

FinLab

Financials

25 September 2020

Positive catalysts at portfolio holdings

FinLab posted a strong NAV total return in H120 (+9.5%), driven by the solid share price performance of its only listed holding, Heliad Equity Partners (HEP). Moreover, HEP's partial exit from online broker flatex announced in July 2020 increases the likelihood of a higher management fee and potentially a performance fee in 2021 to be charged by Heliad Management, which is fully owned by FinLab. Meanwhile, FinLab's portfolio holding Authada attracted a new investor, Italian-listed TMT company Tinexta.

Heliad's performance drives NAV returns in H120

FinLab posted diluted EPS of €0.47, down from €0.84 in H119. In the period, lower operating expenses (down 8% y-o-y to €1.6m) did not compensate for a 45% y-o-y decline in income from investments to €1.0m (due to lower management fees from Heliad Management, according to the company) and a 33% fall in the financial result to €2.4m (due to lower net write-ups on unlisted investments). That said, the company delivered a solid 9.5% NAV total return in H120, backed by the strong share price performance of its only listed investment, HEP, which represented c 19% of its NAV at end-H120 (as the share price was up 61% in H120).

Major developments at Heliad and Authada

FinLab has recently continued to focus on adding value to its existing fintech investments and expanding its portfolio of blockchain projects through the EOS VC Fund. The most notable developments at its portfolio companies include HEP's partial exit from listed online broker flatex in July 2020 as well as the onboarding of a new investor at Authada announced in September 2020, which received a call option to acquire a 100% stake in the company. Management highlights that the COVID-19 pandemic has created business opportunities for some of its portfolio companies, while it acknowledges that others may need to revise their business models, but it is ready to support them with additional liquidity, if necessary. FinLab had €5.7m in cash at end-H120 (vs €6.8m at end-FY19).

Valuation: Discount to NAV remains considerable

FinLab's NAV per share was €29.70 as of end-June 2020, relative to which the shares are trading at a 34% discount. HEP is trading at a discount of c 38% to its end-June 2020 NAV, with flatex remaining its major investment.

Historical financials

Year end	Total income (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	4.9	14.0	2.98	0.00	6.6	N/A
12/17	4.4	14.5	2.85	0.00	6.9	N/A
12/18	4.7	17.1	3.14	0.00	6.2	N/A
12/19	4.6	4.3	7.33	0.00	2.7	N/A

Source: FinLab accounts

Price €19.55
Market cap €104m

Share price graph



Share details

Code A7A
 Listing Deutsche Börse Scale
 Shares in issue 5.3m
 Last reported net cash as at H120 €5.7m

Business description

FinLab is an incubator and builder of fintech companies based in Germany. It also has holdings in two relatively mature asset management businesses, Heliad and Patriarch, which gives it stable cash flows and a strong balance sheet. In March 2018, FinLab expanded its asset management portfolio with an EOS VC Fund. It has nine fintech investments.

Bull

- Heliad's partial exit from flatex may trigger a performance fee for FinLab.
- Exposure to various fintech segments.
- FinLab may profit from the beneficial positioning of selected fintech companies amid COVID-19.

Bear

- Potential negative impact from COVID-19 on some of its holdings.
- Small free float and low liquidity.
- Fintech investments are inherently high risk and the portfolio is relatively concentrated.

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H120 EPS down, but Heliad assists NAV uplift

In H120, FinLab recorded stable revenues related to services provided to subsidiaries and unlisted holdings at €0.7m, but a c 45% y-o-y decline in income from investments to €1.0m. According to management, the latter was affected by a lower annual management fee from Heliad Management amid lower average equity at HEP in 2019 vs 2018. As a result, total income was €2.1m in H120 vs €2.9m a year earlier. Operating expenses declined 8% y-o-y to €1.6m, supported by lower personnel costs, which more than offset a 32% increase in non-personnel expenses to €0.8m (affected, among others, by higher consulting and audit fees). All the above translated into an EBIT of €0.5m (vs €1.2m in H119).

The financial result reported by the company was €2.4m (vs €3.5m a year earlier) after the company posted a c €4.1m write-up on its unlisted holdings. These compensated for a c €1.9m write-down related to the revaluation of unlisted holdings. Diluted EPS declined to €0.47 in H120 from €0.84 in H119, but this does not capture the increase in the value of FinLab's stake in HEP (following the 61% share price rally in H120). This is recognised directly in equity through the revaluation reserve, which was up €11.1m in H120 vs a €5.2m decline a year earlier.

Exhibit 1: H120 financial highlights

€000s, unless otherwise stated	H120	H119	change y-o-y
Revenue	725	723	0.3%
Income from investments	982	1,770	(44.5%)
Other operating income	413	417	(1.0%)
Total income	2,119	2,910	(27.2%)
Cost of purchased services	(91)	0	N/M
Personnel expenses	(702)	(1,134)	(38.1%)
Non-personnel expenses	(822)	(621)	32.4%
EBIT	505	1,155	(56.3%)
Financial result, of which:	2,371	3,546	(33.1%)
Income from the sale of securities and financial assets	152	274	(44.5%)
Retirement of securities and financial assets	(122)	(126)	(3.2%)
Write-ups and write-downs of securities and financial assets	2,256	3,360	(32.9%)
Interest and similar income	91	57	59.6%
Interest and similar expenses	(6)	(19)	(68.4%)
EBT	2,876	4,701	(38.8%)
Taxes on income	(313)	(101)	N/M
Net result for the period	2,563	4,600	(44.3%)
EPS (€)	0.47	0.84	(44.4%)
Overall result (including change in revaluation reserve)	13,698	(621)	N/M

Source: FinLab accounts

NAV per share increased to €29.70 at end-H120 from €27.12 at end-FY19, which translated into an NAV total return of 9.5% in the period (and 25% pa since FinLab's establishment at end-2014). It is worth noting that the stock market volatility has a limited impact on FinLab's NAV as its only listed investment is HEP (c 19% of its NAV at end-H120), while its unlisted fintech companies are revalued on completion of new financing rounds or exits. FinLab's major investment remains Deposit Solutions (c 46% of its NAV at end-H120 as per our estimates), followed by HEP.

Importantly, post period end HEP announced a partial exit from its largest investment, online broker flatex, which we described in more detail in HEP's September [update note](#). The deal has some potential positive read-through for FinLab as the partial realisation, which generated gross proceeds of c €21.5m, increases the likelihood of a higher management fee and potentially also a performance fee in 2021 to be charged by Heliad Management. We estimate that HEP's realised net earnings from the transaction could reach c €17.9m, which we believe (based on our discussion with management) may trigger a €2.5–3.0m performance fee for Heliad Management (based on the 20% rate). We also note that HEP may distribute some of the proceeds in the form of dividends.

HEP's share price as at 24 September 2020 has remained broadly stable since end-H120 and flatex remains the company's major portfolio holding.

Authada attracts a new investor

FinLab has remained focused on developing its existing holdings and did not make any new direct investments (outside of the EOS VC Fund) in recent months. Meanwhile, the company continues to add new blockchain investments to the EOS VC Fund. We described the major developments at FinLab's portfolio companies and its investments within the EOS VS Fund in our August 2020 [review note](#).

On 22 September 2020, FinLab's portfolio company Authada announced that InfoCert, a subsidiary of Italian listed TMT company [Tinexta Group](#) (also covered by Edison) will acquire a 16.7% stake in Authada as part of a capital increase for a mid-seven-digit euro amount. We understand from management that as part of the transaction FinLab will convert its convertible bonds, but it will not provide additional equity. We note that Authada was valued at €10m based on the last funding round that it completed with FinLab and Main Incubator (a subsidiary of Commerzbank) in August 2018. The above suggests that the new capital increase may result in a positive revaluation of the company.

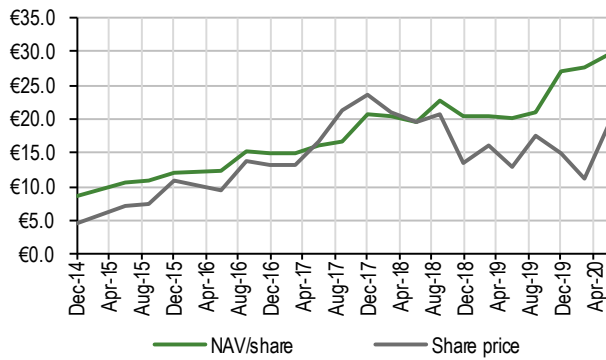
On top of that, we note that InfoCert has been granted a call option to acquire a 100% stake in Authada, which is conditional on Authada's 2021 and 2022 financial results and certain other terms. Hence, this represents a potential exit route from Authada for FinLab. Authada will be Tinexta's first equity investment into the DACH region for its Digital Trust division. As part of the agreement, Authada will distribute InfoCert's digital enterprise solutions in Germany, which InfoCert will integrate with Authada's eID identification solution. FinLab's management will join the new advisory board at Authada, which will also include representatives from Authada and InfoCert.

Even though the majority of FinLab's investments have not been acutely affected by the COVID-19 pandemic so far, management highlights that it cannot be ruled out that business models will have to be adapted, revised or refinanced in the interim amid the broader macroeconomic fallout. That said, FinLab's management underlines that its solid cash position ensures existing investments can (if necessary) be supported with additional liquidity. At end-H120, the company held €5.7m in cash at the holding level (vs €6.8m at end-FY19) and total short-term assets of around €10m. Through the EOS VC fund, the company will continue to invest selectively in blockchain projects in 2020 as well.

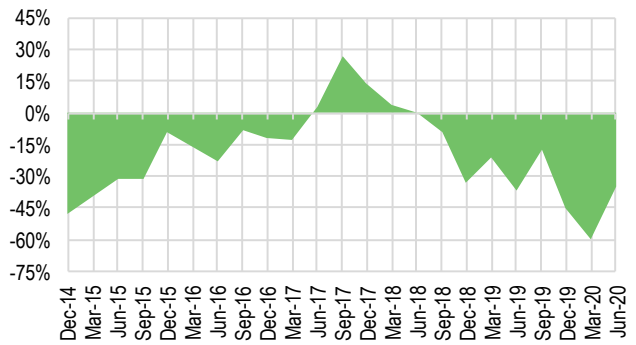
Valuation

FinLab's development is driven by its ability to grow its NAV. Earnings in any given year can be volatile and depend on the timing of revaluations and exits, which are reflected in the income statement on recognition. FinLab's NAV per share was up 9.5% in H120, largely driven by the revaluation of its stake in the listed HEP. FinLab's share price increased c 32% since end-FY19 to 24 September 2020, which means that the company is currently trading at a c 34% discount to its NAV as of end-June 2020.

While it is typical for investment companies to trade at a discount, it is instructive to consider the impact on FinLab's NAV if HEP's assets were reflected in line with HEP's NAV (especially given a large part of its portfolio represents the listed shares in flatex) instead of the stock market pricing of HEP. If the HEP discount was removed, FinLab's NAV (at end-June 2020) would increase to €33.14 per share and the current share price would represent a discount to the last reported NAV of c 41%.

Exhibit 2: FinLab's share price and NAV performance


Source: FinLab, Edison Investment Research

Exhibit 3: FinLab's discount/premium to NAV


Source: FinLab, Edison Investment Research

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