EDISON

Scale research report - Update

MyBucks

Financials

6 June 2018

Balanced focus on growth and margins

Artificial intelligence (AI)-driven MyBucks (MBC) has made notable progress in recent months. The strategic partnership with NAGA is a key step in developing MBC's digital banking business and builds on the H1 turnaround in banking results. These, along with improved cost ratios, partly countered the still burdensome level of financing costs, as the group swung into pre-tax profit from losses in the prior year. This takes the company a step closer to becoming net earnings positive. Debt refinancing costs are being reduced and a €11.7m gross private placing was undertaken in February. MBC is also well positioned for organic growth through the launch of new insurance and lending products and plans to integrate its TESS user experience product throughout its operations.

Top-line growth and efficiencies drive H118 results

MBC recorded a pre-tax profit of €66.6k in H118 vs a loss of €3.4m in H117 helped by an 18% y-o-y increase in revenue to €29m, and by y-o-y improvement in the impairment to revenue ratio (21.4% vs 23.9% in H117) and in the operational cost ratio (60.3% vs 71.2% in H117). Banks under the Opportunity Bank brand are the main driver of these enhanced operational ratios.

New partnership and lower refinancing costs

MBC entered into an exclusive partnership with the NAGA Group, enabling its 1.5m customers to gain access to NAGA's crypto wallet and hence gain market share in emerging markets. The transaction will help MBC's clients to trade and invest in crypto assets at transaction fees that are up to 50% lower than other fee payment methods and perform instant, real-time money transfers. The company also reduced the hard currency refinancing rate from ~21% to ~15% per year, resulting in pro-forma savings in interest paid worth €6m for FY19. A portion of those savings would also be reflected in FY18.

Valuation: Still trading at a discount to peers

With MBC yet to generate a net profit, we feel the EV/sales ratio is an appropriate multiple for peer group comparison. Based on consensus earnings forecasts (refer exhibit 2), MBC's FY19 multiple of c 2.3x points to market expectations of revenues doubling over the next two years. This perhaps explains it trading at a premium to peer average (c 1.4x) and to Ferratum (c 1.3x), as the company continues to grow from a relatively smaller base of revenue (c €54m in FY17) than that of its peers. Scope for M&A and further new partnerships, such as the one with NAGA, may also be contributing to MBC's premium over its peers.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (€)	P/E (x)	Yield (%)
06/14	13.0	3.3	N/A	0.0	N/A	N/A
06/15	31.3	5.7	33.42	0.0	37.4	N/A
06/16	38.9	0.9	(6.44)	0.0	N/A	N/A
06/17	53.8	(7.7)	(114.00)	0.0	N/A	N/A

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

Price	€12.5
Market cap	€162m

Share price graph

Share details

Code	MBC
Listing	Deutsche Börse Scale
Shares in issue	13.0m
Last reported net debt as at December 2017	€105.3m

Business description

MBC is a Luxembourg-based fintech company listed in Frankfurt. It provides unsecured loans, banking solutions and insurance to consumers and SMEs in 12 African and two European countries, and Australia. It uses artificial intelligence 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 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.
- Regulatory risks related to crypto currencies and their usage.

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com

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Financials: H118 results swing to pre-tax profit

H118 revenue increased 18.1% y-o-y to €29.0m, helping MBC swing to a pre-tax profit of €66.6k vs losses of €3.4m and €7.7m in H117 and FY17, respectively. This reflects improvements in the impairment-to-revenue ratio (21.4% in H118, down from 23.9% in H117 and 22.4% in FY17) and in the operating expense to revenue ratio (60.3% in H118, down from 71.2% in H117 and 68.8% in FY17). Enhancement of these ratios was due to banks, including those acquired from Opportunity International, which contributed operating profit of €8.2m for H118 compared with €10.3m in FY17. As a result, operating margins rose y-o-y to 33.6% in H118 from 21.5%. The Southern African lending operations generated €2.1m in PBT.

In contrast, MBC suffered a loss of c €0.5m in its Eastern African operations. More meaningful pre-tax losses of around €8.6m were incurred in the technology division, primarily due to high finance costs of approximately €11.9m.

It is clear that financial costs continue to weigh on MCB's financial performance (Exhibit 1). However, refinancing measures have reduced the hard currency refinancing rate from around 21% to around 15% a year, resulting in pro-forma savings in interest paid worth €6m for FY19. A portion of those savings would also be reflected in FY18.

In February 2018 the company issued 1.3m shares, raising gross funds of €11.7m, to reduce overall financing costs and increase lending volume.

Exhibit 1: H118 financial highlights

€000s	Six months to Dec 2017	Six months to Dec 2016	y-o-y % change
Revenue	29,007	24,564	18.1
Loan impairments	(6,210)	(5,863)	5.9
Other income	4,498	4,074	10.4
Operating expenses	(17,547)	(17,496)	0.3
Operating profit	9,748	5,279	84.7
Operating margin (%)	33.6	21.5	56.4
Investment revenue	2,189	859	154.9
Finance costs	(11,870)	(9,499)	25.0
Profit before tax	67	(3,361)	N/A
Income tax	(2,210)	(2,143)	3.1
Net income from continuing operations	(2,143)	(5,504)	(61.1)
Loss from discontinued operations	(598)	(481)	24.4
Total net income	(2,741)	(5,985)	(54.2)

Source: MyBucks accounts. Note: H117 (six months to December 2016) are restated.

Recent developments

MBC entered into a partnership with the NAGA Group in April 2018 to offer crypto currency-enabled NAGA WALLET to over 1.5 million MBC clients in emerging markets. To increase refinancing volumes and decrease refinancing costs, the company received a private placement of €11.7m (gross). It also reduced the hard-currency refinancing rate from c 21% to 15% per year, leading to an annualised pro-forma cost savings of €6m. These savings will be reflected partially in FY18 and fully in FY19. MBC appointed current CEO, Dave van Niekerk as executive chairman and promoted Tim Nuy, current deputy CEO, to the position of new CEO. The company also appointed Dr. Markus Schachner, formerly partner at Mckinsey & Co. and member of its leadership team of the European banking, asset management and insurance sectors, as deputy chairman.

MBC continues to place AI at the forefront of its technology drive. Its new technology, text-based virtual assistant (TESS), interprets natural language queries and will be integrated into MBC's business, including collections, lending, banking, insurance, customer service and customer on-boarding. The company has already launched a WhatsApp-based lending application that uses TESS.

Valuation

MBC's stock price rose in 2018 following the issuance of equity capital, which was used to reduce refinancing costs and increase lending volume. New partnership with the NAGA Group, described above, and potential for more such deals also seems to have contributed to the recent rise in the stock price. MBC is still reporting net losses, which in turn are weighing on the book value. As a result, MBC's book value is a volatile measure and not comparable to its peers. Even though the company reported a positive PBT in H118, it may not be until 2019 that it starts reporting a net profit (based on consensus) and would probably take a few more years to stabilise its net earnings stream. Although MBC pays dividends to non-controlling interests, it will take some time before it starts paying dividends to its shareholders. Hence, we consider an EV/sales multiple as most apt for comparing MBC with its peers. We note that the EV/sales average of peers lags that of MBC for 2017 and for forward years until 2019, possibly reflecting MBC's higher growth potential on a smaller revenue base compared to peers.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			Price/book (x)		Dividend yield (%)		EV/ Sales		
	(€m)	2017	2018e	2019e	2017	2018e	2017	2018e	2017	2018e	2019e
Ferratum	506	24.3	16.4	12.3	4.9	4.0	0.8	1.1	2.5	1.7	1.3
On Deck Capital	389	N/A	20.9	14.3	1.7	1.7	N/A	N/A	1.0	1.0	0.9
Letshego	341	6.1	N/A	4.5	1.0	N/A	11.7	N/A	3.1	N/A	2.9
Capitec Bank	6,890	22.7	18.7	15.1	5.4	4.5	1.7	2.0	1.0	1.0	1.0
Atlas Mara	365	5.9	6.9	5.3	0.4	0.7	N/A	N/A	1.1	1.0	0.9
Peer group average		14.7	15.7	10.3	2.7	2.7	4.7	1.6	1.7	1.2	1.4
MBC	170	N/A	N/A	26.3	20.5	N/A	N/A	N/A	3.5	3.3	2.3

Source: Bloomberg, Edison Investment Research. Note: Prices as at 30 May 2018.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia