Get cash without collateral	Debt remains, debt could be sold to debt collection firm, interest accrues	Negatively affected
Credit card loan	Get cash without collateral	Debt remains, debt could be sold to debt collection firm, interest accrues	Negatively affected
Second-hand marketplace	Get cash from sale of item	n/a	n/a
Car loan	Get cash to buy a car with the car as collateral	Lender takes car, debt remains and could be sold to debt collection firm, interest accrues	Negatively affected
Housing loan	Get cash to buy a house with the house as collateral	Lender takes house, debt remains and could be sold to debt collection firm, interest accrues	Negatively affected

Source: Enlight Research

Delfin Group has an Economic Moat

A moat is a deep waterfilled trench around a castle used to keep enemies from entering. The term "economic moat," was popularized by Warren Buffett, and refers to a company's ability to maintain competitive advantages over its competitors to protect its long-term profits and market share. We believe DelfinGroup has an Economic Moat that enables long-term above normal industry Return on Equity (ROE). To illustrate this, we apply Morningstar's well-known moat methodology that focus on the following five sources of moat (a) switching costs, (b) intangible assets, (c) network effect, (d) cost advantage, and (e) efficiency scale.

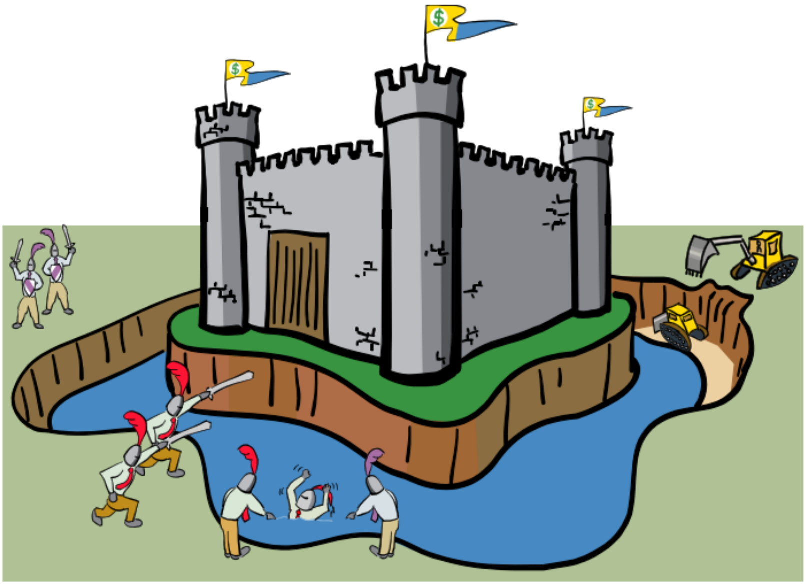


Illustration by Sente Corporation.

Moat source	Description	DelfinGroup moat analysis
Switching costs	Switching costs give a company pricing power by locking customers into its unique ecosystem. Beyond the expense of moving, they can also be measured by the effort, time and psychological toll of switching to a competitor.	DelfinGroup has over 400K registered clients. A registered client has much easier access to all DelfinGroup's products. Most clients find the registration process annoying and time consuming i.e., once done, you tend to stick to the same lender to avoid having to register with another lender. Conclusion: We believe the time and psychological barrier to go through the registration process is a clear source of DelfinGroup's economic moat.
Intangible assets	Intangible assets may include brand recognition, patents, and regulatory licenses. They may prevent competitors from duplicating products or allow a company to charge premium pricing.	DelfinGroup's pawn lending **brand name**, **Banknote** is number one in Latvia in terms of market share, while its consumer loan brand name **VIZIA** is one of the market leaders (Banknote is also one of the leading consumer loan brand names in Latvia). DelfinGroup has two active non-bank consumer **lending licenses** which means they can serve as back-up licenses for each other if something unforeseen happens. The requirements of a non-bank consumer lending license are (1) paid-up capital of EUR 425K, (2) license issuance fee of EUR 250K, and (3) annual state fee of EUR 55K. Conclusion: We believe DelfinGroup's lending licenses and leading brands are two clear sources of its economic moat.

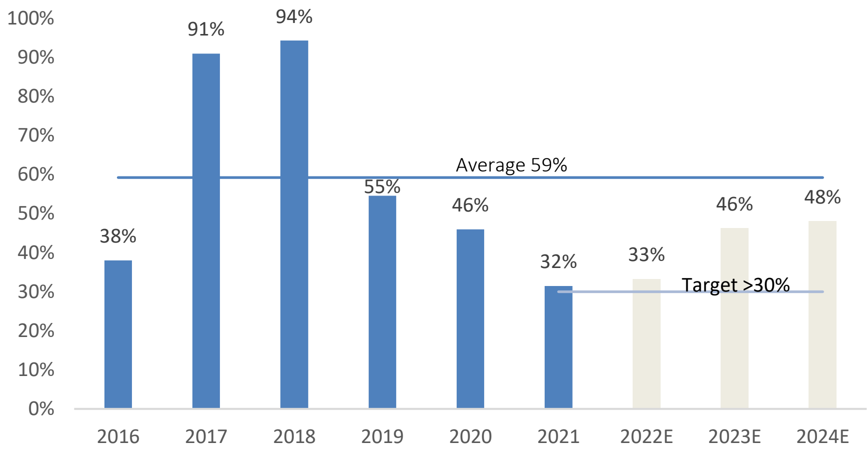
Moat source	Description	DelfinGroup moat analysis
Network effect	A network effect is present when the value of a product or service grows as its user base expands. Each additional customer increases the products or service value exponentially.	The attractiveness of DelfinGroup's secondhand stores (both physical and online) increase as the number of products increase, which is a function of a growing number of clients. Worth noting is that products in the secondhand stores are both pawned products and purchased secondhand products for resale. With over 90 stores, DelfinGroup has the widest network of secondhand stores in Latvia, which also boosts the network effect. Conclusion: We believe DelfinGroup's increasing number of clients and stores is a clear source of their economic moat
Cost advantage	Companies that can produce products or services at lower costs than competitors are often able to sell at the same price as competition and gather excess profit or have the option to undercut competition.	DelfinGroup's low cost of capital compared to its competitors allows it to offer products at lower cost than its competitors. Based on its latest bond, DelfinGroup's cost of capital is lower than competitors such as e.g., Mogo, Sun Finance, and 4finance. Conclusion: We believe DelfinGroup's relatively low cost of capital vs. its competitors is a strong source of its economic moat.
Efficient scale	In a market limited in size, potential new competitors have little incentive to enter because doing so would lower the industry's returns below the cost of capital.	The pawn loan market is highly profitable but small with an estimated loan book size of EUR 6m in Latvia. Given the EUR 425K licensing investment needed and the small size of the market, the expected return is not attractive for new players, especially given the likely cost of capital of around 11%. Furthermore, to build DelfinGroup's branch network, and hire qualified personnel would result in an investment of approximately EUR 2m. Worth noting is that DelfinGroup has over 90 branches with over 200 employees trained to assess and buy & sell goods. Conclusion: We believe the small size of the pawn loan market and the relatively large entry investment needed serves as a significant source of economic moat for DelfinGroup.

Source: Morningstar (Moat source, Description), Enlight Research (DelfinGroup moat analysis)

DelfinGroup's Economic Moat enable superior ROE and Dividends

We believe the best proof of DelfinGroup's economic moat is its long history of outstanding ROE. Between 2016-21, the annual ROE has been between 32-94% with an average of 59%. Even without the extreme years 2017-18, the 2016—21 ROE average was at an outstanding 41%. It might be hard to believe a company can have such high sustainable ROE. However, we believe it is made possible by the economic moat factors described above. Furthermore, we believe DelfinGroup will continue to benefit from its economic moat and enjoy a long-term superior ROE. We forecast an annual ROE of 33-48% in the forecast period 2022-24, which is comfortable above the company's minimum target of 30% stated in its latest guidance published in September this year.

DelfinGroup's long history of outsized Return on Equity (ROE)



Source: Company reports (historical), Enlight Research (estimates)

Another positive effect of DelfinGroup's economic moat are durable superior dividends as proven by its dividend track record. Since the IPO, DelfinGroup has paid dividends each quarter up to 50% or more of the previous quarter's net profit plus an annual dividend i.e., a total five potential dividends per year. The company's dividend policy states that up to 50% of the quarterly profits shall be paid as dividends. In addition, an annual dividend shall be paid taking into consideration that the equity ratio shall be 20% or higher (latest published targets specifies >25% in 2022, and >27% in 2023-24). We expect DelfinGroup to continue to fulfill its dividend policy and estimate a total dividend of EUR 0.113 per share this year equal to a yield of 7.8%. In 2023, and 2024, we forecast the dividend yield to increase to 11.2%, and 15.0%, respectively.

Dividends	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Net profit (EURm)	1.4	1.2	1.6	1.8	4.2	6.0	9.8	13.1
Weighted avg. no. shares (m)	45.3	45.3	45.3	45.3	41.0	45.3	45.3	45.3
Reported/Estimated EPS (EUR)	0.031	0.027	0.034	0.040	0.103	0.133	0.215	0.288
Dividend, quarterly (EUR/shr)	0.016	0.013	0.017	0.020	0.047	0.066	0.108	0.144
Dividend payout, quarterly (EUR)	50%	50%	50%	50%	46%	50%	50%	50%
Dividend, annual (EUR/shr)	na	na	na	na	0.055	0.046	0.054	0.072
Dividend payout, annual	na	na	na	na	54%	35%	25%	25%
Total dividend, annual (EUR/shr)	na	na	na	na	0.102	0.113	0.161	0.216
Total dividend payout, annual	na	na	na	na	99%	85%	75%	75%
Share price (EUR)	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44
Dividend yield	1.1%	0.9%	1.2%	1.4%	7.1%	7.8%	11.2%	15.0%

Source: Company reports (historical), Enlight Research (estimates)

Valuation

DCF valuation

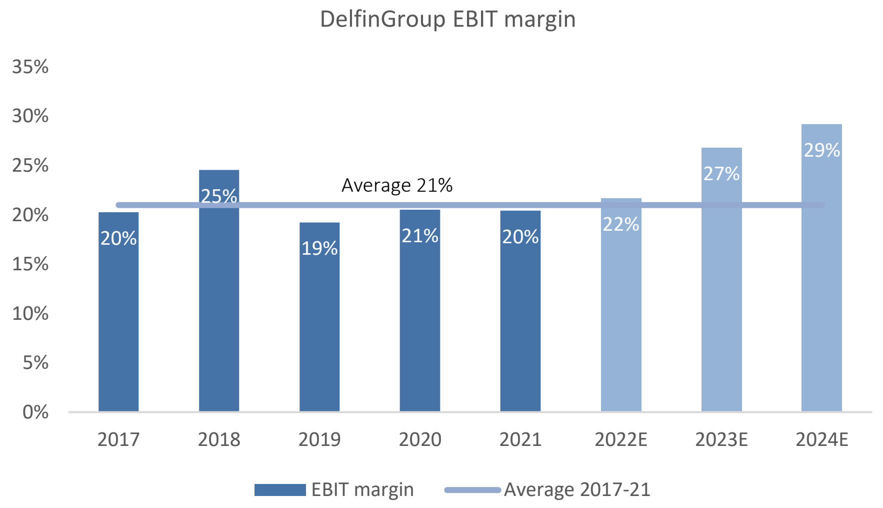
Our Base case DCF Fair value per share is EUR 2.00 indicating an upside of around 35%. Our Bear and Bull case Fair value per share are EUR 1.73, and EUR 2.26, respectively. Our assumed terminal EBIT margin for the Base case is 20.0% while it is 15.0% for the Bear case, and 25.0% for the Bull case (all other parameters are the same). Our assumed terminal EBIT margin might appear high, but it is based on the historical EBIT margin of around 20% and in our view, the company's economic moat will enable the EBIT margin to stay above 20%.

DCF Valuation Scenarios	Bear	Base	Bull
WACC	13.5%	13.5%	13.5%
Terminal sales growth	3.0%	3.0%	3.0%
Terminal EBIT margin	15.0%	20.0%	25.0%
Fair Value per share	1.73	2.00	2.26
Upside/Downside (last price)	20%	39%	57%
DelfinGroup share price (EUR)	1.44	1.44	1.44

Source: Enlight Research

Sensitivity parameters	Current	Step	Test values & Results										
Equity beta	1.20	0.05	0.95	1.00	1.05	1.10	1.15	**1.20**	1.25	1.30	1.35	1.40	1.45
Fair value (DCF)	*2.00*		*2.29*	*2.22*	*2.16*	*2.11*	*2.05*	***2.00***	*1.95*	*1.90*	*1.85*	*1.80*	*1.76*
Target debt ratio*	20.0 %	3.0 %	5%	8%	11%	14%	17%	**20%**	23%	26%	29%	32%	35%
Fair value (DCF)	*2.00*		*1.74*	*1.79*	*1.84*	*1.89*	*1.94*	***2.00***	*2.06*	*2.11*	*2.18*	*2.24*	*2.31*
Risk-free IR	3.0 %	0.5 %	0.5 %	1.0 %	1.5 %	2.0 %	2.5 %	**3.0 %**	3.5 %	4.0 %	4.5 %	5.0 %	5.5 %
Fair value (DCF)	*2.00*		*2.68*	*2.52*	*2.37*	*2.24*	*2.11*	***2.00***	*1.89*	*1.79*	*1.70*	*1.62*	*1.54*

Source: Enlight Research, *Debt / (Debt + Equity)



Source: Company reports (historical), Enlight Research (estimates)

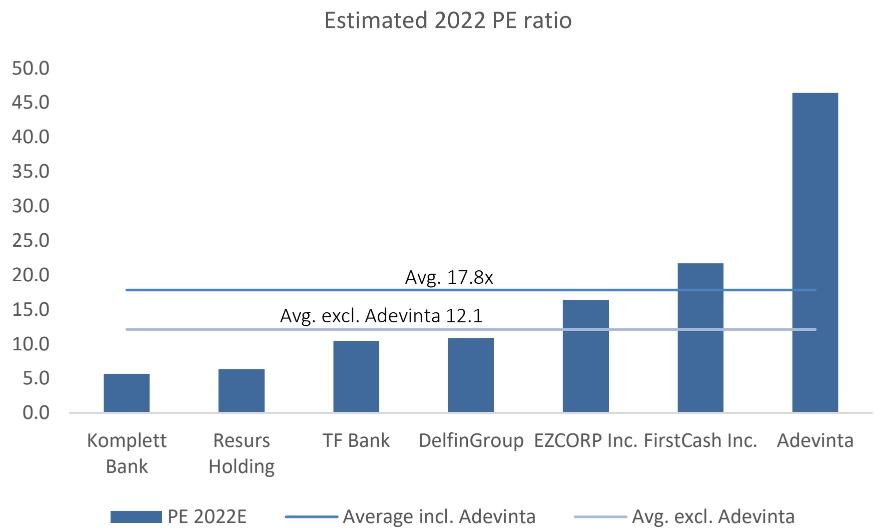
Peer valuation

Our peer group consist of three consumer lenders (Komplett Bank, Resurs Holding, TF Bank) listed in Sweden and Norway, and two US listed pawn lenders (EZCORP, FirstCash). In addition, we have included one Norwegian listed online classifieds portal for second-hand goods (Adevinta). We believe one classified portal in the peer group is motivated by the fact that DelfinGroup's e-store is one of the largest secondhand online stores in Latvia. Opening their online store so that users can post items to sell (not only buy) could reveal significant value in our view. Based on PE 2022E, DelfinGroup is trading at a discount of around 39% to the peer average. (10.9x vs. peer avg. of 17.8x). Applying the 2022E peer average PE of 17.8x to DelfinGroup indicates a share price of EUR 2.36. Excluding the classified portal, Adevinta, from the peer group, results in a peer group average 2022E PE of 12.1x, indicating a 10% DGR discount.

Consumer lending, Pawn shops, Classifieds

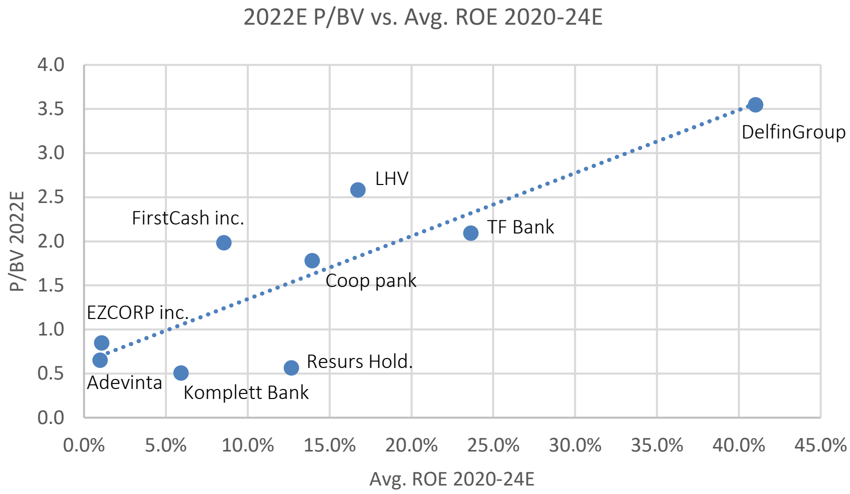
Company	Ccy	Price (last)	Mcap (m) (last)	PE 2021	PE 2022E	PE 2023E	PE 2024E	Div. yield 2021	Div. yield 2022E	Div. yield 2023E	Div. yield 2024E	P/BV 2021	P/BV 2022E	P/BV 2023E	P/BV 2024E	ROE 2021	ROE 2022E	ROE 2023E	ROE 2024E
Komplett Bank	NOK	5.08	953	nm	5.6	6.0	5.4	0.0%	4.9%	9.8%	9.8%	0.5	0.5	0.5	0.4	-9.8%	9.4%	8.0%	8.4%
Resurs Holding	SEK	24	4,800	3.2	6.3	5.9	5.9	18.0%	8.5%	9.8%	9.5%	0.7	0.7	0.6	0.6	19.8%	10.5%	10.6%	10.0%
TF Bank	SEK	165	3,548	13.1	10.4	8.2	6.8	0.6%	0.8%	1.0%	1.5%	2.9	2.3	1.8	1.5	24.4%	24.0%	24.2%	23.2%
EZCORP Inc.	USD	9.67	548	na	16.4	14.9	13.8	0.0%	0.0%	0.0%	0.0%	0.8	0.8	0.7	0.7	1.3%	1.0%	6.6%	6.6%
FirstCash Inc.	USD	98.22	4,620	32.3	21.7	17.3	12.2	1.2%	1.7%	1.9%	1.9%	2.6	2.6	2.4	2.4	8.1%	8.5%	9.0%	9.0%
Adevinta	NOK	65.00	79,064	nm	46.4	28.8	20.3	0.0%	0.2%	0.3%	0.7%	1.0	0.9	0.8	0.8	1.6%	2.4%	2.9%	3.8%
Average				**16.2**	**17.8**	**13.5**	**10.7**	**3.3%**	**2.7%**	**3.8%**	**3.9%**	**1.4**	**1.3**	**1.1**	**1.1**	**7.6%**	**9.3%**	**10.2%**	**10.2%**
DelfinGroup	EUR	1.44	65	15.5	10.9	6.7	5.0	7.1%	7.8%	11.2%	15.0%	3.8	3.5	2.8	2.2	31.7%	33.3%	46.2%	49.7%

Source: MarketScreener (consensus), Enlight Research (DelfinGroup), Updated on 31 October 2022



Source: MarketScreener (consensus), Enlight Research (DelfinGroup), Updated on 31 October 2022

Based on P/BV 2022E, DelfinGroup might appear highly valued at 3.5x vs. the peer average of 1.3x. However, we believe the superior ROE (2022E ROE 33% vs. peer avg. 9%) motivates a significant P/BV premium. This is also evident on a scatter chart (see next page) of the P/BV 2022E vs. the avg. ROE 2020-24E where DelfinGroup appears on the trendline rather than overvalued. Worth noting is that we have added two Baltic listed banks (LHV, Coop pank) to the P/BV vs. ROE peer chart to add a Baltic dimension. Based on this chart, DelfinGroup offers better value than the Baltic peers, LHV and Coop pank.



Source: MarketSreener (consensus), Enlight Research (DelfinGroup, LHV, Coop pank), Updated on 31 October 2022

Forecast

Loan book and Net interest income Forecast

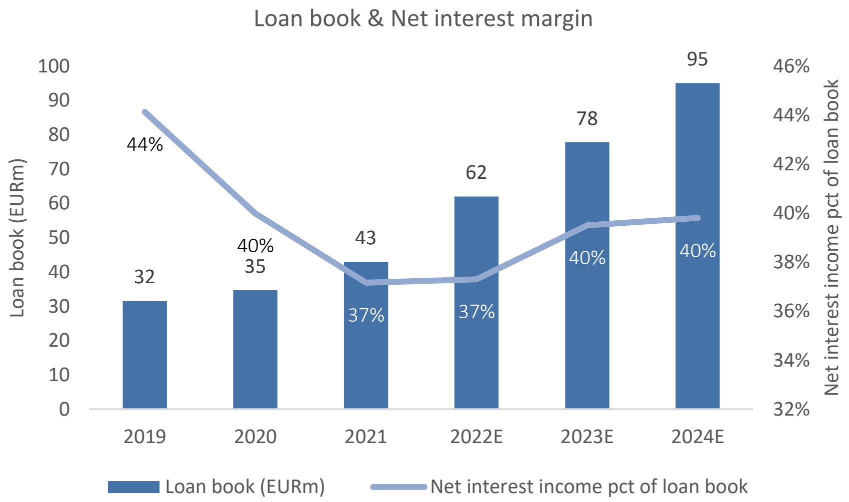
The loan book size is the main determinant of the biggest revenue stream, Interest and similar income (about 80% of total revenues). In 2021, the loan book grew 24% to EUR 43m, while the H1/22 y-on-y growth was 54% to EUR 54m. On 13 September, the company published new targets indicating a loan book growth of 44% to EUR 62m in 2022, 26% to EUR 78m in 2023, and 22% to EUR 95m in 2024. Our loan book forecast is aligned with these targets. Our interest income and interest expense are calculated as a percentage of the loan book, which gives the Net interest income. For 2022, we estimate an Interest income of EUR 27.3m equal to 44.1% of the loan book, and an Interest expense of EUR 4.2m equal to 6.8% of the loan book. Both the interest income and expense are expected to increase as a percentage of the loan book in the forecast period 2022-24. The credit losses are estimated to EUR 5.2m this year equal to 8.4% of the loan book (forecast to come down somewhat coming years).

Loan book forecast (EURm)	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Loan book & receivables	**47**	**54**	**57**	**62**	**43**	**62**	**78**	**95**
chg y-on-y	46.2%	61.7%	49.9%	44.3%	23.9%	44.3%	25.5%	22.3%
Revised Loan book Guidance on 13.09.2022						62	78	95
Difference, Enlight forecast						0.0%	0.3%	-0.1%
Difference, prev. guidance						21.6%	na	35.7%
Loan book Guidance from IPO						51.0	na	70.0
Difference, Enlight forecast						-17.7%	na	-26.4%

Net interest income (EURm)	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Interest and similar income	6.0	6.7	7.0	7.6	19.8	27.3	36.2	44.7
Interest and similar income pct of Loans	0.1	0.1	0.1	0.1	0.5	0.4	0.5	0.5
Interest and similar expense	-0.7	-1.0	-1.2	-1.4	-3.9	-4.2	-5.4	-6.8
Interest and similar expense pct of Loans	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Net interest income	**5.3**	**5.7**	**5.8**	**6.2**	**16.0**	**23.1**	**30.7**	**37.9**
chg y-on-y	40.0%	60.1%	38.7%	42.5%	15.1%	44.8%	32.9%	23.2%
Net interest margin	11.3%	10.7%	10.2%	10.1%	37.2%	37.3%	39.5%	39.8%

Credit losses	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Credit loss expenses	1.1	1.3	1.4	1.5	2.2	5.2	6.2	7.1
Credit loss expenses pct of Loans	2.3%	2.3%	2.4%	2.4%	5.1%	8.4%	8.0%	7.5%

Source: Company reports (historic), Enlight Research (estimates)



Source: Company reports (historic), Enlight Research (estimates)

Profit & Loss Forecast

Our forecast Interest income and Interest expense was well as Credit loss expenses (see tables above) feed into our income statement forecast. In addition, the revenue stream, Net turnover is forecast in the income statement. Net turnover is the gross sales from sale of goods minus its returns, allowances, and discounts. Both our EBITDA and Pre-tax profit estimates are in line with the recently published company targets. Worth noting is that these estimates indicate a ROE of 33% this year, 45% in 2023, and 46% in 2024. This might seem high, but we believe it is possible due to DelfinGroup's economic moat that keeps competitors away and results in superior margins (see Key investment factors).

P&L (EURm)	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Net turnover	1.5	1.9	1.9	1.9	5.7	7.2	8.6	10.2
Cost of sales	-0.9	-1.3	-1.2	-1.3	-3.7	-4.7	-5.4	-6.4
Interest and similar income	6.0	6.7	7.0	7.6	19.8	27.3	36.2	44.7
Interest and similar expense	-0.7	-1.0	-1.2	-1.4	-3.9	-4.2	-5.4	-6.8
Credit loss expenses	-1.1	-1.3	-1.4	-1.5	-2.2	-5.2	-6.2	-7.1
Total Revenue	**7.5**	**8.6**	**8.9**	**9.5**	**25.5**	**34.5**	**44.8**	**54.9**
Gross profit	**4.8**	**5.1**	**5.1**	**5.4**	**15.8**	**20.4**	**27.7**	**34.5**
Selling expense	-1.8	-1.7	-1.7	-1.6	-6.2	-6.8	-8.1	-9.6
Administrative expense	-1.3	-1.3	-1.4	-1.5	-4.2	-5.5	-6.7	-8.0
Other operating income	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Other operating expense	-0.2	-0.2	-0.2	-0.2	-0.3	-0.8	-1.0	-1.0
Operating profit	**1.6**	**2.0**	**1.8**	**2.1**	**5.2**	**7.5**	**12.0**	**16.0**
Pre-tax profit	**1.6**	**2.0**	**1.8**	**2.1**	**5.2**	**7.5**	**12.0**	**16.0**
Income tax	-0.2	-0.7	-0.3	-0.3	-1.0	-1.5	-2.3	-3.0
Net profit	**1.4**	**1.2**	**1.6**	**1.8**	**4.2**	**6.0**	**9.8**	**13.1**
Depr. & amort.	-0.3	-0.3	-0.2	-0.2	-1.1	-1.0	-1.6	-1.7
EBITDA actual/estimated	**2.6**	**3.2**	**3.2**	**3.7**	**10.2**	**12.7**	**19.0**	**24.5**
Revised EBITDA Guidance on 13.09.2022						12.7	19.0	24.5
Difference, Enlight forecast						0.0%	0.2%	0%
Difference, prev. guidance						5.8%	na	39.2%
Revised Pre-tax profit Guidance on 13.09.2022						7.5	12.0	16.0
Difference, Enlight forecast						0%	0%	0%
Difference, prev. guidance						-14%	na	24%
EBITDA Guidance from IPO						12.0	na	17.6
Difference						6%	na	39%
Pre-tax profit Guidance from IPO						8.7	na	12.9
Difference						-14%	na	24%

Sales growth	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Sales sequential	-8.8%	31.6%	-3.1%	3.3%	na	na	na	na
Sales y-on-y	21.5%	29.9%	36.7%	20.2%	-8.1%	27.0%	20.0%	18.0%

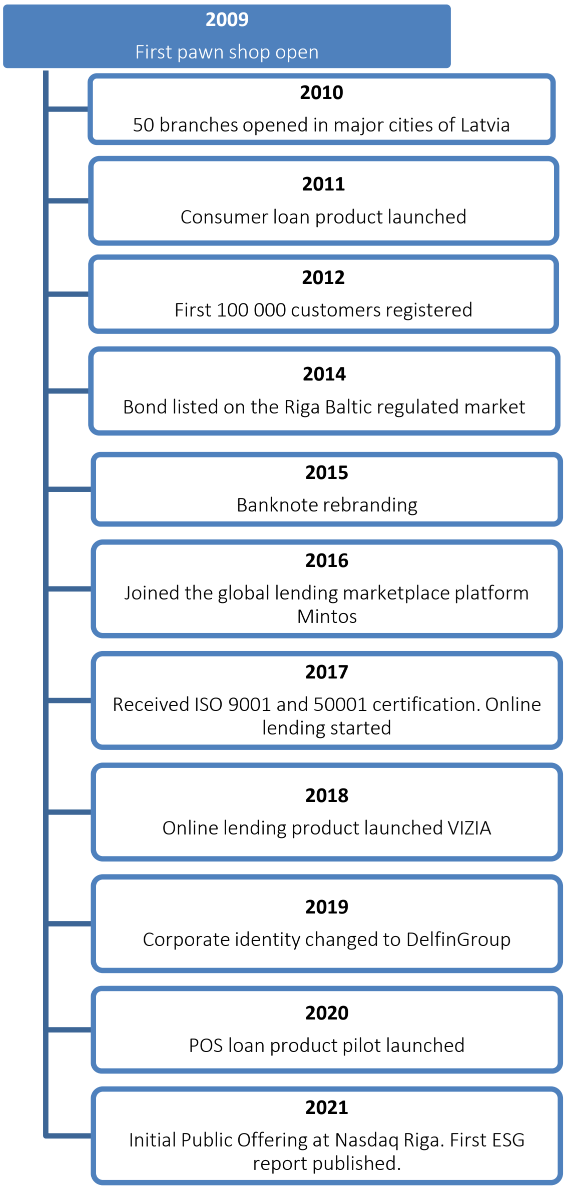
Margins	Q1/22	Q2/22	Q3/22E	Q4/22E	2021	2022E	2023E	2024E
Gross margin	64.3%	59.7%	57.2%	56.4%	61.9%	59.2%	61.8%	62.8%
EBITDA margin	34.5%	37.2%	36.2%	38.6%	40.0%	36.8%	42.5%	44.7%
Operating profit margin	21.4%	22.7%	20.5%	22.1%	20.4%	21.7%	26.8%	29.2%
Pre-tax profit margin	21.4%	22.7%	20.5%	22.1%	20.4%	21.7%	26.8%	29.2%
Net profit margin	18.9%	14.1%	17.4%	19.2%	16.6%	17.4%	21.8%	23.8%

Source: Company reports (historic), Enlight Research (estimates)

Company description

History

DelfinGroup was founded in 2009 by Agris Evertovskis (currently Chairman of the Supervisory Board), when the first pawn shop opened under the brand name Lombards24.lv (rebranded to DelfinGroup in 2019). In 2010, after just one year in operation, the Company had a network of 50 pawn shops in 15 cities in Latvia. In 2011, the Company started offering consumer loans via its branch network. In 2015, the Company acquires the oldest pawnshop in Latvia, Riga City Pawnshop, founded in 1802. In November 2016, when the government started to regulate the industry more strictly, DelfinGroup was granted a license by the Latvian Consumer Rights Protection Center (CRPC) to issue consumer loans, including online loans (started in 2017). In 2018, the online store for sale of second-hand goods was launched. In October 2021, Delfin Group raised EUR 8.1m from 5 927 investors through an IPO on the Nasdaq Riga Baltic Main List. Today, DelfinGroup has over 300 employees and more than 90 branches offering consumer loans, pawn loans, sale of second-hand goods, and POS loans. At the end of H1/22, the Group's loan portfolio amounted to EUR 54m.

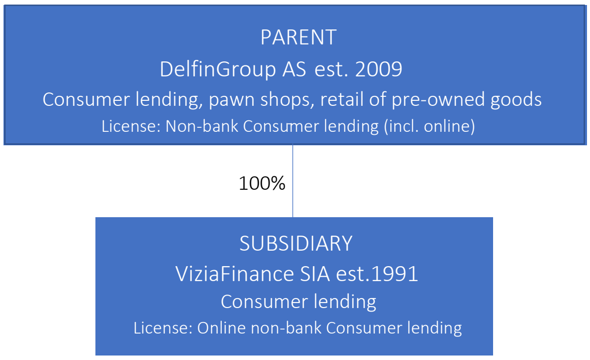


Source: Company presentation, Company IPO prospectus

Organizational structure

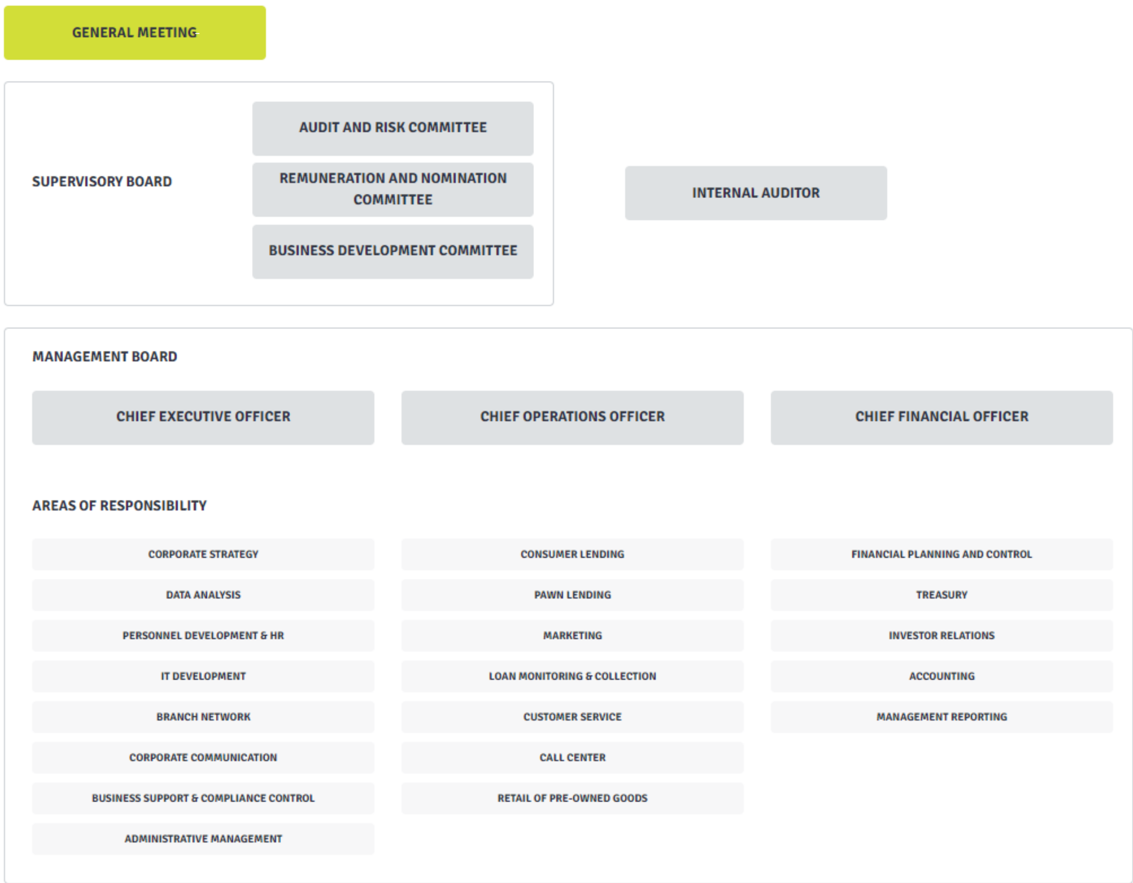
DelfinGroup AS is the parent company of the Group. This company has a non-bank consumer lending license and manages the Banknote brand (pawn loans, consumer loans including online, POS loans, sale of second-hand goods). The fully owned subsidiary, ViziaFinance, manages the online consumer lending platform, VIZIA and holds a non-bank consumer online lending license. Worth noting is that both DelfinGroup AS and its subsidiary ViziaFinance SIA holds a non-bank consumer lending license which means they could serve as a backup license for each other.

DelfinGroup Legal Structure



Source: Company reports

DelfinGroup Governance Structure



Source: Company website

Product offer

DelfinGroup's products consists of consumer loans, pawn loans, sale of secondhand goods and POS-loans offered through the Banknote and the VIZIA brands. In addition, the Company has one of the largest Latvian secondhand marketplace store operations (physical stores and online). Less than half of the items in the secondhand stores originate from the pawn business i.e., the company is truly one of the most popular places in Latvia to buy and sell secondhand goods without any loan involved.

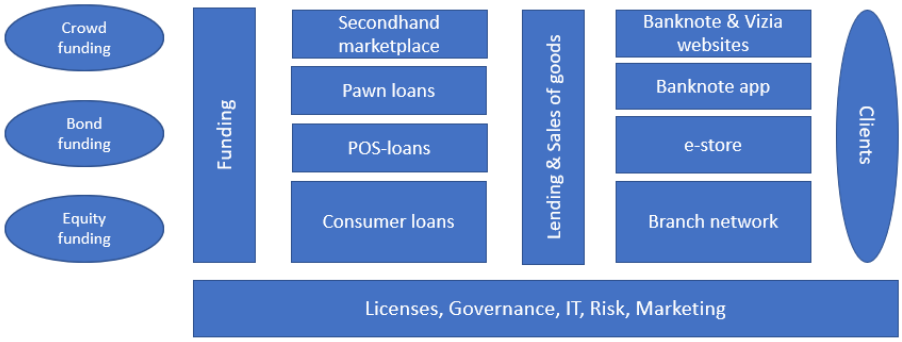
Product	Loan amount	Apply	Term	Description
Consumer loans	EUR 50 – 10,000	Branch or online	Up to 60 months	Non-collateralized loans offered through the Banknote and VIZIA brand names
Pawn loans	Up to 95% of collateral value	Branch or online	Up to 24 months	Collateralized loans offered through the Banknote brand name
POS-loans	EUR 50 – 1,400	Branch or online	Up to 36 months	Buy-now-pay-later loans offered through the VIZIA and the Banknote brand name (can be used in Banknote stores and other retail stores).
Sale of used goods	na	Branch or online	na	Purchase & Sales of secondhand goods including pawned goods

Source: Company website

Business model

DelfinGroup source capital from the following main sources: crowd lending platforms such as Mintos, bonds, and equity. The capital sourced is then used for the following types of loan products: consumer loans, POS-loans, and pawn loans. Some of the capital is also used to buy pre-owned goods for resale. Both the lending products and the sale of pre-owned goods are distributed to clients through the company's branch network and e-store. The platform for all products is non-bank consumer lending licenses, group wide governance, IT, risk and marketing departments.

DelfinGroup business model

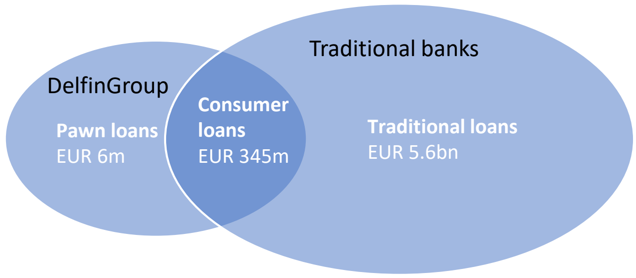


Source: Enlight Research

Market overview

The loan market for private individuals consists of traditional loans such as e.g., housing loans and car loans, which is dominated by the large traditional banks. In recent years, traditional banks have also entered the high margin consumer loan segment, which is characterized by small sized loans (EUR 50-10,000) without collateral. DelfinGroup is active in the consumer loans segment as is purely consumer loan focused companies such e.g., 4finance, and Inbank. In addition, DelfinGroup is active in the Pawn loans segment, which is a separate segment of the private lending market. It is much smaller than the consumer loan and the traditional loan segment but at the same time, the profitability is significantly higher and competition lower.

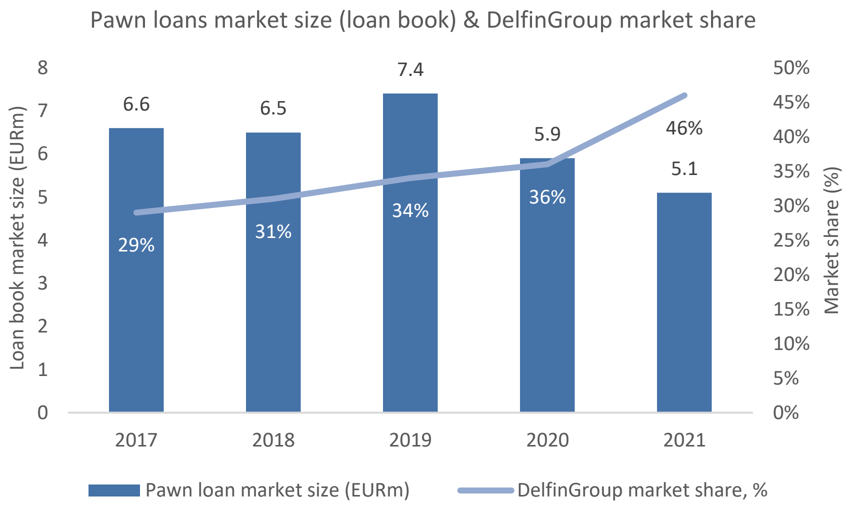
Latvian private loan market segments & market size



Source: Enlight Research (pawn loans market), financelatvia.eu (traditional loans and consumer loans market)

Latvian pawn loans market

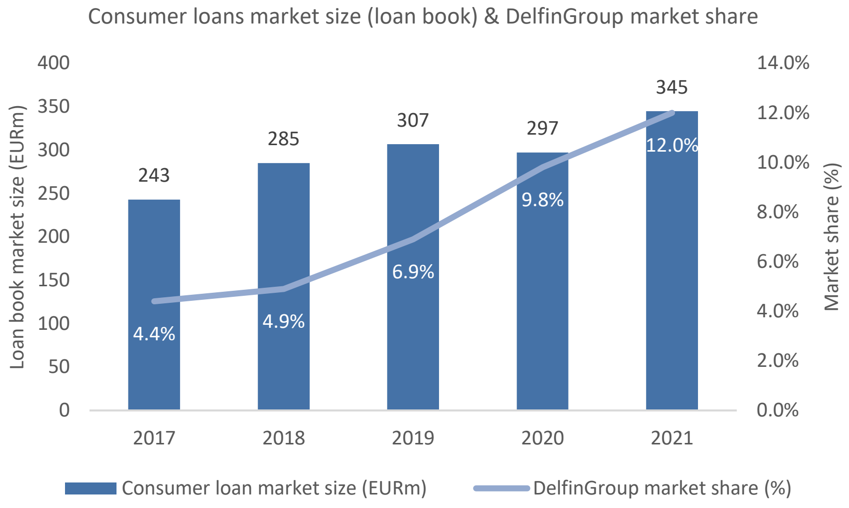
In 2019, before the pandemic, the pawn loans market was worth EUR 7.4m in terms of loan book size. However, in 2020, the pandemic caused a 20% decline in the market size to EUR 5.9m as pandemic restrictions prohibited people from going to the shops. In 2021, the market size declined another 14% to EUR 5.1m, which means the total market decline during the pandemic years 2020-21 was 31% compared to 2019. This year, the market has recovered, and we forecast a 2022 market size of EUR 6m equal to a growth of 18%. DelfinGroup has been a winner during the pandemic years increasing its market share from 34% in 2019 to 36% in 2020, and to 46% in 2021.



Source: Consumer Rights Protection Center (market size), DelfinGroup (market share)

Latvian consumer loans market

The consumer loans market was worth EUR 345m in 2021 (loan book size) i.e., it is significantly larger than the pawn loans market. The negative impact from the pandemic has been minimal with a small 3% decline in 2020 to EUR 297m. Already in 2021, the consumer loans market recovered with a growth of 16% to EUR 345, which means it widely surpassed its pre-pandemic 2019 size of EUR 307m. DelfinGroup has steadily increased its consumer loans market share from 4.4% in 2017 to 12.0% in 2021.



Source: Consumer Rights Protection Center (market size), DelfinGroup (market share)

Main players in DelfinGroup's market segments

Pawn loans	Non-bank consumer loans	POS loans	Secondhand marketplace
DelfinGroup Vita Credit E-Lats	DelfinGroup Aizdevums.lv 4Finance IPF digital InCredit ExtraCredit InBank	DelfinGroup Lateko Aizdevums.lv InBank	DelfinGroup ss.lv (SIA SS) Andele Mandele (SIA MUDIA) Facebook Market

Source: Company websites

Risk factors

Below risks is not a complete list of risks related to DelfinGroup, but rather a list of risks that we view as the most important to highlight given the current environment and our key investment factors. For examples of additional risks, we recommend reading the prospectus and the annual report.

Regulatory risk

The Company operates in a regulated market under licenses granted by the Latvian Consumer Rights Protection Center (CRPC). A major change in the regulations and/or a breach resulting in a loss of a license could affect the prospects of the Company significantly.

Competition

Despite ongoing consolidation in the industry, we cannot rule out the risk of new entrants. In case of increased competition, particularly in consumer loans, there could be price pressure on the interest rates charged.

Personnel and workforce

Personnel expenses represent a significant share of the Group's costs. Increase in salaries could put pressure on profitability. Furthermore, high employee turnover could negatively affect profits.

Borrower credit risk

There is a risk that borrowers will default on loans, which could have a negative effect on profits.

Russia – Ukraine risk

The company has no direct exposure to Russia, Ukraine, or Belarus. However, a long-term recession caused by the war could affect the loan demand negatively.

Pandemic restrictions risk

The pandemic restrictions during 2020-21 affected the pawn loan business negatively as people could not go to the pawn loan branches. Hence, re-initiated pandemic restrictions will most likely have a negative effect on the pawn loans business.

Income Statement	2020	2021	2022E	2023E	2024E
Net sales	23.7	25.5	34.5	44.8	54.9
Total operating costs	-14.2	-15.3	-21.8	-25.8	-30.4
EBITDA	**9.5**	**10.2**	**12.7**	**19.0**	**24.5**
Depreciation & Amort.	-1.0	-1.2	-1.2	-1.4	-1.5
Other items	-3.6	-3.8	-4.2	-5.6	-7.0
EBIT	**4.9**	**5.2**	**7.5**	**12.0**	**16.0**
Financial net	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**4.9**	**5.2**	**7.5**	**12.0**	**16.0**
Taxes	-0.8	-1.0	-1.5	-2.3	-3.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0
Net profit	**4.1**	**4.2**	**6.0**	**9.8**	**13.1**

Balance Sheet	2020	2021	2022E	2023E	2024E
Cash and cash equivalent	5	2	3	4	5
Receivables	17	14	22	29	35
Inventories	2	2	5	7	8
Other current assets	0	0	6	7	8
Total current assets	**23**	**19**	**36**	**47**	**57**
Tangible assets	1	1	1	0	0
GW & intangible assets	1	1	1	1	1
Lease & Invest. properties	3	3	4	5	5
Long-term Investments	18	29	29	29	29
Associated companies	0	0	0	0	0
Other long-term assets	0	0	0	0	0
Total fixed assets	**23**	**33**	**34**	**35**	**36**
Total Assets	**46**	**52**	**71**	**82**	**93**
Accounts payable	1	1	1	1	1
Short-term IB debt	17	11	16	18	20
Other current liabilities	1	1	1	1	1
Total current liabilities	**19**	**12**	**18**	**20**	**22**
Long-term IB debt	15	19	29	33	36
Convertibles & Lease liab.	3	3	4	5	5
Deferred tax liab.	0	0	0	0	0
Provisions	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total long-term liab.	**18**	**22**	**33**	**38**	**41**
Total Liabilities	**37**	**35**	**52**	**59**	**63**
Minority interest	0	0	0	0	0
Shareholders' equity	9	17	19	23	29
Total liabilities and equity	**46**	**52**	**71**	**82**	**93**

DCF valuation		Cash flow, mEUR	
WACC (%)	11.96 %	NPV FCF (2022-2024)	21
Assumptions 2022-2028 (%)		NPV FCF (2025-2031)	47
Sales CAGR	12.40 %	NPV FCF (2032-)	58
Avg. EBIT margin	24.83 %	Non-operating assets	-2
Fair value per share (EUR)	2.00	Interest-bearing debt	-33
Share price (EUR)	1.44	Fair value estimate	90

Free Cash Flow	2020	2021	2022E	2023E	2024E
Operating profit	4.9	5.2	7.5	12.0	16.0
Depreciation & Amort.	4.6	5.0	5.2	7.0	8.5
Working capital chg.	6.2	2.0	-16.0	-9.6	-8.8
Other Operating CF items	-0.9	-0.9	8.8	-0.3	-2.0
Operating Cash Flow	**14.8**	**11.4**	**5.5**	**9.2**	**13.8**
Net investments	-13.0	-15.8	-5.4	-7.1	-8.6
Other items	0.0	0.0	4.2	5.8	7.2
Free Cash Flow	**1.8**	**-4.4**	**4.3**	**7.9**	**12.4**

Capital structure	2020	2021	2022E	2023E	2024E
Equity ratio	20.1%	33.4%	26.6%	28.5%	31.5%
Debt / Equity ratio	373.9%	188.3%	263.9%	241.7%	209.9%
Gearing %	324.2%	174.1%	245.5%	222.6%	191.1%
Net debt/EBITDA	3.2	3.0	3.6	2.7	2.3

Profitability	2020	2021	2022E	2023E	2024E
ROE	46.5%	31.7%	33.3%	46.2%	49.7%
FCF yield	3.1%	-6.6%	6.6%	12.2%	19.1%
EBITDA margin	40.2%	40.1%	36.8%	42.5%	44.7%
EBIT margin	20.5%	20.4%	21.7%	26.8%	29.2%
PTP margin	20.5%	20.4%	21.7%	26.8%	29.2%
Net margin	17.3%	16.6%	17.4%	21.8%	23.8%

Valuation	2020	2021	2022E	2023E	2024E
P/E	14.1	15.7	10.9	6.7	5.0
P/E adjusted	7.4	8.2	6.5	4.3	3.3
P/Sales	2.4	2.6	1.9	1.5	1.2
EV/Sales	3.7	3.8	3.2	2.6	2.2
EV/EBITDA	9.2	9.4	8.8	6.2	4.9
EV/EBIT	18.0	18.5	14.9	9.8	7.6
P/BV	6.2	3.8	3.5	2.8	2.2
P/BV tangible	6.6	4.0	3.7	2.9	2.4

Per share ratios	2020	2021	2022E	2023E	2024E
EPS	0.10	0.09	0.13	0.22	0.29
EPS, adjusted	0.19	0.18	0.22	0.34	0.44
Operating CF/share	0.37	0.25	0.12	0.20	0.30
Free Cash Flow/share	0.04	-0.10	0.00	0.05	0.12
BV/share	0.23	0.38	0.41	0.52	0.64
Tangible BV/share	0.23	0.38	0.41	0.51	0.64
Div. per share	0.08	0.10	0.11	0.16	0.22
Div. payout ratio	73.2%	109.5%	84.9%	75.0%	75.0%
Dividend yield	5.2%	7.0%	7.8%	11.2%	15.0%

Shareholders	Capital	Votes
SIA L24 Finance	36.826	56.43 %
SIA EC Finance	11.930	18.28 %
SIA AE	5.808	8.90 %

Key people	
CEO	Didzis Admidins
CFO	Aldis Umblejs
IR	Arturs Dreimanis
Chairman	Agris Evertovskis

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	**EPS** $\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	**DPS** Dividend for financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	**CEPS** $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	**EV/Share** $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + Net debt + Minority interest at market value – share of associated companies at market value	**Sales/Share** $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest-bearing debt – financial assets	**EBITDA/Share** $\frac{\text{Earnings before interest, tax, depreciation and amortization, interest expense}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	**EBIT/Share** $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization, interest expense}}$	**EAFI/Share** $\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	**Capital employed/Share** $\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	**Total assets** Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	**Interest coverage (x)** $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	**Asset turnover (x)** $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	**Debt/Equity, %** $\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	**Equity ratio, %** $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	**CAGR, %** Cumulative annual growth rate = Average growth rate per year

Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

This report is commissioned by the company covered in this report which means Enlight Research OÜ receives compensation to write research on the company. The compensation is pre-determined and does not depend on the content in the report. This report is not to be considered investment research under MiFID regulations. Enlight Research OÜ does not issue investment recommendations or advice.

This report is for informational purposes only i.e. it should not be considered as an offer to sell or buy. Investors are encouraged to make their own research and not rely solely on this report when making their investment decisions. The decision to invest or not to invest is fully the responsibility of the investor i.e. Enlight Research OÜ takes no responsibility nor gives any guarantees with regards to investment decisions made by investors. Investing in equities entails risk e.g. the price of an equity decreases. Past performance is not a guarantee for future performance.

This report is based on information and sources that Enlight Research OÜ deemed to be reliable. However, Enlight Research OÜ cannot guarantee the accuracy or completeness of the information. All forward-looking statements and financial forecasts entail uncertainty and are subject to change without notice. Enlight Research OÜ accept no liability for any loss or damage resulting from the use of this report.

The analyst(s) writing this report own shares in the company in this report: No

The analyst(s) responsible for this report are not allowed to trade in any financial instruments of the company in this report until after the analyst report has been published, or if other conflict of interest exist e.g., advisory related.

Investors should assume that Enlight Research OÜ is seeking, or is performing, or have performed advisory services or other revenue generating services for the company in this report. An analyst's compensation is never directly related to advisory projects. An analyst working on advisory projects will be taken over the "Chinese wall" as soon as relevant regulations and/or guidelines require this.

ResearchTeam@enlightresearch.net

Follow on Twitter

@ResearchEnlight

Contact information

ResearchTeam@EnlightResearch.net