

A magnifying glass with a gold-colored frame is positioned over a document containing various financial charts, including a bar chart and a pie chart. The background is a blurred office setting with a desk and a pen. The overall color palette is muted, with blues, greys, and browns.

# Investment Thesis Development: Eleving Group's Case

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*With a new investment comes both new opportunities and risks, which is why it's worth dedicating time to understanding them before making a decision. If you don't have time for this, it makes sense to continue managing your existing portfolio or invest only an amount you are willing to lose.*

The purpose of developing an investment thesis is to help the investor thoroughly consider whether and why a particular investment is attractive and to assess its potential risks and advantages. This allows the investor to make an informed decision based on facts and analysis, rather than emotions. I recommend following the steps below when developing an investment thesis. If a significant risk or "red flag" emerges during any step, you may decide to abandon the process. In creating this thesis, I have used the prospectus, presentations, public financial statements, and, where necessary, asked additional questions to the company's management.

Every potential investor can use this analysis as a basis for their investment thesis and adjust it as needed.

### **1. Investment Goal and Strategy**

- Reflect on your portfolio strategy and investment goal. For example: capital growth, generating regular additional income, long-term retirement preparation, etc.
  - *My goal is for my investment portfolio to be divided in half: half of the investments should contribute to capital growth, and half to increasing current income.*
- Does this investment fit into your overall portfolio? Is it a long-term, short-term, passive, or active investment?
  - *I am looking for a financial instrument that generates current income for my portfolio.*
  - *If I were to invest in Eleving, I wouldn't immediately know if it would be a short- or long-term investment, but the company's quarterly financial results would certainly need to be actively monitored.*

### **2. Understanding the Company's Background**

- Eleving Group is a fintech company with a wide geographic presence, offering vehicle and consumer financing solutions in Europe, Africa, and Central Asia.
  - *Operating in multiple markets across different continents is an advantage for me. I consider it a loan business that uses financial technology solutions.*
  - *Depending on the market, the company's issued loans range between 20–80%. These interest rates should be compared to local market rates. It is likely that Eleving is less efficient at securing its claims than banks, which is why it logically charges a higher interest rate to cover additional risk.*
  - *The company has a code of ethics that indicates it follows responsible lending practices and avoids corruption.*

- *The company has previously issued publicly traded bonds. The bond interest rate is fixed in relation to the nominal value.*
- Background and track record of owners (if a red flag appears here, consider discontinuing further analysis). The company has four founders: Aigars Kesenfelds holds over 43.7% ownership, and 14.6% is equally distributed among the three co-founders.
  - *Major shareholder Aigars Kesenfelds has extensive experience in building loan businesses (Mintos, Mogo, etc.), which is positive from Eleving's perspective. The major shareholder prefers low profile in media. Media communication is important to understand the values of the major shareholder. It is understandable that business performance of the company is communicated and discussed with management team.*

### 3. Fundamental Analysis of the Company

- Review the company's financial statements (income statement, balance sheet, cash flow statement). Key indicators include:
  - Revenue growth: Is the company's revenue growing or shrinking?
    - *The company has been in continuous growth since its founding in 2012.*
    - *Eleving's interest revenue for the first half of 2024 increased to €95.1 million (a 21% growth compared to the same period last year). Revenue growth was driven by both organic growth and the acquisition of EC Finance Group SIA in July 2023.*
    - *Interest revenue growth in 2023 was 8% compared to 2022.*
  - Profitability: Is the company making a profit? How profitable is it?
    - *The company has been consistently profitable. In the first half of 2024, 15.4 cents of every euro earned from interest revenue remained as net profit from continuing activities (14.5 cents in the same period of 2023).*
    - *Return on equity increased to 44.2% in 2023 (33.7% in 2022). A return on equity of over 20% is considered excellent, but it's worth investigating the company's debt burden to ensure that equity is not too low (note: mathematically, a positive return on equity can also be achieved by dividing losses by negative equity, which is not the case here).*
    - *Loan loss provisions were 18 cents for every euro of interest income earned in the first half of 2024 (21 cents in the same period in 2023). The downward trend is positive. This high figure is due to the nature of the business and expansion.*
    - *As far as I know, the company did not have significant one-off revenues or cost reductions that would have made the net profit appear higher than usual.*

- Cash flows: Is the company generating enough cash to continue operations and grow? Is it a pyramid scheme (i.e., it collapses if new capital cannot be raised)?
  - *Considering the company operates in markets that are exotic to me, it's essential to verify whether earned interest revenue and received interest payments are in the same ballpark. For Eleving, this criterion is met. The company could (slowly) grow even without raising capital, with no signs of a pyramid scheme.*
  - *The company's ability to generate cash is also evidenced by the fact that it has paid dividends twice a year in previous years.*
- Debt burden: How much debt does the company have? Can they manage it? Background info: the ratio of bank loans to equity should be between 10:1 and 12:1, and 8:1 for less stable markets.
  - *Eleving's debt burden in recent years has been decreased from 9.2:1 in 31.12.2021 to 4.8:1 in 30.06.2024, which has been a good trend and aligns with the company's risk profile.*
- Balance sheet structure: Are there any peculiarities?
  - *The balance sheet structure is typical for a financing company. No peculiarities.*
- Additional information:
  - *International rating agency Fitch Ratings recognized Eleving's improved balance sheet structure and consistent profitability. In the second quarter of 2024, the Group's credit rating was upgraded from B- to B (stable outlook).*
- Management: Who runs the company? What is their background?
  - *Eleving's CEO Modestas Sudnius has built his career within the company, starting as the head of the Lithuanian market in 2013. CFO Maris Kreics has been with the company since 2015 and holds recognized certifications in finance (CFA and ACCA) and has an audit background. The company has formed a three-member supervisory board, two of whom are independent.*

#### 4. Impact of the Economic Cycle

- What are the key external environmental factors that may affect the company's future (interest rates, inflation, regulatory changes, etc.)?
  - *An economic growth cycle, which increases consumer confidence, positively impacts financing companies. In a downturn, loan losses increase, and companies offering financing services may fall into losses.*

#### 5. Business Model and Future

- Is the business model sustainable and scalable? Can it grow without significantly increasing costs?

- *Demand for mobility solutions in emerging markets is likely to grow. The financial technologies used by the company to assess borrowers and vehicle values are easily scalable.*
- *The company expects its most significant growth in existing markets, which should positively impact profitability, as revenues should grow faster than fixed costs. According to the company's management, new markets will reach profitability within three years, which I consider a short timeframe.*

## 6. Risk Analysis

- What are the most significant risks affecting capital growth or dividend-paying ability? What could go wrong, and how might these risks affect the investment's value?
  - *Political/regulatory risks. Local legislators may impose restrictions on loan businesses, which could force the company to exit certain markets and/or impact its profitability. Ambiguous laws could lead to unexpected and costly legal battles.*
  - *Loan portfolio risk. An economic downturn leads to a decline in interest revenue, an increase in loan losses, and negatively impacts individual customers' ability to repay loans. It is essential to keep in mind, as doubling loan losses would push the company into losses.*
  - *Strategic risk. Burning cash to show significant growth, which substantially affects the company's financial performance.*
  - *Financing risk. The company raises capital under conditions that, in certain economic environments, make refinancing difficult or impossible as the value of collateral assets decreases.*
  - *Intensifying competition reduces the company's ability to grow and/or earn interest revenue.*
  - *Majority shareholder risk. The majority shareholder may make strategic decisions aligned with their long-term interests, but not necessarily with those of other shareholders. It is also essential to ensure that related-party transactions occur at market prices. The majority shareholder's decision to keep low profile in media may also impact Eleving's image.*
  - *Low trading activity on the Baltic stock exchange. Important to keep in mind if there's a need to sell shares quickly.*

## 7. Valuation and Pricing

- Is the company's stock currently over- or undervalued?
  - *The P/E ratio is currently between 6–8, which is of interest.*
  - *New dividend policy was approved in July 2024 and the expected dividend yield in a few years is 10% (5.8% in 2023). Do I believe this story, or is it too optimistic?*

- *Enlight Research ([LINK](#)) suggests a fair value for the stock of €2.39 (range: €2.13–€2.64). This is good background information, considering that an analyst team can process more information than an individual investor. Eleving's offering price is between €1.60–€1.85.*

## **8. Expected Return and Exit Strategy**

- I expect dividend yield. Initially, I do not anticipate capital growth, but it could happen at some point if the company grows and sentiment on the Baltic stock exchange improves. If no risk materializes, I also do not expect a drop in the share price.
- When and under what conditions would you consider exiting the investment?
  - *Slowing growth (interest revenue annual growth below 10%, relative increase in loan losses over 25 cents per euro of interest revenue)*
  - *Red flags in the company's management activities*
  - *Finding a better alternative for a dividend stock portfolio*

## **9. Conclusion and Decision**

- Finally, summarize your conclusions. Does the company's potential outweigh the risks? How does this investment support your overall financial goals?
  - *Eleving Group offers an investment opportunity worth considering for a dividend-generating portfolio. The company is profitable, has a manageable debt burden, and diversified revenue streams. It operates mainly in emerging markets, where growth potential is high, and competition is low. However, the investment carries significant risk, particularly concerning regulatory and political changes in emerging markets and the quality of the loan portfolio. Becoming a shareholder would require actively monitoring developments and the risks associated with the company.*

*Eleving compensated the author for his time. The author is independent in his opinion.*