

Doverie United Holding

Industry: Diversified Holding

Cash machine on a leash

Corporate Profile

BUY

Intrinsic value: BGN 19.2
Current price: BGN 8.0

Exchange rates

EUR/BGN (fixed): 1.95583
USD/BGN: 1.8275

Market Data

Share capital **BGN 21.499m**
Shares Outstanding **21.499m**
Current free-float **60.19%**
Treasury Shares **59k shares**
Market Cap. **BGN 172m**

52 weeks range **BGN 7.7 – 9.3**

P/E **2.19x**

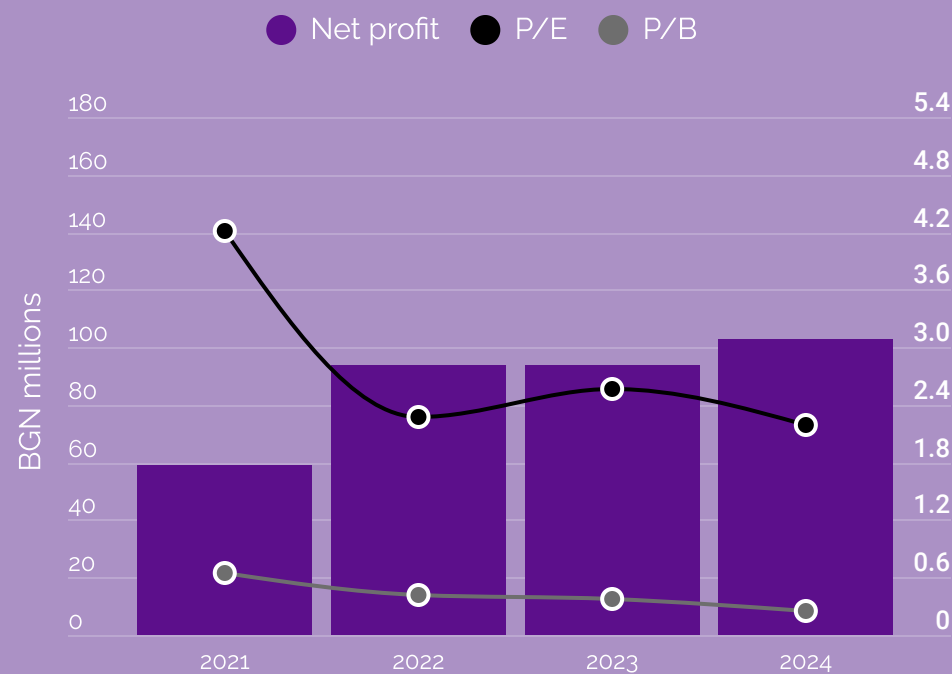
P/B **0.24x**

Listed at **Bulgaria Stock Exchange**

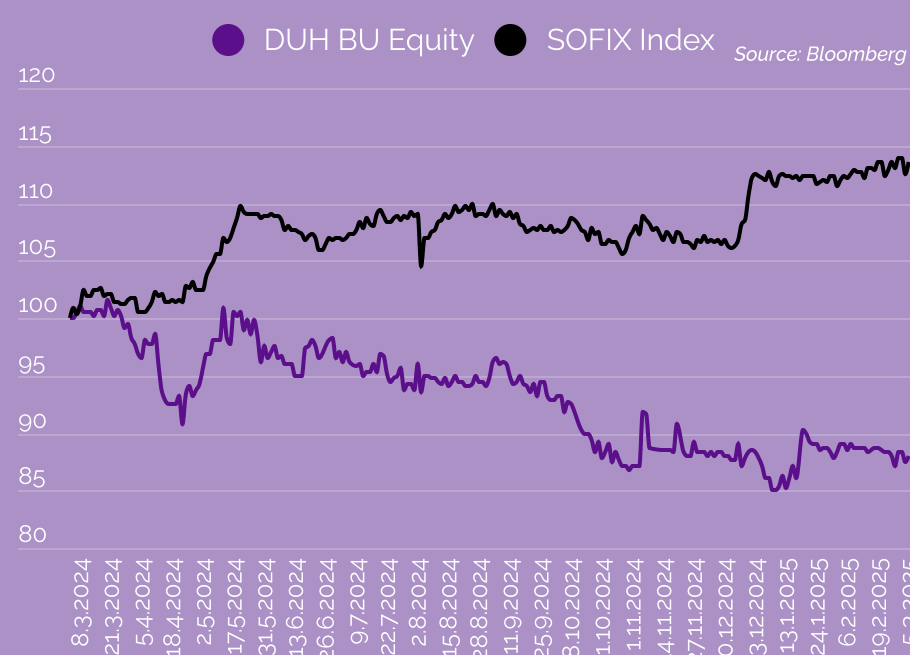
BSE Ticker **DUH**

Bloomberg ticker **DUH BU**

Solid fundamentals



Price Performance



DOVERIE UNITED HOLDING ("THE HOLDING") MARKS ANOTHER STELLAR YEAR. MOLDINDCONBANK REMAINED THE MOST PROFITABLE MAJOR BANK IN MOLDOVA AND THE HOLDING GENERATED BGN 22M FROM THE DIVESTMENT OF THE INSURANCE FUND. THE HOLDING REPAID THE DEBT TO SOPHARMA AND IS PILING CASH, BUT TWO BIG QUESTIONS REMAIN: "WHAT DO TO WITH THAT CASH?" AND "WHY IS THE BIGGEST SINGLE SHAREHOLDER SELLING THE STOCK?"

The bank performs even better, the market cap decreases

Doverie's primary asset, Moldindconbank (MIB), remained the fastest-growing and the most profitable major bank in Moldova in 2024. Net profit grew by 19.7% y/y to BGN 111m, while net profit margin expanded by 1.4 p.p. to 44.4% despite falling interest rates. The bank's book value stood at BGN 441m, which prices Doverie's stake at BGN 345m, while Holding's stock currently trades at BGN 172m market cap.

Divestment from insurance and significant cash inflow

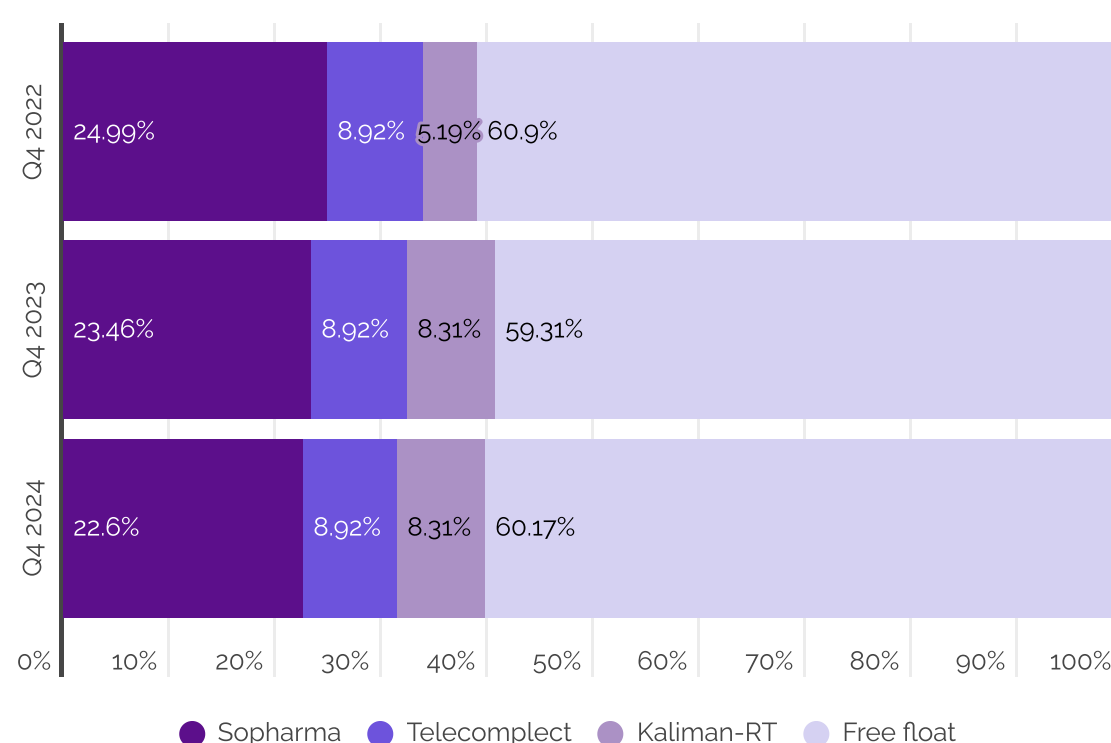
In a deal announced in late 2024, Doverie will sell its insurance fund to the Italian insurance giant Generali for BGN 22m. The P/B deal multiple is at 1.3x, representing a premium for Bulgaria's insurance sector. The critical question remains what will the Holding do with the cash proceeds.

Doverie Insurance Fund, in BGN' 000	2023
Revenue	25 503
Net profit	1 394
Book Value	17 194
ROE	8,1%

Key Financial Indicators

BGN '000	2020	2021	2022	2023	2024	5y CAGR
Revenue	310 278	348 040	520 509	589 834	611 467	30.4%
y/y		91.3%	12.2%	49.6%	13.3%	3.7%
EBIT	39 186	73 944	111 870	113 582	124 912	61.2%
EBITDA	66 045	89 175	121 925	132 114	151 945	46.1%
EBITDA margin	21.3%	25.6%	23.4%	22.4%	24.8%	
Net profit*	29 977	59 437	93 527	93 855	102 735	92.1%
y/y		662.6%	98.3%	57.4%	0.4%	9.5%
Net profit margin	9.7%	17.1%	18.0%	15.9%	16.8%	
ROE	8.7%	13.9%	18.1%	14.9%	14.3%	
P/E	2.95	4.22	2.28	2.56	2.19	
P/B	0.18	0.65	0.42	0.38	0.24	
Book value	249 912	321 210	389 374	482 481	716 565	

Sopharma continues to decrease stake



Best performing bank in Moldova

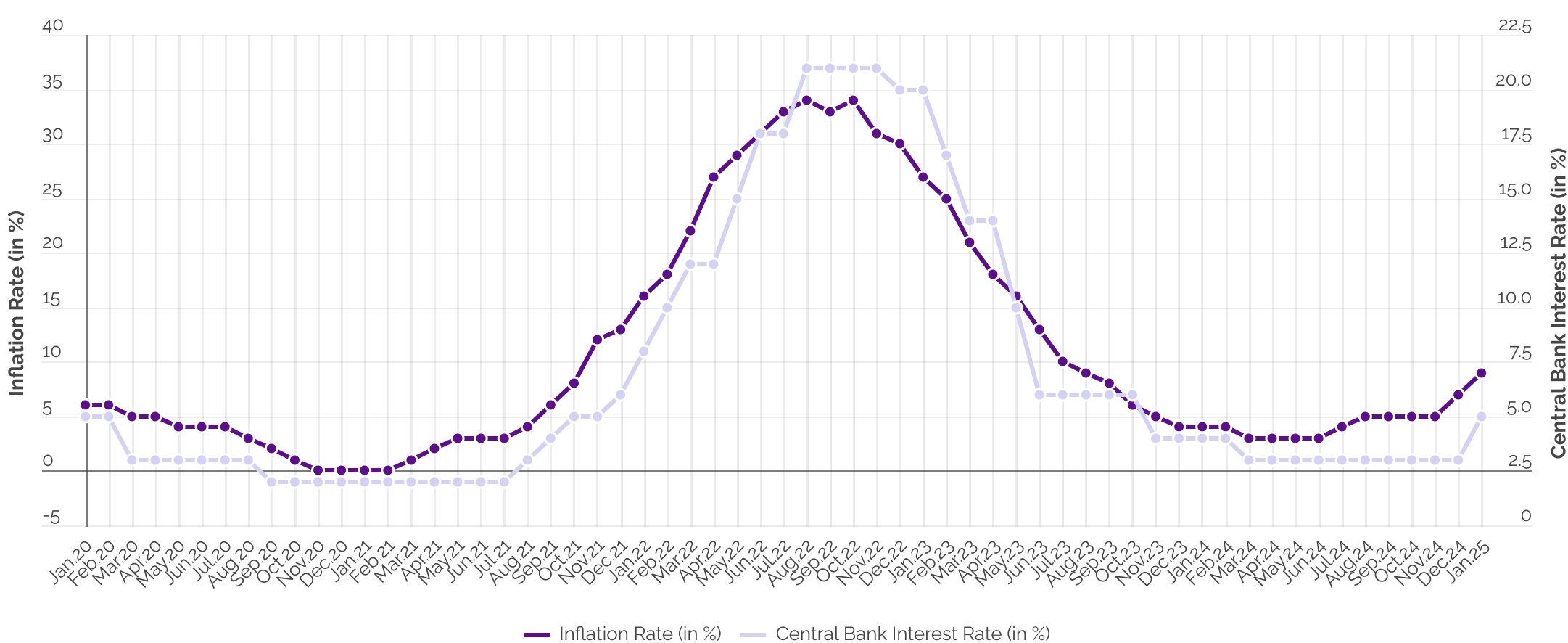
2024 is another record year for the bank, as Doverie has improved the results each year after the acquisition in 2019. MIB ranks first in the number of transactions and has the biggest branch network, while it ranks second in deposits, assets, and net profit.

In 2024, MIB closed the gap with its biggest competitor, with net profit reaching BGN 111m against Agroindbank's BGN 139.6m. FY2022 and FY2023 were very good years for the banking sector, as Moldova had very high interest rates due to the war in Ukraine and the European energy crisis. In 2024, interest rates fell, and only Agroindbank and MIB managed to grow their profit. Moldindconbank struck a good balance between rates on loans and deposits, as its net interest income fell by only 3% y/y to BGN 144m. The most considerable revenue boost in 2024 was the recovery of a bad loan for BGN 20m, which drove net profit up 19.7% to BGN 111m. MIB also had the highest ROE, ROA, and net interest margin among the four big banks, which we observed as a positive development.

ROE	2023	2024
Agroindbank	16.8%	17.8%
OTP Bank	26.5%	18.4%
Moldindconbank	17.2%	20.0%
Victoriabank	15.7%	12.4%

Net interest margin	2023	2024
Agroindbank	5.0%	4.2%
OTP Bank	4.6%	3.9%
Moldindconbank	5.8%	4.7%
Victoriabank	6.5%	4.5%

Inflation rate down from peak levels



Income Statement, Top 4 banks in Moldova

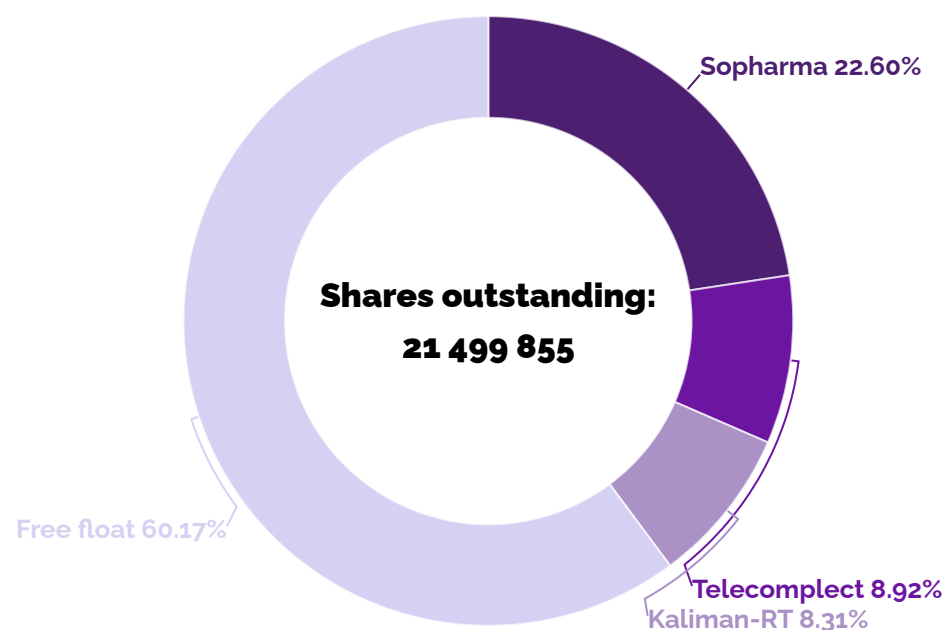
In BGN' 000, 2024	Agroindbank	OTP Bank	Moldindconbank	Victoriabank
Interest income	322 654	106 505	192 335	113 897
Interest expense	(98 645)	(32 433)	(48 337)	(23 427)
Fee and commission income	131 012	22 840	98 796	65 882
Fee and commission expense	(80 725)	(10 145)	(47 870)	(43 292)
Total operating income	328 090	122 551	250 379	129 971
SG&A expenses	(129 346)	(48 072)	(80 630)	(61 776)
Reversal of provisions	1 391	3 908	20 266	222
Net profit	139 605	57 165	111 199	59 048

Divestments: Insurance & Non-core businesses

We observe the divestment from insurance as a strategic move to simplify the business structure, backed by an acquisition premium by Generali. It remains unclear whether the Holding will seek further divestments from the overall healthcare segment, where Doverie owns a hospital, medical centre and occupational health services company. We believe management will not seek further deals as the segment has synergies with Doverie's biggest shareholder – Sopharma (SFA BU), given the latter's main business in the pharmaceutical sector. However, Doverie may seek limited divestments in its less significant segments, such as construction and grape and wine production.

Shareholders continue selling and sell convertible bonds too

Despite the Holding's improved results in the last few years, Sopharma has been a net seller by decreasing its stake from 24.99% in 2022 to 22.6% in Q4 2024. Furthermore, only in 2024, Doverie received a total of BGN 59m from MIB dividends and BGN 19.9m from the convertible bond, enough to cover the BGN 11.3m bank loans and with no loans from related parties. As for the convertible bonds, Sopharma subscribed 84k or 42% of the whole issue and later on sold almost all the bonds. 50% of the bonds were bought by Donev Investments Holding, with end beneficiary Ognyan Donev – the CEO of Sopharma, and another 30% were sold to Telso, Ventsislav Stoev being the end beneficiary – the second biggest shareholder in Sopharma and Chairman of the Board of Directors of the Holding. Donev Investments Holding and Telso have less than 5% of Doverie's shares as of 31.12.24.



Valuation update

MIB remains the Holding's most valuable asset, attributing for $\frac{3}{4}$ of the overall valuation. We have revised our forecast for interest income downwards, though the bank's better-than-expected net interest margin almost offsets the decrease in expected revenues. Again, we use the excess equity return model with a discount rate of 17.5% to reach a book value of BGN 448m. It would imply a price-to-book ratio 1x, though local publicly-listed peers trade at a significantly higher multiple – P/B 1.55x. Given their geopolitical proximity to Ukraine and Russia, we believe that potential peace talks may heavily impact the valuation of the banks in the region.

MIB Valuation	2024
Book value of equity	441 000
PV of excess equity	7 299
PV of terminal value	0
Value of equity	448 299
DUH Ownership %	78.2%
Value of DUH Stake	350 615

DUH remains undervalued against peers

Name	Bloomberg Ticker	Country	Market cap (BGN)	P/BV
LHV Group	LHV1T ET	Estonia	2.21B	1,8
Bank of Georgia	GEB GG	Georgia	4.10B	1,1
Bank Handlowy w Warszawie	BHW PW	Poland	6.04B	1,3
TBC Bank Group	TBCG LN	Georgia	3.56B	1,3
Komercijalna Banka AD Skopje	KMB MS	North Macedonia	1.21B	3,7
Crnogorska komercijalna banka	CKBP ME	Montenegro	2.06B	3,8
		Mean	1.93B	2,2
		Median	2.2B	1,55
		DUH	173m	0,3

As for the second most important asset, Mr Bricolage, we keep our forecast for a 5% expected CAGR of sales for the 2023-29 period and an overall decline of EBITDA margin to 8.7% against the 9.9% historical average. Mr. Bricolage announced that it will acquire the building of one of its leading stores for c. BGN 35m, which we consider when forecasting CAPEX and FCF.

For the final valuation, we use the sum of the parts method. Except for MIB and Mr Bricolage, we include the BGN 22m proceeds from the sale of the health insurance fund and the medical segment, which now contains the medical complex "Doverie" and medical centre "Doverie" AD. Using the equity value of these investments, we value the medical segment found in Doverie United Holding's individual financial statements for Q4 2024.

Finally, we apply a 10% holding discount, given Doverie's complex holding structure. We arrive at a BGN 19.2 value per share, which offers more than 100% upside, given DUH's current market price of 8.04.

Sum of the parts valuation	
Value of MIB	350 615
Value of Doverie-Brico (Mr Bricolage)	71 733
Value of Insurance fund	22 000
Value of Medical segment	14 449

Final valuation	
Total Enterprise value	458 797
Hold. Discount	10%
Final enterprise value	412 917
Value per share	19.2
Current share price	8.0
Upside	138.9%

Recommendation and price target

We update our coverage of Doverie and confirm our BUY recommendation with a price target that offers significant upside potential compared to current quotes. We remain optimistic in the long-term, as MIB continues to be one of the top-performing banks in Moldova, and we expect profit optimization for Mr Bricolage after the planned capex. In the short-term, the pressure on share price may continue as it remains unclear when Doverie will start distributing dividends. Another negative signal for the market remains the sale of shares by the biggest shareholder Sopharma.

In terms of significant investors involved in our stock market, we share the following observations:

- Domestic investors continue adding Doverie to their portfolio despite the 15% YTD decrease in share price. The primary reason is the significant potential for dividend distribution, supported by one of the highest levels of retained earnings on the BSE;
- So far, there are no indications for when Sopharma will limit or stop the sell of shares;
- We expect a possible end of the war in Ukraine to attract speculative investors, as a possible military conflict in Moldova has been seen as the leading risk factor for the Holding's key asset, Moldindconbank.

Recommendation: **BUY**

Target Price: **BGN 19.2**

Upside potential: 138.9%

Full year financial data

Balance Sheet (in BGN '000)	2020	2021	2022	2023	2024
Assets					
Property, plant and equipment	101 199	101 945	107 594	113 088	131 934
Right of use assets	34 861	33 319	34 555	36 678	31 806
Investment properties	13 755	13 773	13 575	13 362	13 376
Goodwill	5 752	5 140	5 140	5 140	2 644
Other intangible assets	9 841	7 717	9 930	13 111	13 878
Financial assets at fair value	8 828	7 177	6 881	7 956	2 984
Financial assets at amortised cost	457 041	398 600	438 525	646 745	595 894
Equity instruments at fair value	2 294	2 020	1 940	1 916	2 158
Loans to bank customers	738 626	1 099 210	1 162 604	1 368 795	1 938 708
Other bank assets, net	14 538	13 437	25 103	29 249	23 838
Assets for disposal	18 420	7 667	12 132	8 980	22 713
Deferred tax assets	2 782	5 130	5 277	5 592	6 088
Equity investments to associated entities			-	-	
Trade and other receivables	6 786	5 486	5 981	7 059	6 760
Inventories	33 531	41 195	48 170	55 946	56 820
Receivables on insurance contracts	4 412	5 160	5 859	-	
Cash and cash equivalents	742 486	855 225	834 526	1 067 468	1 073 295
Total assets	2 195 152	2 602 201	2 717 792	3 381 085	3 922 896
Equity					
Equity attributable to shareholders					
Share capital	18 736	21 500	21 500	21 500	21 007
Reserves	12 243	38 672	35 007	55 653	56 931
Retained earnings	218 933	261 038	332 867	405 328	481 931
Equity attributable to shareholders	249 912	321 210	389 374	482 481	559 869
Non-controlling interest	96 363	107 464	128 533	147 923	156 696
Total equity	346 275	428 674	517 907	630 404	716 565
Insurance reserves	7 168	7 673	8 835	-	-
Liabilities					
Deposits from customers	1 524 229	1 845 658	1 852 750	2 418 445	2 904 043
Other borrowings	23 722	31 895	39 225	43 785	44 407
Liabilities to related parties	77 695	62 775	76 317	62 004	3 048
Liabilities of companies to banks	58 402	52 559	30 707	23 624	32 537
Share purchase obligations	2 151	-	-	-	
Bonds	-	-	-	-	19 973
Leasing	34 491	32 857	34 209	36 366	31 169
Retirement compensations	7 122	9 406	8 903	14 581	17 862
Deferred tax liabilities	5 698	5 773	5 387	5 877	5 911
Trade and other payables	44 106	45 740	57 036	62 302	59 479
Payables on direct insurance operations	576	502	643	3 622	9 363
Provisions	367	328	-	-	-
Other current bank liabilities	63 150	78 361	85 873	80 075	78 539
Total liabilities	1 841 709	2 165 854	2 191 050	2 750 681	3 206 331
Total equity and liabilities	2 195 152	2 602 201	2 717 792	3 381 085	3 922 896

P&L Statement (in BGN '000)	2020	2021	2022	2023	2024
Interest income from banking operations	88 617	100 550	203 027	229 239	195 412
Interest expense on banking operations	(27 999)	(22 745)	(47 340)	(81 237)	(49 111)
Net interest income	60 618	77 805	155 687	148 002	146 301
Fee and commission income from banking operations	51 806	64 323	80 549	90 395	100 377
Fee and commission expenses from banking operations	(16 947)	(21 662)	(34 093)	(43 530)	(48 636)
Net fee and commission income	34 859	42 661	46 456	46 865	51 741
Other operating income, net	2 882	3 835	5 957	4 174	4 852
Foreign exchange differences from banking operations	20 635	18 802	23 372	26 793	34 313
Accrued / reversed impairment from banking operations	(8 862)	(1 254)	(36 716)	(7 528)	(10 662)
Total income from banking operations, net	110 132	141 849	194 756	218 306	226 545
Income from insurance operations	17 089	19 059	21 139	25 137	31 797
Expenses for insurance operations	(12 007)	(13 885)	(15 857)	(21 888)	(31 562)
Total income from insurance operations, net	5 082	5 174	5 282	3 249	235
Revenue from other business sectors	129 249	141 471	186 465	214 096	244 716
Expenses for other business sectors	(84 714)	(89 377)	(117 589)	(134 805)	(154 216)
Other business sectors, net	44 535	52 094	68 876	79 291	90 500
Total income	310 278	348 040	520 509	589 834	611 467
Operational and administrative expenses	(96 773)	(109 221)	(140 092)	(165 963)	(190 071)
Financial income / expenses	(5 289)	(5 120)	(4 877)	(3 360)	(4 718)
Depreciation and impairment	(26 859)	(20 351)	(14 932)	(21 892)	(27 033)
Other operating income / loss	3 069	4 399	(2 020)	591	29 454
Operating profit	33 897	68 824	106 993	110 222	124 912
Gain from acquisition and disposal of subsidiaries	(63)	1 864		4	
Earnings before tax	33 834	70 688	106 993	110 226	124 912
Tax expenses	(3 860)	(11 258)	(13 466)	(16 371)	(22 177)
Net profit	29 974	59 430	93 527	93 855	102 735

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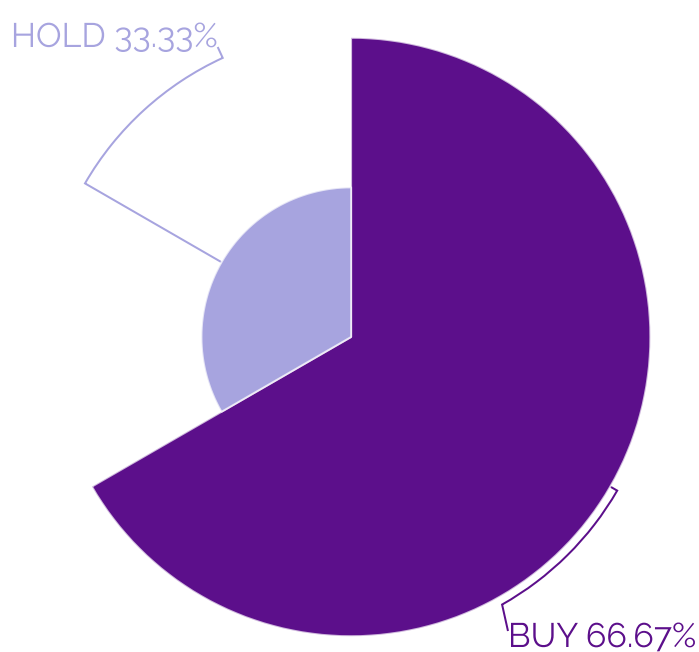
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SELL	Target price is more than 10% below the current quotes

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Q4 2024 Recommendation



Market Maker Services

- Korado;
- Elana Agrocredit;
- Albena;
- Expat Bulgaria SOFIX UCITS ETF;
- Telelink Business Services Group;
- Sirma Group Holding;
- Bulmetal.

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