EDISON Scale research report – Update

FinTech Group

Financial services

14 September 2017

Solid H1, with FY17 guidance maintained

FinTech Group (FTG) announced a solid set of H1 results and FY17 guidance was re-affirmed. While EBITDA slipped by 6% to €13.0m, this reflected a €1.8m provision reversal in H116, and hence the underlying growth was 9%. Brokerage customers grew by 11% over H116, and transactions rose by 10%, while three new B2B projects have been delivered that will contribute in H2. Additionally, the collateralised credit book jumped by 42% over the six months to €187m. Consequently, management anticipates a strong H2. Despite being the fastest growing major broking business in Europe, the shares continue to trade at a discount to the sector.

Investment case: Combining a bank with technology

A key differentiator is that FTG owns both a bank and a software technology business, which uniquely gives it exposure to the bulk of the value chain. Management's goal is to grow the business both organically and through acquisitions so that it generates €150m of annual revenues in the mid-term along with EBITDA of €50m and net profit of €30m. Additionally, FTG is a play on a strengthening economy and subsequent rising interest rate environment as the group stands to benefit from interest income on its extensive customer deposits. With the ECB deposit rate at minus 0.4%, we believe there is more scope for rises than further declines.

H117 results: Net profit nearly trebles to €7.0m

Group revenue grew by 2.5% to €49.6m while EBITDA fell by 5.6% to €13.0m. However, there was a €1.8m provision reversal in the prior period, which related to a legal case that FTG won, and hence underlying EBITDA rose by 8.5% to €13.0m. 23k B2C clients were added during the period, taking the total to 235k. Three new B2B projects were delivered, including a project for a large multinational bank that is shifting its euro deposit collection business from London to Frankfurt, due to Brexit, and is adopting FTG's technology platform. FTG is confident it will win further business as a result of Brexit. Net profit nearly trebled to €7.0m, which helped to boost the group's equity ratio to 7.0% from 5.9% a year earlier.

Valuation: Attractive relative to peer group

The shares trade on 13.7x FY18 consensus earnings. This looks very attractive relative to peers, given FTG's attractive growth profile and improving margins.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	75.0	19.7	(0.13)	0.0	N/A	N/A
12/16	95.0	30.6	0.73	0.0	26.0	N/A
12/17e	105.0	35.3	1.13	0.0	16.8	N/A
12/18e	115.0	41.7	1.39	0.0	13.7	N/A

Source: Bloomberg

Price	€19.00
Market cap	€319m

Share price graph

Share details

Code	FTK
Listing	Deutsche Börse Scale
Shares in issue	16.811m
Last reported net (debt)/cash	N/A

Business description

FinTech Group (FTG) is an integrated online brokerage business. It is divided into two business areas – a technology business and a financial services business that includes a bank and a brokerage business.

Bull

- Attractively valued against brokerage peer group.
- Favourable regulatory environment within Europe.
- Positioned to benefit from eventual upswing in interest rate cycle.

Bear

- Focused on the German market with limited geographical exposure.
- Does not offer CFDs and spread bets, which might impair its ability to grow internationally.
- Complex group structure, which is being amended.

Analyst

Richard Jeans +44 (0)20 3077 5700

tech@edisongroup.com

Edison profile page

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

H117 results: Net profit nearly trebles to €7.0m

Frankfurt-based FinTech Group (FTG) is a leading online brokerage business (Flatex) active in Germany (20%+ market share) and Austria (40%+ market share) and further European expansion is planned. Management continues to look for potential acquisitions to break into broking markets across Europe (initial target markets are France, Benelux and Italy). FTG also has other assets in the value chain including a technology business that builds bespoke software platforms for customers, and a bank. In March, FTG announced plans to leverage synergies by merging its five operating companies into just two companies: a tech entity (FinTech Group AG) and a financial services entity (FinTech Group Bank AG). The purpose was to simplify the group structure, improve transparency and to save costs, mainly by simplifying the management and organisational structure and FTG is now in the final stages of this process.

Exhibit 1: H1 results breakdown

€000s				H116				H117
	ST&FS	TP&WLBS	Other	Total	ST&FS	TP&WLBS	Other	Total
Revenues	11,623	36,505	220	48,348	12,866	36,999	(303)	49,562
Raw materials and consumables used	(269)	(12,821)	(443)	(13,533)	(1,355)	(12,976)	281	(14,050)
Personnel expenses	(1,458)	(6,096)	(3,237)	(10,791)	(1,253)	(5,849)	(4,314)	(11,416)
Other administrative expenses	(2,495)	(5,240)	(2,509)	(10,244)	(3,498)	(6,290)	(1,306)	(11,094)
EBITDA	7,401	12,347	(5,969)	13,780	6,760	11,883	(5,641)	13,003
Margins	63.7%	33.8%		28.5%	52.5%	32.1%		26.2%
Depreciation and amortisation				(2,424)				(2,590)
EBIT				11,356				10,412
Financial result				(650)				(674)
EBT				10,706				9,738
Income tax expense				(1,848)				(2,699)
Earnings from continuing activities				8,858				7,039
Earnings from discontinued operations				(6,310)				(88)
Consolidated net profit				2,548				6,951

Source: FinTech Group. Note: ST&FS stand for Securities Trading & Financial Services, TP&WLBS stand for Transaction Processing & White Label Banking Services

H117 group revenue grew by 2.5% to €49.6m while EBITDA fell by 5.6% to €13.0m. However, there was a €1.8m provision reversal in the prior period, which related to a legal case that FTG has previously provided for but consequently won, and hence underlying EBITDA rose by 8.5% to €13.0m. Consequently, the underlying group EBITDA margin rose by 150bp to 26.2%. Net profit nearly trebled to €7.0m, which helped to boost the group's equity ratio to 7.0% from 5.9% a year earlier. Earnings per share were €0.42. The company does not pay a dividend as the focus is on investing for growth.

23k brokerage (B2C) clients were added during the H1 period, taking the total to 235k while transactions rose to 5.5m. This translates to c 47 trades per customer on an annualised basis. Three new B2B projects were delivered, including a project for a large multinational bank that is shifting its euro deposit collection business from London to Frankfurt, due to Brexit, and is adopting FTG's technology platform. FTG is confident it will win more business of a similar nature as a result of Brexit. The other two B2B projects related to the setting up of retail banking infrastructure for two Austrian banks.

Funds under management slipped to €0.9bn from €1.3bn over H1, reflecting the decision to pass on the ECB's 40bp negative interest rate to customers. Consequently, some customers shifted their liquid deposits to securities and securities under management jumped by 23% to €10.3bn. Clearly, the growth in securities under management has important commercial benefits for FTG as this represents the primary source of stock from which customers execute trades. The group's credit book rose from €131.1m as at 31 December to €186.8m as at 30 June, with an average interest rate of c 4%.

FTG provides statutory segmental reporting according to the so-called management approach, as shown in Exhibit 1. We note that c 70-80% of broking revenues are back-office trade processing, which is reflected in the second, larger division (TP&WLBS). Management has maintained its guidance given with the Q1 results (net profit of €16.8m and EPS of €1.0). It expects continued growth in ST&FS, secured by expansion, in depth and in scope, of its collaborations with business partners including Morgan Stanley. Meanwhile TP&WLBS will benefit from the three projects delivered in H1, while the additional functionality of the technology platform is available for new customers. TP&WLBS it will also benefit from the increased loan portfolio while the €800m treasury portfolio has been optimised, which will result in a 50bp improvement in interest rate received. Finally, the initial synergies from the corporate reorganisation will be realised in H2.

Exhibit 2: Key performance indicators

	FY12	FY13	FY14	FY15	FY16	H116	H117
Transactions executed	6,625,418	5,486,715	6,023,210	10,143,219	10,462,477	4,976,371	5,505,237
Number of retail customers	118,170	126,111	134,403	176,600	212,040	193,773	234,874
Transactions per customer per year	56.07	43.51	44.81	57.44	49.34	51.36	46.88
Customer assets under management (€m)	2,810	3,527	4,043	5,770	10,855	9,416	11,238
of which: securities account volume	2,272	2,795	3,236	4,784	9,512	8,367	10,310
of which: deposits account volume	538	732	807	986	1,343	1,049	929

Source: FinTech Group

The group hopes to list on the Prime Standard in the first half of 2018. The process has been delayed by the restructuring of the business, which will result in the reduction of five business units to just two, and FTG is undergoing the last process of merging Flatex into FinTech Group Bank.

Valuation: Attractive given the sector consolidation and anticipated continuing fintech M&A

The shares trade on 13.7x FY18 consensus earnings. This looks very attractive relative to peers – of its main quoted peers, only Binckbank trades on a lower rating, but has been struggling, with weaker margins and a slower growth profile.

FTG is clearly an attractive takeover target as its business combines a traditional online brokerage with fintech elements. According to a survey earlier this year by Simmons & Simmons, an international law firm, 31% of banks and asset managers expect to acquire a fintech firm within the next 12 to 18 months as a way to improve their digital innovation. An additional 31% said they are delaying acquisitions while they seek greater certainty about which firms to target.

Exhibit 3: Peer analysis

	Share price	Market cap	Currency	Revenue			Revenue	Operating profit		Operating margin		P/E (x)	
	local curr	local curr		Year 0	Year 1	Year 2	CAGR	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
FinTech Group	**19**	**319**	**€**	**95.0**	**105.0**	**115.0**	**10.0%**	**29.8**	**35.5**	**28.3%**	**30.9%**	**16.8**	**13.7**
Avanza	336	10,077	SEK	919.0	984.8	1073.2	8.1%	445.0	484.5	45.2%	45.1%	25.7	23.0
Swissquote	36.85	565	CHF	159.7	177.3	190.3	9.2%	110.7	118.7	62.4%	62.4%	18.4	16.5
Binckbank	4.25	287	€	147.7	153.0	156.0	2.8%	8.7	31.3	5.7%	20.1%	9.7	12.6
Interactive Brokers	41.94	17,317	US$	1,396	1,483.8	1,603.0	7.2%	*987.5	*1,142.5	66.6%	71.3%	28.3	26.7
Medians excluding FinTech Group							**7.6%**			**53.8%**	**53.8%**	**22.1**	**19.8**

Source: Bloomberg. Note: Prices as at 13 September 2017. Note: *EBITDA and EBITDA margins.

Frankfurt +49 (0)69 78 8076 960	**London** +44 (0)20 3077 5700	**New York** +1 646 653 7026	**Sydney** +61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	295 Madison Avenue, 18th Floor	Level 12, Office 1205
60325 Frankfurt	London, WC1V 7EE	10017, New York	95 Pitt Street, Sydney
Germany	United Kingdom	US	NSW 2000, Australia