

FinTech Group

Strategic review

FY18 was a strong year for FinTech Group (FTG) with healthy 17% growth in revenues and expansion in margins. In recent weeks flatex has launched successfully in the Netherlands, with the entry cost considerably lower than expected. Consequently, management upgraded EBITDA guidance in May. Management believes it has all the components for growth (notably, the brokerage platform & banking licence) and has hired an investment bank to review various strategic options. Given the growth potential, we believe the shares remain attractive on c 16x consensus FY20 earnings.

FY18 annual report

FY18 revenues grew by 17% to €125.1m, while EBITDA lifted by 32% to €42.4m. This was driven by an 11% increase in transactions, along with onboarding new B2C customers. The new Goldman Sachs partnership has progressed well, and the bank will become flatex's platinum partner in Germany from November.

International expansion

In June, FTG launched flatex in the Netherlands. The model includes zero fees and flatex generates revenues via a cut from its product and exchange partners. Product partners in the Netherlands are Goldman, BNP and Vontobel. FTG intends to launch its brokerage in other eurozone countries over the next 18 months.

May trading update

flatex added more than 14.5k customers in the first five months of FY19 and transactions were expected to reach record levels in Q2, despite subdued volatility. The FY19 EBITDA margin target was raised from 27% to 29% due to significantly lower than anticipated investment and marketing costs in the Netherlands.

Strategic review

In early July, FTG announced that it has appointed Lazard 'to investigate the group's strategic options regarding the future orientation of the company in order to be able to optimally make use of the significant growth opportunities. Such evaluation will include potential strategic partnerships, a potential sale (wholly or partially) of the company and obtaining potential new investors'.

Valuation: Attractive relative to peer group

The shares trade on 15.6x FY20e consensus earnings. We believe this looks attractive relative to the peer group (see Exhibit 5) given FTG's favourable growth profile along with improving margins.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	107.0	32.1	1.00	0.0	22.4	N/A
12/18	125.1	42.4	1.43	0.0	15.6	N/A
12/19e	143.1	42.1	1.06	0.0	21.1	N/A
12/20e	158.5	N/A	1.43	0.0	15.6	N/A

Source: Company data, Refinitiv

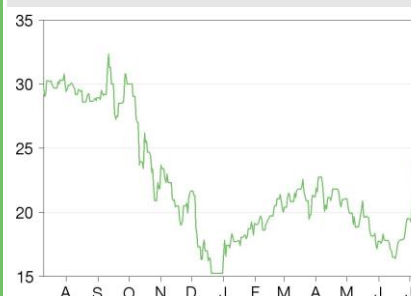
Financial services

11 July 2019

Price €22.35

Market cap €437m

Share price graph



Share details

Code	FTK
Listing	Scale
Shares in issue	19.6m

Business description

FinTech Group is an integrated online brokerage business. It is divided into two business areas: a technology business and a financial services business that includes a bank and a brokerage business.

Bull

- Attractively valued against brokerage peer group in FY2020.
- Favourable regulatory environment within Europe.
- Organic growth opportunities by rolling out the brokerage across new regions in the eurozone.

Bear

- Focused on the German and Austrian markets with limited geographical exposure.
- The company does not pay a dividend as the focus is on investing for growth.
- Low/negative eurozone interest rates make it challenging to generate returns on client money.

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FY18 results

FY18 revenues rose by 17% to €125.1m, while EBITDA jumped by 32% to €42.4m. The number of transactions increased by 11% to 12.5m in FY18, reflecting a 14% increase in the number of clients and a slight decline in transactions per customer. The current top seven product partners are: Morgan Stanley (platinum), Deutsche, Goldman Sachs and UBS (gold); and BNP Paribas, HSBC and Vontobel (silver). The Goldman Sachs partnership has been successful and from November it will replace Morgan Stanley as the new platinum partner, with zero fees for traders. Traders pay €1.90 for products from gold partners and €3.90 from silver partners.

FTG launched flatex in the Netherlands in June, and the process was carried out so efficiently that management was able to increase EBITDA guidance by 200bp in May. The Netherlands model includes zero fees for traders and flatex generates revenues via a cut from its product and exchange partners. flatex's product partners in the Netherlands are Goldman, BNP and Vontobel. FTG intends to launch the brokerage in other eurozone countries over the next 18 months. It plans to drive this growth primarily organically.

The proposed name change to flatex will be put forward at the AGM on 12 August, while the uplisting to Prime Standard has been put on hold due to the strategic review. The company continues to pay no dividend, with the focus on investing for growth

Exhibit 1: Key performance indicators

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Transactions executed (000's)	6,625	5,487	6,023	10,143	10,462	11,272	12,483
Number of retail customers (000's)	118.2	126.1	134.4	176.6	212.0	253.8	290.3
Transactions per customer per year	56.07	43.51	44.81	57.44	49.34	44.41	43.00
Customer assets under management (€m)	2,810	3,527	4,043	5,770	10,855	11,794	10,995
of which: securities account volume	2,272	2,795	3,236	4,784	9,512	10,910	10,000
of which: deposits account volume	538	732	807	986	1,343	884	995

Source: Company accounts

Commission income grew at 10%, which was roughly in line with the number of transactions. Provision of IT services rose by 15%, reflecting the onboarding of new B2B contracts, and interest income increased by 13%, reflecting the growth in the collateralised loan book. The jump in 'Other operating income' reflected c €6m of factoring revenue.

Exhibit 2: Revenue by type

	2016	2017	2018	FY18/FY17 change (%)
Commission income	64,031	77,488	84,861	9.5
Provision of IT services	15,583	16,006	18,462	15.3
Interest income	7,799	10,352	11,733	13.3
Other operating income	7,608	3,168	10,044	217.0
Total	95,021	107,014	125,100	16.9

Source: Company accounts

Both segments – FIN (financial services) and TECH (technology) produced strong growth in FY18. In FY17, the expenses in the holding structure was allocated to 'Other' category but, following the completion of the 'From 5 to 2' strategy, these costs are now allocated to the two segments, and hence the EBITDA of the 'Other' category is zero in FY18.

Exhibit 3: FY18 y-o-y analysis

	2017				2018			
	FIN	TECH	Other	Total	FIN	TECH	Other	Total
Revenues	89,113	30,642	(12,742)	107,013	107,140	39,730	(21,770)	125,100
Raw materials and consumables used	(28,688)	(3,937)	1,640	(30,985)	(44,517)	(5,462)	13,132	(36,847)
Personnel expenses	(15,353)	(2,702)	(5,088)	(23,143)	(17,274)	(9,470)	4,830	(21,914)
Other administrative expenses	(25,206)	(3,050)	7,445	(20,811)	(17,001)	(10,779)	3,808	(23,972)
EBITDA	19,866	20,952	(8,744)	32,075	28,348	14,018	0	42,368
Margins	22.3%	68.4%		30.0%	26.5%	35.3%		33.9%
Depreciation and amortization				(5,590)				(8,180)
EBIT				26,484				34,188
Financial results				(1,288)				(2,179)
EBT				25,196				32,010
Income tax expense				(8,179)				(10,965)
Earnings from continuing activities				17,017				21,044
Earnings from discontinued operations				(220)				0
Consolidated net profit				16,797				21,044

Source: Company accounts

Cash flow and year-end cash and equivalents are subject to volatility due to the group's banking activities. Excluding banking operations, cash flow from operations was €17.5m. The FY18 financing inflow includes the c €35m share placement with Austrian Post and the equity position rose by 48% to €167.2m, to represent 13.6% of total assets, up from 10.2% in FY17.

Exhibit 4: Financial summary

Year ended 31 December	FY14	FY15	FY16	FY17	FY18
€000s	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	17,140	75,024	95,021	107,014	125,100
EBITDA	3,624	19,738	30,624	32,073	42,368
EBITDA margin	21.1%	26.3%	32.2%	30.0%	33.9%
EBIT	3,220	17,239	25,465	26,484	34,188
EPS from continuing operations	(0.58)	0.86	1.21	1.01	1.12
EPS from discontinued operations	0.00	(0.99)	(0.47)	(0.01)	(0.01)
DPS	0.00	0.00	0.00	0.00	0.00
BALANCE SHEET					
Total non-current assets	9,354	64,999	78,889	97,373	132,493
Total current assets	85,927	1,142,067	1,454,647	1,009,677	1,095,245
Assets from discontinued operations	0	1,174	459	383	0
Total assets	95,281	1,208,240	1,533,995	1,107,433	1,227,738
Total non-current liabilities	(36)	(16,324)	(14,808)	(29,392)	(30,395)
Total current liabilities	(45,163)	(1,106,059)	(1,428,557)	(965,317)	(1,030,118)
Total liabilities	(45,199)	(1,122,383)	(1,443,365)	(994,709)	(1,060,513)
Net Assets	50,082	85,857	90,630	112,724	167,225
CASH FLOW					
Cash flow from operations	23,240	(58,705)	(143,956)	112	253,641
Cash flow from investments	(331)	(47,237)	(9,192)	(12,587)	(27,756)
Cash flow from financing	21,838	26,296	1,078	20,273	32,160
Net Cash Flow	44,747	(79,646)	(152,070)	7,799	258,045
Cash & cash equivalent end of year	61,482	541,273	389,202	397,002	655,047

Source: Company accounts

Valuation: Attractive relative to peer group

The shares trade on 15.6x FY20e consensus earnings, which looks attractive relative to peers. In December 2018, Saxo Bank of Denmark announced it was acquiring BinckBank of Belgium for c €424m, reflecting a 35% premium. We estimate that this translates into a FY20 P/E of c 16.5x. We note that BinckBank's growth rate and margins are both significantly lower than FTG's, while its business model potentially carries more risk given BinckBank's large credit exposure to non-brokerage credit business.

Exhibit 5: Peer analysis

	Share price	Market cap	Currency	Revenue			Operating profit		Operating margin		PE (x)	
	local curr	local curr		Year 1	Year 2	Growth	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
FinTech Group	22.35	437	EUR	143.1	158.5	10.8%	33.9	42.2	23.7%	26.6%	21.1	15.6
Global B2C peers												
Avanza	78.5	11,897	SEK	1150.9	1299.6	12.9%	473.0	566.0	41.1%	43.6%	28.3	24.2
Comdirect	9.34	1,320	EUR	347.2	370.1	6.6%	63.8	82.7	18.4%	22.4%	9.9	20.3
Etrade	45.3	11,084	USD	3000.9	3009.2	0.3%	1479.2	1470.0	49.3%	48.9%	10.5	10.4
FinecoBank	10.11	6,161	EUR	663.3	712.9	7.5%	405.6	445.3	61.2%	62.5%	23.2	20.6
Interactive Brokers	53.74	22,237	USD	1957.6	2084.1	6.5%	1221.6	1236.6	62.4%	59.3%	23.0	21.7
Swissquote	40.76	625	CHF	235.8	255.3	8.3%	153.2	166.0	65.0%	65.0%	15.4	12.9
Averages excl FinTech Group						7.0%			49.5%	50.3%	15.6	16.7
European B2B peers												
CREALOGIX	97.8	137	CHF	107.3	115.4	7.5%	-1.0	3.0	(0.9%)	2.6%	58.6	23.5
First Derivatives	2880	767	GBP	245.7	275.6	12.2%	31.7	36.3	12.9%	13.2%	32.4	28.9
GFT	7.55	199	EUR	421.0	435.8	3.5%	21.8	26.6	5.2%	6.1%	13.0	10.4
Gresham Technologies	115.5	79	GBP	24.8	26.1	5.0%	1.1	1.7	4.4%	6.5%	77.7	49.7
Temenos	174.45	12,656	CHF	989.1	1111.9	12.4%	295.8	351.8	29.9%	31.6%	50.6	43.1
Averages excl FinTech Group						8.1%			10.3%	12.0%	31.7	23.1

Source: Refinitiv. Note: Priced as at 9 July 2019.

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