

JDC Group

Large contracts start to materialise

JDC Group's (JDC) efforts to develop its digital platform to provide administrative and sales support and to stimulate its clients' bancassurance business have started to drive earnings. As new contracts are onboarded, JDC should further strengthen its market position and also leverage the broader trend where traditional financial institutions enter into partnerships with fintechs. Prudent cost management and the ability to efficiently scale up the platform are key aspects to track going forward.

Albatros contract now fully on stream

JDC reported 18% y-o-y EBITDA growth in H119 to €2.4m on the back of a full earnings contribution from the Albatros outsourcing contract in the Advisortech segment. The new outsourcing agreement has offset additional personnel and IT expenses due to further expansion of JDC's platform. Meanwhile, its traditional Advisory segment (which now represents only 15% of group sales) reported zero EBITDA (vs a marginal loss of €0.1m in H118). JDC's cash position was €5.5m at end-June 2019 vs €11.8m at end-2018 mostly due to cash paid for the broker pool KOMM and a reduction in the accounts payable balance.

Time to benefit from scaling the platform

JDC's H119 revenues were €52.5m (up 18% y-o-y). Management confirmed its earlier FY19 guidance and still expects revenues of at least €110m (and c 15% y-o-y growth), as well as significantly higher EBITDA. Prospective earnings growth is underpinned by the ramp up in the cooperation with recently won clients (Albatros, Sparda, comdirect, Rheinland Versicherungs and Bavaria Wirtschaftsagentur) and full consolidation of KOMM's results. This may be further strengthened if JDC is able to efficiently manage its expenses related to the digital platform. Further upside comes from potential new contract wins, with a high degree of confidence presented by JDC's management with this respect.

Valuation: Reflecting early days of profitability

Given that JDC is on the eve of breaking even at the net income level, it continues to trade at a sizeable premium to the peer group based on its consensus FY19e P/E of 56.3x (vs the peer average of 16.6x). The ratio declines to 20.7x in FY20e, reflecting solid earnings growth expectations implied by the current consensus. This still translates into a c 43% premium to the peer group in FY20e, which may be warranted if JDC continues to scale up its technological platform.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	84.5	(0.88)	(0.14)	0.0	N/A	N/A
12/18	95.0	(3.0)	(0.35)	0.0	N/A	N/A
12/19e	112.6	2.6	0.10	0.0	56.3	N/A
12/20e	127.8	3.8	0.26	0.0	20.7	N/A

Source: JDC Group, Refinitiv consensus at 29 August 2019

Diversified financials

4 September 2019

Price €5.44
Market cap €71m

Share price graph



Share details

Code A8A
Listing Deutsche Börse Scale
Shares in issue 13.1m
Last reported net debt (€m) at end June 2019 12.0

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. The strategy is to focus on digital advice and administration capabilities to drive organic growth and position the group as market consolidator.

Bull

- Strong position to support digital investment.
- Encouraging new client wins.
- Profitable consolidation opportunities.

Bear

- Short-term profitability affected by investments.
- Low interest rates and regulatory uncertainty impact the insurance industry.
- IFA sector is forecast to shrink.

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H119 results: EBITDA up despite further investments

JDC Group reported a healthy 18% y-o-y increase in EBITDA to €2.4m, despite the additional personnel and IT costs incurred in preparation for the onboarding of large contracts (comdirect and Sparda in particular). This increase was mainly driven by the Advisortech segment which reported EBITDA of €3.1m (vs €2.6m in H118) while the EBITDA margin was c 7.0% (broadly comparable with the 7.1% in H118). We understand that this was largely due to the realisation of the Albatros contract which has been fully onboarded. The contracts with comdirect, Sparda Versicherungsservice and Bavaria Wirtschaftsagentur have not contributed to the H119 results yet. EBITDA in the traditional direct-to-customer business (the Advisory segment) was zero in H119 (vs a slight €0.1m loss in H118).

JDC's sales were up by 18% y-o-y as well, generating €52.5m in H119, with Q219 revenues increasing by 17% y-o-y to €25.7m (only slightly below Q119 despite the second quarter normally being a low season). Advisortech sales were up c 22% y-o-y to €44.4m (and thus made up 85% of the group's top line) while the Advisory segment posted a 6.2% y-o-y increase in sales to €12.9m in H119.

Initial commission at group level increased by 23.2% y-o-y to €34.2m, with similar growth rates in insurance products, investment funds and shares/closed-end funds. Commission income on investment products went up mostly in Q219, which we understand is in part associated with the first-time consolidation of the broker pool KOMM (acquired in April 2019). The ratio of commission expenses to JDC's total revenue, which illustrates the proportion of commission fees paid out to affiliated brokers, increased slightly to 71% in H119 versus 69% in H118. JDC receives a commission on products sold through its platform and rebates the majority of it to the affiliated intermediary that conducted the sale.

In conjunction with the further development of the digital platform, JDC expanded its team – the average headcount on an annual basis was 280 versus 255 a year ago – resulting in a 9.6% y-o-y rise in personnel expenses to €8.4m. This was accompanied by higher IT costs of €1.6m (vs €1.4m in H118). Consequently, JDC's net income was a minor positive €145k (vs a €210k loss in H118).

Exhibit 1: H119 results highlights

€'000s unless otherwise stated	H119	H118	change y-o-y
Total revenue	52,513	44,474	18%
Initial commission	34,204	27,757	23%
Insurance products	25,140	20,219	24%
Investment funds	6,838	5,763	19%
Shares/Closed-end funds	2,226	1,775	25%
Follow-up commission	9,284	8,898	4%
Overrides	3,562	3,665	-3%
Services	1,666	1,076	55%
Fee-based advisory	1,490	1,546	-4%
Other income	2,307	1,532	51%
Capitalised services	488	338	44%
Other operating income	99	169	-41%
Commission expenses	(37,506)	(30,630)	22%
Commission expense as % of revenues	71%	69%	255bp
Personnel expenses	(8,369)	(7,633)	10%
Other operating expenses	(4,858)	(4,704)	3%
EBITDA	2,367	2,014	18%
D&A	(1,586)	(1,361)	17%
EBIT	781	653	20%
PBT	206	70	194%
Net income	145	(210)	N/M
EPS (€)	0.01	(0.02)	N/M

Source: JDC Group, Edison Investment Research

JDC's equity ratio was 40.1% at end-June 2019, up slightly from 39.0% at end-2018. That said, its net debt to equity ratio rose from 18% to 36% due to a reduced cash position which at end-June

2019 was €5.5m (vs €11.8m at end-2018). This was largely consumed by the €3.6m paid for the acquisition of the broker pool KOMM Investment & Anlagevermittlungs (as discussed in our previous [update note](#)). This has been the only transaction so far this year as part of JDC's market consolidation efforts. Other major cash outflows in the period included accounts payable repayments as well as further investments in JDC's digital platform, although the latter was less extensive than in H118 (with cash investments in intangible assets at €1.3m vs €3.9m).

Prospective growth secured by outsourcing contracts

The company reaffirmed its FY19 guidance of sales of at least €110m (implying a growth rate of c 15% y-o-y) and significantly higher EBITDA (the reported figure for FY18 was €1.5m in FY18) despite experiencing some headwinds from the overall economic slowdown which is limiting customer spending on investment and life insurance products. Inflows to German investment funds were up slightly in H119 to €41.9bn from €40.6bn in H118 (according to the German Investment Funds Association), driven predominantly by open-ended special funds. At the same time, retail funds attracted a modest €1.8bn of net inflows in H119 vs c €11.4bn in H118. Gross premiums in the German insurance sector rose by c 2% y-o-y in 2018, with similar growth expected for 2019 by the German Insurance Association (GDV).

JDC's focus going forward will be on signing up new customers, as well as the optimisation of internal processes and cost management, which should translate into improved profitability. Management's half year report suggests that the company is likely to announce new outsourcing contracts for its Advisortech business in the second half of the year. Results in H219 and FY20 should be assisted by the contracts with Sparda Versicherungsservice, RheinLand Versicherungen and comdirect. Moreover, we note that following the successful completion of a pilot project, JDC Group has agreed on a long-term outsourcing cooperation in August 2019 with Bavaria Wirtschaftagentur (a subsidiary of BMW). The contract covers the provision of the administrative and sales support platform and takeover of associated processes. Going forward, JDC's goal is to be an outsourcing partner of choice for handling retail client insurance products on behalf of large and very large financial intermediaries in Central Europe.

Valuation

From a limited number of close domestic peers, we have selected several companies that may be helpful in setting a context for JDC's valuation, although we note that most address somewhat different markets and have different business models. In the independent financial advisors (IFAs) peer group we have included MLP as a direct competitor named by JDC's management. JDC continues to trade at a considerable premium on the basis of FY19e P/E (due to marginal earnings expected this year), declining to c 43% in FY20e, which may reflect market expectations of the ramp up in cooperation with major new clients.

From a valuation perspective, it is instructive to examine the recent change in shareholder structure. In March 2019, JDC announced that Great-West Lifeco Group, a leading financial service provider based in Canada, will become JDC's largest shareholder after acquiring a 28% stake through several purchase agreements with the family offices of JDC's founders, Ralph Konrad and Sebastian Grabmaier. As a result, the founders will hold a c 10% stake in the company and intend to remain on board in the long term. It is important to note, that (as highlighted by the company in its FY18 report) the stake is being acquired at a valuation that is 'significantly above the current market value of JDC Group'.

We also note that JDC launched a share buyback programme in July this year covering up to 5% of the company's share capital. It intends to spend up to €5m between August 2019 and July 2020 on share repurchase.

Exhibit 2: Peer comparison table

	Currency	Market cap (m)	P/E (x)	
			2019e	2020e
Fintech	EUR	522	24.6	19.0
Avanza	SEK	11,946	27.6	23.2
Swissquote	CHF	622	14.8	12.3
BinckBank	EUR	428	20.5	18.4
Interactive brokers	USD	18,886	20.1	18.5
Average online brokers	-	-	21.5	18.3
AFH Financial Group	GBP	126	9.6	8.2
MLP	EUR	491	13.9	13.1
Average IFAs	-	-	11.8	10.7
Overall peer group average	-	-	16.6	14.5
JDC Group AG	EUR	71	56.3	20.7
Premium/(discount) to peer group	-	-	238%	43%

Source: Company data, Refinitiv consensus at 29 August 2019

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