

FinTech Group

Back to square one

After the failed move to Austrian retail banking, management is refocusing its efforts on expanding online brokerage, the company's core competence – a move we welcome. FinTech Group will expand its flatex brand in Europe with the Netherlands as a starting point. After the recent drop in the share price and clarity on its future growth strategy, the FTK share offers an attractive risk/return profile: We forecast an EPS CAGR of 15% – cheap for 9.6x 2020E earnings.

Internationalisation of B2C business: The Netherlands first Given limited growth opportunities with heavy-traders in the German market in our view, management decided to expand its B2C business in Europe by entering the Dutch, Spanish, French and Italian online brokerage market in 2019. The key focus is on the Dutch online brokerage market which we consider attractive given a) a trading-oriented population and b) anticipated client churn: The potential takeover of BinckBank by Saxo Bank and the ultimate merger of the two trading platforms might incentivise clients to reassess their broker relationship (BinckBank has 630k customers) – a phenomena we have observed in Austria after the closure of Brokerjet in 2015 as well as in the German market after the takeover of DAB by CortalConsors and OnVista by comdirect bank. In order to finance this European expansion, management is willing to invest ~€10m of opex this year which results in a declining EBITDA in 2019. Management expects a 27% EBITDA-margin this year vs. 34% in 2018. Our forecast is at €38.2m for 2019, a 12% decline y/y. As client acquisition will be subsidised by FinTech Group partner banks which bear ~50% of acquisition costs, the budget should be sufficient to acquire 80k new customers, 28% growth of its current retail customer base.

Next share price trigger: Management option plan The management team is allowed to exercise ~900k stock options at 26 January 2019: We expect management to exercise all of its options, and are keen to see the amount of shares which will be directly sold on the market. We recommend watching this event closely: A low amount of shares being sold for tax purposes would only signal management's commitment to the company and its future growth prospects.

Market message understood After the recent drop in the share price, we believe management has understood investors' messages: Investors want management 1) to concentrate on the core business which is online brokerage and NOT retail banking 2) not to waste shareholders' money with expensive growth projects whose outcome is difficult to predict – we would welcome a consistent capital return policy as the recently announced expansion plans can be financed out of the operating cash flow. Hence, no need to carry €50m of cash reserves on the balance sheet.

Key financial and valuation metrics

Year-end Dec	2015	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Sales rep. (€m)	75.2	95.0	107	120	138	156	13.3 %
EBITDA adj. (€m)	10.1	26.1	32.1	43.2	38.1	57.9	21.8 %
EBITDA rep. (€m)	19.8	30.6	32.1	43.2	38.2	57.9	21.8 %
EBITA adj. (€m)	7.6	21.0	26.5	36.1	29.6	47.6	21.6 %
EBITA margin	10.1%	22.1%	24.7%	30.1%	21.4%	30.6%	
EBITA rep. (€m)	17.3	25.5	26.5	36.1	29.6	47.6	
EPS rep. (€)	(0.11)	0.50	1.00	1.35	1.07	1.77	20.8 %
EPS adj. (€)	0.31	0.60	1.00	1.35	1.07	1.77	20.8 %
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	n.a.
EV/Sales (x)	2.4	2.9	3.1	2.3	1.5	0.8	
EV/EBITDA (x)	17.7	10.5	10.4	6.4	5.4	2.2	
EV/EBITA (x)	23.5	13.1	12.7	7.7	7.0	2.7	
P/E (x)	40.6	25.9	18.3	12.6	15.8	9.6	
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net debt (€m)	(24.8)	11.5	26.6	(23.3)	(111)	(191)	
Net debt/EBITDA (x)	(2.5)	0.4	0.8	(0.5)	(2.9)	(3.3)	

Sources: Company data, Commerzbank Research

2 January 2019

Buy
TP €28
CP €16.96

(Closing 28 December 2018)

Key information

Expected performance	65.1%
Volatility (60d, realized)	26.0%
1M / 3M performance	(21.7%) / (43.5%)
Bloomberg / Reuters:	FTK GY, FTKG.DE
Market cap (€m)	318
EV (€m)	127
Shares outstanding (m)	18.7
Free float	43.1%
Dly trading vol (last 3-mth) (€m)	1.1

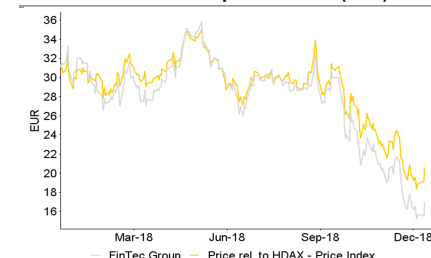
Source: Commerzbank Research, Bloomberg

Changes in estimates

€m	2018o	2018n	2019o	2019n
Sales	123	120	137	138
EBITA	36.7	36.1	43.8	29.6
EPS	1.37	1.35	1.61	1.07

Source: Commerzbank Research

Relative and absolute performance (12M)



Source: Bloomberg

Company events

Date	Event
n/a	

Sources: Bloomberg, Company data, Commerzbank Research

Shareholder structure

Major shareholders	Stake
GFBK	26.9%
Heliad	13.4%
Free float	59.7%

Sources: Bloomberg, Company data, Commerzbank Research

For important disclosure information please see pages 3 and 4.

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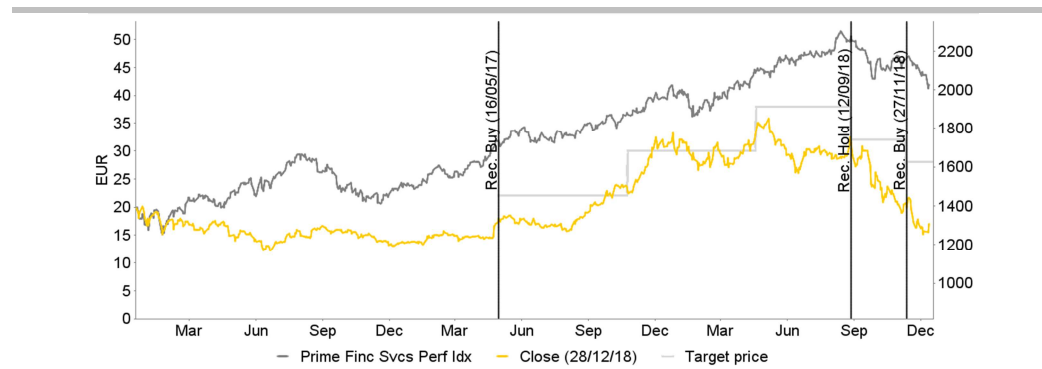
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TABLE 1: Financials

Balance Sheet (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Property, plant & equipment	5.6	7.0	9.1	11.7	14.2	26.8%
Intangible fixed assets	57.3	62.9	65.5	65.0	62.2	(0.4%)
Goodwill	0.0	0.0	0.0	0.0	0.0	
Total operating fixed assets	62.9	69.9	74.7	76.7	76.4	3.0%
Net working capital	(15.8)	(4.0)	3.4	3.3	3.6	n.a.
as a % of sales	(16.6%)	(3.8%)	2.8%	2.4%	2.3%	
Operating invested capital	47.2	65.9	78.1	80.0	80.0	6.7%
ROIC (%)	26.8%	31.8%	34.1%	25.4%	40.4%	
IC/sales (x)	0.5	0.6	0.7	0.6	0.5	
Investments	0.0	0.0	0.0	0.0	0.0	n.a.
Capital employed	47.2	65.9	78.1	80.0	80.0	6.7%
ROCE	26.8%	31.8%	34.1%	25.4%	40.4%	
Cash and cash equivalents	389	397	606	780	952	33.9%
Interest-bearing liabilities	11.5	26.6	24.6	24.8	24.8	(2.2%)
Interest-bearing provisions	0.0	0.0	0.0	0.0	0.0	n.a.
Net debt	(378)	(370)	(581)	(755)	(928)	35.8%
thereof pension provisions	n.a.	n.a.	n.a.	n.a.	n.a.	
Total equity	90.6	113	171	261	295	37.7%
Equity Ratio	5.9%	10.4%	15.4%	20.3%	20.2%	
ROE	15.9%	16.7%	16.9%	9.3%	11.9%	
Total assets	1,534	1,081	1,109	1,285	1,458	10.5%
Income Statement (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Sales	95.0	107	120	138	156	13.3%
growth y/y	26.3%	12.6%	12.1%	15.2%	12.5%	
Operating expenses	64.4	74.9	76.8	100	97.7	9.2%
Gross margin	73.2%	71.0%	75.0%	71.5%	74.7%	
EBITDA	26.1	32.1	43.2	38.1	57.9	21.8%
as a % of sales	27.5%	30.0%	36.0%	27.6%	37.2%	
Depreciation and intangible amortisation	5.2	5.6	7.1	8.6	10.3	22.5%
EBITA	21.0	26.5	36.1	29.6	47.6	21.6%
as a % of sales	22.1%	24.7%	30.1%	21.4%	30.6%	
Impairments	0.0	0.0	0.0	0.0	0.0	
EBIT	21.0	26.5	36.1	29.6	47.6	
as a % of sales	22.1%	24.7%	30.1%	21.4%	30.6%	
Net interest result	(1.2)	(1.3)	(1.5)	(1.4)	(1.0)	(8.7%)
Result from participations	0.0	0.0	0.0	0.0	0.0	
Other financial result	0.0	0.0	0.0	0.0	0.0	
Adjustments	0.0	0.0	0.0	0.0	0.0	
PBT	19.8	25.2	34.6	28.2	46.6	22.8%
Tax expense	(4.0)	(8.2)	(10.6)	(8.1)	(13.5)	18.1%
Adjustment	(1.8)	0.0	0.0	0.0	0.0	
Tax rate	11.1%	32.6%	30.7%	28.7%	29.0%	
Net profit from continuing operations	14.0	17.0	24.0	20.1	33.1	24.9%
as a % of sales	14.8%	15.9%	20.0%	14.5%	21.3%	
Minorities	(3.9)	(0.1)	0.0	0.0	0.0	
Net income attributable to shareholders	10.1	16.9	24.0	20.1	33.1	25.2%
Cash Flow Statement (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Operating cash flow	(144)	0.2	234	114	137	819.7%
as a % of sales	(151.5%)	0.2%	194.6%	82.5%	88.0%	
Gross capex	(8.0)	(12.6)	(11.9)	(10.6)	(10.0)	(7.4%)
Asset disposals	(1.2)	0.0	0.0	0.0	0.0	
Net financial investments	0.0	0.0	0.0	0.0	-0.0	
Net acquisitions	0.0	0.0	0.0	0.0	0.0	
Gross capex as a % of sales	8.4%	11.8%	9.9%	7.7%	6.4%	
Gross capex as a % of depreciation	155.4%	224.8%	166.5%	123.6%	97.2%	
Free cash flow	(153)	(12.4)	222	103	127	n.a.
as a % of sales	(161.2%)	(11.6%)	184.7%	74.8%	81.6%	
Dividends	0.0	0.0	0.0	0.0	0.0	
Free cash flow (post dividend)	(153)	(12.4)	222	103	127	
Increase / (decrease) in debt	(3.3)	15.5	0.1	0.3	0.0	
Increase / (decrease) in equity	(5.0)	4.8	33.0	70.0	0.0	
Other financing cash flows	9.4	0.0	0.0	0.0	0.0	
FX effects	0.0	0.0	0.0	0.0	0.0	
Other items	0.0	0.0	0.0	0.0	0.0	
Change in cash	(152)	7.9	255	174	127	

Source: Commerzbank Research

FinTec Group price chart



Source: Commerzbank Research

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100 (44.4%) Buy	14 (14.0%)
99 (44.0%) Hold	17 (17.2%)
26 (11.6%) Sell/Reduce	1 (3.8%)

Source: Commerzbank Research

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