

FinLab

Financials

15 September 2017

NAV boosted by revaluation gains

FinLab's results combine relatively stable income from management fees and dividends received from the asset management subsidiaries, Heliad and Patriarch (total income at €1.76m vs €1.88m in H116), and sizeable revaluation gains (Kapilendo, Heliad) of €2.52m (vs -€0.3m in H116). The recent share issue and improved operating cash flow increased the company's net cash position to €4.28m from €0.97m at end-2016. This puts FinLab in a strong position to execute further fintech investments. Following the recent positive share price performance, FinLab's shares trade at an 18.9% premium to last reported NAV.

Bottom line assisted by write-ups

FinLab reported a pre-tax profit of €3.03m in H117, significantly above the H116 figure (€0.50m). This was largely due to positive revaluations on the company's portfolio holdings (€2.52m compared to write-downs of €0.3m in H116), in particular Kapilendo and Heliad Equity Partners. A 33.8% y-o-y increase in income from investments to €0.67m and higher income from the sale of securities and financial assets (up 46.2% y-o-y to €0.73m in H117) also boosted profits. Diluted EPS came in at €0.63 vs €0.09 despite the higher average share count.

Recent capital increase fuels portfolio expansion

In May 2017, the company raised €5.85m issuing 450,000 new shares at a price of €13.00 per share. The proceeds will be used to make further investments in early-stage companies, as FinLab targets a portfolio of seven to 10 fintech investments. In addition to the four investments held at end-2016 (nextmarkets, Deposit Solutions, Kapilendo and Authada), the company recently entered into two, seven-figure euro investments in FastBill, a leading German SaaS tool for small business financial management, and Vaultoro, a real-time bitcoin gold exchange.

Valuation: Shares trading at a premium to NAV

FinLab's NAV at end-June amounted to €16.13, an increase of 7.2% from end-March (€15.04) and a 9.1% rise compared to end-2016 (€14.79). The current share price stands at €19.18, implying an 18.9% premium to the last reported NAV. This may reflect market expectation of continued investments in NAV and earnings-accretive acquisitions. If we assume that the major portfolio holding, Heliad Equity Partners, trades in line with NAV (vs a discount of 26.0% at end-June), the premium is reduced to c 5%.

Historicals financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/13	2.1	(1.2)	(0.27)	0.00	N/A	N/A
12/14	4.8	1.7	0.36	0.00	53.3	N/A
12/15	6.5	7.1	1.44	0.00	13.4	N/A
12/16	4.9	14.0	2.98	0.00	6.4	N/A

Source: Insert source here.

Price €19.18
Market cap €96m

Share price graph



Share details

Code	A7A
Listing	Deutsche Börse Scale
Shares in issue	4.99m
Last reported net cash as at 30 June 2017	€4.3m

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. It currently has four fintech investments.

Bull

- Good cash position may translate into NAV and earnings-enhancing acquisitions.
- Strong balance sheet and stable cash flows.
- Listed exposure to a growing portfolio of fintech companies in Germany.

Bear

- Small free float and low liquidity.
- Fintech investments are inherently high risk and the portfolio is concentrated.
- FinLab may raise capital to fund future investments.

Analysts

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Financials: H117 results released

FinLab reported a considerable increase in pre-tax profit to €3.03m in H117 from €0.50m a year ago. This was largely driven by the write-ups of securities and financial assets of €2.52m (compared with -€0.3m in H116), resulting to some extent from the revaluation of Kapilendo following the capital increase and write-up of the holding in Heliad Equity Partners on the back of the solid share price performance (+18% in H117). Furthermore, the company recorded €0.73m income from the sale of securities and financial assets (up 46.2% y-o-y), with the retirement of securities and financial assets remaining broadly stable (-€0.54m vs -€0.51m in H116).

EBIT declined 57.0% y-o-y to €0.30m in H117, mostly due to a 6.6% decline in total income (€1.76m in H117) and a 23.4% y-o-y rise in operating costs, in particular a 66.7% increase in occupancy costs to €0.29m and higher personnel expenses (up 21.7% y-o-y to €0.85m in H117, largely related to options valuation under the employee stock option plan, ESOP). As a result of lower income tax (c €36,000 vs €99,000 in H116), net income improved to €3.00m from €0.40m in H116, implying a diluted EPS of €0.63 vs €0.09 a year ago. Including the change in the revaluation reserve, overall income went up to €7.6m from €0.6 in H116.

FinLab's net cash position improved to €4.28m from €0.97m at end-2016, mostly on the back of the capital increase completed in May 2017, which provided the company with proceeds of €5.85m. Some of this was already spent on investments (€3.87m vs €1.50m last year). Operating cash flow of €1.10m in H117 (vs €0.22m in H116) further contributed to FinLab's improvement in liquidity.

Exhibit 1: Results highlights

€000s	H117	H116	Change y-o-y (%)
Revenue	760	990	(23.2)
Income from investments	669	500	33.8
Other operating income	326	391	(16.6)
Total income	1,756	1,881	(6.6)
Personnel expenses	(852)	(700)	21.7
Non-personnel expenses	(601)	(477)	26.0
EBIT	303	704	(57.0)
Financial result, of which:	2,728	(203)	N/M
Income from the sale of securities and financial assets	725	496	46.2
Retirement of securities and financial assets	(535)	(509)	5.1
Write-ups and write-downs of securities and financial assets	2,522	(274)	N/M
Interest and similar income	6	84	N/M
EBT	3,031	501	505.0
Taxes on income	(36)	(99)	(63.6)
Net result for the period	2,995	403	643.2
Average no. of shares (diluted)	4,747,022	4,547,891	4.4
EPS (diluted, €)	0.63	0.09	612.0
Overall result (including change in revaluation reserve)	7,561	576	N/M

Source: FinLab accounts

Valuation

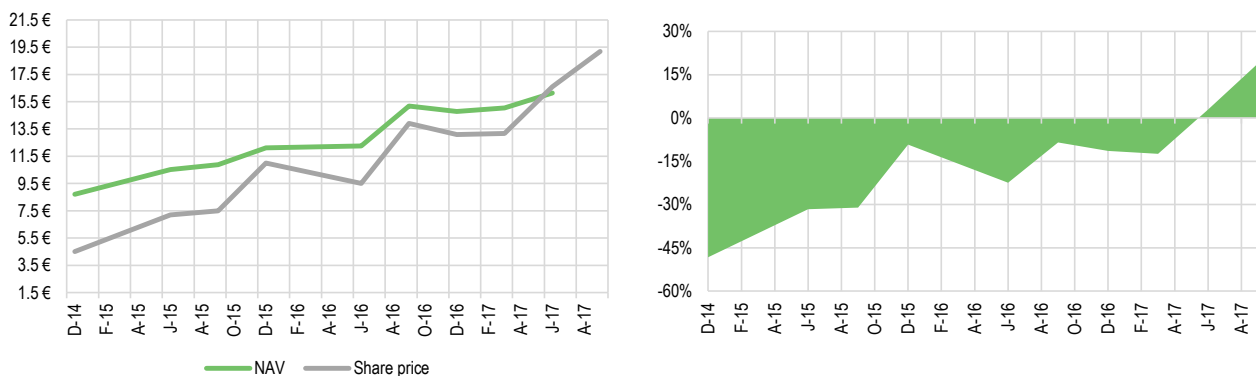
FinLab's growth is driven by its fintech activities and shareholder value should be driven by its ability to grow the NAV over time. Earnings in any given year can be less informative as the timing

of revaluations and exits, which are reflected in the income statement on recognition, can be volatile.

FinLab's NAV has grown rapidly since the company's inception at the end of 2014 to the end of 2016 (see Exhibit 2 below) and the discount to NAV has narrowed sharply from 54% at end 2013 to 11% as at end-2016, suggesting that the change in strategic direction on the creation of FinLab has been well received by investors.

NAV per share as at end-June stood at €16.13, which represents a 7.2% increase from end-March (€15.04) and 9.1% compared to end-2016 (€14.79). The company's share price currently stands at €19.18, which represents an 18.9% premium to last reported NAV. However, 37% of FinLab's NAV at end-June is its holding in Heliad, which was valued at a 26.0% discount to its own NAV (the share price at end-June was €6.75 vs NAV at €9.16). While it is typical for investment companies to trade at a discount, it could be useful to consider the impact on FinLab's NAV if Heliad's assets were reflected at fair value (NAV). If the discount was removed, FinLab's NAV would rise to over €90m, suggesting a premium to NAV of c 5%. Furthermore, end-June NAV does not reflect the recent seven-figure euro investment in Vaultoro and it seems that the market expects FinLab to use its cash pile to make further earnings- and value-accretive acquisitions following the recent capital increase.

Exhibit 2: FinLab's share price and NAV performance



Source: FinLab's corporate website, Edison Investment Research

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