GBC AG Investment Research

# Fintech Group AG*5a,5b,6a,11

**Rating: BUY**
**Target price: €29.00**

Current price: €15.975
05/10/2015,09:02 / ETR

Curreny: EUR

**Key Information:**

ISIN: DE0005249601
WKN: 524960
Ticker symbol: FLA

Number of share³: 16.811
Marketcap³: 268.55
³in million / in mEUR

Free float: 42.15 %

Transparency level:
Entry Standard

Market segment:
Open Market

Accounting Standard:
IFRS

Financial year: 31/12.

Designated Sponsor:
ICF Kursmakler
Hauck & Aufhäuser
M.M.Warburg & CO

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* List of possible conflicts of interest on page 10 **Fehler!**

**Company profile**

Sector: software, technology

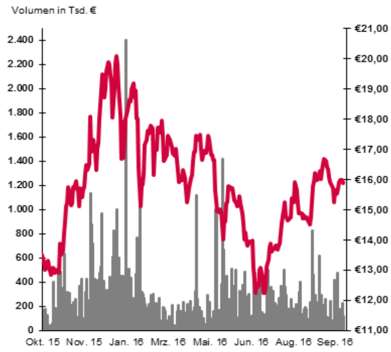
Focus: fintech, banking services

employees: 467 (due date: 30/06/2016)

Established: 1999

Registered office: Frankfurt / Main

Board of management: Frank Niehage




FinTech Group AG together with its subsidiary flatex has been one of the market and innovation leaders in the German online brokerage market for ten years now. The continual growth in the number of customers and transactions as well as turnover demonstrate that disruptive business models are successful on the market. The company has now set the goal of becoming Europe's leading supplier of innovative technologies in the financial sector by means of a comprehensive transformation and growth process that also expands it beyond online brokerage. The company focuses on business models with long-term, above-average growth as well as rapid market penetration. As part of this growth programme, in March 2015, the FinTech Group acquired the majority of shares in the XCOM Group, one of the most successful software and technology suppliers for financial service providers. The XCOM subsidiary biw AG has a license to provide banking services (known as full banking). For more than 25 years, the XCOM Group has been one of the most important technology and outsourcing partners for the German banking industry and one of the most successful partners in the up-and-coming German fintech sector.

| P&L in mEUR \ financial year end | 31/12/2015 | 31/12/2016e | 31/12/2017e | 31/12/2018e |
|---|---|---|---|---|
| Net sales | 75.19 | 100.00 | 108.00 | 115.00 |
| EBITDA | 19.74 | 33.00 | 38.00 | 45.00 |
| EBIT | 17.24 | 28.00 | 32.50 | 39.00 |
| Consolidated earnings from continuing operations (after minorities) | 14.01 | 22.12 | 25.61 | 27.90 |
| **Key figures in EUR** | | | | |
| EPS from continuing operations | 0.88 | 1.32 | 1.52 | 1.66 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |
| **Key figures** | | | | |
| Equity | 85.86 | 101.67 | 127.28 | 155.18 |
| Return on Equity | 16.3% | 21.8% | 20.1% | 18.0% |
| Price-Sales-Ratio | 3.57 | 2.69 | 2.49 | 2.34 |
| Price-Earnings-Ratio | 19.17 | 12.14 | 10.49 | 9.63 |
| Price-Book-Ratio | 3.13 | 2.64 | 2.11 | 1.73 |

| Financial calendar |
|---|
| |
| |

| **latest research by GBC: |
|---|
| Date: publication/ target price in EUR / Rating |
| 12/07/2016: RS / 28.50 / BUY |
| 01/06/2016: RS / 26.85 / BUY |
| 02/05/2016: RS / 26.85 / BUY |
| 11/04/2016: RS / 26.85 / BUY |
| 29/03/2016: RS / 26.85 / BUY |
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**Date of completion / first publication: 05/10/2016**

## Business Development HY1 2016

| P&L (m€) | HY1 2015 | HY1 2016 |
|---|---|---|
| Sales | 34.63 | 48.35 |
| EBITDA (*Margin*) | 15.16 (*43.8 %)* | 13.78 (*28.5 %*) |
| EBIT (*Margin*) | 14.73 (*42.5 %)* | 11.36 (*23.5 %*) |
| Consolidated earnings from continuing operations | 11.89 | 8.86 |
| EPS from continuing operations (in €) | 0.75 | 0.56 |

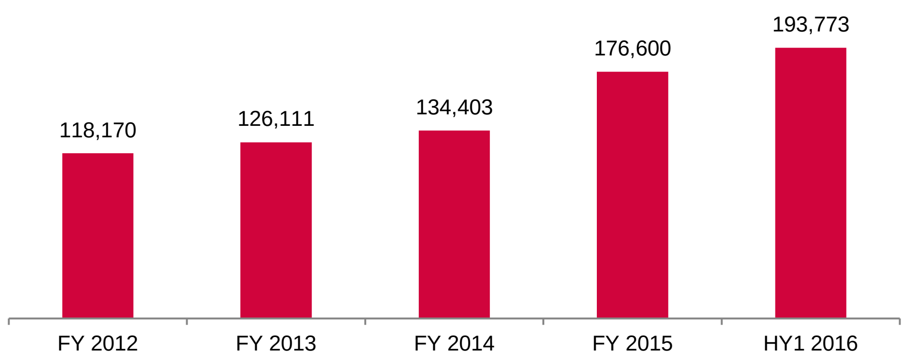
*Source: FinTech Group, GBC*

### *Development of Sales*

In H1 2016, FinTech Group AG continued its impressive performance following the realignment of its business model. The company improved all key performance indicators in the first few months of the current year. For example, the number of customers was increased to nearly 194,000. Therefore our expectation for the full year, which was around 211,000 customers, now appears to have been conservative.

FinTech Group AG also made a significant leap forward in terms of customer assets under management, which stood at €9.42 billion at the end of June 2016, more than 60% higher than at the end of FY 2015. It is now therefore strongly assumed that the €10 billion mark in customer assets under management will be exceeded later in the year.

**Number of customers**



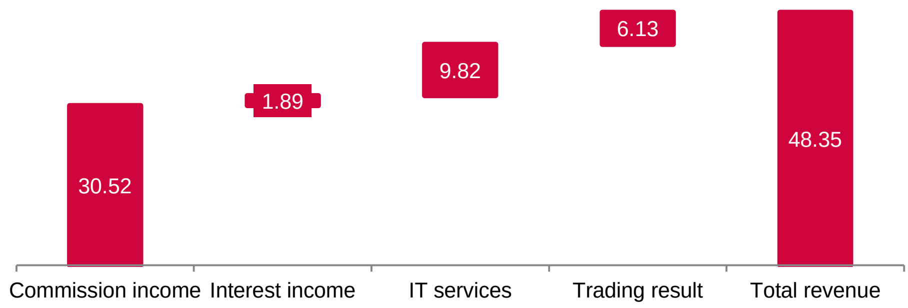

*Source: FinTech Group, GBC*

The main driver for the sharp rise in customer numbers and customer assets under management was the integration of the new customer Equatex. Equatex is a global financial services company that manages option plans and employee stock option programmes for the employees of corporations. Equatex is responsible for around 300,000 customers in Germany. From this figure, it can be inferred that a high transaction volume can be generated as part of this recent collaboration and that there is corresponding potential for expansion in the coming years.

The sound development in customer, transaction and asset figures is already reflected positively in the sales performance, although it can be assumed that it will be even more pronounced in the second half-year. For example, revenue in H1 2016 was €48.35 million, 40% above the previous year's figure. Although the comparability of the previous year's figures is limited by the fact that XCOM AG was not consolidated until 31 March 2015 and due to the extraordinary income from the out-licensing of the CFD business to Commerzbank, it is clear that FinTech Group AG's revenue development is trending upwards.

Broken down by the source of the results, it is clear that commission income, which improved by 7.8% as a result of the increased trading volume, accounts for the largest share of revenue. The significant increase in income from IT services from €3.31 million to €9.82 million resulted, amongst other things, from the effect of the consolidation of XCOM mentioned above. However, organic growth was also recorded.

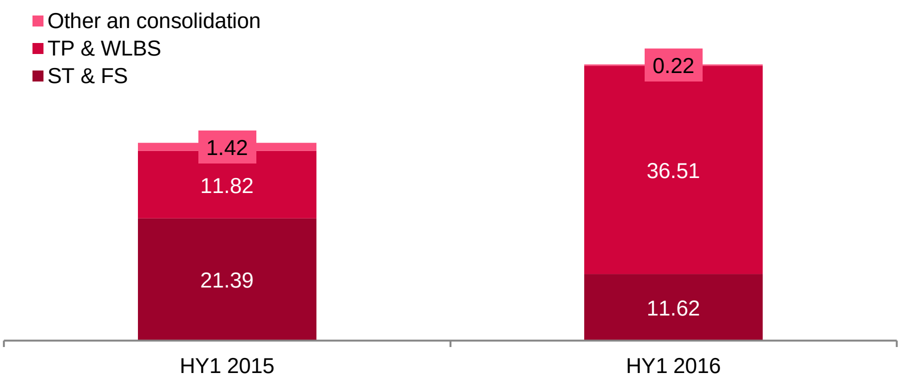
**Development of revenue by segments (in m€)**




*Source: FinTech Group, GBC*

At segment level, there was also a strong gain in Transaction Processing & White Label Banking Services (TP&WLBS). The effects of the consolidation of XCOM can also be seen here. By contrast, the Securities Trading & Financial Services (ST&FS) segment recorded a decline of €21.39 million to €11.62 million. However, it should be noted that the previous year included high income from the out-licensing of the CFD business to Commerzbank, which is likely to have amounted to around €8 million (according to 2015 annual report, total extraordinary income in 2015 was €8.2 million). Adjusted for this, an increase in revenue was recorded in the ST&FS segment and the share of organic growth was correspondingly higher.

**Development of revenue by segments (in m€)**



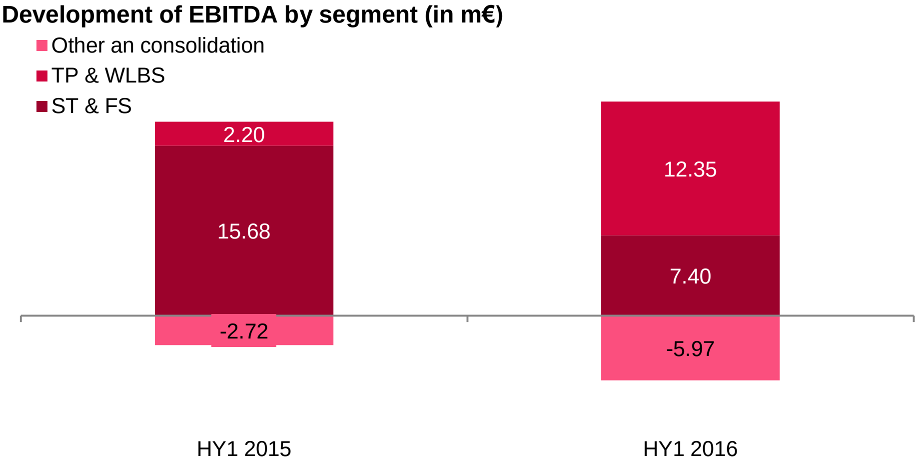

*Source: FinTech Group, GBC*

Overall, the revenue performance of FinTech Group AG in H1 2016 was very satisfactory. The growth plans that have been undertaken are starting to bear fruit and can be seen in the strong momentum. It should be noted, however, that some partnerships will not have an effect on revenue until the H2 2016, so it can be assumed that performance in the second half-year will be even stronger.

### *Development of Earnings*

The earnings performance in H1 2016 was also very impressive. While the reported EBITDA of €13.78 million was slightly below the figure reported in the previous year, it should be noted that the previous year was affected by the aforementioned extraordinary income. Adjusted for this figure, estimated to be around €8 million, a significant increase in EBITDA was recorded. In 2015, extraordinary income was recorded in the ST&FS segment. When this is eliminated, it becomes evident that there was a clear rise in earnings. In contrast, the increase in EBITDA in TP&WLBS was positively impacted by the XCOM consolidation, although a significant organic increase in earnings must be assumed.

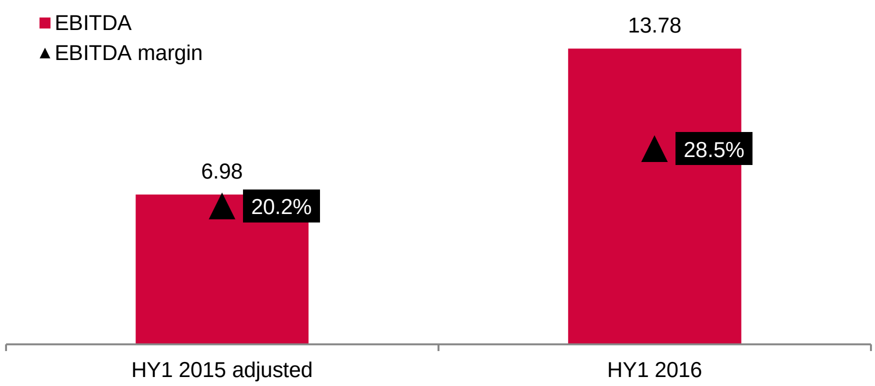
**Development of EBITDA by segment (in m€)**




*Source: FinTech Group, GBC*

The following graph takes into account the adjustment of the non-recurring earnings from the CFD business in the EBITDA comparison in H1 2015. Although the presentation is not adjusted for the effects of the various consolidation periods of XCOM, it is nevertheless clear that a major step forward has been taken, particularly in the area of the EBITDA margin.

**Development of EBITDA and adjusted EBITDA (in m€)**




*Source: FinTech Group, GBC*

## Estimates

| P&L (in m€) | FY 2016e (old) | FY 2016e (new) | FY 2017e (old) | FY 2017e (new) | FY 2018e (old) | FY 2018e (new) |
|---|---|---|---|---|---|---|
| Sales | 84.71 | 100.00 | 93.18 | 108.00 | 102.50 | 115.00 |
| EBITDA (margin) | 32.46 *(38.3%)* | 33.00 *(33.0%)* | 37.25 *(40.0%)* | 38.00 *(35.2%)* | 42.55 *(41.5%)* | 45.00 *(39.1%)* |
| EBIT (margin) | 29.46 *(34.8%)* | 28.00 *(28.0%)* | 34.00 *(36.5%)* | 32.50 *(30.1%)* | 39.05 *(38.1%)* | 39.00 (33.9%) |
| Consolidated earnings from continuing operations | 23.66 | 22.12 | 26.93 | 25.61 | 27.94 | 27.90 |
| EPS from continuing operations (in €) | 1.41 | 1.32 | 1.60 | 1.52 | 1.66 | 1.66 |

*Source: GBC*

### *Expected development of sales*

With regard to operating performance, in our opinion FinTech Group AG is fully on schedule to achieve its annual targets after H1 2016. For FY 2016, the company forecast an EBITDA range of €30-€35 million. After H1 2016, 46% of EBITDA, as measured by the lower end of the forecast range, had already been achieved.

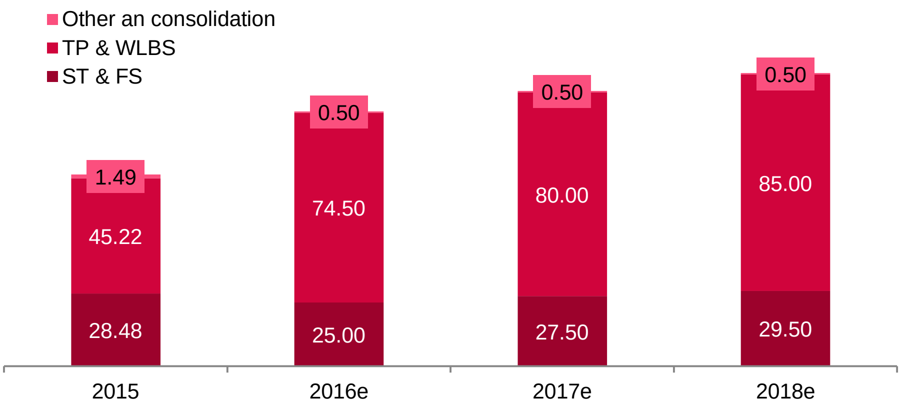
Moreover, it can be assumed that some of the new partnerships entered into in recent months will not be reflected until H2 2016 and are only now starting to be recognised in the income statement. The new “flatex flex-Kredit” is one example of this. It will make a significant contribution to the improved use of customer deposits, which stood at around €1 billion as at 30 June 2016. The “flatex flex-Kredit” product has been very well received since its introduction. The structured products launched with Morgan Stanley will also only make a contribution to profit in H2 2016. Last but not least, the partnership with ZINSPILOT should be mentioned, which will also lead to a more efficient use of deposits.

The recently announced cooperation with the South Korean company Finotek could also provide additional potential. A joint venture with Finotek has been established with the aim of offering FinTech Group AG's smartphone wallet solution “kesh” in South Korea as a white label solution. While countless wallet solutions are crowding the market in Germany, the cooperation with Finotek opens up good market entry opportunities in an equally attractive market, which, however, should be easier to tap into with the partnership. In addition, it must be emphasised the cooperation with FinTech Group also makes it possible to access Finotek's innovative technology portfolio in mobile banking. One example is a solution that allows identity checks without media breaks and in real time.

Given this background, we assume that H2 2016 will once again be significantly better than H1 2016 and we have adjusted our revenue expectations upwards for FY 2016. We now assume that revenue of €100.00 million can be achieved. We have also adjusted our expectations for the subsequent years 2017 and 2018.

In the medium term, the recently announced cooperations with Rocket Internet are also expected to have a positive impact. Both companies plan to establish a European digital bank, with each company bringing its own expertise to the project. In our opinion, this powerful cooperation has very high potential and could have a further positive impact on forecasts for the coming years.

**Expected development of sales by segments (in m€)**

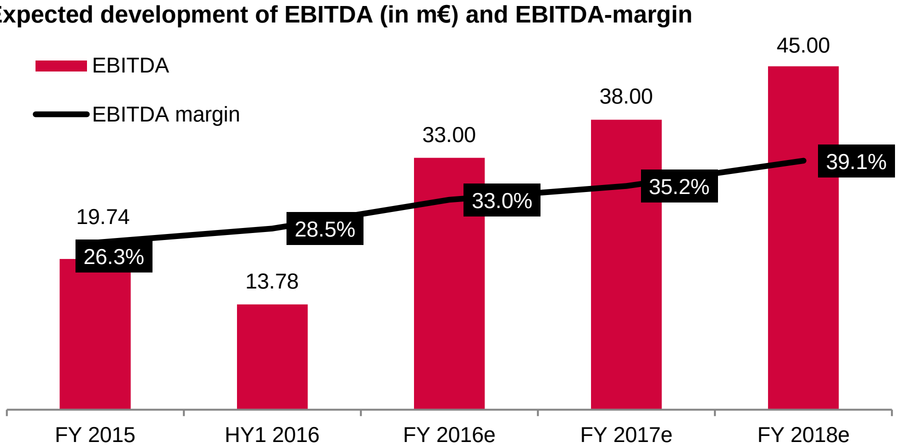



*Source: GBC*

### *Expected development of earnings*

In line with the increased revenue forecast, we have also raised our EBITDA expectation for the current year and the next few years. For 2016, we now expect that the middle of the forecast range will be achieved, with €33.00 million now being assumed. We have also adjusted our forecasts upwards for the years 2016 and 2017. We continue to assume a medium-term target of around 40% for the EBITDA margin.

**Expected development of EBITDA (in m€) and EBITDA-margin**




*Source: GBC*

In view of the EBITDA expectation, we expect an annual net profit of €27.90 million or an EPS of €1.66 for 2018. Based on the current share price level this results in a P/E-ratio of just 10 in 2018. We do not consider that FinTech Group AG has any of the potential problems that competitors are having in the banking environment. Instead, the half-year figures show once again that the company is on the right path. For this reason we do not consider a possible valuation discount to be justified.

We also welcome the company's intention to uplist to the Deutsche Börse's Prime Standard in 2017. As the accounting has already been switched to IFRS, resulting in increased transparency, the Prime Standard listing will enable further improvements to the information base.

# VALUATION

## Model selection

We used a residual income model to value FinTech Group AG, which uses the difference between return on equity and cost of equity to determine the rate of return for the valuation period. Here we formulated specific expectations for annual net profit or loss for the valuation periods of 2016 to 2018 and the resulting changes to equity. The generated rate of return can be derived from this. The rate of return generated in a period is the residual income for the financial year to be derived as a product with the equity. The expected residual income is then discounted with the cost of equity to the valuation date. In order to determine the final value, we place a premium on the current book value.

$$Fair\ value\ of\ company = EK_0 + \sum_{t=1}^{T} \frac{(ROE_t - r)EK_{t-1}}{(1+r)^t} + \frac{P_T - EK_T}{(1+r)^T}$$

| | | | |
|---|---|---|---|
| EK = | Equity | ROE = | Return on Equity |
| P = | Premium on book value | r = | Cost of Equity |
| t= | Valuation period | T= | Final valuation period |

## Determination of cost of capital

The relevant discount rate to be used in the residual income model is the cost of equity. In order to determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the Fachausschuss für Unternehmensbewertung und Betriebswirtschaft (FAUB, Special Committee for Business Valuation and Business Management) of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. The value currently used for the risk-free interest rate is 1.00 % (before: 1.00%).

We set a reasonable expectation for a market risk premium using the historical market risk premium of 5.50%. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

The unadjusted beta (raw beta) currently is 0.71 (source: ThomsonReuters).

The cost of equity of 4.9% (before: 4.9%) (beta multiplied by the risk premium plus risk-free interest rate) was calculated using the assumptions made. In order to determine the final value we also used a cost of equity of 4.9%.

## Valuation model and valuation results

| | 2015 | 2016e | 2017e | 2018e | Final Value |
|---|---|---|---|---|---|
| Equity | 85.86 | 101.67 | 127.28 | 155.18 | |
| Profit for the period | | 22.12 | 25.61 | 27.90 | |
| Return on Equity | | 21.8% | 20.1% | 18.0% | 18.0% |
| Cost of Equity | | 4.9% | 4.9% | 4.9% | 4.9% |
| Rate of Return | | 16.9% | 15.2% | 13.1% | 13.1% |
| Book value factor | | 4.4 | 4.1 | 3.7 | 3.7 |
| Residual income | | 14.47 | 15.47 | 16.64 | 414.09 |
| Present Value of residual income | | 14.30 | 14.58 | 14.95 | 371.99 |

In view of the solid development opportunities for the next few years, FinTech Group AG should be able to generate sustained return on equity of 18% (before: 17%). Assuming a cost of equity of 4.9%, the final value should generate a long-term rate of return of ~3.7. With a final value that assumes 0% converted growth, this corresponds to a valuation of 3.7 times book value. In order to calculate the final value we have thus set a premium over book value of 3.7.

| | |
|---|---|
| Present value of residual income 2016 – 2018 in € millions | 43.83 |
| Present value of residual income final value in € millions | 371.99 |
| **Total present value in € millions** | **501.67** |
| Minority shareholdings | 14.35 |
| **Value of Equity in € millions** | **487.32** |
| Share outstanding in millions | 16.81 |
| **Fair value per share in €** | **29.00** |
| Current share price in € | 15.975 |
| Growth potential | 81.5 % |

**The total discounted residual income sums up to €487.32 million. Due to a number of outstanding shares of 16.811 million the resulting fair value per share is €29.00. Our previous target price of €28.50 therefore is adjusted upwards. According to a current share price of €16.00 the resulting upside potential amounts to more than 80%. Therefore the rating is clearly BUY.**

# ANNEX

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**The recommendations/ classifications/ ratings are linked to the following expectations:**

| | |
|---|---|
| BUY | The expected return, based on the derived target price, incl. dividend payments within the rel 10 %. |
| HOLD | The expected return, based on the derived target price, incl. dividend payments within the rel 10 % and < + 10 %. |
| SELL | The expected return, based on the calculated target price, incl. dividend payments within the <= - 10 %. |

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The analysts responsible for this analysis are:
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**Cosmin Filker, Dipl. Betriebswirt (FH), Financial Analyst**

Other person involved:
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