

Flatex

Dutch delight

Flatex (after its online brokerage brand; previously FinTech) reported a 10% y-o-y increase in revenue in H119. Earnings fell 9% y-o-y to €8.6m (ROE 10.8%) but were +5% y-o-y after adjusting for securities write downs. The successful roll-out of online brokerage to the Netherlands contributed to management raising its FY19 EBITDA margin guidance from 29% to 31% in August. Flatex expects to expand into Spain in Q419. Based on consensus, shares trade at a discount to peers on both P/E and EV/EBIT.

H119: Steady progress

Transaction volume declined by 13% as trading in lower margin CFD and FX fell as expected. However, trading in higher margin products, such as ETP, are growing and revenue in the Fin division (which houses the brokerage business) grew 6.5%. The number of clients grew 14% y-o-y. The impact of the introduction of IFRS 16 boosted EBITDA by €1.4m (€19.7m reported, +7% y-o-y), but was earnings neutral because there was a corresponding offset in depreciation and interest expenses.

Good start in the Netherlands, Spain is next

In July, Flatex launched operations in the Netherlands, expanding out of its core markets, Germany and Austria. The objective was 20k customers by the end of the year in the Netherlands, but it secured 10k in just eight weeks as customers were attracted by zero fees (Flatex receives fees from its banking partners), integrated brokerage/banking platform and broad range of trading products. Spain is next and management expects the launch (forecast for Q419) to be even lower cost and more time efficient. It expects to expand into another two to three countries in 2020.

Strategic options being considered

Flatex announced in July that it has hired Lazard to help review its options to take best advantage of growth opportunities. These could include strategic partnerships, a possible partial sale of the company and the acquisition of new investors. This has led to some newspaper speculation, but no decisions have been taken.

Valuation: Discount for premium growth

Flatex is trading on a P/E of 21.9x for FY19 and 17.0x for FY20 on consensus forecasts. Both its FY20 P/E and EV/EBIT ratios are at significant discount to its B2B and B2C peer average. Consensus is expecting a strong H219; we believe the market is probably factoring in a successful international expansion.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	107.0	32.1	1.01	0	24.7	0
12/18	125.1	42.4	1.12	0	22.2	0
12/19e	140.2	44.4	1.14	0	21.9	0
12/20e	158.1	55.1	1.47	0	17.0	0

Source: Company data, Refinitiv

Financial services

30 September 2019

Price €24.9

Market cap €488m

Share price graph



Share details

Code	FTK
Listing	Deutsche Börse Scale
Shares in issue	19.6m

Business description

Flatex (formerly FinTech Group) is an integrated online brokerage business. It covers two areas: technology and financial services, which includes a bank and a brokerage business.

Bull

- Attractively valued against brokerage peer group in FY20.
- Favourable regulatory environment within Europe.
- Opportunities for organic growth 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.

Analyst

Pedro Fonseca +44 (0)20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

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FinTech renamed Flatex

In August 2019 FinTech changed its name to Flatex. Although the name FinTech benefits from some of the positive connotations of the fintech sector, management felt the image typically associated with that sector (start-ups with short trading history and usually still burning cash) was not appropriate and could be confusing. While there is a technology angle to the company, Flatex has been a cash flow generating company for many years and has a significant customer base. Flatex is the well-known brand of the core online broker business and the name also reflects its ('flat') pricing strategy.

International expansion

The successful roll-out of Flatex in the Netherlands that began in June 2019 contributed to management upgrading its FY19 EBITDA margin guidance to 31% in August after previously raising it from 27% to 29%. The attraction of zero fees, broad product range and good customer service has helped it gain market share. The partnership with the banks providing some of the traded products, essentially the exchange-traded products (ETP), allows Flatex to provide trading at zero cost to the customer.

Flatex is preparing to launch in Spain in Q419 with similar price and product strategy. It has earmarked Sweden, Italy and France as expansion targets for 2020.

In Germany and Austria, Flatex already has a very significant market share of nearly 25% in Germany and about 50% in Austria. International expansion therefore makes sense as a growth strategy, particularly given its efficient IT platform and capacity to deliver a low-cost advantage, which will only grow with greater scale. The company has been investing to optimise the platform for different markets, for example it is now available in five languages.

H119 results

Flatex reported H119 earnings of €8.6m, a 9% y-o-y fall. If we adjust the numbers for securities write downs, then earnings would have been +5% y-o-y at €9.5m.

Revenue was up 10% y-o-y, with the Financial (Fin) division growing 6.5% and the Technology (Tech) division growing 7.6%. Consolidation effects and other revenue led to the higher revenue growth numbers. Transaction volume was down 13% y-o-y and there has been a decline in lower margin contract for a difference (CFD, a form of derivative trading) and foreign exchange (FX) products. Management expected this following the agreement in which Commerzbank took over Flatex's CFD order flow execution as market maker. Flatex's revenue growth is being delivered from higher-margin products, especially ETP.

The Tech division did relatively better than Fin on a year-on-year basis, helped by the advanced stage of the development of some of the projects. However, annual comparisons are somewhat difficult due to changes in the allocation of costs between the two divisions. The consolidation effect also knocks off 12% (€8.9m) of the combined revenue of the Fin and Tech groups. As a result, the divisional EBITDA margins shown in Exhibit 1 are understated. Management estimates that the Fin group is operating at a c 35% EBITDA margin and the Tech group at c 20%.

The number of customers continues to grow at a good pace (14% y-o-y), while customer balances grew 6% y-o-y. Earlier this year, the company expected to add 60k customers to the 290k customers it had at the end of 2018. In the first six months it added 23k and with the successful start in the Netherlands, and with Spain expected to launch in Q419, the company looks on track to

deliver its 60k target and may indeed exceed this. The initial goal was 20k clients in the Netherlands in 2019, but 10k were achieved in only eight weeks.

Exhibit 1: Key performance indicators

Business volumes	H116	H216	H117	H217	H118	H218	H119
Transactions executed (000's)	4,976	5,486	5,505	5,767	6,628	5,855	5,792
Number of retail customers (000's)	194	212	235	254	275	290	313
Transactions per customer per year	51.4	51.7	46.9	45.4	48.2	40.3	37.0
Customer assets under management (€m)	9,416	10,855	11,238	11,794	12,120	10,995	12,813
of which: securities account volume	8,367	9,512	10,310	10,910	11,166	10,000	11,869
of which: deposits account volume	1,049	1,343	929	884	954	995	945
Year-on-year (%)							
Transactions executed (000s)			11	5	20	2	-13
Number of retail customers (000s)			21	20	17	14	14
Transactions per customer per year			(9)	(12)	3	(11)	(23)
Customer assets under management (€m)			19	9	8	(7)	6

Source: Company data

Exhibit 2: Income summary with segments

€000s (unless otherwise stated)	H117	H217	H118	H218	H119	H119/8 (y-o-y %)
Fin						
Revenues	41,414	47,699	52,256	54,884	55,667	6.5
Raw materials and consumables used	(12,660)	(16,028)	(14,060)	(30,457)	(24,071)	71.2
Personnel expenses	(7,464)	(7,889)	(8,578)	(8,696)	(4,578)	-46.6
Other administrative expenses	(11,874)	(13,332)	(14,495)	(2,506)	(4,152)	-71.4
EBITDA	9,416	10,450	15,123	13,225	12,594	-16.7
EBITDA (%)	22.7%	21.9%	28.9%	24.1%	22.6%	
Tech						
Revenues	17,844	12,798	16,378	23,352	17,627	7.6
Raw materials and consumables used	(3,315)	(622)	(1,834)	(3,628)	(1,750)	-4.6
Personnel expenses	(6,465)	3,763	(6,205)	(3,265)	(10,116)	63.0
Other administrative expenses	(4,479)	1,429	(5,061)	(5,718)	(8,887)	75.6
EBITDA	3,585	17,367	3,277	10,741	7,147	118.1
EBITDA (%)	8.7%	36.4%	6.3%	19.6%	12.8%	
Other/consolidation effects						
Revenues	(9,696)	(3,046)	(10,136)	(11,634)	(8,945)	
Raw materials and consumables used	1,925	(285)	909	12,223	5,562	
Personnel expenses	2,512	(7,600)	2,554	2,276	2,148	
Other administrative expenses	5,259	2,186	6,673	(2,865)	1,235	
EBITDA	0	(8,745)	0	0	0	
Total						
Revenues	49,562	57,451	58,498	66,602	64,349	10.0
Raw materials and consumables used	(14,050)	(16,935)	(14,985)	(21,862)	(20,259)	35.2
Personnel expenses	(11,417)	(11,726)	(12,229)	(9,685)	(12,546)	2.6
Other administrative expenses	(11,094)	(9,717)	(12,883)	(11,089)	(11,804)	-8.4
EBITDA	13,001	19,073	18,401	23,966	19,740	7.3
EBITDA (%)	26.2%	33.2%	31.5%	36.0%	30.7%	
Depreciation and amortisation	(2,590)	(3,000)	(3,527)	(4,653)	(5,962)	69.0
EBIT	10,411	16,074	14,874	19,313	13,779	-7.4
Financial results	(674)	(614)	(957)	(1,222)	(1,153)	20.5
PBT	9,737	15,460	13,917	18,091	12,625	-9.3
Income tax expense	(2,699)	(5,480)	(4,442)	(6,523)	(4,079)	-8.2
Tax rate	27.7%	35.4%	31.9%	36.1%	32.3%	
Earnings from continuing activities	7,037	9,981	9,474	11,568	8,547	-9.8
Earnings from discontinued operations		(88)	(132)	(94)	94	
Consolidated net profit	6,949	9,849	9,380	11,662	8,547	-8.9

Source: Company data

IFRS 16 impact on numbers

The introduction of IFRS 16 (which governs the accounting of leases) affected Flatex's H119 numbers, but the net impact on earnings was negligible (only €100k). IFRS 16 removes the leasing costs from the operating line and replaces it with depreciation of the capitalised leases (classified as 'right to use' assets and amounting to €8.3m) and financial expenses.

As such, IFRS 16 boosted Flatex's EBITDA by €1.4m in H119. If it were not for IFRS 16, then EBITDA would have been flat y-o-y instead of +7.3% y-o-y. The IFRS 16 boost to EBITDA was offset by €1.2m in additional depreciation and €0.2m in financial expenses. On the balance sheet, the assets were offset by leasing liability with no impact on equity.

The cash flow shown is driven greatly by changes in customer cash deposits in Flatex's banking operations. These are customer cash balances and therefore not a significant indicator of available cash. We have shown the debt position to give a better idea of gearing and we also note that the company disclosed that free liquidity was a comfortable €58m at end of H119.

Exhibit 3: Balance sheet and cash flow

Balance sheet (€000s)	H217	H118	H218	H119
Total non current assets	97,373	102,502	132,493	139,596
Total current assets	1,009,677	1,062,963	1,095,245	1,074,390
Assets from discontinued operations	383	344	0	0
Total assets	1,107,433	1,165,808	1,227,738	1,213,986
Total non-current liabilities	29,392	30,249	30,395	34,140
of which financial	16,040	12,957	9,874	6,790
Total current liabilities	965,317	1,013,738	1,030,118	996,619
of which financial	68,473	72,447	59,478	65,720
Total liabilities	994,709	1,043,987	1,060,513	1,030,759
Equity	112,724	121,821	167,225	183,227
Total financial liabilities	84,513	85,404	69,352	72,510
Cash flow		H118	H218	H119
Cash flow operations - before banking		14,411	3,125	30,765
Cash flow from banking operations		233,291	2,814	-71,035
Cash flow from operations		247,702	5,939	-40,270
Cash flow from investments		(6,562)	(21,194)	(15,165)
Cash flow from financing		(2,018)	34,178	7,666
Net cash flow		239,122	18,923	(47,769)
Cash and cash equivalent beg of year		397,002	(397,002)	655,046
Cash and cash equivalent end of year		636,068	18,979	607,277

Source: Company data

Valuation

Flatex is trading on a consensus P/E of 21.9x for FY19 and 17.0x for FY20. Its FY20 P/E discount is more than 10% versus the average for both B2B and B2C peers. Flatex's EV/EBIT ratios are also below the peer average. This discount seems interesting if consensus forecasts are achieved.

Flatex's consensus forecasts show above average growth in both revenue and earnings, reflecting its healthy balance sheet and good competitive position.

Exhibit 4: Peer analytics

			Shr price	Mtk cap	Rev grwth (y-o-y %)		EBIT margin (%)		P/E (x)		EV/EBIT (x)	
		Curr.	(curr)	(€m)	2019	2020	2019	2020	2019	2020	2019	2020
FTKG.DE	Flatex	EUR	25	487	15.3	12.7	25.4	28.3	21.9	17.0	19.1	15.2
AVANZ.ST	Avanza	SEK	79	1,141	9.2	13.7	41.8	43.0	27.7	23.4	101.6	87.1
CDBG.DE	Comdirect	EUR	12	1,700	6.6	-4.2	30.7	21.4	11.2	29.7	16.2	24.1
ETFC.O	Etrade	USD	44	9,567	1.5	-0.8	48.1	47.3	10.7	10.1	36.8	37.8
FBK.MI	FincoBank	EUR	9	5,699	4.5	4.9	60.3	61.1	22.0	20.5	10.9	10.3
IBKR.K	Interactive brokers	USD	50	19,000	1.2	5.9	62.4	60.1	22.8	21.0	19.7	19.4
SQN.S	Swissquote	CHF	42	590	4.7	9.6	61.2	62.5	15.3	12.7	19.1	17.1
Average B2B ex-Flatex					4.6	4.8	50.8	49.2	18.3	19.5	34.1	32.6
CLXN.S	Crealogix	CHF	96	123	7.5	5.7	2.6	4.5	23.0	17.3	44.1	24.2
FRST.L	First Derivatives	GBP	2,280	690	12.8	10.0	12.7	12.9	26.2	23.6	20.4	18.3
GFTG.DE	GFT	EUR	7	181	1.3	3.4	5.1	6.1	12.4	9.6	14.5	11.7
SOPR.PA	Sopra Steria	USD	112	2,298	8.9	5.3	8.3	9.2	10.6	8.7	8.9	7.6
TEMN.S	Temenos	USD	163	10,910	16.9	12.2	30.9	32.6	46.9	40.1	41.1	34.7
Average B2C ex-Flatex					9.5	7.3	11.9	13.1	23.8	19.8	25.8	19.3

Source: Refinitiv

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia