GBC AG
Investment Research

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

**Rating: BUY**
**Target Price: €28.00**

Current Price: €19.00
11/09/2017 / XETRA / 3:15pm
Currency: EUR

**Key Information:**

ISIN: DE000FTG1111
WKN: FTG111
Ticker symbol: FTK

Number of share³: 16.811
Marketcap³: 319.41
³in million / in mEUR

Free Float: 48.7%

Transparency level:
Scale

Market segment:
Open Market

Accounting Standard:
IFRS

Financial year: 31/12.

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

**Analyst**:

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* List of possible conflicts of interest on page 8

Date of completion/Publication
13/09/2017 / 14/09/2017

**Company profile**

Sector: Software, technology

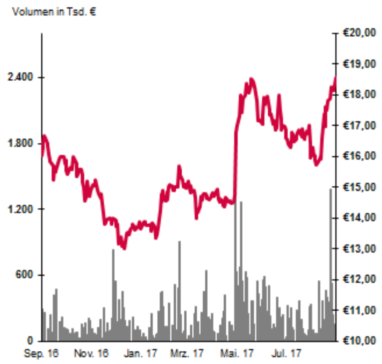
Focus: Fintech, banking services

Employees: 456 (due date: 30/06/2017)

Established: 1999

Registered office: Frankfurt / Main

Board of management: Frank Niehage (CEO), Muhamad Chahrour (CFO)




FinTech Group AG, together with its subsidiary, flatex, has been one of the market leaders in the German online brokerage market for ten years now. The continuous 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 technology to 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. Via the subsidiary FinTech Group Bank AG, the company has a licence to render banking services (known as a full banking licence). In addition, the company operates via XCOM, which has now merged with the Group, as one of the most important technology and outsourcing partners for the German banking industry and is therefore one of the most successful partners in the up-and-coming German Fintech sector.

| P&L in mEUR \ financial year end | 31/12/2015 | 31/12/2016 | 31/12/2017e | 31/12/2018e |
|---|---|---|---|---|
| Net sales | 75.02 | 95.02 | 108.00 | 115.00 |
| EBITDA | 19.74 | 30.62 | 35.00 | 40.00 |
| EBIT | 17.24 | 25.47 | 29.00 | 33.50 |
| Consolidated earnings from continuing operations (after minorities) | 13.19 | 16.39 | 18.55 | 21.70 |

| Key figures in EUR | | | | |
|---|---|---|---|---|
| EPS from continuing operations | 0.88 | 0.97 | 1.10 | 1.29 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 |

| Key figures | | | | |
|---|---|---|---|---|
| Equity | 85.86 | 90.63 | 108.93 | 130.63 |
| Return on Equity | 15.4% | 18.1% | 17.0% | 16.6% |
| Price-Sales-Ratio | 4.26 | 3.36 | 2.96 | 2.78 |
| Price-Earnings-Ratio | 24.22 | 19.49 | 17.22 | 14.72 |
| Price-Book-Ratio | 3.72 | 3.52 | 2.93 | 2.45 |

| Financial schedule |
|---|
| |
| |

| **latest research by GBC: |
|---|
| Date: publication/ target price in EUR / Rating |
| 24/05/2017: RS / 28.00 / BUY |
| 01/03/2017: RS / 27.00 / BUY |
| 14/12/2016: RS / 27.00 / BUY |
| 20/10/2016: RS / 29.00 / BUY |
| ** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg |

## BUSINESS DEVELOPMENT 1. HY 2017

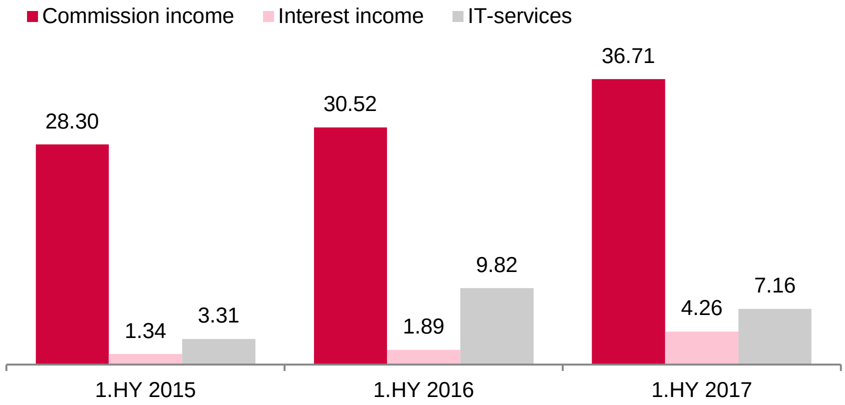
| P&L (in €m) | 1. HY 2015 | 1. HY 2016 | 1.HY 2017 |
|---|---|---|---|
| Net sales | 34.63 | 48.35 | 49.56 |
| EBITDA (*Margin*) | 15.16 (*43.8 %)* | 13.78 (*28.5 %*) | 13.00 (26.2%) |
| EBIT (*Margin*) | 14.73 (*42.5 %)* | 11.36 (*23.5 %*) | 10.41 (21.0%) |
| Consolidated earnings from continuing operations | 11.89 | 8.86 | 7.04 |
| EPS from continuing operations | 0.75 | 0.53 | 0.42 |

*Source: FinTech Group AG, GBC*

### Development of sales

Even if the revenues of FinTech Group AG of EUR 49.56 million (previous year: EUR 48.35 million) at first glance only look like slow momentum, the company nevertheless has a clear upward trend in the most important income items. Specifically, there was a significant increase of EUR 6.19 million in commission income to EUR 36.71 million and interest income rose EUR 2.37 million to reach EUR 4.26 million (previous year: EUR 1.89 million). IT services were affected by a fall in revenue of EUR 2.66 million to EUR 7.16 million due to the loss of a major customer. However, in the first six months of the year, three new major B2B mandates were acquired, which will provide significant revenue and income contributions from the second half of 2017 and so will more than compensate for the loss of the customer.

**Development of sales by sources of earnings (in m€)**



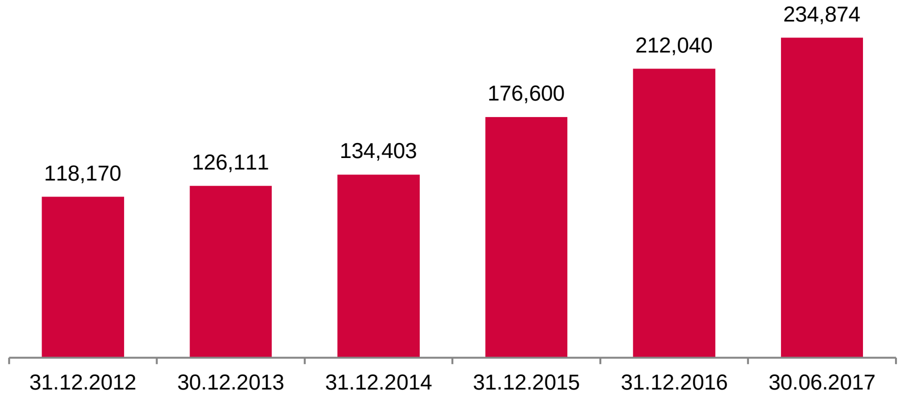

*Source: FinTech Group AG, GBC*

A key factor for the only slight increase in the total revenue was the other operating income that was significantly lower than the previous year included here in the amount of EUR 1.43 million (previous year: EUR 6.13 million). The high level of the previous year is attributable to the reversal of provisions and therefore was a one-off.

The basis for the still very satisfactory performance of the commission income, as the largest income item of FinTech Group AG, is the greatly increased number of customers and, building on this, the significantly increased number of transactions performed. For instance, the number of customers as at 30/06/2017 was further increased to 234,874 (previous year: 193,773) and the number of transactions performed was significantly higher than the previous year's level at 5.51 million (+10.6%). This development is supported by the positive market situation on the capital markets at this time, in conjunction with the current lack of investment alternatives. However, FinTech Group AG is also benefiting from the customer acquisition measures initiated in previous years. The increased marketing activities, the regional expansion into Austria and the expansion of the product range are particularly noteworthy in this regard. The focus here is in particular on the ETP partnership with Morgan Stanley, through which flatex customers receive low-cost access to leverage products.

The increase in the interest income reflects the expansion of its secured loan book to around EUR 180 million (31/12/16: EUR 130 million). The "flatex flex credit" was particularly well received by customers holding securities accounts.

**Development of number of customers**

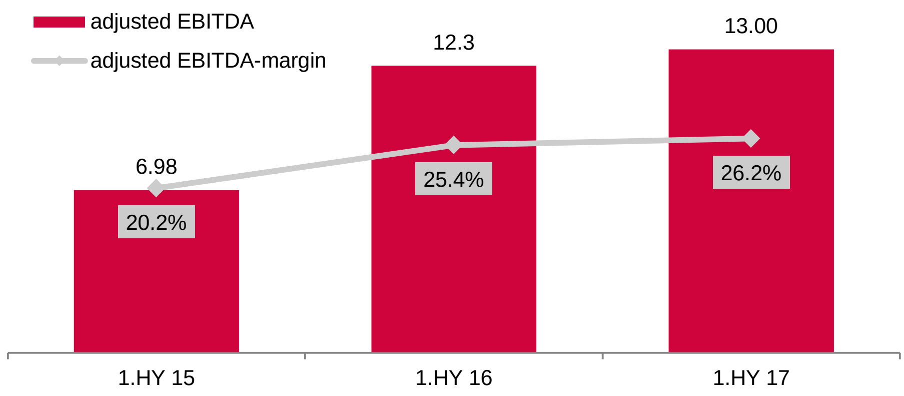



*Source: FinTech Group AG, GBC*

At segment level, FinTech Group AG reports the two segments, Securities Trading & Financial Services and Transaction Processing & White Label Banking Services, separately. When it comes to the significantly smaller retail customer business, which is primarily dependent on the number of actively trading customers and the transactions performed, revenues rose significantly in the first six months of 2017 by 10.7% to reach EUR 12.87 million (previous year: EUR 11.62 million). By contrast, with revenues of EUR 37.00 million (previous year: EUR 36.51 million), the business customer sector only posted slight growth compared to the previous year. This is where the burden of the loss of the major customer from the Banking Services sector was felt. Key growth stimulus from the acquisition of three new mandates is expected not to be felt until the second half of 2017.

## Development of earnings

**Development of adjusted EBITDA (in €m) and adjusted EBITDA-margin (in %)**



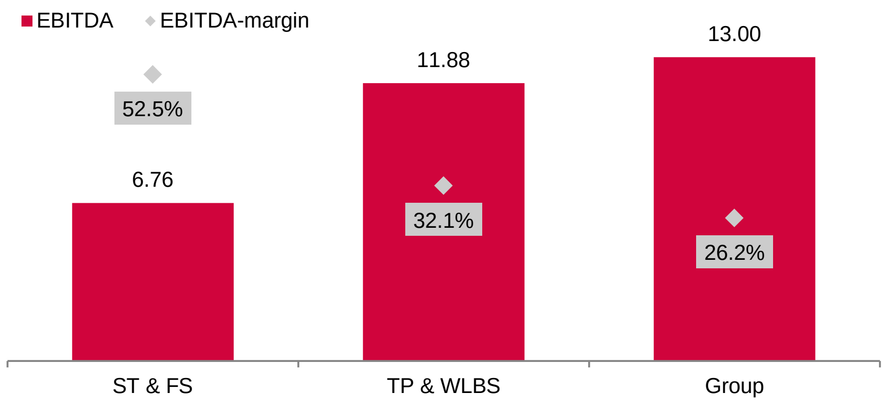

*Source: FinTech Group AG, GBC*

Based on the constant development of revenue, FinTech Group AG has reported a slight drop in EBITDA to EUR 13.00 million (previous year: EUR 13.78 million). The high level of other operating income from the previous year should be mentioned once again here, which had a vastly positive influence on the result. Adjusted for the effects of the reversal of provisions, the company would have had an increase in profit from approx. EUR 12.3 million to EUR 13.00 million. In our opinion, the level of profitability that has now been reached is a good indication of the high scalability of the FinTech Group AG business model, which, given the background of rising revenues, is expected to be accompanied by disproportionately high growth.

Looking at the two reporting segments separately, the B2C segment "Securities Trading & Financial Services" (ST&FS), with an EBITDA margin of 52.5% and thus an EBITDA contribution of EUR 6.76 million, has proven to have frequently high margins. An increase in the business volume in this area generally originates from an increase in revenues from the online brokers and thus both the order and customer revenues are therefore, in our opinion, particularly scalable. We believe that the high level of profitability already reached in this segment should be expanded further.

Also in the Transaction Processing & White Label Banking Services (TP&WLBS) segment, the company has a respectable level of profitability, with an EBIT margin of 32.1%. With the acquisition of three new mandates, further increases in earnings are expected to be generated here.

**Segment-related level of profitability (in €m)**




*Source: FinTech Group AG, GBC*

## Forecasts

| P&L (in million €) | FY 2015 | FY 2016 | FY 2017e | FY 2018e |
|---|---|---|---|---|
| Net sales | 75.02 | 95.02 | 108.00 | 115.00 |
| EBITDA (margin) | 19.74 (*26.3%*) | 30.62 (*32.2%*) | 35.00 (*32.4%*) | 40.00 (*34.8%*) |
| EBIT (margin) | 17.24 (*23.0%*) | 25.47 (*26.8%*) | 29.00 (*26.9%*) | 33.50 (*29.1%*) |
| Net profit* | 13.19 | 16.39 | 18.55 | 21.70 |
| EPS in €* | 0.83 | 0.97 | 1.10 | 1.29 |

*Source: GBC; *from continued operations and after minority interests*

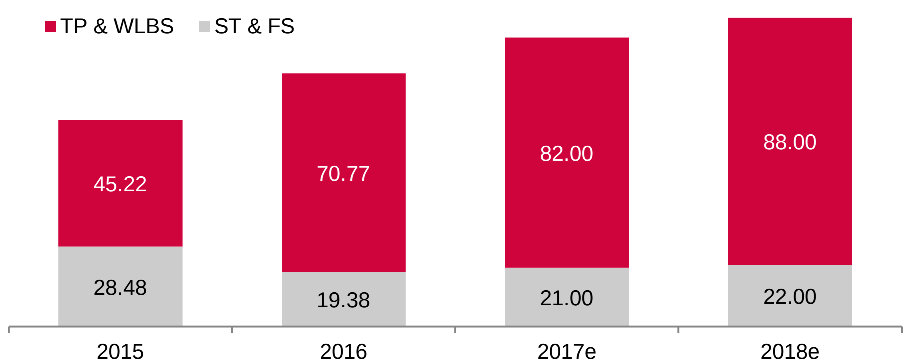
With the publication of the 2017 semi-annual report, FinTech Group AG has confirmed the forecasts issued at the beginning of the 2017 financial year. An EBITDA in the range of EUR 32-34 million and group-wide profit of EUR 16 million are both still expected for the year as a whole.

The semi-annual figures for 2017 are fully in line with the expected developments for the year as a whole. The number of customers reached almost 235,000 as at the reporting date of 30/06/17 and thus forms a comprehensive basis for a continuous increase in the number of transactions. In view of the sustained positive performance of capital markets in the second half of the year, the growth strategy implemented for other European countries (see flatex Austria) and the continuing consolidation in the online brokers sector, the momentum of the transaction figures is expected to be expanded further. Looking at the year as a whole, we expect the number of transactions to increase to 11.87 million after the 5.51 million transactions that were made in first half of the year.

Similarly, in the course of the planned expansion of the credit business, the interest income is also expected to be increased. With an average interest rate of approx.
4.0%, the largely secured loan book was increased to about EUR 180 million at the reporting date of 30.06.2017. The aim is to increase the loan book to up to EUR 250 million by the end of the 2017 financial year and to achieve a further increase in net interest.

Also in the B2B segment, the company's objective is to add three to five new mandates every year. In the first six months of 2017, three new large B2B mandates have already been added, meaning the annual objective has almost been reached. However, these will not provide a significant revenue and profit contribution until the second half of 2017, and will thus result in disproportionately high growth in this area.

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



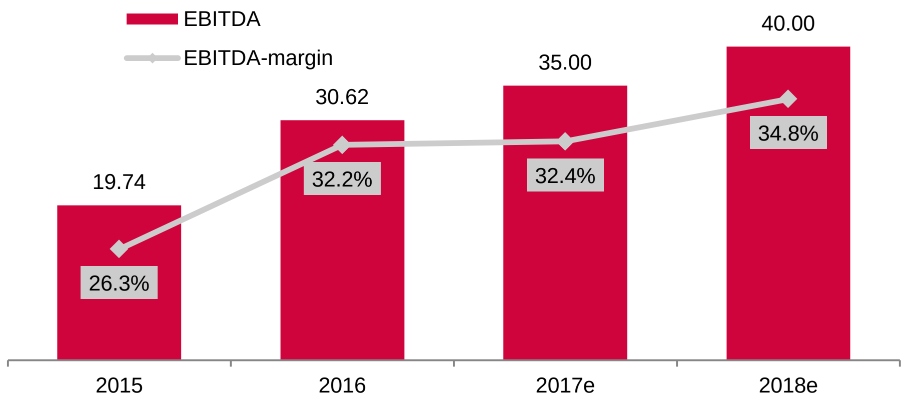

*Source: GBC*

Against this background, we are still acting on the assumption that FinTech Group AG will generate revenue of EUR 108 million and therefore expect that the upper guidance margin will be exceeded. The TP&WLBS segment in particular is expected to record a marked increase to EUR 82.00 million. Above all, the new customer relationships in the B2B segment and the improved interest income expected from the treasury and lending business initiated in 2016 are expected to have a noticeable impact. For financial year 2018, we expect a further increase in revenue to EUR 115.00 million.

In terms of profit, it can be assumed that the profit will be on an upward trend against the background of the expected increase in business volume. The business of FinTech Group AG is highly scalable in large parts and should only result in minor fixed cost increases given a growing business volume.

Against this background, we are maintaining our previous EBITDA prediction of EUR 35.00 million, although the management of FinTech Group AG has issued guidance of EUR 32-34 million. We therefore consider it possible to exceed the guidance slightly.

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




*Source: GBC*

**Due to our unchanged revenue and earnings outlook for the coming two financial years, we also maintain our fair company value of EUR 28.00 per share as part of a residual income model. Based on the current share price of EUR 19.00, there is a high growth potential per share of over 45%. This therefore once again results in a BUY rating.**

# 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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Other person involved:
**Manuel Hölzle, Dipl. Kaufmann, Chefanalyst**

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