EDISON **Scale research report - Initiation**

MyBucks

Financials

7 April 2017

Emerging market fintech

Founded in 2011, MyBucks (MBC) has been profitable at the operational level since its second year of operations, providing microloans via the internet primarily to low- and middle-income customers in sub-Saharan Africa. With smartphone ownership ahead of bank account penetration in many countries in the region, MBC seeks to use the internet to gain access to a large population with an increasing demand for small loans and other financial services. It has recently expanded into Australia and a deal with Opportunity International will provide access to new African markets too.

Strong first half

The completed acquisition of four banks from Opportunity International in H117 has marked a step change in the business, enlarging the loan book (H117 €77.2m from €41.2m at 30 June), increasing access to funding through customer deposits (13% of funding at 31 December vs 1% at 30 June 2016) and giving MBC a presence in three new territories (with two more pending). The core GetBucks lending products will still account for the majority of revenues (95% in FY16), but the opportunity to cross-sell insurance and banking products has grown markedly with the acquisition.

Long-term drivers of the business

MBC's core markets are 11 sub-Saharan African countries, which accounted for 84% of assets, 94% of revenues and all profits after tax in H117. These have a combined population of c 300m that is young, becoming better off, and still lacking broad and simple access to financial services. These drivers are likely to persist for the foreseeable future, offering a significant opportunity for providers that can successfully manage the risks and overcome the challenges of operating in an area with insufficient traditional financial infrastructure. Although there are many microlending operations, charitable and for-profit, operating in the region, MBC is differentiated by its artificial intelligence-driven credit scoring platform, its banking experience across different markets and the ability these bring to offer a service quickly, efficiently and with appropriate risk management where others cannot.

Valuation: Early days

While there are no earnings forecasts currently available, MBC's early stage of development would make these less reliable than for a mature company, and book value may be a better guide. MBC currently trades at a similar multiple of book value (c 5x) to German-listed fintech peers, suggesting the market expects continued growth.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (€)	P/E (x)	Yield (%)
06/13	3.1	(1.4)	N/A	0.0	N/A	N/A
06/14	13.0	3.3	N/A	0.0	N/A	N/A
06/15	31.3	5.7	33.42	0.0	45.2	N/A
06/16	38.9	0.9	(6.44)	0.0	N/A	N/A

Source: MBC data. Note: MBC listed in June 2016.

Price*	**€15.10**
Market cap	**€176m**

*Price as at 5 April 2017

Share price graph

Share details

Code	MBC
Listing	Deutsche Börse Scale
Shares in issue	11.7m
Last reported net debt at end Dec 2016 (€m)	65.1

Business description

MyBucks is a Luxembourg fintech company listed in Frankfurt. It provides unsecured loans, banking solutions and insurance to consumers and SMEs in 11 African and two European countries and Australia. It uses AI technology to assess creditworthiness and is fully integrated with local banking systems.

Bull

- Large target market with mobile and internet penetration well ahead of traditional banking.
- Well-capitalised and with new and pending banking licences.
- Proprietary AI and integration with local government and banking systems.

Bear

- Sub-Saharan Africa is arguably at higher risk from financial and political shocks than more developed markets.
- Competition from major incumbents, charities and other fintech companies.
- Limited free float of 19.3%.

Analysts

Julian Roberts	+44 (0)20 3077 5748
Andrew Mitchell	+44 (0)20 3077 5700

financials@edisongroup.com

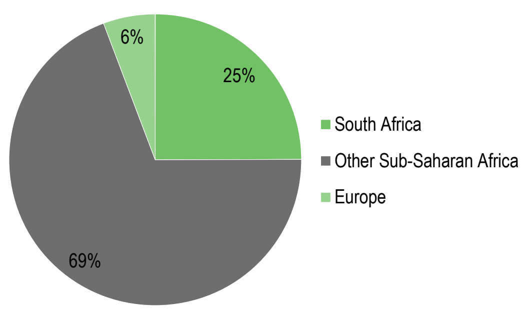
Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of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

Company description: Virtual banking

Central to MBC's investment case is its use of technology to overcome barriers that prevent the provision of traditional banking and credit services to a large market in sub-Saharan Africa. The same technology also provides opportunities for MBC in the developed world. Traditional banks need expensive infrastructure to house their operations and execute some transactions; this can be hard to establish and to staff, especially in parts of the developing world. Where there is demand for microloans (generally defined as under c €500 and for less than a year), the cost and inaccuracy of traditional methods of credit rating and fraud prevention may prohibit profitable lending.

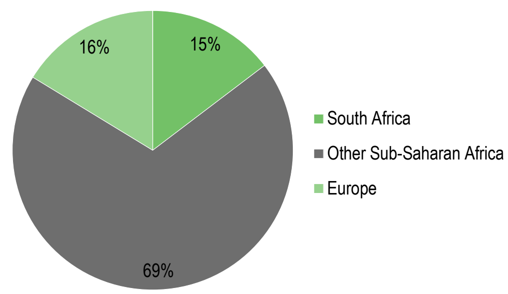
MBC uses mobile technology to access markets with low penetration of formal financial services, but where people do have mobile access to the internet. Its products include lending, insurance and banking and it also provides credit reports with education features, financial budgeting and emergency insurance cover. All products and services are designed to be user-friendly and highly accessible via the web. Proprietary artificial intelligence (AI) enables quick credit assessment and the approval of loans within 15 minutes of application. The products are offered under three brands (GetBucks, GetSure and Opportunity Bank) and the company reports under three geographic segments as shown in Exhibits 1 and 2.

Exhibit 1: Revenues by segment at 31 December 2016



Source: MBC data

Exhibit 2: Assets by segment at 31 December 2016



Source: MBC data

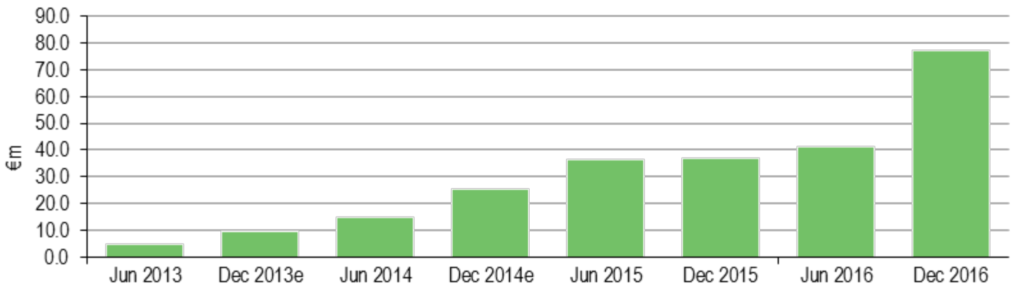
Timeline

Before looking at the products and funding sources in more detail, it is useful to explain the development of MBC and look at two recent acquisitions that have expanded the reach and funding base of the company.

It was founded in 2011 and has been profitable at the operating level since 2013. The original holding entity was GetBucks Mauritius, which traded in South Africa via a licence agreement with a subsidiary there. From 2011 to 2015, the offering was extended to other sub-Saharan African countries and then to Spain and Poland in 2014 and 2015. MBC listed in Frankfurt in June 2016, moving to the Scale segment in March 2017. In 2016, the company entered into talks with Opportunity International, a philanthropic microfinance NGO that aims to reduce global poverty. Opportunity had established six banks in sub-Saharan Africa in the first half of the decade and entered a share purchase agreement to sell them to MBC in 2016, for a consideration totalling c €6.8m so far. As a result, Opportunity became a shareholder of MBC and is represented on the boards of both MBC and the six banks. It will also contribute funding to those banks to enable continued social impact. The acquisition widened MBC's client base, increased its access to capital and enlarged its geographic footprint significantly, while bringing MBC's technology and operational expertise to the banks. MBC has gained two banking licences, two microfinance institutions and a presence in three new countries (Mozambique, Tanzania and Uganda). The acquisitions of

Opportunity's Ghanaian and Malawian banks are pending regulatory approvals in those countries and are expected to be completed in the current half year. So far the total consideration paid for the acquired entities amounts to $3.8m in cash and 150,000 shares in MBC. Further adjustments to the consideration are expected to be minimal and the company may recognise a bargain purchase gain at the next reporting date on revaluation of the acquired assets. The acquisition boosted the loan book considerably (Exhibit 3).

Exhibit 3: Net loan book progression



Source: MBC data, Edison Investment Research

MBC's presence in Australia is through Fair Go Finance (Fair Go), of which it acquired 75% in January 2017. Fair Go is a microfinance and digital financial services provider that had a gross loan book of c €7m and revenues of c €3m in the financial year to 30 June 2016. The consideration of A$3m was paid in shares (117,613 at a price of €17.70 per share and an exchange rate of A$1.44/€).

Products, brands and territories covered

GetBucks is the leading product consisting of short-term consumer and SME loans, both instalment (6-60 months at c 25% to 40% interest, mainly to government and blue-chip company employees) and single payment (1-6 months at c 20% interest), which have other services attached including budgeting tools and credit reports. GetBucks loans are available in Botswana, Kenya, Malawi, Namibia, Poland, Spain, South Africa, Swaziland, Zambia and Zimbabwe. Loans range from €50 to €12,500, with an average of c €200 and a tenor of six months.

GetSure insurance products provide credit, legal, medical and funeral cover, again to consumers and small businesses. GetSure is available in Botswana and South Africa.

Opportunity Bank (powered by MBC) offers savings accounts, mobile transactions, transaction cards and other financial solutions. Customers also have access to dashboards providing information on their banking, credit and insurance portfolios. The brand currently operates in Kenya, Mozambique, Tanzania and Uganda.

Funding

MBC has increasingly diverse funding, including bank debt and deposits taken through its banking operations and funding from shareholders and related parties, summarised in Exhibit 4.

Exhibit 4: Sources of funding (€m)

	30 June 2016		31 December 2016		Increase
Shareholders and related parties	26.9	45%	33.7	34%	1.25x
Bank and other borrowings	31.9	54%	53.0	53%	1.66x
Deposits	0.4	1%	12.9	13%	33.28x
Total	59.2		99.7		1.68x

Source: Company data

The acquisition of the Opportunity banks has given MBC access to considerably more customer deposits funding, changing the composition of liabilities materially.

Fintech platform

MBC's products are designed for people who are underbanked and therefore have no credit scores or access to lending. MBC's ability to provide these services is based on its proprietary credit decision platform, Jessie, and Watson, the fraud detection system. These form a key part of the wider fintech platform, called Fincloud. Essentially the platform receives data from a variety of sources, including the applicant or customer's own devices, network operators, banks, government departments, credit agencies and employers, and uses them to inform the two AI platforms and to help provide management information and data for the customer's dashboards.

Jessie uses 45 data features (comprising thousands of individual data points) to build a picture of an individual's spending and earning history and habits, and Watson compares the applicant's previous behaviour with that of known fraudsters to provide a fraud risk rating. Both are able to use the records on applicants' mobile devices, which often contain detailed records of spending and earnings. Jessie is used to predict a probability of default for each applicant for a given range of rates, loan amounts and repayment profiles, and enables MBC to offer an applicant the products that best suit MBC's risk appetite, with a trade-off between sales and collections: higher sales means taking on more risk and usually equates to lower collection rates, and vice versa. This enables accurate credit scoring and helps MBC to effectively set a default rate that management expects to maximise profitability. This is c 7% (the default rate was 7.12% in H117).

The level of detail also enables MBC to set direct debit collection dates soon after an applicant is paid by their employer and before they typically start to spend their wages, and to do so automatically. The automation of the process makes it very fast, with disbursement possible within 15 minutes of application. Both Watson and Jessie learn from experience, increasing the accuracy of their prediction and the ability of MBC to provide sustainable returns, as well as helping keep collection rates high. The MBC app can prompt and remind people of payments when they are due, if collection at source is not available.

Collections

A successful applicant will be sent their funds quickly, and in most territories repayments can be taken from their salary at source. Where collection at source is not possible, prompts can be sent to the customer, and if necessary external collection agents are employed. MBC's debt collection software is again proprietary, and based on Microsoft.Net technology. It optimises collection timing to suit the customer and the company, making collection efficient, despite the markets it operates in, and encouraging loyalty. An analysis of impairments is given on page 7.

Strategy: Use technology to overcome obstacles

Sub-Saharan Africa in particular offers opportunities for virtual banking because the infrastructure challenge faced by traditional, bricks-and-mortar banking makes establishing a presence in some areas difficult, and hard to justify financially given the banking needs of the population. World Bank data indicate that 34.2% of sub-Saharan Africans in developing countries had bank accounts in 2014, up from 23.9% in 2011, but the percentage whose account was at a financial institution only rose from 23.9% to 28.9%, indicating significant growth in the non-institutional sector. Mobile accounts make up over one-third of all accounts and although older data is not readily available, the rise of transaction services such as M-PESA[1] and companies like MBC suggest that this sector has seen considerable growth. With a platform in place and mobile telephone coverage relatively extensive compared with other infrastructure, MBC is well placed to grow.

[1] M-PESA is a mobile money transfer and microfinancing service provided by Vodafone. It launched in Kenya in 2007 and has been highly successful, with c 25m accounts in Kenya and Tanzania by 2017, as well as large numbers in other non-African emerging markets. It provides easy access to financial services to people beyond the reach of traditional banking infrastructure, but who do have mobile telephones. Pesa means money in Swahili.

It intends to do this both organically and by acquisition, expanding its customer base in territories where it already has a presence and moving into new ones. Management also continually assesses the need for new products and looks to cross-sell its existing offering. The principles of management's strategy are to provide simple and user-friendly products that are delivered quickly, with dashboards, education and budget planning tools make the customer more engaged and encouraging loyalty; as well as attract new clients, using the scalable Fincloud platform and flexible AI credit and fraud checking processes.

So far, MBC has only served 0.1% of the population in its areas of operation. The opportunity to grow by gaining both market share and as the banking market grows is significant.

New products expand the offering and MBC's potential market: **Haraka** (meaning *quickly* in Swahili) was launched in Kenya, making loans of €4 to €40 via mobile phone. Applicants need a Facebook and an M-PESA account, which are mined for credit data, and can apply for larger loans on repayment of their previous loans. The app was downloaded 20,000 times within two months of launch. MBC, along with its partner, Opportunity International, is looking at possibilities to expand in the education and agriculture sectors.

Recent newsflow and upcoming catalysts

MBC reported its H117 results on 3 March 2017, showing an operating profit of €10.2m, which represents almost 90% of the operating profit for all of FY16 (€11.4m), and management expects to report earnings above previous levels for the financial year as a whole. The company has also recently expanded into Australia and has several acquisitions (including two banks in Ghana and Malawi) and applications for banking licences pending. All of these should enhance earnings in the medium term and the full year results can be expected to reflect how successful these and recent developments have been.

Market overview

Microfinance is a highly fragmented market with large numbers of charitable and philanthropic providers in Africa, as well as local institutions in all countries that will make small loans, payday lenders, and also some online and fintech competitors. Market dynamics vary considerably from country to country for a variety of reasons, which include:

- **Culture:** some areas have a long tradition of collective saving, for instance.
- **Interest rates, inflation and foreign exchange:** parts of Mozambique largely use the rand, for instance, and Zimbabwe is theoretically a dollar economy.
- **Local regulations:** these may require a bricks-and-mortar presence to have a lending or banking licence.
- **General market development:** in South Africa, banking penetration and microfinance competition is relatively advanced, whereas MBC has much less competition in Malawi, Swaziland, Zambia and Zimbabwe.

As well as philanthropic lenders, mainstream commercial banks are moving into microfinance and many have launched mobile banking products. In Europe and Australia, payday lending is common, but we would highlight a few companies that target similar markets to MBC:

- **Atlas Mara**, a UK-listed bank founded with the intention of becoming a leading financial institution in Africa. As well as more traditional operations, it provides mobile banking and has a presence in six countries in common with MBC: Botswana, Kenya, Tanzania, Mozambique, Zambia and Zimbabwe.
- **Ferratum** is a German-listed mobile consumer lender that concentrates on Europe, competing in Australia, Poland and Spain with MBC.

- **Kreditech** is a German AI-powered credit rating company that aims to improve access to traditional lenders for people with a limited credit history. It provides microloans as well as longer-term and larger ones, pre-paid cards and an e-wallet. It overlaps with MBC in Poland and Spain.
- **Letshego** (meaning *support* in Setswana) is a Botswanan microfinance provider founded in 1998 and listed in Gaborone since 2002, with a current market cap of c US$500m. It operates in several of the same African markets as MBC. Having started out providing loans to civil servants and taking collections at source, it has expanded to offer a variety of credit products to a broad range of demographics in Africa and is licensed to take deposits in several territories.

The fundamental market driver behind all these companies is that sub-Saharan Africa has a population of c 1bn, which is under-serviced by traditional financial institutions. The provision of credit may help alleviate poverty, and potentially create profits for the providers, on a large scale. Obstacles to the development of financial infrastructure may now be overcome by technology and by the maturing economies of many African countries. The inroads made by services such as M-PESA show what can be achieved, and the size and relative youth of the population mean that the opportunity is both large and likely to be long-lasting.

Management and shareholder structure

Board of directors

MBC has a non-executive board of six led by the non-executive chairman, Gerd Alexander Schütz, plus the chief executive and deputy. The company was founded by the CEO, Dave Van Niekerk, who remains a significant shareholder with 23% of the shares. Short biographies of Mr van Niekerk and his deputy, Tim Nuy, are below. Details of the directors and country and product managers are available on the company's website.

CEO: Dave van Niekerk – Mr van Niekerk founded MBC and has nearly 20 years' experience in the microcredit industry, having begun at African Bank. He founded Blue Financial in 2001, which listed in 2006 and where he was CEO and chairman until July 2010. As well as his responsibilities as CEO of MBC, he oversees a number of business areas directly, including Technology, Operations, Innovations and Credit.

Deputy CEO: Tim Nuy – Mr Nuy was an investment director at the African Development Corporation (ADC) in Frankfurt from 2011 to 2014 (when he joined MBC). There, he was responsible for acquisitions, disposals and day-to-day operations of the group's Mauritian entities, including several complex transactions. Among these were the investment in ABC Holdings, the disposal of RSwitch and the takeover by Atlas Mara. Before ADC, he worked at KPMG in transactions and restructuring, and holds a degree in international economics from the University of Maastricht. He is responsible for Risk, M&A and Corporate Finance.

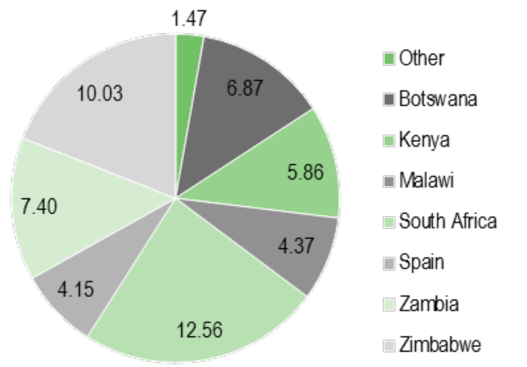
Shareholders and free float

MBC has two shareholders that each own 22.3% of the shares, Tailored Investments and Sunblaze Holdings (through which the Van Niekerk family holds its stake). Escponent Projects holds 17.1%, Redwood Capital holds a further 12.1% and Bluehill Capital has 3.2% (the last two are controlled by Christopher Rokos). Opportunity Inc now holds 3.4% of the shares and shareholders of Fair Go Finance now hold 1.0%, leaving a free float of 18.5%. Members of the management team and all shareholders holding over 10% of the shares have agreed to a lock-up prohibiting them from disposing of their shares before 31 December 2017, meaning that only the free float can be traded before then.

Financials

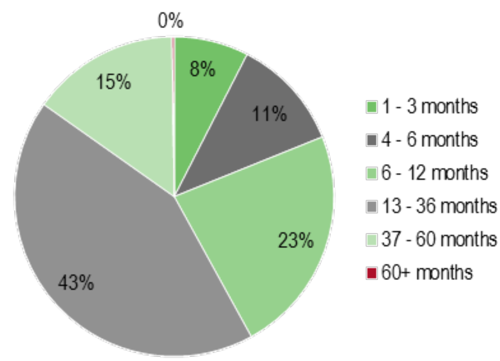
MBC's loan book has grown rapidly in recent periods as it has entered new markets and acquired businesses. Exhibits 5 and 6 show the gross loan book split by country at 31 December 2016 and its breakdown by term (at 31 December 2016). The average loan term is currently c six months, and loans support annual revenues of around 100% of the average loan book. Impairment expenses run at c 20% of revenues. Cost and other ratios are discussed in more detail below.

Exhibit 5: Gross loans by country (€m)



Source: Company data at 31 December 2016

Exhibit 6: Loan book by term (%)



Source: Company data at 31 December 2016

Income statement

We reproduce a summary income statement in Exhibit 7, showing that revenue has risen every year although profits have fluctuated, mainly as a result of finance costs (operating profit has been more consistently positive). The default rate is managed using Jessie's actuarial provisioning model, aiming to keep the default rate below 8% and as close to 7% as possible (7.12% in H117). The operating margin was 29% in FY16 and 40% in H117. As banking operations bed in, with licences expected to be granted in Ghana and Malawi in the coming months, underlying margins may settle as the cost base changes less from period to period, and the opportunity to improve profitability by cross-selling will increase.

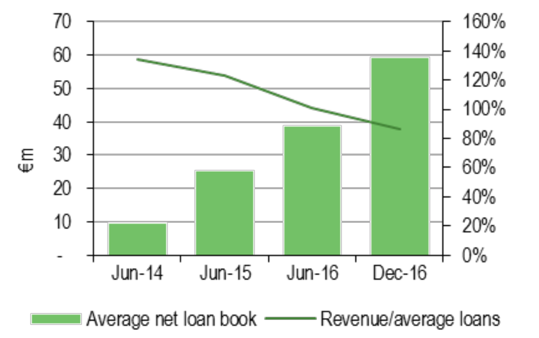
Exhibit 7: Summary financial data – income statement (€000s)

Year ending	Jun-13	Jun-14	Jun-15	Jun-16	6m to Dec-16
Revenue	**3,148**	**12,982**	**31,291**	**38,906**	**25,700**
Loan impairments	(670)	(2,707)	(6,814)	(9,108)	(4,759)
Other income	91	249	406	657	4,982
Operating expenses	(3,324)	(5,963)	(13,370)	(19,057)	(15,743)
Operating profit	(755)	4,561	11,513	11,398	10,180
Operating margin	(24%)	35%	37%	29%	40%
Investment revenue	190	217	872	1,500	859
Finance costs	(841)	(1,498)	(6,699)	(11,948)	(8,190)
Profit before tax	**(1,406)**	**3,280**	**5,687**	**949**	**2,849**
Income tax	(164)	(1,099)	(2,352)	(1,596)	(1,340)
Net income	**(1,570)**	**2,181**	**3,335**	**(646)**	**1,509**
Non-controlling interest	(49)	632	1,887	1,241	1,064
Profit attributable to shareholders of the parent	**(1,521)**	**1,548**	**1,448**	**(1,887)**	**445**
Other comprehensive income (OCI)					
FX differences on translating foreign ops	75	(610)	1,622	(4,162)	1,949
FX differences on translating foreign ops (NCI)	(0)	47	(327)	(18)	(121)
Effect of hedges	0	0	15	44	0
Total items that may be reclassified	**75**	**(563)**	**1,310**	**(4,136)**	**1,828**
OCI net of tax	75	(563)	1,310	(4,136)	1,828
Net income	**(1,570)**	**2,181**	**3,335**	**(646)**	**1,509**
Total Comprehensive income	(1,495)	1,618	4,645	(4,782)	3,336
Non-controlling interests	(49)	679	1,560	1,223	943
Attributable to holders of the parent	**(1,446)**	**939**	**3,086**	**(6,005)**	**2,393**

Source: Company data.

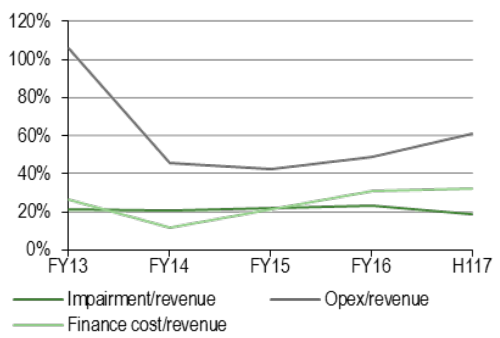
Revenue as a percentage of average net loans has reduced from over 130% in FY14 to c 90% in H117, while impairment expenses have remained steady around 20%. Operating expenses rose in relation to revenue in H117 to 61% vs an average of 46% in the previous three full financial years, affected by the Opportunity Banks acquisitions. This may fall again as they are integrated. Finance costs have been c 32% of revenues in FY16 and H117 and this may fall too as the less expensive deposit funding available from the acquired banks comes through.

Exhibit 8: Revenue and net loan book



Source: Company data at 31 December 2016

Exhibit 9: Revenue vs costs

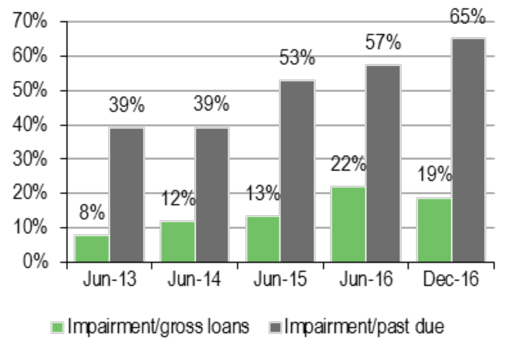


Source: Company data at 31 December 2016

Balance sheet

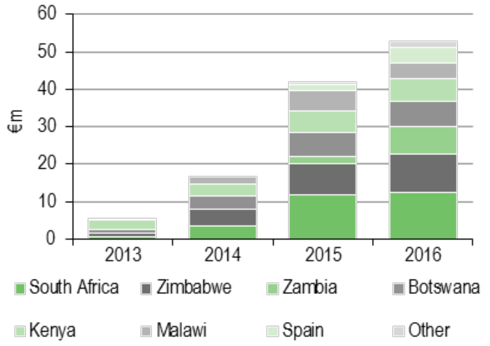
As was seen in Exhibit 4 above, MBC's funding has historically come mainly from loans, either from shareholders or other related parties. To manage interest rate risk these have mostly been based on fixed rates and where local currency facilities have used a prime rate, shorter-term loans have been used to manage the risk. In H117, the acquisition of the Opportunity banks changed the composition of funding in favour of deposits as noted above, and although the breakdown of the loan book by country at the half-year is not available, it can be expected to diversify further as new territories are added. Impairments have fallen in proportion to the gross loan book in H117, following the Opportunity deal and coverage of non-performing loans had risen from 39% in 2013 and 2014 to 65% in December 2016 (Exhibit 10).

Exhibit 10: Impairments and coverage



Source: Company data at 31 December 2016

Exhibit 11: Loan book by country



Source: Company data at 31 December 2016

The progression of the loan book by country to date is shown in Exhibit 11. Impairments as a percentage of net loans vary considerably from country to country, with Spain, South Africa and Kenya having relatively high rates at 71%, 34% and 25% respectively at 31 December 2016; and Botswana, Malawi, Zambia and Zimbabwe having lower ones (all 8 or 9%). The interest rate risk on customer deposits is managed by fixing rates where possible, as with other sources of funding, and the same is true with the interest rate risk on customer loans.

As can be seen from the summary balance sheet in Exhibit 12 below, as MBC has deployed its lending capacity, the ratio of equity to total assets has fallen from 90% at 30 June 2016 to 21% at 31 December 2016. Gearing (net debt to total capital) was 77% at the end of FY15 and has fallen to 65% at 31 December 2016.

Exhibit 12: Summary financial data – balance sheet (€000s)

	Jun-13	Jun-14	Jun-15	Jun-16	Dec-16
Goodwill	0	35	897	795	1,853
Property plant and equipment	471	748	720	1,746	4,225
Other intangible assets	218	787	2,440	3,018	9,635
Loans to related parties	0	0	2,847	1,289	2,674
Loans to shareholders	0	0	0	1,623	0
Deferred tax	4	173	1,321	3,410	4,275
Loan book	2,236	6,384	13,475	14,456	27,085
Total non-current assets	**2,930**	**8,126**	**21,700**	**26,337**	**49,748**
Loans to related parties	0	0	696	3,014	3,387
Loans to shareholders	429	697	785	202	2,358
Loan book	2,461	8,208	22,724	26,745	50,109
Other receivables	432	3,566	11,373	13,198	26,858
Cash and cash equivalents	1,008	2,614	7,971	18,908	21,702
Total current assets	**4,330**	**15,085**	**43,548**	**62,066**	**104,413**
Total assets	**7,260**	**23,210**	**65,248**	**88,404**	**154,161**
Loans from related parties	0	0	0	13,771	14,256
Loans from shareholders	0	0	14,608	0	0
Other financial borrowings	0	0	10,617	626	15,956
Other non-current liabilities	27	15	324	120	201
Deposits from customers	0	0	0	70	2,290
Total non-current liabilities	**27**	**15**	**25,550**	**14,588**	**32,703**
Loans from related parties	0	242	603	7,641	15,408
Loans from shareholders	188	1,927	3,673	5,535	4,006
Other financial borrowings	75	4,327	16,117	26,143	29,924
Current tax payable	31	622	1,008	2,202	2,344
Trade and other payables	415	1,263	2,811	7,361	16,688
Deposits from customers	0	0	0	319	10,651
Bank overdraft	6	0	3,003	5,125	7,161
Total current liabilities	**715**	**8,381**	**27,214**	**54,326**	**86,183**
Total liabilities	**742**	**8,395**	**52,764**	**68,914**	**118,886**
Net assets	**6,518**	**14,815**	**12,484**	**19,490**	**32,275**

Source: Company data

Valuation

At this early stage, and with new operations being added in every reporting period, valuation is difficult, especially in the absence of forecasts, which would anyway be more uncertain than for mature companies operating in mature markets.

We have compared MBC with a basket of peers with microlending operations in emerging markets as shown in Exhibit 13. Arguably, the closest peer is Letshego, which has a similar footprint and product suite, but which has been established for 20 years and is less technology-led.

Exhibit 13: Peer group comparison

	Market cap	P/E (x)			Price/book (x)		Dividend yield (%)	
	(€m)	2016	2017e	2018e	2016	2017e	2016	2017e
Ferratum	420	38.0	17.6	12.0	5.4	3.8	0.5	1.1
On Deck Capital	312			23.3	1.0	1.3	-	-
Letshego	413	6.5	6.8	7.3	1.2	1.1	7.1	7.3
Capitec Bank	5,776	24.2	18.1	15.0	5.9	4.8	1.5	2.3
Atlas Mara	156	16.4	10.2	4.9	0.3	0.3	-	-
Peer group average		**21.3**	**13.2**	**12.5**	**2.8**	**2.5**	**3.0**	**2.1**
MBC	176	Loss	N/A	N/A	5.4			

Source: Bloomberg, Edison Investment Research. Note: Prices as at 6 April 2017.

Until the recent acquisitions have been fully integrated (and MBC has completed the acquisitions of the Ghanaian and Malawian banks), earnings may not be an especially good guide to value and it will likely be some time before MBC pays a dividend. Although forecasts are not available, on the H117 book value, MBC trades broadly in line with Ferratum, which is also listed in Frankfurt and technology-led, but above the peer average, possibly reflecting the growth potential in the markets it is addressing.

Sensitivities

As has been noted above, MBC's performance is sensitive to the economic health of the countries it operates in, with the diversity of its geographic presence mitigating risk in any one country, although country and political risks exist in several of its areas of operation. Other factors to consider include currency and interest rate risks, which the company seeks to mitigate by using funding in currencies matched to its assets and by fixing interest rates on both assets and liabilities where possible, as described above.

MBC has access to funding from several sources, including from Opportunity International, which has committed to provide a minimum of $30m to banks to fund financial products, and MBC has also raised €8m from FinTech Group AG. The recent addition of four Opportunity banks has brought considerable customer deposits, and the success of the applications in Ghana and Malawi, together with other organic banking licence applications, would provide further access to deposit funding.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER
Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

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	245 Park Avenue, 39th Floor	Level 12, Office 1205
60325 Frankfurt	London, WC1V 7EE	10167, New York	95 Pitt Street, Sydney
Germany	United Kingdom	US	NSW 2000, Australia