

Deutsche Börse

Targeting diversified growth

Deutsche Börse is a broad financial market infrastructure business with a clear plan to realise structural growth opportunities across its pre-trade, trading and clearing, and post-trade activities. Selective acquisitions will be sought to augment this potential. The shares trade on a marked discount to global peers.

Roadmap 2020

In May this year, Deutsche Börse (DB1) presented its strategic plan, 'Roadmap 2020'. This set out the priorities of new CEO, Theodor Weimer (growth, technology leadership and discipline in execution) and the group's favourable starting point with good organic growth opportunities across the business. DB1 aims to accelerate both secular and cyclical organic growth, supporting this with a disciplined M&A programme focusing on fixed income, commodities, foreign exchange, investment fund services and data provision. Investments in technology are to be expanded to help realise growth and improve scalability: key technologies involved are blockchain, big data analysis, cloud computing, and robotics and artificial intelligence. Financial targets include: organic, secular, compound annual growth in net revenue of over 5% in the period to end 2020, with the potential for additional positive cyclical effects; net profit CAGR of 10-15%; dividends equivalent to c 40-60% of net profit; gross debt below 1.5x EBITDA; and a structural cost reduction of €100m by the end of the period (at a cost of c €200m).

Results for Q318

Q318 results, on an adjusted basis, showed net revenue up 13% y-o-y to €651.4m and operating costs up 5%, which allowed EBITDA to increase by 19% and net profit by 21% to \$245.5m. DB1 reported continued good progress on its Roadmap targets, including structural revenue growth running ahead of its target at c 7%, while cost efficiency measures are on track. Cyclical factors have also been positive with market volatility and higher US interest rates contributing to the result through trading volume and interest income. Acquisitions made a small contribution to growth in the quarter and DB1 indicates further opportunities in the pipeline. The group looks for FY18 net profit growth similar to the first nine months of 2018 (+16%, excluding exceptional items).

Valuation: Undemanding P/E versus major peers

DB1 trades on prospective P/E multiples more than 25% below its larger global exchange peers, a conservative rating given the group's diversification and structural growth plans.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	2,494	1,034	3.87	2.35	28.9	2.1
12/17	2,389	1,289	4.68	2.45	23.9	2.2
12/18e	2,751	1,345	5.29	2.54	21.2	2.3
12/19e	2,973	1,566	6.07	2.98	18.5	2.7

Source: Deutsche Börse, Thomson Reuters collected consensus estimates

Financial services

Price €112

Market cap €22bn

Share price graph



Share details

Code	DB1
Shares in issue	193m
Q318 interest-bearing gross debt/annualised, adjusted EBITDA	1.2x

Business description

Deutsche Börse is a major European financial markets infrastructure provider with ambitions for global growth. Its operations cover the full capital markets value chain and are managed in nine business segments, including: financial derivatives (Eurex), commodities (EEX), foreign exchange (360T), post-trade services (Clearstream), investment fund services (IFS), collateral management (GSF), indices (STOXX), data provision and cash equities (Xetra).

Bull

- Well-established leading position in European derivatives.
- A number of business areas with very high growth prospects.
- Diversification between trading, pre- and post-trading and clearing activities.

Bear

- Still subject to capital market cyclicality.
- Competition may dilute profitability in some areas.
- Some implementation risk associated with strategic plan.

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