

Warsaw Stock Exchange

Buy

Upgraded from Hold

Price: PLN 41.5
Price target: PLN 55.4
(From PLN 38.4)

The tide is turning

We have upgraded Warsaw Stock Exchange (GPW) to BUY (from Hold), with a higher price target (PT) of PLN 55.4/share (from PLN 38.4), implying 33.5% upside. We believe that management's efforts to diversify the revenue streams and expand the value creation chain could start to bear fruit in the coming years and, as a result, we turn more optimistic on GPW's story. We forecast a 2023-27E net income CAGR of c.7%, driven mainly by: 1) the new 2023-27 strategy; 2) a trading fees increase in both the equity and commodity segments; and 3) the solid development of the Polish equity markets, following the recent election of a pro-EU and more cooperative Prime Minister (PM). As a result, GPW's capacity to pay dividends (a key element of the equity story, in our view) not only remains intact, but we have also revised it upwards. We now expect a stable 75% payout ratio, with the DPS growing in line with the EPS and GPW to pay out a c.PLN 2.8 DPS in 2024E from the 2023E profit, yielding 6.6% at the current share price. On our 2024E figures, GPW trades at 11.2x P/E, below the market-accepted 5Y 12M FWD P/E average, while also trading below its 5Y average discount to the WIG index.

Favourable backdrop for the Polish equity market. In our view, Polish equities could benefit from powerful tailwinds, such as the unblocking of EUR 110bn of EU funds and renewed international investor interest, both due to the recent election of PM Donald Tusk. Furthermore, Polish equities appear to be priced at undemanding multiples and, despite the strong 2023, still lag the EM peers.

Despite the new, capex-intensive strategy, we expect margins to start to improve this year. At almost 20% of revenues, we expect 2024E to see the peak in the capex, with material declines in subsequent years, as we expect WATS, one of the most promising, but also costly, initiatives, to move from development to deployment by the first half of 2025E. Nonetheless, in our view, the EBITDA margin should start to improve from the current levels in 2024E and reach 47.5% by 2027E. The new initiatives' revenues, the trading fee increases and the cost-saving measures drive the bulk of the margins expansion, with the revenues forecast to outpace costs (a 2023-27E CAGR of 6.9%, vs. 4.5%).

Robust bottom-line development could allow GPW to remain one of the biggest dividend payers in Poland. Management maintains that, despite the expansion efforts, remaining a dividend stock is at the core of the group's strategy. The dividend policy is set at a 60-80% payout but, in the absence of future M&A, GPW could surpass this threshold.

Discount vs. peers could start to disappear. We believe that, as margins improve, the share of recurrent revenue increases and the relations with the EU improve, the multiples at which GPW trades currently (a P/E of 11.2x, on our 2024E figures) might no longer be justified, and could start to converge towards its peers' median.

Risks: the escalation of major geo-political conflicts; an economic downturn and a worse-than-expected markets performance; an inability/delay to unlock the EU funds; an inflation resurgence; new strategy execution risks; an equity trading market share loss to MTFs; a management reshuffle; regulatory and taxation changes; and M&A.

Year	Sales (PLN m)	EBITDA (PLN m)	Net profit (PLN m)	EPS (PLN)	P/E (x)	EV/EBITDA (x)	ROE (%)	DPS (PLN)	Div yield (%)
2021	408	215	161	3.8	10.8	7.6	17.1%	2.7	6.6%
2022	389	167	145	3.5	10.2	6.6	14.7%	2.7	7.7%
2023E	441	168	154	3.7	11.3	9.3	15.1%	2.8	6.6%
2024E	492	194	156	3.7	11.2	8.2	14.7%	2.8	6.7%
2025E	522	222	167	4.0	10.4	7.1	15.1%	3.0	7.2%

Expected events

FY23 results	11 April
1Q24 results	17 May
2Q24 results	9 August
3Q24 results	8 November

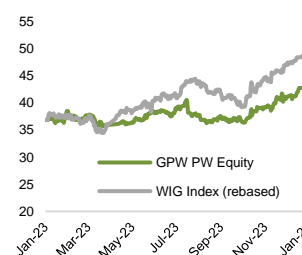
Key data

Market cap	USD 438m
3M ADTV	USD 0.6m
Free float	65%
Shares outstanding	42m
Major shareholder	State Treasury 35% (51.8% votes)
Bloomberg code	GPW PW
WIG index	76594

Price performance

52-w range	PLN 35.1-42.7
52-w performance	12.7%
Relative performance	-15.3%

GPW 12M share price performance



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Closing Prices as of 05 January 2024

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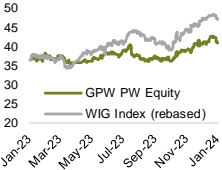
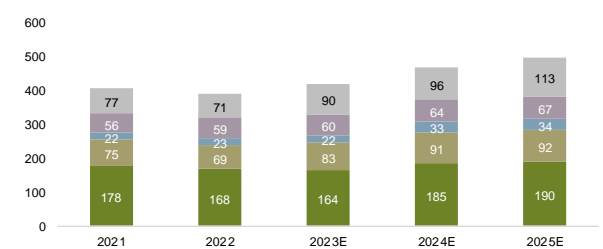
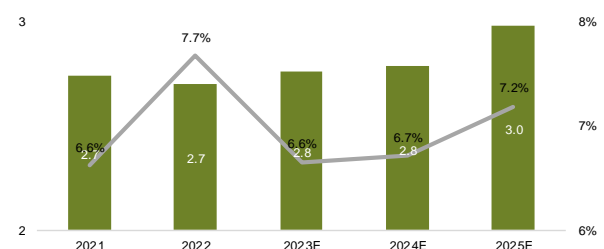
110 00 Prague 1 – Czech Republic

tel.: +420 222 096 111

fax: +420 222 096 222

<http://www.wood.cz>

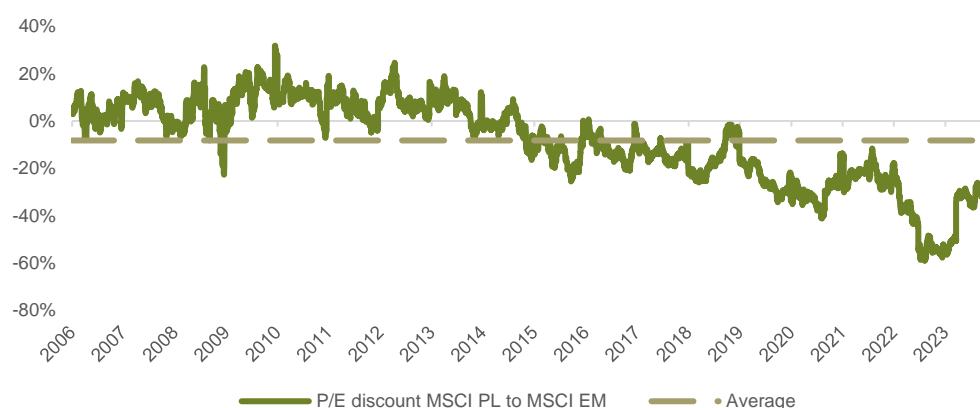
Company snapshot – BUY, PT PLN 55.4

Warsaw Stock Exchange					SHARE PRICE PERFORM / COMPANY DESCRIPTION										
BUY															
Bloomberg ticker	GPW PW	55						GPW is a leading financial instruments exchange in Emerging Markets Europe and Central and Eastern Europe. The core activities of the capital group include organising exchange trading in financial instruments. The group is active on the following markets: equities and other equity-related instruments and derivatives (Main Market), equities issued by SMEs (New Connect), and corporate and Treasury bonds (Catalyst). The group also operates the Polish Power Exchange (trading in electricity, gas, emission allow ances and property rights in origin) and Warsaw Commodity Clearing House. GPW's financial targets assume dividend payout ratios at a minimum of 60%.							
Closing price (PLN)	41.5	50													
Price target (PLN)	55.4	45													
Upside to PT	33.5%	40													
Shares outstanding (m)	41.97	35													
MCAP (USD m)	438	30													
Free float	65%	25													
3M ADTV (USD m)	0.6	20													
52 Week Range (PLN)	35.1-42.7	20													
RATIOS															
VALUATION RATIOS					Financial Ratios										
PE (x)	2021	2022	2023E	2024E	2025E	EBITDA	2021	2022	2023E	2024E	2025E				
PBV (x)	10.8x	10.2x	11.3x	11.2x	10.4x	EBIT	52.8%	43.0%	38.1%	39.4%	42.5%				
EV/EBITDA (x)	1.8x	1.5x	1.7x	1.6x	1.5x	Net margin	44.1%	33.5%	29.1%	28.1%	29.8%				
P/FCF (x)	7.6x	6.6x	9.3x	8.2x	7.1x	Dividend payout	39.6%	37.2%	35.0%	31.6%	31.9%				
Div. yield (%)	2.3x	0.2x	0.5x	0.6x	0.4x	ROE	69.1%	71.3%	78.2%	75.0%	75.0%				
	6.6%	7.7%	6.6%	6.7%	7.2%	EV/EBITDA	17.1%	14.7%	15.1%	14.7%	15.1%				
PER SHARE FIGURES						Debt/equity	7.6x	6.6x	9.3x	8.2x	7.1x				
EPS (PLN)	2021	2022	2023E	2024E	2025E	Asset turnover	0.3x	0.2x	0.1x	0.1x	0.1x				
BVPS (PLN)	3.8	3.5	3.7	3.7	4.0	C/I	0.3x	0.3x	0.4x	0.4x	0.4x				
DPS (PLN)	23.1	23.8	24.8	25.8	27.0		56.3%	65.5%	72.6%	73.4%	71.7%				
	2.7	2.7	2.8	2.8	3.0										
COMPANY FINANCIALS															
INCOME STATEMENT (PLN m)					BALANCE SHEET (PLN m)										
Financial market	2021	2022	2023E	2024E	2025E	Property, plant and equipment	2021	2022	2023E	2024E	2025E				
Commodity market	255	248	244	280	290	Intangible assets	92	108	112	114	115				
Other revenues	150	138	156	166	166	Investment in subsidiaries	264	283	315	355	362				
Revenue	3	3	40	46	66	Non-current assets	231	241	262	284	305				
Staff costs	408	389	441	492	522	Trade receivables and other receivables	604	652	709	773	802				
External services	-110	-112	-139	-163	-169	Cash and cash equivalents	177	79	70	78	83				
Other operating expenses	-57	-76	-106	-107	-102	Current assets	349	379	181	151	168				
EBIT	-62	-67	-75	-91	-103	Total Assets	807	531	512	491	512				
Net financial results	180	131	128	138	155	Total Assets	1,411	1,182	1,221	1,264	1,314				
Share of profit from associates	(11)	16	29	20	16	Share capital	64	64	64	64	64				
Pre-tax profit	24	28	32	33	33	Retained earnings	909	939	980	1,020	1,070				
Income tax	194	175	189	191	205	Total Equity	968	1,001	1,042	1,082	1,132				
Net profit	-32	-30	-35	-35	-38	Debt securities	1	246	0	0	0				
Minority interest	161	145	154	156	167	Trade payables	14	18	20	22	23				
Net attributable profit to shareholders	0	0	0	0	0	Provisions for other liabilities and other charges	29	32	28	28	28				
	161	145	154	156	167	Total equity and liabilities	1,411	1,182	1,221	1,264	1,314				
Dividends (pay-out year)	115	113	116	117	125	Net Debt	-93	-373	-175	-146	-163				
Free cash flow	18	188	79	65	115	Working Capital	408	403	387	363	383				
						Cash as % of total assets	25%	32%	15%	12%	13%				
Revenues - segment breakdown					Dividends										
															
■ Financial market trading ■ Commodity market trading ■ Listing ■ Information services ■ Other					■ DPS (PLN/share) — Dividend yield (rhs)										

Poland looks cheap and inviting

The election of a pro-EU and more investor-friendly government could trigger significant international inflows into Polish equities and, at least partially, eliminate the discount vis-à-vis other EM markets. In October 2023, Poles elected Civic Platform's (PO) Donald Tusk as the new PM, who was sworn in in December 2023. Unlike the previous Law and Justice (PiS) leadership, PM Tusk has a more cooperative, pro-EU and market-friendly stance, which should bode well for unlocking the c.EUR 110bn worth of EU funds in the next 12 months, and is appreciated by the markets. An analysis of the Polish WIG Index 12M FWD P/E seems to indicate that Polish equities look relatively cheap at this juncture, which could, together with a more favourable political backdrop, trigger significant international inflows into Polish equities in the future and perhaps help closing the discount that investors attribute currently to Polish equities when compared to their EM peers. As such, we expect higher market volatility and we also note that the recent political changes could also lead to a reshuffling of the management boards at State-controlled companies like Warsaw Stock Exchange (GPW), which could lead to unpredictable market reactions and additional share price volatility.

MSCI PL vs. MSCI EM: 12M FWD P/E discount



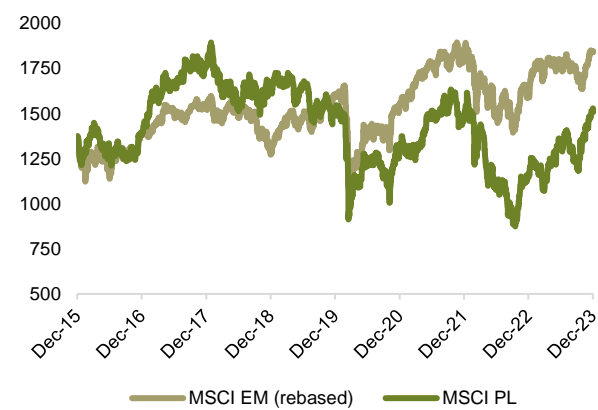
Source: WOOD Research, Bloomberg

Poland vs. EM composite: yoy GDP growth differential

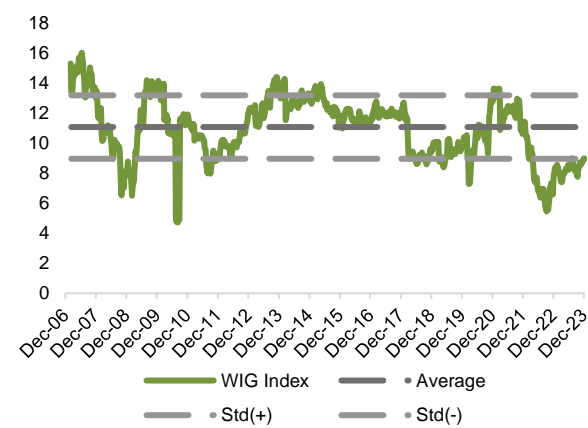


Source: WOOD Research, Bloomberg

MSCI PL vs. MSCI EM: performance (PLN)



WIG Index 12M FWD P/E



Source: WOOD Research, Bloomberg

New strategy overview

Warsaw Stock Exchange (GPW) presented its 2023-27 Group Strategy back in May 2023, which we now account for in our forecasts. Contrary to the previous 2018-22 strategy, the new strategy focuses more on the development of the core trading platforms, as well as new data products and services, with the main objectives of diversifying GPW's revenue and increasing its recurring revenues. The new strategy aims to make the group's results more resilient and less dependent on the volatile market sentiment. To achieve this, the new strategy is based on three main pillars, to drive revenue growth, going forward:

1) Trading – a focus on defending and maintaining market share in equities and commodity trading, while introducing new products, like ETFs, ETCs, ETNs, derivatives and options, and commodity futures. In order to expand the value chain, new market infrastructures are also to be developed, such as a new market for treasury securities and a new platform for securities lending.

2) Data and technology – expand market data offerings and technology solutions and sell them on a subscription base model, i.e. recurrent revenue streams. These include, among others, dedicated products for traders, repository of machine learn ready financial statements, ESG data repository, a tool for market watchdogs to detect market abuses (GPW STORK) as well as the implementation of GPW's proprietary trading system GPW Warsaw Automated Trading Systems (WATS), the main technological leap that we expect to go live at the end of 2024 / beginning of 2025. In the short-term WATS will be the source of cost savings and, virtue of its integration in Equinix data centre, a source of new clients and shorter time to market reducing the onboarding process of new brokers from several months to a couple of weeks and allowing algo traders to back test their strategies more quickly and efficiently before deployment. In the medium to long-term, due to its very light and modular architecture, WATS is a system primed for commercialization.

3) New business models – new products and services to be sold in a subscription model, including, among others: a solution for corporates in ESG, IR and corporate management (governance, risk and compliance); a crowdfunding platform; and an ecosystem for digital assets. The further development of old strategy initiatives, like GPW Logistics and Telemetric operator are also included here. These new initiatives are expected to be highly profitable and, together with the old initiatives, could represent 20% of GPW's top line by 2027E, according to the company.

In what are pure and direct cost-savings initiatives, GPW expects to implement a programme comprised of the replacement of IT infrastructure, the implementation of new tools, automation and robotisation, process management and new work organisation, after the rollout of WATS, with expected savings of about PLN 35m in 2023-27E.

All-in-all, GPW expects its revenues to increase by some 35% by 2027E, with c.23ppts (c.PLN 100m) coming from new strategic initiatives, while the share of recurring revenues is projected to increase to 40% and the EBITDA margin is expected to increase to 50% by 2027E.

The dividend policy has been kept in a range of 60-80%, with management affirming that, in the case of no future M&A, the dividend payout ratio could exceed this threshold. We pencil in a 75% payout ratio throughout all of our explicit forecasting period. Overall, we believe that this is a step in the right direction, but we recognise that, with such an ambitious, extensive and eclectic strategic plan, the visibility is not the best, while the execution risk is, in our opinion, above average. Therefore, we apply a 25% discount to GPW's revenue generation targets, in order to stay conservative. Below, we illustrate what the removal of such a discount would do to the main line items, margins and our price target.

Scenario analysis: 2027 overview (PLN m)

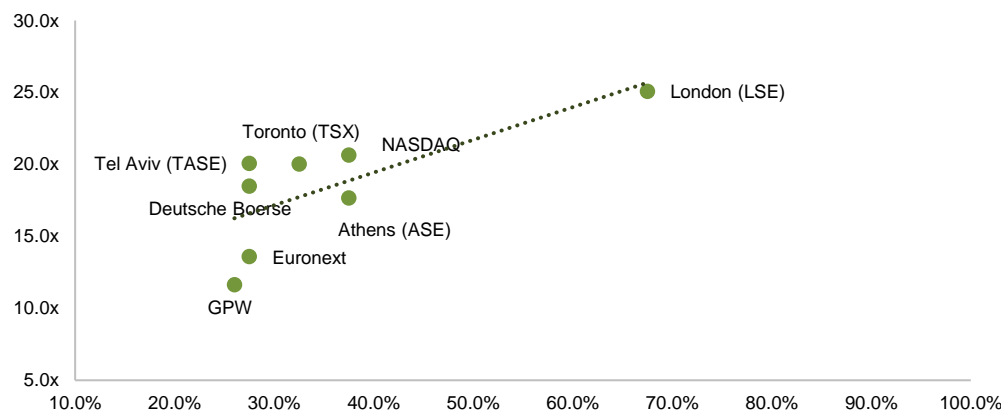
	Base case (25% discount)	Upside case (0% discount)
Revenue	576	601
Share of recurring revenue	38%	40%
EBITDA	274	299
EBITDA margin	48%	50%
Net profit	204	225
Net profit margin	35%	37%
Price target (PLN/share)	55.4	60.6

Source: WOOD Research

We have also conducted a simple but, in our view, helpful analysis of the impact top-line predictability has on the multiples investors are willing to pay for different exchange groups. As expected, there is a positive correlation between the share of recurring revenues and the P/E multiple. We also observe that GPW trades at an average 31% discount to its more immediate peers: Euronext, Deutsche Borse and TASE. With that in mind, we compile a rough estimation of GPW's share price evolution, assuming that

the discount vs. its peers narrows by 2.5ppts every year, to reflect the business margins increase. On our estimates (a 25% discount to GPW's 2023-27E strategy revenue generation), we see that, as the market starts pricing in 2025E throughout 2024E, the multiple could expand, implying a price of c.PLN 50.6/share, providing 22.1% of upside from the current levels and broadly in line with our 12M PT. Our analysis also implies that, until the end of 2027E, GPW could deliver 19% returns per annum (so, over the next three years). We believe this is a plausible scenario, as it would only imply a P/E multiple expansion to 14.5x, still below the ASE's consensus 2024E P/E of c.18x, on the consensus.

2024E P/Es vs. % of recurring revenues (2022)



Source: Company data, Bloomberg, WOOD Research

Peer analysis: GPW's share of recurring revenues and share price evolution

	2024E	2025E	2026E	2027E
Share of recurring revenue	30%	33%	36%	38%
Average discount to peers	-31%	-29%	-26%	-24%
Implied P/E	11.8x	12.8x	13.6x	14.5x
EPS (PLN)	3.7	4.0	4.3	4.9
Implied share price (PLN)	43.9	50.6	59.1	70.3
Implied annual returns		22%	17%	19%

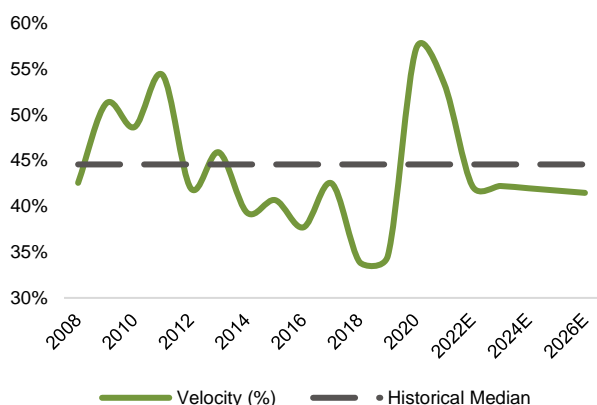
Source: WOOD Research, Bloomberg

Financial forecasts

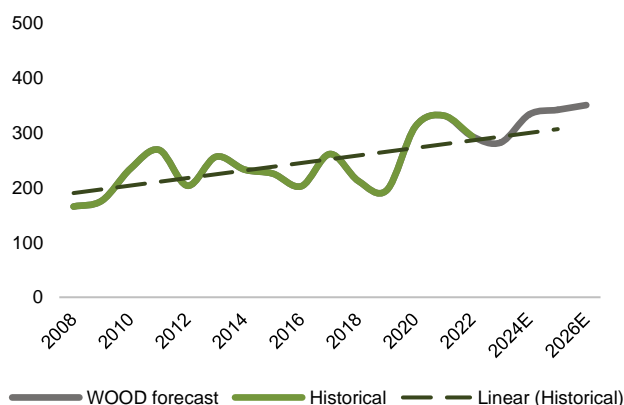
We have integrated the new strategy into our forecasts, but kept a conservative stance when forecasting GPW's financials by discounting, significantly (25% of GPW's 2027E target), the new initiatives' revenue generation power and applying a relatively conservative cost profile, with the capex peaking in 2024E. The result is a smooth and sensible C/I evolution, margin expansion and growing DPS.

Slightly lower than historical velocity and a resumption of the historical linear growth trend in main market turnover. We forecast the velocity to remain broadly at the 2023E levels, but with a slight decline throughout our forecast period, to account for an increase of OFE and PPK funds in the Polish equities share free float and to account for some market loss in equities trading to Multilateral Trading Facilities (MTFs). Nonetheless, we expect the main market turnover to recover in 2024E, and resume its historical linear growth trend in the following years.

Main market: velocity forecast (%)



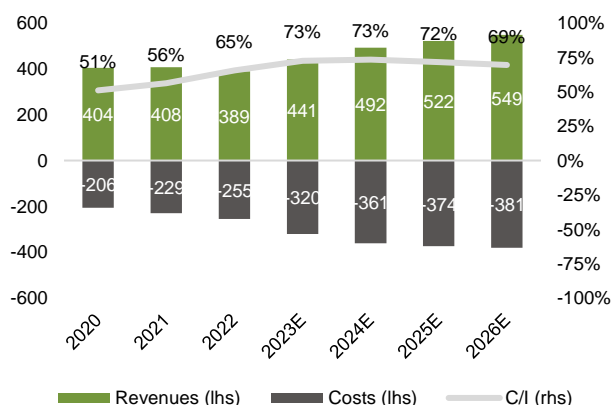
Main market: turnover forecast (PLN bn)



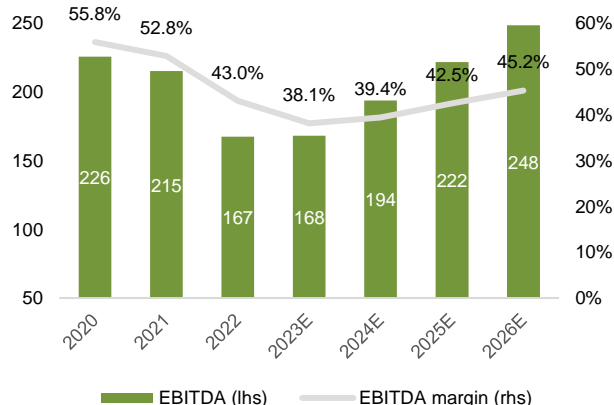
Source: Company data, WOOD Research

Revenue growth to outpace costs, leading to margin expansion throughout our forecast period. In light of the new strategy and initiatives that the group is developing, we project revenues to grow at a CAGR of 6.9% in 2023-27E, outpacing costs, which we forecast to increase at a conservatively high 4.5% CAGR during the same period, despite some cost-saving measures being factored into our model. As a result, we expect the EBITDA margin to recover towards the new strategy EBITDA margin target of 50% by 2027E. However, due to our more prudent approach to the new initiatives' revenue generation power, we only reach a 47.5% EBITDA margin by 2027E.

Operational forecasts (PLN m)



EBITDA (PLN m)



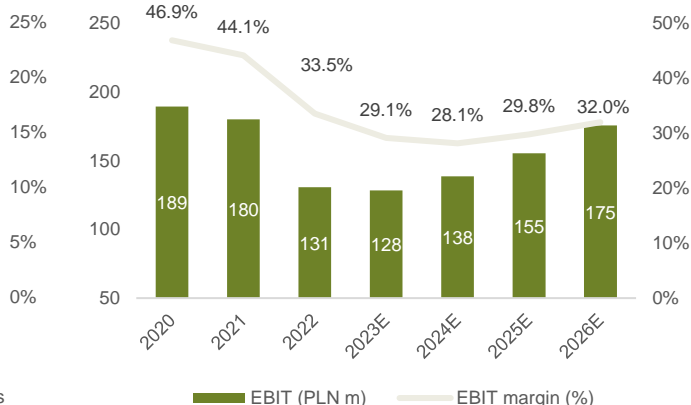
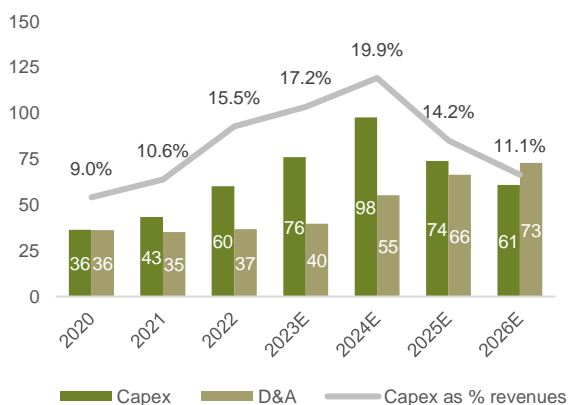
Source: Company data, WOOD Research

Capex expected to peak in 2024E, leading to a further EBIT and net profit margin deterioration. Due to the implementation of the new strategic plan, we expect higher capex in 2024E, but this should be the peak, as we expect one of the most capex-intensive initiatives, WATS, to reach the end of its development phase and go live at some point in the first half of 2025E. As a result, some further margin compression could be expected at the EBIT and net profit level. We expect the EBIT to develop broadly at a 12.0% CAGR in 2023-27E and the net profit at a 7.2% CAGR. The dividend distribution, in our view,

should remain high, and we have pencilled in a 75% dividend payout ratio throughout our explicit forecast. This translates into a growing DPS forecast, which deliver attractive dividend yields, at the current share price, above our forecast 6.6% over 2023-27E.

Capex and D&A (PLN m)

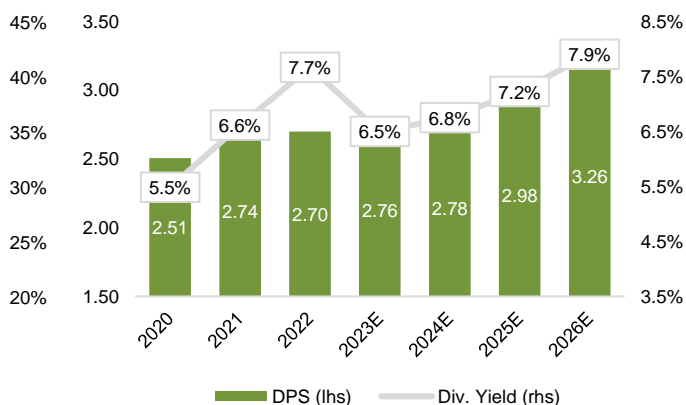
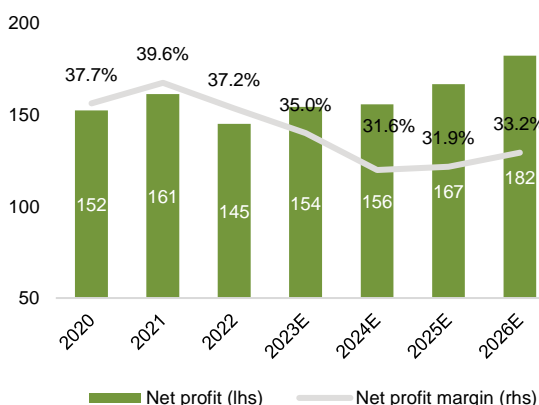
EBIT (PLN m)



Source: Company data, WOOD Research

Net profit (PLN m)

DPS and dividend yields (PLN/share)



Source: Company data, WOOD Research

Valuation

We upgrade Warsaw Stock Exchange to a BUY, and raise our price target (PT) to PLN 55.4 (from PLN 38.4), implying 33.5% upside potential. To value GPW, we have changed our approach vs. our previous report, and now utilise the average of a dividend discount model (DDM), a discounted cash flow (DCF), and a peer-group multiples comparison, weighted 35%, 35% and 30%, respectively.

GPW: valuation summary (PLN/share)

	% weight	PLN
DDM	35%	62.4
DCF	35%	56.8
Peer multiples	30%	45.6
Weighted average 12M PT		55.4
Current price, PLN/share		41.5
<i>Potential Upside</i>		33.5%

Source: WOOD Research

Dividend discount model (DDM)

Our first valuation approach for GPW is a DDM. We assume a 75% payout ratio throughout our explicit forecast period, and terminal growth of $g = 2.5\%$, which, using the formula $g = (1 - \text{dividend payout ratio}) * \text{ROE}$ and a long-term ROE of 16.9% deducted from the 2032E ROE, implies a sustainable payout ratio of 85.2%. We calculate the terminal value based on the implied P/BV ratio, derived using the formula $P/BV = (LT\ ROE - g) / (COE - g)$ and using a COE of 9.6% (a mix of a RFR of 5.5%, and a MRP of 4.5%, with a beta of 0.9x). This valuation method results in a 12M PT of PLN 62.4/share. We also present the sensitivity analysis of our model to the long-term growth rate and COE below the DDM table.

Dividend discount model

	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	+
Net profit (PLNm)	144.9	154.2	155.7	166.6	182.2	203.8	214.5	223.9	236.0	249.6	261.4	268.0
Growth yoy (%)	-10.1%	6.4%	0.9%	7.0%	9.4%	11.9%	5.2%	4.4%	5.4%	5.8%	4.7%	2.5%
EPS (PLN)	3.5	3.7	3.7	4.0	4.3	4.9	5.1	5.3	5.6	5.9	6.2	6.4
Growth yoy (%)	-10.1%	6.4%	0.9%	7.0%	9.4%	11.9%	5.2%	4.4%	5.4%	5.8%	4.7%	2.5%
Shareholders' equity (PLNm)	990.8	1,031.7	1,071.7	1,121.5	1,178.8	1,246.0	1,307.5	1,370.7	1,438.7	1,511.3	1,585.5	1,630.8
Growth yoy (%)	2.4%	4.1%	3.9%	4.7%	5.1%	5.7%	4.9%	4.8%	5.0%	5.0%	4.9%	2.9%
BVPS (PLN)	23.6	24.6	25.5	26.7	28.1	29.7	31.2	32.7	34.3	36.0	37.8	38.9
Growth yoy (%)	2.4%	4.1%	3.9%	4.7%	5.1%	5.7%	4.9%	4.8%	5.0%	5.0%	4.9%	2.9%
DPS paid (PLN)	2.7	2.7	2.8	2.8	3.0	3.3	3.6	3.8	4.0	4.2	4.5	5.3
Growth yoy (%)	9.3%	-1.5%	2.1%	0.9%	7.0%	9.4%	11.9%	5.2%	4.4%	5.4%	5.8%	19.0%
ROE (%)	14.8%	15.3%	14.8%	15.2%	15.8%	16.8%	16.8%	16.7%	16.8%	16.9%	16.9%	16.9%
Payout ratio (%)	71.3%	78.2%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	85.2%
Discount factor (%)			95%	86%	79%	72%	66%	60%	55%	50%	46%	
Discounted DPS (PLN)			2.6	2.4	2.3	2.3	2.4	2.3	2.2	2.1	2.0	
Terminal value/sh. est. (PLN)												79.3
Discounted TV/share (PLN)												36.2
Implied P/BV (x)	2.04											
Fair value (PLN/share)	56.9											
Price target (PLN/share)	62.4											
Potential upside (%)	51.3%											
Valuation date	05/01/2024											
Indicative dividend payment	07/08/2024											
Time adjustment	0.59											

Source: WOOD Research

Sensitivity of our PT to the long-term rate growth and COE (PLN/share)

		1.0%	1.5%	2.0%	g (%) 2.5%	3.0%	3.5%	4.0%
	8.1%	79.7	79.7	79.7	79.7	79.7	79.7	79.7
	8.6%	73.0	73.0	73.0	73.0	73.0	73.0	73.0
	9.1%	67.2	67.2	67.2	67.2	67.2	67.2	67.2
COE (%)	9.6%	62.4	62.4	62.4	62.4	62.4	62.4	62.4
	10.1%	58.1	58.1	58.1	58.1	58.1	58.1	58.1
	10.6%	54.4	54.4	54.4	54.4	54.4	54.4	54.4
	11.1%	51.2	51.2	51.2	51.2	51.2	51.2	51.2

Source: WOOD Research

Discounted cash flow model

The second method we use to value GPW is a discounted cash flow model. To calculate the fair value of Warsaw Stock Exchange's shares, we sum the present value of the projected free cash flows until 2032E (40% of the enterprise value) and the present value of GPW's terminal value (60% of the enterprise value), which we derive from the formula $TV = (FCF \times (1 + g)) / (WACC - g)$. We assume terminal growth of $g = 2.5\%$, in line with our DDM model and, in virtue of GPW being a fully equity funded business, a WACC equal to the COE of 9.6% (a mix of a RFR of 5.5%, and a MRP of 4.5%, with a beta of 0.9x). Using our DCF analysis, we reach a 12M PT of PLN 56.8/share. We also present the sensitivity analysis of our model to the terminal growth rate and WACC below the DCF table.

DCF model

	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	+
EBIT (PLNm)	131	128	138	155	175	202	215	227	242	257	270	
Corporate Tax Rate (%)	17.1%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%	
NOPAT (PLNm)	108	105	113	126	143	165	175	185	197	209	220	
D&A (PLNm)	37	40	55	66	73	72	66	59	51	43	37	
Changes in WC (PLNm)	102	11	(6)	(4)	(4)	(4)	(2)	(2)	(2)	(2)	(2)	
CAPEX (PLNm)	(60)	(76)	(98)	(74)	(61)	(49)	(36)	(37)	(36)	(36)	(35)	
Free cash flow (PLNm)	187	79	65	115	151	183	203	205	210	214	220	
Discount factor (%)			91%	83%	76%	69%	63%	58%	53%	48%	44%	
Present Value of FCFs (PLNm)			59	96	115	127	128	119	111	103	97	
Sum of discounted FCFs (PLNm)	955											
Long term FCF growth rate	2.5%											
Residual value (PLNm)	3,194											
PV of residual value (PLNm)	1,405											
Net debt (PLN m)	(175)											
Minority interest (PLN m)	10											
Equity value (PLN m)	2,175											
Number of shares (m)	42											
Fair value (PLN/share)	51.82											
Price target (PLN/share)	56.76											
Potential upside (%)	36.9%											
Valuation date	05/01/2024											
Fiscal year end	31/12/2024											

Source: WOOD Research

Sensitivity of our price target to the long-term growth rate and COE (PLN/share)

	g (%)						
	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
8.1%	62.0	65.3	69.1	73.7	79.1	85.7	94.0
8.6%	57.4	60.2	63.4	67.1	71.5	76.7	83.2
9.1%	53.4	55.8	58.4	61.5	65.1	69.4	74.5
WACC (%)	9.6%	51.9	54.2	56.8	59.8	63.2	67.4
10.1%	46.7	48.5	50.4	52.6	55.1	58.0	61.4
10.6%	43.9	45.4	47.1	49.0	51.1	53.6	56.4
11.1%	41.4	42.7	44.2	45.8	47.6	49.7	52.0

Source: WOOD Research

Peer valuation

We set our fair value for GPW using the median of the consensus 2024-25E P/E's and EV/EBITDAs for the listed stock exchanges. We also apply an additional 48% discount to the EV/EBITDA and 42% to the P/E multiples, based on the 5Y average historical discount vs. its peers.

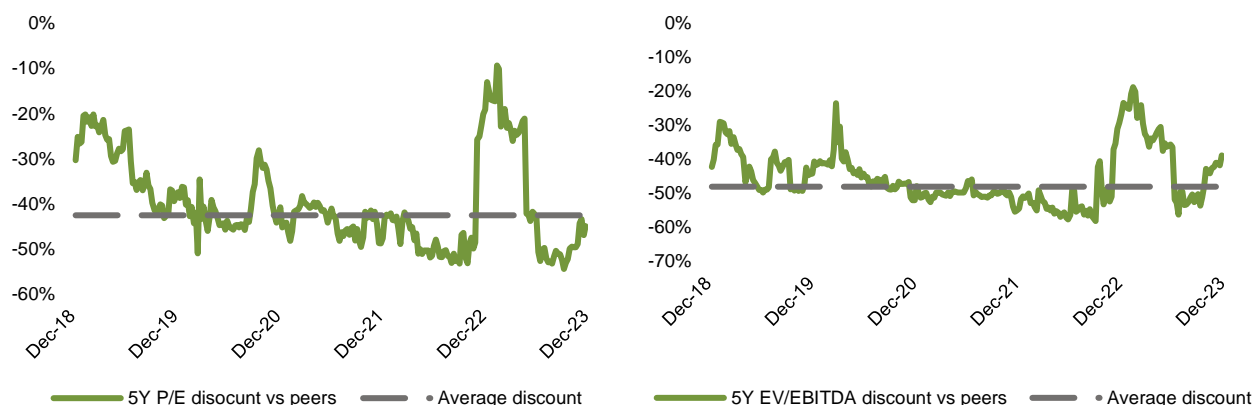
Warsaw Stock Exchange: peer valuation

	Historical disc. %	WOOD est. PLNm	PT PLNm	Weight %	PT/share PLN
2024E EV/EBITDA	48%	194	1,537	25%	
2025E EV/EBITDA	48%	222	1,606	25%	
2024E P/E	42%	156	1,932	25%	
2025E P/E	42%	167	1,910	25%	
Number of shares (m)					42.0
PT/share (PLN)					45.6
Last price (PLN/share)					41.5
Potential downside (%)					9.9%

Source: Bloomberg, WOOD Research

GPW's discounts vs. peers: P/E

EV/EBITDA



Source: Bloomberg, WOOD Research

GPW trades at 54-41% discounts vs. its peers on our 2023-25E P/Es and EV/EBITDA multiples.

We note that, on our numbers, GPW is below the median performance on all the other indicators, apart from the dividend yield, where it continues to outperform the peer group median. Therefore, for the time being, the discount vs. its peers seems broadly justified, but we believe that the gap should tend to close slowly in the future, due to higher margins, higher EPS growth and a higher share of recurring revenues.

Peer group comparison (one of two)

Stock Exchange	Price	Mcap	P/E (x)			EV/EBITDA (x)			ROE (%)			Div. yield (%)		
			2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
05 January 2024	LCL	USDm												
Hong Kong Exch.	255.8	41,528	27.3	25.4	23.8	20.2	18.9	17.4	23.3%	23.5%	24.3%	3.3%	3.5%	3.8%
CME Group	199.2	71,707	21.6	21.2	20.7	18.4	17.8	17.1	12.0%	11.7%	12.2%	4.6%	4.7%	4.8%
Intercontinental Exc.	125.8	71,998	23.1	22.3	19.9	17.8	17.3	16.4	12.6%	11.8%	12.2%	1.3%	1.4%	1.5%
LSE	89.8	61,839	26.6	24.9	22.3	14.8	13.5	12.1	7.0%	7.8%	8.5%	1.3%	1.4%	1.6%
Deutsche Börse	186.1	38,704	20.0	18.9	17.9	13.1	11.8	11.2	19.7%	18.6%	17.7%	2.1%	2.2%	2.2%
Bovespa	14.0	16,668	17.9	16.1	14.3	12.0	10.8	9.4	22.0%	24.9%	28.1%	4.5%	6.2%	6.6%
NASDAQ OMX	55.7	32,120	23.2	21.6	19.4	18.5	15.8	14.6	20.2%	19.0%	18.2%	1.6%	1.7%	1.8%
ASX Ltd	63.0	8,182	24.4	25.2	24.4	19.0	17.0	21.9	13.5%	13.3%	13.4%	3.7%	3.4%	3.5%
Singapore Exch.	9.7	7,790	21.2	18.9	18.8	14.7	13.5	13.2	31.4%	30.7%	28.6%	3.4%	3.6%	3.8%
TMX Group	31.5	6,531	21.7	19.8	18.2	14.9	12.5	11.7	9.5%	11.3%	12.4%	2.3%	2.4%	2.5%
CBOE	173.1	18,275	22.2	21.2	20.4	15.6	14.5	13.5	22.3%	21.3%	21.2%	1.2%	1.3%	1.4%
Bursa Malaysia	7.3	1,266	24.9	24.2	23.4	12.0	11.5	11.0	30.1%	29.8%	29.6%	3.8%	3.9%	4.0%
Bucharest SE	65.6	116	35.8	23.4	17.9	21.6	13.9	10.1	22.0%	46.0%	78.0%	2.1%	3.6%	6.0%
NZX Ltd	1.1	238	24.8	20.5	16.5	10.5	9.5	8.1	12.3%	15.0%	18.1%	5.7%	5.7%	5.9%
Hellenic Exch.	5.3	349	27.2	21.5	12.3	n.a.	n.a.	n.a.	12.9%	17.7%	25.6%	4.2%	5.7%	8.1%
JSE Ltd	8,960.0	417	903.0	907.3	897.8	n.a.	n.a.	n.a.	20.3%	n.a.	n.a.	0.1%	0.1%	0.1%
MCX India	3,144.5	1,929	103.3	188.7	38.3	82.5	186.3	25.1	12.3%	8.1%	24.5%	0.6%	0.4%	1.5%
Bolsa Mexicana	34.5	1,162	13.1	12.6	12.0	7.5	6.8	6.2	19.9%	21.0%	21.4%	6.7%	6.3%	6.8%
Dubai Fin'l Mkt.	1.4	3,028	45.0	38.0	31.8	48.9	38.5	n.a.	2.6%	3.2%	3.6%	1.9%	2.2%	2.7%
Warsaw SE	41.5	438	11.3	11.2	10.4	9.3	8.2	7.1	15.1%	14.7%	15.1%	6.6%	6.7%	7.2%
Average			75.1	77.5	66.9	21.3	25.3	13.7	17.2%	18.6%	22.1%	2.9%	3.1%	3.6%
Median			24.4	21.6	19.9	15.6	13.9	12.6	19.7%	18.2%	19.7%	2.3%	3.4%	3.5%
Prem./(disc.)			-54%	-48%	-48%	-40%	-41%	-44%	-4.5pts	-3.5pts	-4.6pts	4.4pts	3.3pts	3.7pts

Source: Bloomberg, WOOD Research

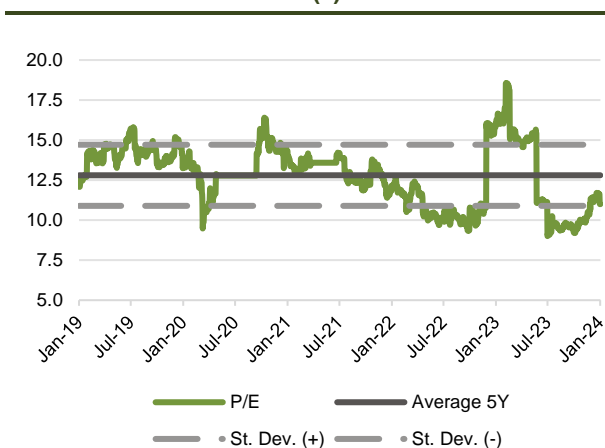
Peer group comparison (two of two)

Stock Exchange 05 January 2024	Cost/income (%)			EBITDA margin (%)			Net margin (%)			EPS growth (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Hong Kong Exch.	33.6%	33.3%	33.0%	73.8%	73.4%	73.7%	57.3%	57.4%	56.9%	18.6%	7.6%	6.3%
CME Group	33.8%	33.7%	33.3%	71.2%	71.2%	71.4%	59.8%	58.7%	58.1%	15.5%	2.1%	2.4%
Intercontinental Exc.	40.9%	42.5%	41.5%	65.8%	63.8%	64.2%	39.1%	35.2%	37.4%	5.7%	1.9%	11.4%
LSE	64.8%	63.1%	61.3%	46.4%	47.8%	49.0%	22.4%	22.5%	23.7%	5.0%	11.5%	12.9%
Deutsche Börse	49.3%	52.3%	52.2%	59.0%	56.1%	56.0%	35.3%	32.8%	33.2%	17.4%	5.5%	5.3%
Bovespa	40.3%	34.8%	32.4%	71.7%	70.6%	72.6%	50.4%	49.3%	49.9%	15.9%	10.2%	11.1%
NASDAQ OMX	47.7%	46.9%	45.6%	54.8%	55.0%	56.6%	36.8%	34.4%	35.7%	4.5%	0.9%	10.9%
ASX Ltd	36.6%	41.2%	42.6%	67.1%	63.1%	60.6%	49.3%	46.4%	45.7%	-3.4%	-0.7%	2.5%
Singapore Exch.	51.1%	50.3%	51.1%	56.2%	57.3%	56.0%	41.9%	42.9%	41.5%	25.1%	-6.4%	2.0%
TMX Group	52.3%	51.6%	50.1%	54.7%	56.6%	56.7%	33.7%	33.0%	34.7%	3.0%	9.0%	7.1%
CBOE	39.8%	40.3%	40.2%	63.5%	62.6%	62.6%	42.8%	41.9%	41.6%	11.6%	6.3%	5.9%
Bursa Malaysia	49.2%	49.2%	49.2%	55.9%	55.8%	56.0%	38.8%	38.4%	38.4%	5.0%	1.7%	3.0%
Bucharest SE	84.1%	77.0%	72.1%	33.7%	45.4%	55.2%	20.1%	26.4%	30.1%	92.4%	68.5%	40.0%
NZX Ltd	79.8%	77.6%	73.1%	36.3%	37.8%	42.0%	12.9%	14.6%	17.2%	-4.3%	13.6%	16.0%
Hellenic Exch.	67.7%	63.4%	51.6%	42.3%	50.1%	53.2%	26.6%	29.6%	38.7%	58.3%	36.4%	43.3%
JSE Ltd	70.4%	73.0%	74.5%	n.a.	n.a.	n.a.	31.2%	29.5%	28.9%	13.3%	-0.7%	1.1%
MCX India	69.0%	92.6%	42.2%	35.0%	11.4%	64.2%	30.3%	12.4%	50.4%	4.1%	-42.6%	387.6%
Bolsa Mexicana	49.5%	48.6%	47.7%	56.3%	57.1%	57.7%	38.8%	38.0%	37.5%	-6.9%	4.3%	2.7%
Dubai Fin'l Mkt.	59.3%	54.9%	62.1%	39.2%	43.9%	n.a.	58.3%	60.8%	63.7%	66.7%	23.3%	16.2%
Warsaw SE	72.6%	73.4%	71.7%	38.1%	39.4%	42.5%	35.0%	31.6%	31.9%	6.4%	0.9%	7.0%
Average	53.6%	54.0%	50.3%	54.6%	54.4%	59.3%	38.2%	37.1%	40.2%	18.3%	8.0%	30.9%
Median	49.5%	50.3%	49.2%	56.1%	56.3%	56.7%	38.8%	35.2%	38.4%	11.6%	5.5%	7.1%
Prem./disc.)	23.1pts	23.1pts	22.5pts	-18.0pts	-17.0pts	-14.2pts	-3.8pts	-3.6pts	-6.5pts	-5.2pts	-4.6pts	0.0pts

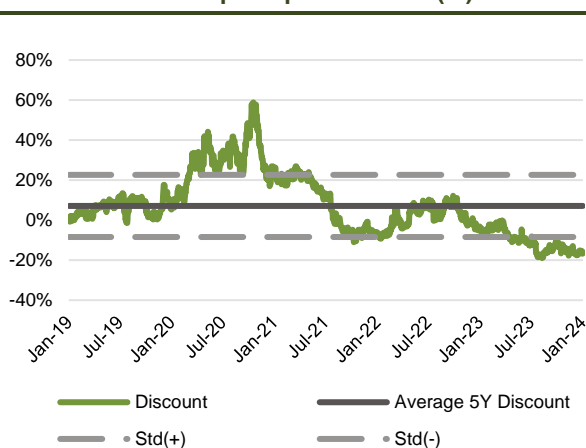
Source: Bloomberg, WOOD Research

GPW trades below the market-accepted 12M FWD average P/E and the historical average discount to the WIG index. We see the multiple as undemanding and an entry at these levels, barring any major exogenous shock, could mitigate any downside. We expect some P/E multiple expansion and the closing of the discount to the broader WIG Index in the future.

GPW: 12M FWD Best* P/E (x)



GPW vs. WIG index price performance (%)



Source: Bloomberg, WOOD Research; *Bloomberg estimates

WOOD's forecasts changes

We have increased our 2023E net profit forecast by 40%, and our 2024-25E estimates by 33-29%, respectively. We have revised our expectations for GPW upwards, based on:

- ✓ A significantly lower impact than we expected on the TGE volumes, following the removal of the obligation to trade power through the exchange.
- ✓ A better performance from the Polish equities market.
- ✓ Fee increases in both the Equities and Commodities segments.
- ✓ The new strategic plan.
- ✓ The addition of new revenue streams.

WOOD: summary of our forecasts changes

PLN m	2023E			2024E			2025E		
	New	Old	Diff.	New	Old	Diff.	New	Old	Diff.
Revenues	441	371	19%	492	390	26%	522	412	27%
EBITDA	168	140	20%	194	153	27%	222	167	33%
EBIT	128	95	35%	138	109	27%	155	126	23%
Net profit	154	110	40%	156	117	33%	167	129	29%
DPS (PLN)	2.8	2.2	25%	2.8	2.4	16%	3.0	2.6	14%
EBITDA margin (%)	38%	38%	0ppt	39%	39%	0ppt	42%	40%	2ppt
EBIT margin (%)	29%	26%	3ppt	28%	28%	0ppt	30%	31%	-1ppt
Net margin (%)	35%	30%	5ppt	32%	30%	2ppt	32%	31%	1ppt

Source: Company data, WOOD Research

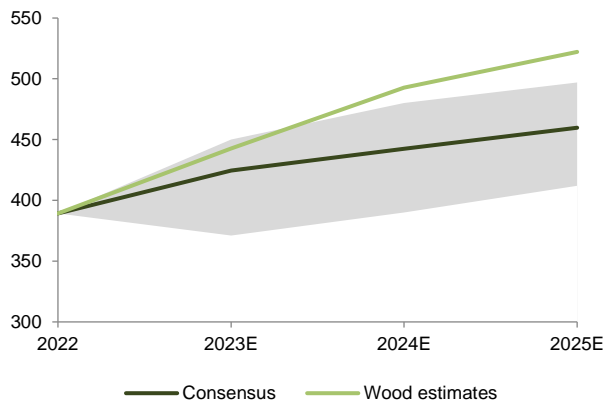
WOOD vs. the consensus

WOOD vs. the consensus

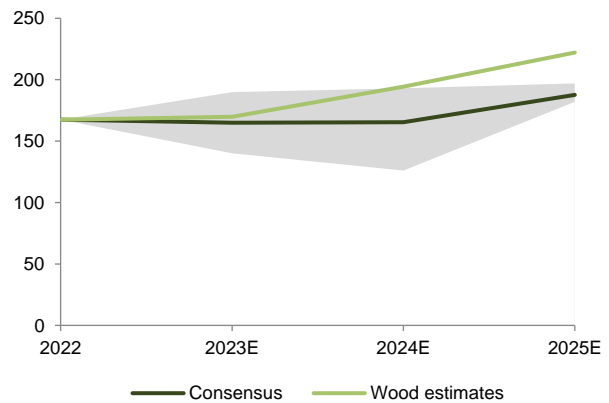
PLN m	2023E			2024E			2025E		
	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)	WOOD	Cons.	Diff. (%)
Sales	441	424	4%	492	442	11%	522	460	13%
EBITDA	168	165	2%	194	166	17%	222	188	18%
EBIT	128	119	8%	138	120	16%	155	136	14%
Net profit	154	140	10%	156	139	12%	167	151	11%
DPS (PLN)	2.8	2.8	0%	2.8	2.9	-3%	3.0	3.0	0%
EBIT margin (%)	38%	39%	-0.8 pp	39%	37%	2.0 pp	42%	41%	1.7 pp
EBITDA margin (%)	29%	28%	1.1 pp	28%	27%	1.1 pp	30%	30%	0.1 pp
Net margin (%)	35%	33%	2.1 pp	32%	31%	0.2 pp	32%	33%	-0.8 pp

Source: Bloomberg, WOOD Research

Revenues (PLN m)

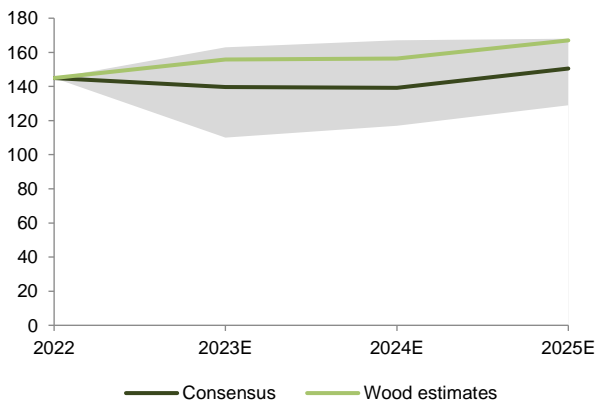


EBITDA (PLN m)

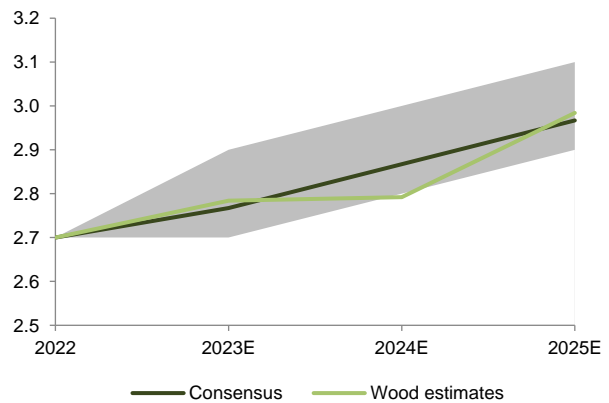


Source: Bloomberg, WOOD Research

Net income (PLN m)



DPS (PLN)

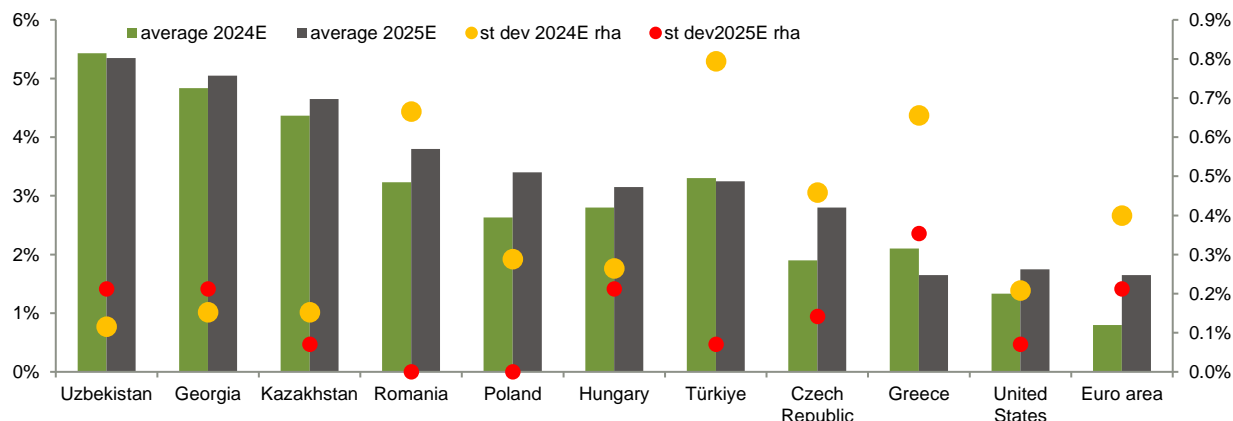


Source: Bloomberg, WOOD Research

Macro update

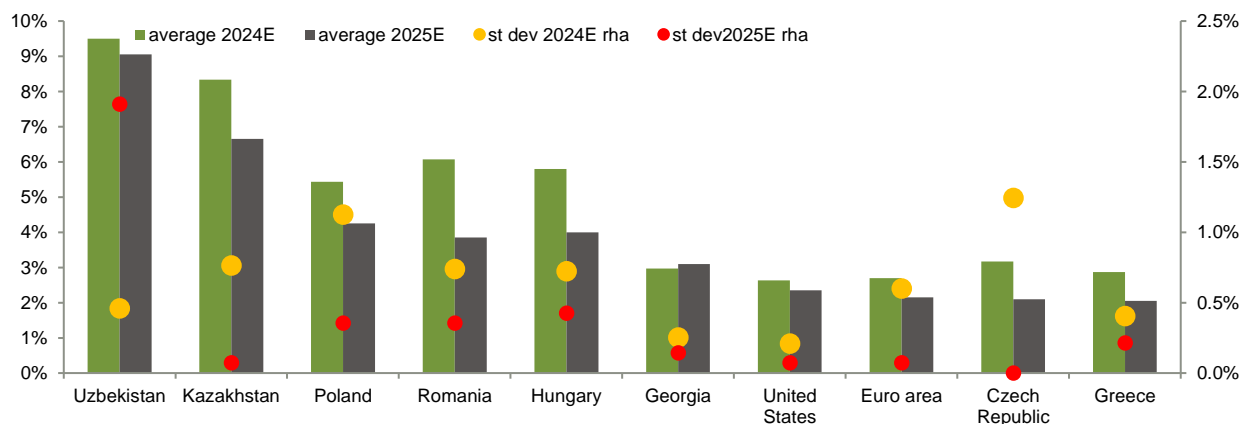
Poland could see a slow start to 2024E, as the political changeover could put on a temporary halt on investment, but the trajectory should be highly favourable, in our view, once the political transition is complete. We expect Poland to be one of the strongest economies in the next couple of years in our region, and inflation should continue to moderate, moving forward. For more information on the Polish and regions' macro, please see our macro team's recent [report](#). Net flows into Polish OFE and PPK funds increased throughout 2023 and the October elections appear to have triggered some positive net flows into domestic equity only funds, which are promising signs for the Polish equity markets.

Average growth estimates and standard deviation



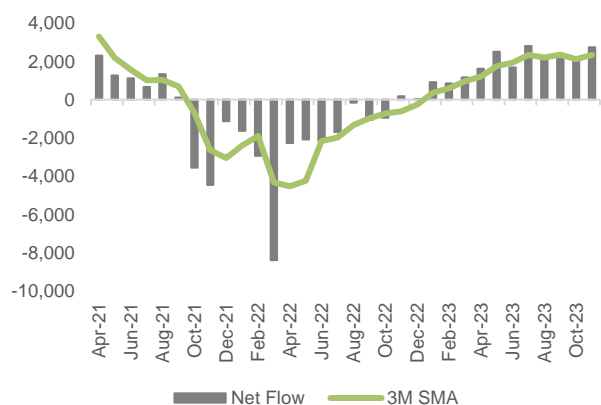
Source: Bloomberg, CEIC, IMF, FocusEconomics, ADA Economics in association with WOOD Research

Average inflation estimates and standard deviation (ex. Turkey)

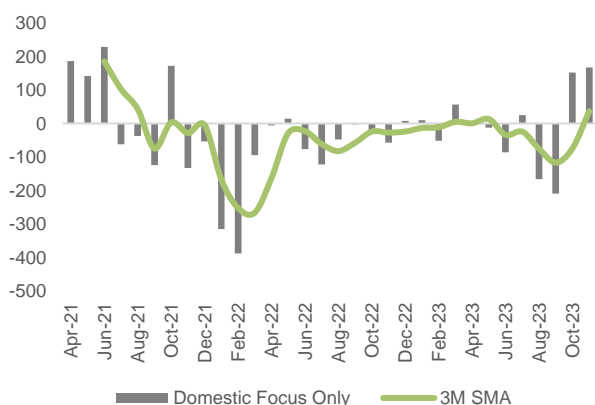


Source: Bloomberg, CEIC, IMF, FocusEconomics, ADA Economics in association with WOOD Research

Net flows PL OFE & PPK (PLN bn)



Net flows equity only funds: domestic only (PLN m)



Source: IZFia, Bloomberg, WOOD Research

Risks for our forecasts

- ✓ **An economic downturn and a worse markets performance than anticipated**, accompanied by lower trading volumes (-).
- ✓ **The Russian invasion of Ukraine**. Any escalation/de-escalation would be bound to move the market, in our view. We believe that a Ukrainian recovery effort would be positive, and have spillover effects that could benefit the Polish economy (- / +).
- ✓ **Geopolitical risks**. At the current standpoint, we flag the Israeli-Palestine conflict (-).
- ✓ **The blocked EU recovery funds**. We expect the election of pro-EU PM Donald Tusk to lead to release of the funds sooner or later, but the risks remain, nonetheless (-).
- ✓ **The consolidation of the Polish asset management market** may reduce trading volumes (-).
- ✓ **A deterioration of the equities trading market share**, due to MTFs and “dark pools” (-).
- ✓ **A delay in launching the strategic initiatives, and higher development costs** than previously assumed (-).
- ✓ **A failure to commercialise the new initiatives** (-).
- ✓ **A management reshuffling**, following the election of PM Tusk (-).
- ✓ **Value-accretive M&A** (+).
- ✓ **A higher dividend payout ratio** than we forecast (+).
- ✓ **The reinstatement of the obligation to trade power through TGE** (+).

Financials

Income statement

(PLN m)	2021	2022	2023E	2024E	2025E	2026E
Financial market	255	248	244	280	290	298
Commodity market	150	138	156	166	166	164
Other revenues	3	3	40	46	66	87
Revenues	408	389	441	492	522	549
Staff costs	-110	-112	-139	-163	-169	-170
External services	-57	-76	-106	-107	-102	-101
Other operating expenses	-62	-67	-75	-91	-103	-110
Other income /expenses	2	-4	8	8	8	8
EBIT	180	131	128	138	155	175
EBITDA	215	167	168	194	222	248
Net financial results	-11	16	29	20	16	14
Share of profit from associates	24	28	32	33	33	34
Pre-tax profit	194	175	189	191	205	224
Income tax	-32	-30	-35	-35	-38	-42
Net profit	161	145	154	156	167	182
Minority interest	0	0	0	0	0	0
Net attributable profit to shareholders	161	145	154	156	167	182

Source: Company data, WOOD Research

Balance sheet

(PLN m)	2021	2022	2023E	2024E	2025E	2026E
Property, plant and equipment	92	108	112	114	115	112
Intangible assets	264	283	315	355	362	353
Investment in subsidiaries	231	241	262	284	305	327
Other non-current assets	17	20	20	20	20	20
Non-current assets	604	652	709	773	802	812
Trade receivables and other receivables	177	79	70	78	83	88
Cash and cash equivalents	349	379	181	151	168	211
Other current assets	281	73	261	261	261	261
Current assets	807	531	512	491	512	560
Total assets	1,411	1,182	1,221	1,264	1,314	1,372
Share capital	64	64	64	64	64	64
Retained earnings	909	939	980	1,020	1,070	1,127
Minority interest	1	10	10	10	10	10
Other	-6	-12	-12	-12	-12	-12
Total equity	968	1,001	1,042	1,082	1,132	1,189
Debt securities	0	0	0	0	0	0
Other	44	54	54	54	54	54
Total non-current liabilities	44	54	54	54	54	54
Debt securities	246	0	0	0	0	0
Trade payables	14	18	20	22	23	24
Provisions for other liabilities and other charges	29	32	28	28	28	28
Other current liabilities	110	78	78	78	78	78
Total current liabilities	399	128	125	128	129	129
Total equity and liabilities	1,411	1,182	1,221	1,264	1,314	1,372

Source: Company data, WOOD Research

Cash flow statement

(PLN m)	2021	2022	2023E	2024E	2025E	2026E
Profit for the year	161	145	154	156	167	182
Income tax	32	30	35	35	38	42
Depreciation and amortisation	35	37	40	55	66	73
Income from interest on deposits	-1	-5	-31	-22	-19	-17
Interest and premium on issued bonds	5	3	0	0	0	0
Share of profit of associates	-24	-28	-32	-33	-33	-34
Changes in working capital	-123	103	11	-6	-4	-4
Income tax expense	-37	-45	-35	-35	-38	-42
Other	3	-23	-4	0	0	0
Net cash from operations	53	216	137	150	177	200
Capital expenditures	-43	-60	-76	-98	-74	-61
Dividends received	7	11	11	12	12	12
Other	33	233	-157	22	19	17
Net cash from investing activities	-4	184	-221	-64	-43	-32
Dividends paid	-105	-115	-113	-116	-117	-125
Interest paid	-6	-5	-0	-0	-0	-0
Other	6	-245	0	0	0	0
Net cash from financing activities	-105	-365	-114	-116	-117	-125
Total cash flows	-56	35	-198	-30	17	43
Cash at the beginning of the period	411	349	379	181	151	168
Cash at the end of the period	349	379	181	151	168	211
Free cash flow	18	188	79	65	115	151

Source: Company data, WOOD Research

KPIs and multiples

P&L growth (%)	2021	2022	2023E	2024E	2025E	2026E
Revenues	0.9%	-4.5%	13.2%	11.6%	6.0%	5.2%
Operating expenses	11.3%	11.1%	25.5%	12.9%	3.6%	1.9%
EBIT	-5.0%	-27.4%	-1.7%	7.9%	12.1%	13.1%
EBITDA	-4.6%	-22.2%	0.3%	15.3%	14.4%	12.0%
Profit before taxes	1.9%	-9.8%	8.3%	0.9%	7.0%	9.4%
Net profit	5.9%	-10.1%	6.4%	0.9%	7.0%	9.4%
Margins & profitability (%)						
EBITDA	52.8%	43.0%	38.1%	39.4%	42.5%	45.2%
EBIT	44.1%	33.5%	29.1%	28.1%	29.8%	32.0%
Net margin	39.6%	37.2%	35.0%	31.6%	31.9%	33.2%
C/I	56.3%	65.5%	72.6%	73.4%	71.7%	69.4%
Dividend payout	69.1%	71.3%	78.2%	75.0%	75.0%	75.0%
ROE	17.1%	14.7%	15.1%	14.7%	15.1%	15.7%
ROA	11.6%	11.2%	12.8%	12.5%	12.9%	13.6%
Per share data & multiples						
Shares outstanding (m)	41.97	41.97	41.97	41.97	41.97	41.97
Average price/share (PLN)	41.42	35.22	41.20	41.20	41.20	41.20
EPS (PLN)	3.84	3.45	3.67	3.71	3.97	4.34
BVPS (PLN)	23.06	23.85	24.82	25.77	26.96	28.33
DPS (PLN)	2.74	2.70	2.76	2.78	2.98	3.26
FCF/share (PLN)	0.44	4.48	1.89	1.54	2.74	3.60
P/E (x)	10.8x	10.2x	11.3x	11.2x	10.4x	9.5x
P/BV (x)	1.8x	1.5x	1.7x	1.6x	1.5x	1.5x
EV/EBITDA (x)	7.6x	6.6x	9.3x	8.2x	7.1x	6.2x
P/FCF (x)	2.3x	0.2x	0.5x	0.6x	0.4x	0.3x
Debt/equity (x)	0.3x	0.2x	0.1x	0.1x	0.1x	0.1x
Asset turnover (x)	0.3x	0.3x	0.4x	0.4x	0.4x	0.4x
Dividend yield (%)	6.6%	7.7%	6.6%	6.7%	7.2%	7.9%

Source: Company data, Bloomberg, WOOD Research

DuPont Analysis

(PLN m)	2021	2022	2023E	2024E	2025E	2026E
Revenues	29.4%	30.0%	36.7%	39.6%	40.5%	40.9%
Operating expenses	(16.5%)	(19.7%)	(26.6%)	(29.1%)	(29.0%)	(28.4%)
Other	0.1%	(0.3%)	0.6%	0.6%	0.6%	0.6%
EBIT	13.0%	10.1%	10.7%	11.1%	12.0%	13.1%
Net financial income	(0.8%)	1.2%	2.4%	1.6%	1.2%	1.1%
Share of profit of associates	1.8%	2.2%	2.7%	2.7%	2.6%	2.5%
Profit before taxes	14.0%	13.5%	15.8%	15.4%	15.9%	16.7%
Income tax	(2.3%)	(2.3%)	(2.9%)	(2.9%)	(2.9%)	(3.1%)
ROA	11.6%	11.2%	12.8%	12.5%	12.9%	13.6%
Equity multiplier	1.5x	1.3x	1.2x	1.2x	1.2x	1.2x
ROE	17.1%	14.7%	15.1%	14.7%	15.1%	15.7%

Source: Company data, WOOD Research

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CONTACTS

Czech Republic

namesti Republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Poland

Centrum Marszałkowska
Marszałkowska 126/134
7th Floor
00 008 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

16 Berkeley Street
London
W1J 8DZ
Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy
Tel +39 02 36692 500

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www.wood.com

Romania

Lamda Building
7A Bucuresti-Ploiesti Street
4th Floor
013682 Bucharest 1
Tel.: +40 316 30 11 81

Research

Co-Head of Equities/ Head of Research

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Head of Romania Research

Iuliana Ciopraga
+40 316 30 1185
iuliana.ciopraga@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Turkey

Can Yurtcan
+420 222 096 780
can.yurtcan@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Head of Financials

Can Demir
+44 20 3530 0623
can.demir@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Russia

Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Head of TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Financials

Miguel Dias
+420 735 729 418
miguel.dias@wood.com

Head of Turkey Research

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Gaming/Mid-caps

Maria Mickiewicz
+48 602 450 718
maria.mickiewicz@wood.com

Real Estate

Peter Palovic
+420 222 096 486
peter.palovic@wood.cz

Sales

Co-Head of Equities

Jarek Tomczynski
+48 22 222 1611
jarek.tomczynski@wood.com

Ioana Pop

+44 20 3530 0693
ioana.pop@wood.com

Ilgin Erdogan

+420 222 096 708
ilgin.erdogan@wood.com

Tatiana Sarandinaki

Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Jan Koch

+48 22 222 1616
jan.koch@wood.com

Piotr Kopec

+48 22 222 1615
piotr.kopec@wood.com

Sales Trading and Execution Services

Co-Head of Equities

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Jan Koch

+48 22 222 1616
jan.koch@wood.com

Ermir Shkurti

+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra

+420 222 096 397
vladimir.vavra@wood.com

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