

## MyBucks

### Growth pains

MyBucks (MBC) is pursuing technological and regional growth initiatives despite immediate challenges in integrating new acquisitions. The group is fully committed to its strategy of supplying financial services to poorly serviced customers, primarily low and middle income clients in sub-Saharan Africa via the internet, cell phones and applications. The product range has been expanded to include SME loans and insurance products. New acquisitions have extended coverage up the continent's eastern seaboard, but have required considerable integration efforts.

### Step change in size of group

The results for the year to June 2017 show just how much the purchase of four banks from Opportunity International (OI) has increased MyBucks' business, even though they were not consolidated for the full 12 months. New loans disbursements rose by more than half to €120m, helping to boost revenue from €38.8m to €53.7m. The net loan book at year-end June 2017 stood at €68.5m compared to €36.3m a year before.

### Integration of new acquisitions burdens profitability

Underlying trading results at the established operations recorded modest growth in 2016/17 but this was more than offset by the heavy costs of integrating the OI banks, which drove the group's continuing businesses into a net loss of €11.1m in 2016/17 compared to a loss of €0.6m in 2015/16. The OI banks are now operating at break-even after sharp cuts in running costs and reductions in funding costs, but there will still be heavy incidental costs and no positive profit contribution in the current year.

### 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, so book value may be a better valuation guide. MBC currently trades at a similar P/NAV per share multiple (c 5x) to Germany-listed fintech peers, implying strong growth expectations. Despite the losses in 2016/17, equity is sufficient to support current operations.

#### Consensus estimates (four years of historics if no consensus)

Year end	Revenue (€m)	Net profit (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
06/14	13.0	2.18	N/A	0.0	N/A	N/A
06/15	31.3	3.34	0.33	0.0	27.7	N/A
06/16	38.9	(0.65)	(0.06)	0.0	N/A	N/A
06/17 (prelim*)	53.7	(11.1)	N/A	0.0	N/A	N/A

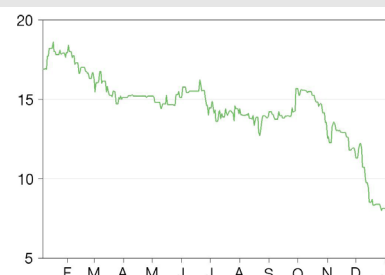
Source: Company data; Note: \*Some financial data are yet to be released.

#### Financials

9 January 2018

**Price** €9.15  
**Market cap** €107m

#### Share price graph



#### Share details

Code	MBC
Listing	Deutsche Börse Scale
Shares in issue	11.7m
Last equity as % of total assets per 31 December 2016	23%

#### Business description

MyBucks is a Luxembourg fintech company, providing 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.
- Efforts required to bring Opportunity International (OI) banks to full profitability.

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## **New acquisitions double size of MyBucks**

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The preliminary figures for 2016-17 are dominated by the first-time consolidation of the business acquired from Opportunity International (OI) and the measures taken to integrate these into the group. The OI acquisitions have practically doubled the size of MyBucks' business and the effect on the accounts has been correspondingly great. The new banks extend MyBucks' operations up the eastern seaboard of sub-Saharan Africa with the potential to extend its tried and tested business model into new territories (Mozambique, Tanzania, Kenya and Uganda) once the immediate challenges have been surmounted.

### **Effect of Opportunity International banks on 2016-17 profits**

The banks acquired from OI were typical of NGO-controlled entities with excessively high cost bases and cumbersome structures. It was clear from the beginning that MyBucks would have to take radical steps to make them economically viable. Initially, management had expected to provide for much of the inevitable costs involved in the opening balance sheet, but it transpired that as the measures were not decided on until after the purchases had been completed, IFRS demanded that they be taken against profits. This involved some revisions to the first half figures.

The OI banks depressed group operating profits before financing costs by €4.3m in FY17 and contributed an after-tax loss of €5.1m. This more than offset a positive contribution to profits of €2.85m reflecting the discount to book value at which the OI banks were acquired. This has been adjusted down from the gain of €4.5m shown in the half year figures.

Group operating profits (pre-funding costs) were roughly maintained at €11m. The established operations showed a small underlying improvement in profits. Financing costs increased to €21.3m from €11.7m, which pushed the gross cost of funding up to 22.8% to 21.7%. In part this reflected the less favourable terms on which the OI banks had been operating. This has resulted in a full year net loss of €11.1m from continuing operations compared to a net loss of €0.6m in the previous year. Management has indicated that equity fell to around €20m because of losses from discontinued operations compounding the losses from continuing operations.

The negative contribution from the OI banks comprised current operating losses and one-off measures, chiefly from measures to reduce headcount but also the cost of reducing the physical infrastructure. It was also necessary to write off some of the OI loan book. The newly acquired business in Australia FairGo finance contributed a small loss.

The consolidation of the OI banks has also affected MyBucks' reporting. It proved necessary to postpone the AGM originally scheduled for the end of November and the finalisation of the full audited accounts for 2016-17 has been delayed. Management expects that the accounts will be available at the end of this month, allowing the company to reschedule the AGM for some time in February. The preliminary statement gives only basic details and items such as the loss per share will only be available with the report and accounts.

### **OI effects continue into the current year**

The OI banks have been brought to break-even at the operating level for the first time in their existence, but were still operating at a loss for the first few months of the current year. Moreover, integrating the newly acquired operations has involved a continuing high level of consultancy and professional costs, which are estimated at €4.3m for the year.

The current year will still be one of transition at the OI banks. Their cost bases remain high and it will take appreciable growth in their current volume of business to make for sustained profitability. The benefits of refunding their balance sheets on more favourable terms are only just flowing

through. If these assets are able to achieve profitability similar to established operations, it is unlikely to happen before 2018/19.

After the losses reported in 2016/17, MyBucks' equity fell to some €20m at end June 2017 from €35m a year earlier. This brings equity back to the level of end June 2016. The likelihood of another annual loss in the current year is high, which would further erode equity. Current shareholders' funds will be sufficient to support operations even on the enlarged basis post the OI acquisitions, but any further significant expansion may require additional equity funding.

## **Growth initiatives continue**

The efforts required to integrate OI have not held management back from pushing forward with initiatives to grow the business, notably in terms of new technology. MyBucks' proprietary Haraka app provides instant loans. Clients can now borrow from MyBucks via WhatsApp obviating the need to download additional apps. In both cases MyBucks' proprietary software can scan the clients' smartphones to assess their creditworthiness. The company is soon planning to roll out a smartphone under its own brand in Africa. The hardware is being manufactured by ZTC and will sell for the very competitive price of US\$28 equivalent.

MyBucks is also examining growth potential in the Far East using FairGo in Australia as a platform. The local, less developed markets show many of the characteristics of MyBucks' core African territories in terms of low degree of penetration of classical banking services and cash dependency in the economy. Smartphone ownership, though, is already high, which should smooth the way for a roll-out of MyBucks' model.

## **Valuation update**

The shares had been trading at about €14 for most of the summer and autumn of 2017, but began to weaken notably as the postponement of the AGM fuelled investor concerns. As a result, the share price fell to the current level of around €9 in mid-December ahead of the news. However, the actual announcement of the preliminary results on 27 December did not appear to have hurt the share price, although the seasonally thin trading might have made this unrepresentative.

The shares are still trading at around 5x P/NAV per share in line with peers, but publication of the full details of results for 2016/17 may give important additional information on underlying performance.

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