

## FinTech Group

### Attractively positioned for growth

FinTech Group's (FTG) brokerage business benefited from the jump in volatility in Q1. Volatility has since abated, but the business stands to benefit from a new ETP partnership with Goldman Sachs announced in March. Meanwhile, FTG remains well positioned to benefit from a strengthening German economy and the eventual rise in interest rates. Despite being the fastest-growing major broking business in Europe, the shares continue to trade at a discount to the brokerage sector.

### Investment case: Combining a bank with technology

A key differentiator is that FTG also owns a bank and a software business, which uniquely gives it exposure to the bulk of the value chain. Flatex's >200k customers are among the most active in the market, generating c 47 trades per customer per year. We see upside possibilities from the sale of FTG products to non-FTG clients, and we see the potential for fee increases given the rate per trade has remained unchanged for 11 years. Additionally, FTG is a play on a strengthening economy and subsequent rising interest rate environment as the group stands to benefit from interest income on its extensive customer deposits. With the ECB deposit rate at minus 0.4%, we believe there is more scope for rises than further declines.

### FY18 trading and guidance

FY17 revenues grew by 13% to €107m while net profit surged by 36% to €16.8m. The collateralised credit book grew by 54% to €202m, as interest income jumped by 31% to €10.4m. The group saw a strong start to FY18, with 10k B2C clients added in Q1 (up 5% since December) and processed 3.7m settled transactions (up 31% over Q117). This implies that trades per customer were 56 on an annualised basis in Q1. The trading volumes were boosted by the spike in volatility in February. Management reiterated its revenue guidance of €120m, EBITDA of €40m and a net profit of €24m. FinTech is planning to shift its listing to the Prime Standard later this year.

### Valuation: Attractive relative to peer group

The shares trade on 15.9x FY19e consensus earnings. We continue to believe this rating looks very attractive relative to its peer group (see page 4), given FTG's favourable growth profile and 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     | 40.8    | N/A       |
| 12/17    | 107.0        | 32.1        | 1.00    | 0.0     | 29.8    | N/A       |
| 12/18e   | 125.0        | 45.7        | 1.49    | 0.0     | 19.9    | N/A       |
| 12/19e   | 143.8        | 56.3        | 1.87    | 0.0     | 15.9    | N/A       |

Source: Bloomberg

#### Financial services

23 July 2018

Price €29.75  
Market cap €521m

#### Share price graph



#### Share details

Code FTK  
Listing Scale  
Shares in issue 17.5m

#### Business description

FinTech Group (FTG) 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 market with limited geographical exposure.
- The company does not pay a dividend as the focus is on investing for growth.
- Complex group structure, which is being amended.

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## Strong momentum continued in Q118

FY17 revenues grew by c 13% to €107m while net profit surged by c 36% to €16.8m. The collateralised credit book grew by 54% to €202m and interest income jumped by 31% to €10.4m. The group saw a strong start to FY18, with 10k B2C clients added in Q1 (up 5% since December) and it settled 3.7m transactions (up 31% over Q117). This implies that the annualised number of trades per client jumped to c 56 in Q1, having fallen in FY17 due to historically low volatility last year. The jump in Q1 activity was driven by the spike in global stock market volatility in February.

In December 2017, Morgan Stanley, which has a strategic partnership with FinTech Group, acquired a 4% stake in FinTech Group, through the issue of 700k new shares for €18.2m in cash (€25.94 per share). This helped to boost the group's equity ratio, which jumped to 10.2% at end-December from 5.9% a year earlier. The decline in customers' cash and deposits also boosted this ratio, with the decline due to FTG passing on the 0.4% negative interest rate to customers.

In March the supervisory board extended the CEO Frank Niehage's contract to 2022. The company is holding its AGM on 7 August and it is scheduled to report its interim results on 30 September.

### Exhibit 1: Key performance indicators

|                                       | FY12  | FY13  | FY14  | FY15   | FY16   | FY17   | Q118  |
|---------------------------------------|-------|-------|-------|--------|--------|--------|-------|
| Transactions executed (000's)         | 6,625 | 5,487 | 6,023 | 10,143 | 10,462 | 11,272 | 3,700 |
| Number of retail customers (000's)    | 118.2 | 126.1 | 134.4 | 176.6  | 212.0  | 253.8  | 264   |
| Transactions per customer per year    | 56.07 | 43.51 | 44.81 | 57.44  | 49.34  | 44.41  | 56    |
| Customer assets under management (€m) | 2,810 | 3,527 | 4,043 | 5,770  | 10,855 | 11,794 |       |
| of which: securities account volume   | 2,272 | 2,795 | 3,236 | 4,784  | 9,512  | 10,910 |       |
| of which: deposits account volume     | 538   | 732   | 807   | 986    | 1,343  | 884    |       |

Source: FinTech Group

The FY17 growth was driven by the core broking activities, with commission income rising 21%, as well as the credit book with interest income jumping by nearly a third.

### Exhibit 2: Revenue by type

| €'000                    | 2016          | 2017           | Change (%)  |
|--------------------------|---------------|----------------|-------------|
| Commission income        | 64,031        | 77,488         | 21.0        |
| Provision of IT services | 15,583        | 16,006         | 2.7         |
| Interest income          | 7,799         | 10,352         | 32.7        |
| Other operating income   | 7,608         | 3,168          | (58.4)      |
| <b>Total</b>             | <b>95,021</b> | <b>107,014</b> | <b>12.6</b> |

Source: FinTech Group

## B2C activities

In 2017, FTG significantly expanded its market share in Germany with flatex, and assumed the position of market leader in Austria with around 25,000 flatex.at customers. Flatex plans to build on its strategic partnership with Morgan Stanley aims to expand brokerage market share further in Germany. Plans are also in place to expand the brokerage business across Western Europe.

The credit book jumped by 49% over the year to c €202m. This primarily reflects the growth in the margin trading activity. FinTech Bank offers loans at a 4.9% interest rate on collateral, up to a maximum 25% LTV of the value of shares held by the customer.

**ETP partnership with Goldman Sachs.** In March, FTG announced a partnership with Goldman Sachs, with Goldman becoming a preferred ETP (Exchange Traded Products) partner at flatex. From 15 March, Goldman's extensive product range has been available for flatex customers at a flat fee of €1.90, for order values of at least €1,000. This deal helps to expand flatex's market leadership in trading certificates and warrants.

## B2B activities

The group offers technology it uses within its brokerage and banking businesses to other businesses on a white labelled basis. There is a targeted contract lifetime of five to seven years with a contract lifetime value of €5-10m. Around 10% of the contract value is in set-up fees with the balance of 90% in recurring revenues. The group acquired two major new B2B projects in FY17, and FTG now has more than 30 B2B clients.

A key driver remains cost pressure, with return on equity c 4% for German banks compared with 8-10% globally. This puts pressure on banks to reduce costs and hence to outsource inefficient back office structures and processes. We note that IT is the second biggest cost for banks. A focus is to target FTG:CBS (core banking system) as the standard platform for private and specialised banks

The former 'Securities Trading & Financial Services' segment has been expanded to include FinTech Group Bank and renamed 'Financials Services' (FIN). The FIN segment thus includes the products in B2C online brokerage, B2B white-label banking, as well as electronic securities settlements, securities custody and other banking services.

The 'Technologies' (TECH) segment includes all IT services: among other things it develops and operates the group's core banking system FTG:CBS. In addition, this segment includes research and development activities.

| Exhibit 3: FY17 y-o-y analysis        |          |         |          |          |          |         |          |          |
|---------------------------------------|----------|---------|----------|----------|----------|---------|----------|----------|
| €'000                                 | 2016     |         |          |          | 2017     |         |          |          |
|                                       | FIN      | TECH    | Other    | Total    | FIN      | TECH    | Other    | Total    |
| Revenues                              | 73,394   | 33,733  | (12,106) | 95,021   | 89,113   | 30,642  | (12,742) | 107,013  |
| Raw materials and consumables used    | (22,202) | (6,766) | 3,487    | (25,481) | (28,688) | (3,937) | 1,640    | (30,985) |
| Personnel expenses                    | (10,390) | (5,803) | (3,297)  | (19,490) | (15,353) | (2,702) | (5,088)  | (23,143) |
| Other administrative expenses         | (22,781) | (3,974) | 7,329    | (19,426) | (25,206) | (3,050) | 7,445    | (20,811) |
| EBITDA                                | 18,021   | 17,189  | (4,587)  | 30,624   | 19,866   | 20,952  | (8,744)  | 32,075   |
| Margins                               | 24.6%    | 51.0%   |          | 32.2%    | 22.3%    | 68.4%   |          | 30.0%    |
| Depreciation and amortization         |          |         |          | (5,159)  |          |         |          | (5,590)  |
| EBIT                                  |          |         |          | 25,465   |          |         |          | 26,484   |
| Financial results                     |          |         |          | (1,226)  |          |         |          | (1,288)  |
| EBT                                   |          |         |          | 24,239   |          |         |          | 25,196   |
| Income tax expense                    |          |         |          | (3,956)  |          |         |          | (8,179)  |
| Earnings from continuing activities   |          |         |          | 20,283   |          |         |          | 17,017   |
| Earnings from discontinued operations |          |         |          | (7,967)  |          |         |          | (220)    |
| Consolidated net profit               |          |         |          | 12,316   |          |         |          | 16,797   |

Source: FinTech Group

## Research & development (R&D)

FTG spent €10.0m on R&D in FY17, up from €6.6m in FY16, of which €7.9m was capitalised and €2.1m was expensed. The increase related to several B2B projects the group is working on.

| Exhibit 4: Research & development |             |             |             |
|-----------------------------------|-------------|-------------|-------------|
| €'000                             | 2016        | 2017        | Change (%)  |
| Development                       | 4679        | 7889        | 68.6        |
| Research                          | 1949        | 2086        | 7.0         |
| <b>R&amp;D total</b>              | <b>6628</b> | <b>9975</b> | <b>50.5</b> |
| % sales                           | 7.0%        | 9.3%        |             |
| R&D capitalised                   | 5304        | 7889        | 48.7        |
| R&D expensed                      | 1324        | 2086        | 57.6        |
| R&D amortised                     | 2122        | 2192        | 3.3         |
| Net capitalised                   | 3182        | 5697        | 79.0        |

Source: FinTech Group accounts

## Valuation: Attractive relative to peer group

The shares trade on 15.9x FY19e Bloomberg consensus earnings. This looks very attractive relative to peers; of its main European quoted peers, only Binckbank trades on a lower rating, but has been struggling, with weaker margins and a slower growth profile. Meanwhile, Avanza trades at a significant premium despite missing Q2 numbers.

### Exhibit 5: Peer group comparison

|                                   | Share price  | Market cap | Curr       | Revenue (local currency m's) |              |              |              | Operating profit (local curr m's) |             | Operating margin (%) |              | PE (x)      |             |
|-----------------------------------|--------------|------------|------------|------------------------------|--------------|--------------|--------------|-----------------------------------|-------------|----------------------|--------------|-------------|-------------|
|                                   |              |            |            | local curr                   | local curr   | Year 0       | Year 1       | Year 2                            | CAGR        | Year 1               | Year 2       | Year 1      | Year 2      |
| <b>FinTech Group</b>              | <b>29.75</b> | <b>521</b> | <b>EUR</b> | <b>107.0</b>                 | <b>125.0</b> | <b>143.8</b> | <b>15.9%</b> | <b>39.3</b>                       | <b>48.6</b> | <b>31.4%</b>         | <b>33.8%</b> | <b>19.9</b> | <b>15.9</b> |
| Global B2C peers                  |              |            |            |                              |              |              |              |                                   |             |                      |              |             |             |
| Avanza                            | 390.4        | 11,711     | SEK        | 965.0                        | 1049.6       | 1187.6       | 10.9%        | 437.0                             | 540.0       | 41.6%                | 45.5%        | 30.3        | 25.5        |
| Binckbank                         | 4.82         | 325        | EUR        | 149.0                        | 144.5        | 148.0        | (0.3)%       | 33.0                              | 35.2        | 22.8%                | 23.8%        | 12.1        | 12.3        |
| Etrade                            | 63.13        | 16,661     | USD        | 2359.1                       | 2881.7       | 3113.9       | 14.9%        | 1340.7                            | 1478.7      | 46.5%                | 47.5%        | 17.6        | 15.5        |
| FinecoBank                        | 10.28        | 6,254      | EUR        | 580.2                        | 636.6        | 701.6        | 10.0%        | 388.3                             | 440.5       | 61.0%                | 62.8%        | 25.5        | 21.7        |
| Interactive Brokers *             | 65.34        | 26,901     | USD        | 1609.6                       | 1915.0       | 2231.2       | 17.7%        | *1723.0                           | *1987.0     | *90.0%               | *89.1%       | 30.4        | 25.7        |
| Swissquote                        | 56.5         | 866        | CHF        | 187.5                        | 202.0        | 227.5        | 10.2%        | 108.8                             | 118.4       | 53.9%                | 52.1%        | 17.9        | 16.2        |
| <b>Medians excl FinTech Group</b> |              |            |            |                              |              |              | <b>10.5%</b> |                                   |             | <b>50.2%</b>         | <b>49.8%</b> | <b>21.7</b> | <b>18.9</b> |
| European B2B peers                |              |            |            |                              |              |              |              |                                   |             |                      |              |             |             |
| CREALOGIX                         | 150          | 208        | CHF        | 71.6                         | 88.1         | 102.0        | 19.4%        | 10.5                              | 15.0        | 11.9%                | 14.7%        | 26.2        | 19.7        |
| First Derivatives                 | 4020         | 1,040      | GBP        | 179.6                        | 212.7        | 239.0        | 15.4%        | 25.0                              | 27.9        | 11.7%                | 11.7%        | 50.0        | 45.0        |
| GFT                               | 13.45        | 354        | EUR        | 414.7                        | 416.4        | 448.4        | 4.0%         | 27.8                              | 32.1        | 6.7%                 | 7.2%         | 17.8        | 13.9        |
| Gresham Technologies              | 156.5        | 106        | GBP        | 21.7                         | 23.4         | 25.0         | 7.4%         | 4.2                               | 5.1         | 17.8%                | 20.4%        | 24.8        | 21.7        |
| Sopra Steria                      | 174.7        | 3,590      | EUR        | 3823.8                       | 4056.6       | 4248.4       | 5.4%         | 299.0                             | 339.5       | 7.4%                 | 8.0%         | 16.1        | 14.0        |
| Temenos                           | 150          | 10,627     | CHF        | 728.8                        | 843.8        | 948.8        | 14.1%        | 242.3                             | 288.6       | 28.7%                | 30.4%        | 50.5        | 42.8        |
| <b>Medians excl FinTech Group</b> |              |            |            |                              |              |              | <b>10.7%</b> |                                   |             | <b>11.8%</b>         | <b>13.2%</b> | <b>25.5</b> | <b>20.7</b> |

Source: Bloomberg. Note: \*EBITDA and EBITDA margins are shown in place of operating profits/margins. Priced at 19 July 2018.

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