JDC Group

Diversified financials

23 March 2018

Muted Q417 does not spoil FY18 outlook

JDC Group has been successful in implementing its fintech strategy so far and continues to acquire new insurance portfolios, as illustrated by the recent deals with Albatros and Artus Gruppe. This is confirmed by JDC's preliminary FY17 numbers, with revenues and adjusted EBITDA improving by 7.6% and 62.5% y-o-y, respectively. However, even adjusted for one-off items, FY17 EBITDA was below management target (€3.9m vs €5-6m), while revenues (€84.5m) missed guidance (€85-95m) by a small margin. Despite a weaker Q417, management remains confident in strong growth in 2018 driven by new business acquired in 2017. JDC's shares are trading at a 2018 P/E ratio of 55.3x, c 192% ahead of the peer group.

Q417 weak due to one-offs and market uncertainty

JDC's preliminary Q417 EBITDA stood at €0.9m, representing a 55% y-o-y decline and was impacted by €0.7m of non-recurring expenses related to the implementation of the MiFID II and IDD directives, as well as costs associated with key account projects. Adjusted EBITDA was down 5.9% in Q417, while total commission income increased by a modest 4.2% y-o-y to €24.6m amid lower than usual business activity ahead of the introduction of the new directives and German national election.

Recent contracts to facilitate growth in 2018

JDC has already launched the partnership with Lufthansa's subsidiary Albatros to service a portfolio of 150,000 customers, which will generate up to €20m in commission income pa over the next five years, according to JDC. Moreover, the insurance portfolio acquired from Artus should contribute c €1.0m pa to JDC's EBITDA. As a result, management guides to FY18 revenues of more than €100m and an EBITDA of €6.0m. In future, potential upside may come from JDC's B-LAB project in the blockchain area. The ICO of JDC's own token planned for end of Q218 constitutes a potential catalyst (positive or negative, depending on the result).

Valuation: Still trading at a premium to peers

Based on consensus data, as JDC's growth strategy sees it move from loss to net profit in FY17 and beyond, the forward-looking P/E drops from 55.3x in FY18 to 23.4x in FY19. This corresponds with a 192% and 42% premium versus peer group. Consensus EPS growth is the highest among peers, and a continuation of above-average growth by JDC could erode the premium rating.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	78.1	(0.70)	(0.11)	0.0	N/A	N/A
12/17	84.5*	0.50	0.04	0.0	N/A	N/A
12/18e	106.5	3.15	0.22	0.0	55.3	N/A
12/19e	118.5	5.80	0.40	0.0	23.4	N/A

Source: JDC Group accounts. Note: *Preliminary FY17 results. Consensus is provided on the basis of only two estimates: Montega and Hauck & Aufhäuser

Price	€8.30
Market cap	€99m

Share price graph

Share details

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

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. Digital advice and administration capabilities are a focus of strategy to drive organic growth and position the group as a consolidator.

Bull

- Focus on fintech strategy.
- Successful turnaround story.
- Profitable consolidation opportunity.

Bear

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

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Financials: EBITDA guidance missed due to weaker Q4

JDC reported a preliminary Q417 EBITDA decline of 55% y-o-y to €0.9m, which was mostly the result of €0.7m of one-off expenses related to the implementation of legal changes associated with the MiFID II and IDD directives, as well as key account projects (particularly the integration of client portfolios taken over from Lufthansa's subsidiary Albatros Versicherungsdienste AG and Artus). Adjusted for this and last year's non-recurring items, EBITDA declined by only 5.9% y-o-y to €1.6m (vs €1.7m in Q416), translating into an FY17 adj. EBITDA of €3.9m, but still made JDC miss its earlier guidance of €5-6m. Adjusted EBITDA margin in Q417 reached 6.5% vs 7.2% in Q416, whereas the FY17 margin stood at 4.6% (FY16: 3.1%). This was the result of higher personnel expenses, as well as legal and advisory costs.

Total commission income grew by 4.2% y-o-y (reaching €24.6m) and was relatively muted in the quarter (9M17: +8.8% y-o-y), reflecting the absence of the usual year-end business amid uncertainty in the broker market around implementation of MiFID II and IDD (and potentially also the outcome of German national elections). Consequently, FY17 commission income came in at €84.5m (+7.6% y-o-y), marginally below the lower bound of the guided range (€85-95m). This fully reflects the portfolios acquired from Unister and Aon in 2016 (and consolidated from H216), which were expected to add €5.0m and €1.0m pa in contract fees, respectively. Assuming a positive contribution of €3.0m in 2016 and €6.0m in FY17 from these contracts, JDC's organic growth would have been c 4% y-o-y in FY17. Importantly, the newly acquired portfolios from Albatros and Artus have not translated into incremental commission income in Q417 yet.

Exhibit 1: Results highlights

€m	Q417	Q416	y-o-y change	FY17	FY16	y-o-y change
Total commission income	24.6	23.6	4.2%	84.5	78.5	7.6%
Advisortech	18.9	18.5	2.2%	66.6	62.0	7.4%
Advisory	8.1	7.4	9.5%	26.6	23.8	11.8%
EBITDA	0.9	2.0	-55.0%	3.2	2.7	18.5%
EBITDA margin	*3.7%*	*8.5%*	*-482 bps*	*3.8%*	*3.4%*	*35 bps*
Advisortech	N/A	N/A	N/A	3.3	2.8	15.7%
Advisory	N/A	N/A	N/A	1.3	1.0	22.7%
Adj. EBITDA	1.6	1.7	-5.9%	3.9	2.4	62.5%
Adj. EBITDA margin	*6.5%*	*7.2%*	*-70 bps*	*4.6%*	*3.1%*	*156 bps*

Source: JDC accounts, Edison Investment Research

Outlook 2018: Fuelled by Albatros and Artus deals

Management now guides to FY18 revenues in excess of €100m (implying growth of at least 18.3% y-o-y) and an EBITDA of €6m on the back of new business, with new orders being more than 50% higher vs prior year. The company is confident that it has laid a solid foundation for growth in FY18 with the launch of the cooperation with Lufthansa's subsidiary Albatros on 15 January this year related to the outsourcing of the processing and distribution of existing financial products (approx. 150,000 customers) as well as handling new business. The contract covers a period of five years and is expected to contribute up to €20m pa to JDC's top line. On top of this, JDC has also purchased 40,000 insurance contracts from Artus (mostly life, health and property insurance), which represent a volume of c €30m in net annual premiums and should contribute €1.0m pa to JDC's EBITDA (the level of annual commission attributable to JDC was not disclosed). Future performance may also be assisted by the cooperation with Germany's leading loan comparison portal, smava, announced in December 2017. As part of the partnership, JDC's advisers and intermediaries will have the possibility to use GELD.de to submit credit enquiries to smava and benefit from attractive rates.

EDISON

Exploring opportunities in the blockchain area

Following the introduction of the allesmeins digital insurance wallet and the takeover of the online comparison platform GELD.de, JDC has now made another step in its digitalisation strategy and is entering the blockchain space to utilise the technology in the insurance industry. The new project (called Blockchain Lab) will be led by Stefan Bachmann, a former fintech lead at Google who joined JDC in the summer of last year. The company has set up a subsidiary in Liechtenstein (JDC B-LAB) for developing client-centric financial (mostly insurance) products that will be designed as smart contracts to allow customers access to more customised and safer services through a decentralized platform, as well as introduce time and transaction costs savings. JDC plans to launch the Ethereum-based Blocx Blockchain Network (B2N) and complete a Token Generating Event / Initial Coin Offering (ICO) of its JDC Blocx token (BCX) by the end Q218. The company intends to introduce a reward/loyalty system based on BCX for its customers, IFAs and partner companies for the participation in the decentralized network and the sharing of anonymized data. JDC's roadmap assumes that allesmeins will fully become a cryptowallet by Q418, while the first blockchain-based product will be launched in 2019. Then in 2020, JDC plans to introduce first internal systems based on blockchain/B2N running smart contracts for non-financial service partners. The total estimated cost of developing B2N stands at more than €123.5m over the next five years, which is supposed to be covered by proceeds from the token issue. Consequently, the success of the initiative is largely dependent on the outcome of the upcoming ICO.

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 trading at a considerable premium of c 192% to the peer group on 2018 P/E. The premium declines to 42% in 2019 P/E, reflecting JDC's better growth prospects vs peers based on consensus numbers.

Exhibit 2: Peer group comparison

	Price (LCY)	Market cap	PE (x)			Dividend yield (%)	Share price performance			
		(€m)	2018e	2019e	2020e	2018e	1m	3m	Ytd	1 year
Fintech	29.1	509.5 €	19.3	15.6	0.0	0.0%	0.3%	12.0%	97.7%	89.8%
Avanza	439.5	1,385.0 €	30.2	25.5	22.3	2.5%	23.1%	27.5%	29.2%	22.2%
Swissquote	57.5	724.2 €	21.5	19.2	0.0	1.7%	21.1%	66.7%	115.5%	135.8%
BinckBank	4.8	314.6 €	13.0	12.6	11.2	3.8%	8.8%	12.1%	-4.2%	-5.1%
Interactive brokers	70.5	3,942.5 €	34.1	30.4	0.0	0.6%	8.0%	21.6%	92.3%	89.2%
Average online brokers		**-**	**23.6**	**20.7**	**16.7**	**1.7%**	**12.3%**	**28.0%**	**66.1%**	**66.4%**
Comdirect	11.9	1,674.9 €	27.0	23.7	20.4	2.0%	2.2%	3.3%	32.4%	31.3%
Commerzbank	12.0	15,040.8 €	16.2	11.8	8.6	1.1%	-8.7%	-1.6%	45.0%	54.4%
Deutsche Bank	12.7	26,165.3 €	11.5	8.8	7.2	2.5%	-25.9%	-33.3%	-34.8%	-33.9%
Average direct/indirect banks		**-**	**18.2**	**14.8**	**12.1**	**1.9%**	**-10.8%**	**-10.5%**	**14.2%**	**17.3%**
Lighthouse	22.1	30.6 €	11.1	11.1	11.1	0.0%	-7.6%	-4.6%	30.2%	36.2%
AFH	360.0	46.9 €	18.9	17.1	15.7	0.0%	5.9%	29.7%	95.2%	95.2%
Average UK IFAs		**-**	**15.0**	**14.1**	**13.4**	**0.0%**	**-0.8%**	**12.6%**	**62.7%**	**65.7%**
Overall peer group average		**-**	**18.9**	**16.5**	**14.1**	**1.2%**	**0.2%**	**10.0%**	**47.7%**	**49.8%**
JDC Group AG	8.30	99.1 €	55.3	23.4	N/A	0.0%	-20.2%	10.4%	44.1%	50.6%
Premium/(discount) to peer group				**192%**	**42%**	**N/A**	**-**	**-**	**-**	**-**

Source: Bloomberg. Note: JDC consensus is provided on the basis of only two estimates: Montega and Hauck & Aufhäuser. Prices as at 20 March 2018

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