

FinTech Group

Banking JV is abandoned with positive effect

FinTech Group's (FTG's) proposed banking joint venture (JV) with Austrian Post has been abandoned in accordance with the feedback of the relevant regulatory bodies that the approval of a new banking licence might take between one and a half to two years. This supports FTG's near-term earnings and leaves the business focused on its online brokerage activities. Meanwhile, 10-month KPIs indicate the brokerage business continues to perform well, with trades up 16% over the corresponding 10-month period. High-margin OTC products jumped 34% and represent c 25% of the total. In the wake of the recent de-rating, the shares look increasingly attractive on c 11x consensus FY19 earnings.

10-month KPIs: Trades rise 16% to 10.6m

Total brokerage customers rose 16% y-o-y (and 4% over four months) to stand at 285k. FTG estimates the addressable market size in Germany as 1.2–1.5m, growing at 1–2% per year. The 10.6m trades over 10 months indicate there were 4.0m trades over the July to October period, which includes the quiet summer months. The 4.0m translates to annualised c 42 trades per customer compared with over c 48 in H1. Importantly, OTC products (or exchange-traded products, ETPs) jumped 25%. An attractive new ETP product pricing regime took effect from 1 November and FTG will benefit from a full period of the new pricing in FY19.

Banking JV with Austrian Post is abandoned

In September, FTG announced a banking JV with Austrian Post whereby FTG would supply the technology and Post offered its established infrastructure. However, the agreement was dependent on JV receiving a banking licence before January 2020. FTG has now been informed by Austrian regulatory bodies that it would take 1.5–2.0 years to receive a banking licence. The parties could not agree on an alternative plan to passport FTG Banks' German banking licence to the JV in order to start as originally scheduled with effect of 1 July 2019. As the parties have signed only a non-binding term-sheet, FTG was able to walk away without any penalties. The cancellation will support near-term earnings, as management had been forecasting losses from the JV until 2023. In addition, several other B2B projects that had been delayed following the Post deal are now back on track.

Valuation: Attractive relative to peer group

Following the recent de-rating, the shares trade on 10.6x FY19e consensus earnings. We believe this looks attractive relative to its peer group (see Exhibit 1) given FTG's favourable growth profile along with improving margins.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	95.0	30.6	0.73	0.0	25.9	N/A
12/17	107.0	32.1	1.00	0.0	18.2	N/A
12/18e	124.3	44.6	1.42	0.0	12.9	N/A
12/19e	142.1	54.7	1.74	0.0	10.6	N/A

Source: Company data, Thomson Reuters

Financial services

7 December 2018

Price €18.16
Market cap €340m

Share price graph



Share details

Code FTK
Listing Scale
Shares in issue 18.7m

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.
- Favourable regulatory environment within Europe.
- Positioned to benefit from eventual upswing in interest rate cycle.

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.
- The cancellation of the joint venture raises concern over the B2B strategy.

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Valuation: Attractive relative to peer group

The shares trade on 10.6x Thomson Reuters FY19e consensus earnings. This looks attractive relative to peers. FTG shares trade roughly in line with both Binckbank, the Dutch broker that has been struggling, and Swissquote, which has smaller growth and margins. The data for Comdirect, FTG's key competitor in Germany, are distorted by the disposal of ebase.

Exhibit 1: Peer group comparison

		Share price	Market cap			Revenue		Revenue	Operating profit		Operating margin		P/E (x)	P/E (x)
		local curr	local curr	Currency	Year 0	Year 1	Year 2	CAGR	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
FinTech Group	FTKG.DE	18.16	339	EUR	107.0	124.2	143.3	15.7%	37.8	45.3	30.4%	31.6%	12.9	10.6
Global B2C peers														
Avanza	AVANZ.ST	441	13,365	SEK	1243.0	1076.1	1244.3	0.1%	471.5	581.1	43.8%	46.7%	33.0	26.4
Binckbank	BINCK.AS	4.505	303	EUR	148.5	145.6	146.6	(0.6)%	35.6	35.0	24.4%	23.9%	10.2	11.4
Comdirect	CDBG.DE	10.6	1,493	EUR	363.6	328.6	352.1	(1.6)%	53.0	102.0	16.1%	29.0%	13.9	22.6
Etrade	ETFC.O	47.4	12,051	USD	2452.0	2884.2	3080.4	12.1%	1401.7	1467.1	48.6%	47.6%	12.4	11.2
FinecoBank	FBK.MI	9.062	5,499	EUR	582.7	626.3	686.7	8.6%	374.5	429.7	59.8%	62.6%	23.4	19.9
Interactive Brokers	IBKR.K	56.04	23,532	USD	1834.0	1927.7	2180.9	9.0%	1238.3	1484.3	64.2%	68.1%	26.5	21.2
Swissquote	SQN.S	44.35	680	CHF	218.4	226.4	257.4	8.6%	58.1	74.1	25.7%	28.8%	13.1	10.3
Averages excl FinTech Group								5.2%			40.4%	43.8%	16.0	15.4
European B2B peers														
CREALOGIX	CLXN.S	120	167	CHF	87.1	110.2	121.0	17.8%	8.7	12.3	7.9%	10.2%	29.3	19.7
First Derivatives	FRST.L	2100	543	GBP	186.0	215.9	242.6	14.2%	29.3	31.7	13.6%	13.1%	25.9	23.5
GFT	GFTG.DE	7.56	199	EUR	418.8	411.3	430.4	1.4%	24.9	30.5	6.0%	7.1%	10.0	8.9
Gresham Technologies	GHT.L	89.5	61	GBP	21.7	23.3	26.1	9.8%	4.5	5.5	19.3%	21.1%	29.8	19.9
Sopra Steria	SOPR.PA	85.75	1,756	EUR	3845.4	4071.0	4279.3	5.5%	281.8	337.7	6.9%	7.9%	9.7	7.9
Temenos	TEMN.S	119.4	8,442	CHF	735.4	848.2	950.5	13.7%	249.5	296.9	29.4%	31.2%	40.9	34.9
Averages excl FinTech Group								10.4%			13.9%	15.1%	18.0	14.6

Source: Thomson Reuters. Note: Priced at 6 December 2018.

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