

JDC Group

Capturing additional margin

JDC continues to execute its new strategy of digital platform development while acting as a consolidator of client contract portfolios. Two large portfolio acquisitions made last year, assisted by organic growth, allowed the company to increase revenues (up 10.1% y-o-y to €40.3m in H117), improve profitability (gross margin at 33.5% in H117 vs 29.3% in H116) and enhance cash generation (operating cash flow up 40.4% y-o-y to €3.3m). Management remains confident that it will deliver c 15% y-o-y revenue growth and double EBITDA in FY17. Although JDC's stock is currently trading at a premium of c 175% to its peer group on FY17e P/E, it is also characterised by superior earnings growth potential (c 90% y-o-y in FY18), according to market consensus.

H117 results driven by client portfolio acquisitions

JDC reported a considerable y-o-y increase in H117 EBITDA to €1.7m from €0.4m in H116. This was the result of last year's acquisition of two retail client insurance portfolios – one consisting of 20,000 contracts and the other consisting of 195,000 contracts, which made up a large proportion of the growth in commission income in H117. These transactions also translated into a decline in commission expenses as a percentage of total commission income to 68% from 73% last year. The 10.1% top-line increase was aided by revenue growth in both Advisortech (11.2% y-o-y) and Advisory (13.8% y-o-y). At the bottom line, JDC was able to reduce net loss to €0.6m from €0.8m in H116.

Outlook reiterated

Management continues to guide to FY17 EBITDA in the range of €5-6m and group revenues at €85-95m, implying an EBITDA margin of 5.3-7.1% (compared with 4.2% in H117). Total commission income and EBITDA reported in H117 represent 44% and 31% of the full-year midpoint guidance, respectively. However, the second half of the year (Q4, in particular) is usually a seasonally stronger period for JDC.

Valuation: Trading at a premium to peers

Based on consensus data, as JDC's growth strategy sees it move from loss to profit over this year and the next two years, the forward-looking P/E drops quickly. Consensus EPS growth in FY18 is the highest among the selected group, and a continuation of above-average growth by JDC could erode the premium rating.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	75.70	(0.98)	(0.16)	0.0	N/A	N/A
12/16	78.05	(0.70)	(0.11)	0.0	N/A	N/A
12/17e	90.45	2.15	0.16	0.0	50.7	N/A
12/18e	104.00	4.90	0.34	0.0	23.1	N/A

Source: JDC accounts, Bloomberg consensus estimates as at 5 September 2017. Note: Consensus is provided on the basis of only two estimates: Montega and Hauck & Aufhäuser.

Diversified financials

6 September 2017

Price €7.86
Market cap €94m

Share price graph



Share details

Code A8A
Listing Deutsche Börse Scale
Shares in issue 11.9m
Last reported net debt as at 30 June 2017 €11.2m

Business description

JDC Group is a financial services group providing advice and financial services, both directly to end-customers and via independent intermediaries. It operates one of the largest broker pools in Germany and recently acquired comparison website GELD.de. Digital advice and administration capabilities are a focus of strategy to drive organic growth and position the group as a consolidator.

Bull

- Group refocused on core strategy.
- Strong position to support digital investment.
- Profitable consolidation opportunity.

Bear

- IFA sector forecast to shrink.
- Low interest rates have discouraged customer savings. Insurance market mature.
- Increased regulatory burden.

Analyst

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Financials: H117 results released

JDC reported robust H117 results, with group EBITDA rising to €1.7m from €0.4m in H116, implying an EBITDA margin of 4.2% (up 324bp vs H116). Total commission income stood at €40.3m, up 10.1% (Q217: +7.3% y-o-y), mostly driven by the full consolidation of two new retail client portfolios acquired in May and June 2016 from Unister and Aon. In its FY16 report, management highlighted that it expects contract fees of up to €5.0m and €1.0m pa from these portfolios, respectively. Given that these were already consolidated in H216, it implies a c €3.0m contribution to total y-o-y commission income growth in H117. Consequently, we estimate that organic revenue growth in H117 stood at c 2% y-o-y.

Initial commission income improved by 9.9% to €24.0m and constituted 59.5% of total commission income in H117 (vs 59.7% in H116). All product groups contributed to the initial commission growth, with the most important insurance products group increasing by 11.1% y-o-y. Follow-up commissions declined by 6.6% y-o-y to €9.6m in H117, but this was more than offset by the higher level of overrides (€3.1m, up from €0.8m last year) and the recognition of fee-based advisory income (€1.6m vs zero in H116). Interestingly, Q217 revenues were ahead of the Q117 number, although it is usually a weak period from the seasonality perspective.

Divisionally, revenues in the Advisortech business rose by 11.2% to €33.0m (Q217: 6.0% growth), with gross margin improving to 31.4% (H116: 26.8%). This was driven by both portfolio acquisitions and organic growth. In the Advisory segment, revenues increased by 13.8% to €11.7m (Q217: 15.4% growth), while gross margin remained roughly stable (28.7% vs 28.6% in H116).

Commission expenses amounted to €27.6m and represented 68% of commission income, down from 73% in H116, reflecting the increased share of business without affiliated broker involvement following recent contract portfolio acquisitions. As a result, these transactions have driven the gross margin up to 33.5% from 29.3% in H116. On the opex side, personnel expenses rose by 10.1% to €7.0m, while other operating expenses increased by 19% y-o-y to €4.8m, mostly as a result of higher marketing and IT costs.

At the EBIT level, JDC reported a slight profit of €0.2m in H117 vs an €0.5m loss a year ago. The more modest improvement compared with EBITDA growth is a result of significantly higher D&A charges (€1.6m vs €0.8m in H116), in particular related to the amortisation of insurance portfolios (€0.5m) recorded in Advisortech. Consequently, JDC booked a net loss of €0.6m (H116: €0.8m). More importantly, the company generated healthy operating cash flow of €3.3m, up 40.4% from €2.4m in H116. The equity ratio increased to 41.8% from 40.7% at end-2016.

Exhibit 1: Results highlights

€000s	H117	H116	% change
Total commission income	40,327	36,624	10.1
- Initial commission	24,013	21,853	9.9
- Insurance products	14,996	13,496	11.1
- Investment funds	7,325	6,951	5.4
- Shares/closed-end funds	1,692	1,406	20.3
- Follow-up commission	9,605	10,281	(6.6)
- Overrides	3,117	819	280.6
- Services	159	0	-
- Fee-based advisory	1,637	0	-
- Other income	1,796	3,671	(51.1)
Capitalised services	307	312	(1.6)
Other operating income	451	447	0.9
Commission expenses	(27,583)	(26,643)	3.5
as % of total commission income	68.4%	72.7%	(435bp)
Gross margin	13,502	10,740	25.7
Gross margin in %	33.5%	29.3%	416bp
Personal expenses	(6,961)	(6,321)	10.1
Other operating expenses	(4,829)	(4,051)	19.2
EBITDA	1,712	368	365.2
EBITDA margin	4.2%	1.0%	324bp
EBIT	159	(472)	-
EBIT margin	0.4%	-	-
Net income (loss)	(582)	(776)	(25.0)
Net margin	-	-	-
EPS	(0.05)	(0.07)	(25.0)

Source: JDC accounts

Exhibit 2: H117 divisional details

	Advisortech			Advisory		
€000s	H117	H116	% change	H117	H116	% change
Total segment income	33,014	29,680	11	11,684	10,264	14
Capitalised services	307	312	(2)	0	0	-
Other income	158	157	1	193	275	(30)
Commission expenses	(23,118)	(22,190)	4	(8,528)	(7,607)	12
Gross margin	10,361	7,959	30	3,349	2,932	14
gross margin %	31.4%	26.8%	457bp	28.7%	28.6%	10bp
EBITDA	1,931	813	138	349	(7)	-
EBITDA margin	5.8%	2.7%	311bp	3.0%	-	-
EBIT	630	219	188	106	(243)	-
EBIT margin	1.9%	0.7%	117bp	0.9%	-	-

Source: JDC accounts

Outlook

Management has confirmed its previous guidance and expects FY17 revenues in the range of €85-95m (ie around 15% revenue growth y-o-y) and EBITDA of €5-6m. This translates into an EBITDA margin in the range of 5.3-7.1% compared with 4.2% in H117. In line with historical seasonality patterns, the company anticipates a strong contribution from Q4 results to full-year numbers. JDC factors in a potential y-o-y decline in the investment and life insurance market, while expecting continued significant growth in the property insurance market.

Going forward, JDC's results should be assisted by services provided to Lufthansa's subsidiary, Albatros. The company has recently signed a letter of intent for a minimum of five years for the outsourcing of the processing and distribution of financial products. This would involve the transfer of more than 150,000 existing customers to the JDC platform and handling all new business through JDC's IT and infrastructure. Management expects additional sales of €20m per annum and significant earnings contribution from 2018 onwards as a result of this co-operation.

Valuation

Due to a lack of direct local peers, we have selected a range of stocks that may be helpful in setting a context for the JDC valuation despite addressing somewhat different markets and with different business models. The peer group includes online brokers (Fintech, Avanza, Swissquote, BinckBank and Interactive Brokers), direct/indirect banks (Comdirect, Commerzbank and Deutsche Bank) as well as UK-based IFAs (Lighthouse and AFH).

JDC is currently trading at a considerable premium of c 175% to the peer group on 2017e P/E. However, the premium diminishes over subsequent years, suggesting that it reflects JDC's superior growth prospects (vs peers) based on consensus numbers.

Exhibit 3: Peer group comparison

	Price (LCY)	Market cap	P/E (x)			Dividend yield (%)	Share price performance			
		(€m)	2017e	2018e	2019e	2017e	1m	3m	Ytd	1 year
Fintech	18.3	306.8	16.1	13.1	11.6	0.0%	5.0%	29.5%	40.6%	47.5%
Avanza	331.6	1,042.4	25.3	22.7	19.5	3.1%	-17.8%	-4.0%	11.7%	33.5%
Swissquote	34.8	467.5	17.4	15.6	14.2	2.1%	57.1%	82.5%	107.8%	100.4%
BinckBank	4.2	564.3	8.9	10.8	8.9	5.7%	10.2%	23.3%	42.4%	76.9%
Interactive Brokers	41.7	2,310.7	28.2	26.6	23.8	1.0%	14.5%	13.6%	15.9%	59.2%
Average online brokers	-	-	19.2	17.8	15.6	2.4%	13.8%	29.0%	43.7%	63.5%
Comdirect	10.8	1,522.4	23.2	25.5	22.8	2.0%	11.7%	17.0%	12.8%	18.2%
Commerzbank	10.1	12,661.3	22.0	14.3	9.5	0.0%	12.0%	25.3%	44.7%	79.7%
Deutsche Bank	13.2	27,304.6	12.8	8.8	7.3	1.0%	-12.5%	-13.2%	-11.4%	21.7%
Average direct/indirect banks	-	-	19.3	16.2	13.2	1.0%	3.7%	9.7%	15.4%	39.9%
Lighthouse	18.1	0.3	15.1	12.1	11.3	1.7%	15.6%	35.0%	57.0%	87.7%
AFH	247.5	0.3	17.9	11.7	10.3	1.4%	16.3%	35.1%	53.8%	48.3%
Average UK IFAs	-	-	16.5	11.9	10.8	2%	15.9%	35.0%	55.4%	68.0%
Overall peer group average	-	-	18.3	15.3	13.2	1.6%	11.2%	24.6%	38.2%	57.1%
JDC Group AG	7.86	93.8	50.7	23.1	14.7	0.0%	12.1%	-3.0%	52.4%	34.4%
Premium/(discount) to peer group	-	-	176%	51%	11%	-	-	-	-	-

Source: Bloomberg. Note: JDC consensus is provided on the basis of only two estimates: Montega and Hauck & Aufhäuser. Prices as at 5 September 2017.

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