GBC AG Investment Research

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

Rating: BUY
Target Price: €45.00
(until now: €41.70)

Current Share Price: 27.45
20/09/18 / XETRA / 5:36 pm
Currency: EUR

Key Data:

ISIN: DE000FTG1111
WKN: FTG111
Ticker Symbol: FTK

Number of shares³: 17.511*
*post capital increase: 18.737
Marketcap³: 480.67
³ in m / in m EUR

Free Float: 61,0 %

Transparency Level:
Entry Standard

Market Segment:
Open Market

Accounting Standard
IFRS

Financial Year-End: 31/12

Designated Sponsor:
Hauck & Aufhäuser
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* possible conflicts of interest on page 9

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28.09.2018 (11:05)

Date of first distribution:
28.09.2019 (12:00)

Company Profile

Sector: Software, Technology

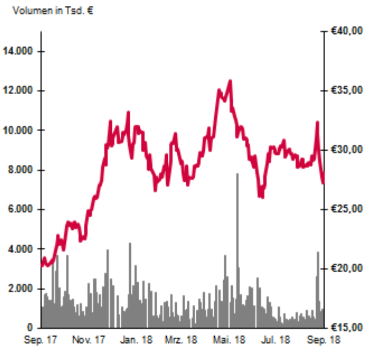
Focus: fintech, banking services

Employees: Ø 474 (30/06/2018)

Established: 1999

Registered office: Frankfurt / Main

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



For ten years, FinTech Group AG and its subsidiary flatex have been a market and innovation leader in the German online brokerage market. The continuously rising number of customers, transactions and sales are proof of their experience in implementing disruptive business models in the market. Now the company has the goal as part of a comprehensive transformation and growth process, also beyond online brokerage, of becoming the leading European provider of innovative technologies in the financial sector. The focus is on business models with sustained, above-average growth and rapid market penetration. For over 25 years, the XCOM Group as the technology-part has been one of the most important technology and outsourcing partners for the German banking community and one of the most successful partners in Germany's emerging FinTech scene.

P&L in mEUR \ financial year end	31/12/2016	31/12/2017	31/12/2018e	31/12/2019e
Net sales	95.02	107.01	125.00	143.75
EBITDA	30.62	32.07	44.00	53.19
EBIT	25.47	26.48	38.40	47.19
Net profit (after minorities)	8.42	16.80	25.83	31.81
Key figures in EUR				
EPS	0.50	0.96	1.48	1.82
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
Equity	90.63	112.72	173.55	205.36
Return on Equity	9.3%	14.9%	15.5%	18.7%
Price-Sales-Ratio	5.06	4.49	3.85	3.34
Price-Earnings-Ratio	57.09	28.61	18.61	15.11
Price-Book-Ratio	5.30	4.26	2.77	2.34

Financial Calendar

latest research by GBC:
Date: publication/ target price in EUR / Rating
17/08/2018: RS / 41.70 / BUY
15/12/2017: RS / 35.00 / BUY
19/10/2017: RS / 30.50 / BUY
14/09/2017: RS / 28.00 / BUY
** The research studies indicated above may be viewed at www.gbc-ag.de, or requested from GBC AG, Halderstr. 27, D86150 Augsburg

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

NEW COOPERATION IN AUSTRIA

On 10/09/2018, FinTech Group achieved one of the most important milestones in its recent history by announcing a long-term cooperation agreement with Österreichische Post AG. During the past financial years, Österreichische Post has offered banking services through Bawag P.S.K in its approximately 430 branches. Since this cooperation agreement expires in 2019, Österreichische Post AG has chosen FinTech Group AG as its new cooperation partner.

Under the terms of the new partnership, banking activities will be combined in a new joint venture, with both partners holding 50% each. The new bank will provide banking services in Austria following the granting of the banking licence which, according to FinTech CEO Frank Niehage, is expected to be achieved by the middle of the next financial year 2019.

Post

- 1.700 post offices and postal partners
- 350 financial advisers
- 60 million customer interactions

fintechgroup

- Self-developed banking system (FTG:CBS)
- Existing brokerage business in Austria with 30,000 customers

Neues Joint Venture

- Use of the infrastructure of 1,700 post offices and postal partners
- IT cooperation with FinTech Group AG
- 350 financial advisers in 433 branches (employees of post.at)
- High marketing power through the use of extensive advertising space

It should be remembered that, compared to its German counterpart, Österreichische Post AG is much more modern and has a better public image. For stationary banking services, Österreichische Post's extensive branch network is used, which consists of 433 self-operated post offices and around 1,350 postal partners. According to Frank Niehage, there are around 60 million customer interactions every year in Austrian post offices, which results in considerable new customer potential. The new joint venture will make use "at cost" of the existing infrastructure, which is extensively used by the population, meaning that there will be comparatively low expenses. The use of extensive advertising space and the 350 financial advisers in the 433 post offices should make it possible to acquire new customers cheaply. Most of these financial advisers are employees of post.at and are therefore not on the payroll of the new joint venture.

As an important asset, FinTech Group AG will bring the existing approx. 30,000 customers of the Austrian brand flatex into the new joint venture. Since entering the Austrian market in 2015, flatex has become the market leader with a market share of almost 50%. By cost-effectively targeting customers nationwide via the branch network, it would thus be possible to achieve significant customer growth for the brokerage segment as well as cross-sell classic banking products. The significantly larger mass of classic banking services is to be offered as part of a hybrid business model both online and in-branch.

In parallel with the expansion of the B2C business, the B2B business will be significantly expanded through the IT service agreement with the joint venture. As part of the IT co-operation agreement, which has a term of 10 years and a total turnover of more than EUR 100 million, FinTech Group AG will provide IT banking services. This represents a well-planned revenue stream for the coming financial years.

Since the existing infrastructure of post.at can be used "at cost" or, in the case of marketing, even free of charge, the execution risk can be classified as extremely low. In comparison, building your own comparable infrastructure would involve immense costs. At the same time, today's Bawag customers will in future only have fewer than 100 contact points (previously:> 1,700 points of contact), which should make it easier for the new joint venture to acquire customers. The fact that the management of the joint venture has extensive experience in Austria due to its 9-year history with flatex.at also shows a low implementation risk.

As the joint venture will not be fully consolidated by either Österreichische Post or FinTech Group AG, minor changes in the balance sheet will arise as a result of the at-equity consolidation. However, the earnings contribution of the new bank will be reflected within the financial result of the P&L. Only IT service revenues averaging EUR 10 million p.a. will be covered by the FinTech P&L. After a typical start-up phase, operational break-even should be reached in about three financial years. With an expected ROI of 10-15%, an annual profit of EUR 20-30 million is expected. At the level of FinTech Group AG, this could mean additional financial income (at equity) of EUR 10-15 million per year.

Over the next five years, the joint venture is to be capitalised at around EUR 225 million. The financing of the FinTech share of EUR 112.5 million, however, is already largely secured today. Less EUR 35 million from the 7% capital increase, which was subscribed in full by Österreichische Post, and the carrying amount of the contributed Austrian subsidiary, flatex.at, of EUR 25 million, leaves a residual financing volume of EUR 52.5 million. In the coming years, this should be covered predominantly by the revenues from the IT service agreement.

In order to underline the newly agreed cooperation, Österreichische Post AG has acquired a 7% share of FinTech Group AG. The Company will therefore subscribe to 1.22 million new shares, excluding subscription rights, for a total issue amount of approximately EUR 35 million.

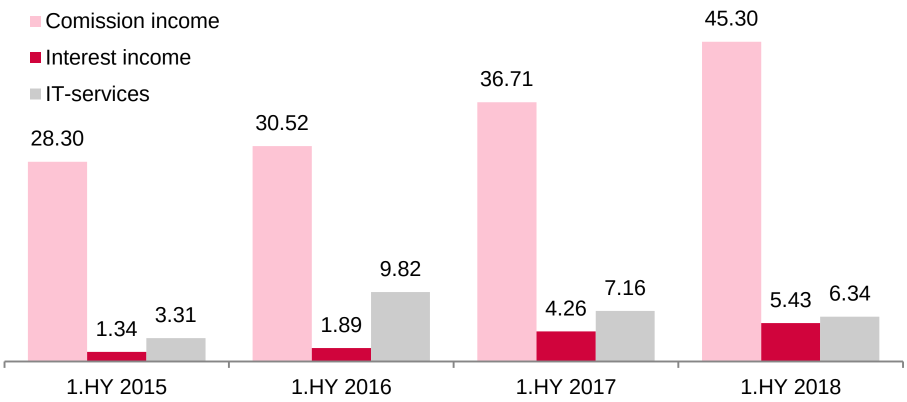
BUSINESS DEVELOPMENT 1.HY 2018

P&L (m€)	1st HY 2016	1st HY 2017	1st HY 2018
Sales	48.35	49.56	58.50
EBITDA (margin)	13.78 (28.5 %)	13.00 (26.2%)	18.40 (31.5%)
EBIT (margin)	11.36 (23.5 %)	10.41 (21.0%)	14.87 (25.4%)
Net profit	8.86	7.04	9.47

Source: FinTech Group AG, GBC

Together with the publication of the ground-breaking cooperation, FinTech Group AG presented their half-year figures. With an increase in sales of 18.0% to EUR 58.50 million (PY: EUR 49.56 million), the Group's growth path has continued. The basis for this development can largely be attributed to the substantially higher commission income resulting from a significant increase in the number of transactions carried out, which this year increased to 6.63 million (PY: 5.51 million). The particularly high volatility on the stock markets had given the Company new record levels of securities transactions, especially in the first quarter. In the second quarter, growth momentum normalised as the stock markets calmed. Another factor that contributed to the increase in transactions is the continued growth in customer numbers, which reached 274,830 B2C customers (PY: 234,874 customers).

Sales by group on half-year-basis (in €m)



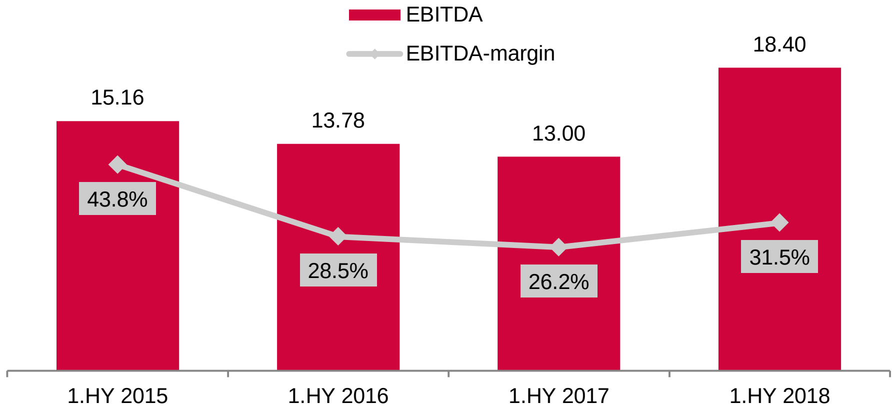
Source: FinTech Group AG, GBC

Meanwhile, the further expansion of the loan portfolio to EUR 195.03 million (30/06/17: EUR 186.81 million) provided the basis for interest income to continue to increase to EUR 5.43 million (PY: EUR 4.26 million). In the medium term, the Company plans to expand its loan book to EUR 500 million, which will generate sustained high interest income.

The B2B business, which offers a neutral standard platform for private and specialist banks, was slightly down on the previous year and amounted to EUR 6.34 million (PY: EUR 7.16 million). The discontinuation of less profitable projects to focus resources on larger mandates (including the joint venture in Austria) and the fact that the new B2B projects will only make significant contributions to revenue in the course of the financial year should be mentioned here. The future development of IT sales will be significantly influenced by the cooperation with Österreichische Post AG. The 10-year IT service agreement will generate total revenues of EUR 100 million, i.e. an average of EUR 10 million per annum.

The fact that FinTech Group AG has a fundamentally very low cost-income ratio is once again apparent in the half-year figures for 2018. Compared to the previous year, this once again improved significantly to 57.7% (PY: 63.4%), which is reflected in the dispro-portionate development of EBITDA compared to turnover. With an increase in sales of 18.0%, EBITDA increased significantly by 41.5%. Accordingly, the EBITDA margin climbed to 31.5% (PY: 26.2%), which is very high for the sector.

EBITDA (in €m) and EBITDA-margin (in %)



Source: FinTech Group AG, GBC

The other levels of results also give a comparable picture. It is worth mentioning that the ongoing negotiations since the beginning of the year regarding the cooperation with Österreichische Post AG were accompanied by corresponding cost expenditures and a high resource commitment. According to management, this has incurred extraordinary costs in the six-digit range. Nevertheless, the result increased significantly.

FORECASTS AND VALUATION

P&L (in €m)	FY 2016	FY 2017e	FY 2018e	FY 2019e
Sales	95.02	107.01	125.00	143.75
EBITDA (margin)	30.62 (*32.2%*)	32.07 (*30.0%*)	44.00 *(35.2 %)*	53.19 *(37.0%)*
EBIT (margin)	25.47 (*26.8%*)	26.48 (*24.7%*)	38.40 *(30.7%)*	47.19 *(32.8%)*
Net profit	8.42	16.80	25.83	31.81

Source: GBC AG

With the publication of the semi-annual figures for 2018, FinTech Group AG has confirmed the forecasts for 2018 that were published in the 2017 Annual Report. Revenues of EUR 120 million, EBITDA of EUR 40 million and an after-tax result of EUR 24 million are still expected. The half-year figures achieved are in line with expectations, even though the Company needs to achieve a higher turnover and earnings momentum in the second half of the year. However, a look at the past financial years shows that a higher proportion of sales and earnings tend to be incurred during the second half of the year. We are thus keeping our sales and earnings forecasts for 2018 unchanged.

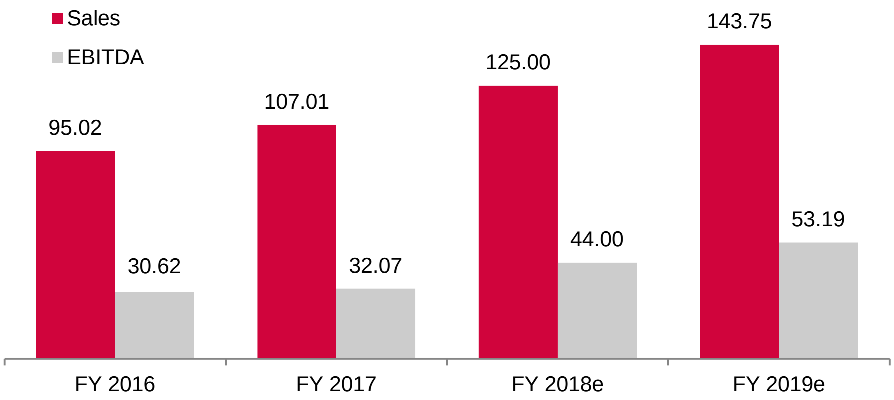
The effects of the new cooperation with Österreichische Post AG will not be fully realised during our specific estimation period. As expected, the new joint venture will receive the banking licence during the coming financial year 2019 and will be able to start operations from this date. As the revenues and earnings generated below are not fully consolidated in FinTech Group AG, half of the after-tax earnings will be reflected in the financial result of FinTech Group AG. Noteworthy contributions, however, are expected to reach break-even, which is expected from 2021 onwards. From 2019 until that point, however, the FinTech Group will generate revenues from the service agreement in the area of IT services, so that part of the start-up expenses will be absorbed.

The deal with Österreichische Post is a pioneering project for the further growth of the B2B segment. In principle, the Company plans to attract 3-5 new B2B customers each year. In this area, the FTG:CBS modular platform developed by FinTech Group AG is a highly scalable product which is expected to meet rising customer demands in light of increasing regulatory and banking requirements.

FinTech Group AG is excellently positioned to achieve further growth in the B2C business, particularly with the “flatex” and “ViTrade” brands. The number of customers continued to grow dynamically in the past reporting period, rising to more than 270,000 customers. As part of the joint venture with Österreichische Post, the use of the 433 post offices and around 1,350 postal partners has created further significant potential for new customer acquisition. In the short term, we continue to expect a significant increase (10–20%) in the number of customers and transactions for the current financial year. The intensification of existing partnerships, for example with the new strategic shareholder Morgan Stanley and the new partnership with Goldman Sachs, should enable the introduction of new products in Germany and in foreign markets. In this regard, the Company plans to continue the geographical expansion outside the DACH region, which was successfully initiated with the entry into Austria. The number of transactions is to be doubled in the medium to long term.

Last but not least, the increased loan volume should be further increased. It is also planned to enable third-party customers to use loans. In addition, new products such as “flatex PolicenKredit” (flatex policy loan) were developed, under which life insurance policies can be deposited as collateral in order to tap into new customer groups. In the medium term, the secured loan book is to be expanded to more than EUR 500 million.

Forecasts Sales and EBITDA (in €m)



Source: GBC AG

We continue to maintain our previous sales and earnings forecasts for the financial years 2018 and 2019 (see research report dated 17/08/2018).

Since the effects of the current cooperation will only come into effect after our specific forecast period, we have only taken the resulting possible effects into account in the final value of the residual income of our valuation model. In addition, we have taken into account the 7% capital increase wholly subscribed by Österreichische Post AG, resulting in a slight dilutive effect. Nevertheless, the potential of the new cooperation outweighs this, which is shown by an increase in the fair company value to EUR 45.00 (previously: EUR 41.70). Based on the current share price of EUR 27.45, we are maintaining our BUY rating.

	2017	2018e	2019e	Terminal Value
Equity	112.72	173.55	205.36	
Profit of the periode	16.80	25.83	31.81	
Return on Equity		14.9%	15.5%	18,7%
Cost of Equity		4.2%	4.2%	4,2%
Rate of Return		10.7%	11.3%	14.5%
Book value factor		3.5	3.7	4.4
Residual income		12.03	19.58	738.46
Present Value of residual income		11.89	18.56	699.98

Total present value in €m	**843.14**
Minorities	0.00
Value of Equity in €m	**843.14**
Outstanding shares in m	18.74
Fair value per share in €	**45.00**

ANNEX

I.

Research under MiFID II

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

II.

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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%.

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits, capital reductions, capital increases, M&A activities, share buybacks, etc.

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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:
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Other person involved:
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