EDISON

Scale research report - Update

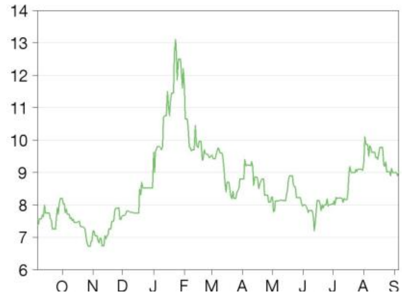
JDC Group

Diversified financials

6 September 2018

Price	€8.96
Market cap	€118m

Share price graph



Share details

Code	A8A
Listing	Deutsche Börse Scale
Shares in issue	13.1m
Last reported net debt as at 30 June 2018	€15.2m

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 and recently acquired comparison website GELD.de. Digital advice and administration capabilities are a focus of the strategy to drive organic growth and position the group as a consolidator.

Bull

- Group refocused on core strategy.
- Strong position to support digital investment.
- Profitable consolidation opportunities.

Bear

- IFA sector forecast to shrink.
- Low interest rates have discouraged customer savings. Insurance market mature.
- Increased regulatory burden.

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com

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Back on track after a weaker Q417

JDC continued to improve its financial results in H118 (commission income was up 10% y-o-y), building on its strong market presence and ongoing digitalisation programme. The results put JDC on track to reach break-even at the net income level in FY18 (in line with current Bloomberg consensus). Further investments in new technologies (eg B-LAB) along with potential M&A activity should help strengthen its position as one of the market leaders. JDC's shares currently trade on a FY18 consensus P/E of c 56x, a premium of >100% to the peer group, although this premium diminishes over subsequent years.

H118 results: JDC regained momentum

JDC reduced its net loss to €0.2m in H118 vs €0.6m in H117. This was in part due to an increase in commission income (up 10% y-o-y to €44.5m in H118) that allowed the company to realise a positive operating leverage effect and improve EBITDA by 17.6% y-o-y to €2.0m. The company achieved c 44% and 34% of its FY18 revenue (€100m) and EBITDA (€6m) guidance, respectively. Importantly, management expects the contribution from the Albatros agreement to be at least twice as high in H218 as in H118 (and overall sales of €20m in FY18).

Blockchain and further acquisitions on the agenda

Despite the postponed initial coin offering (ICO) of the JDC Blocx token (initially planned for the end of Q218), JDC continues to move towards the introduction of blockchain technology to reduce transaction costs and turnaround time and improve security. The newly created Blockchain-Lab will serve as an investment vehicle in the ICO, which is now expected in Q418. The successful implementation of the token in the allesmeins platform would transform it into a full cryptowallet. JDC also plans to benefit from sector consolidation through the acquisition of new insurance portfolios and small- or medium-sized insurance agencies.

Valuation: Premium to peers declines over time

JDC is currently trading at a considerable premium (>100%) to the peer group on 2018 consensus P/E. As the market expects JDC to reach break-even at the net income level this year, the relatively low earnings translate into a high P/E ratio of c 56x. However, the premium diminishes over subsequent years, reflecting JDC's superior growth prospects (vs peers) based on consensus numbers.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	78.1	(0.70)	(0.10)	0.0	N/A	0.0
12/17	84.5	(0.88)	(0.14)	0.0	N/A	0.0
12/18e	102.0	2.20	0.16	0.0	56.0	0.0
12/19e	115.0	4.00	0.28	0.0	32.0	0.0

Source: JDC accounts, Bloomberg consensus as at 6 September 2018. Note: Consensus is based on a one estimate only (Montega) and does not reflect the recent share issuance.

Financials: H118 results driven by initial fees

JDC regained last year's momentum in the first half of FY18 (following the slowdown in Q417) reporting robust results driven by the 10.3% y-o-y increase in total commission income to €44.5m. Initial charges remained the key commission income source (62.4% of total commission income in H118 vs 59.5% last year), in large part due to the 34.8% improvement in insurance products to 20.2m (72.8% of initial fees vs 62.4% in H117). This change in mix reflects JDC's decision to focus on the insurance business. Initial commissions from investment funds declined 21.3% y-o-y (despite net inflows of €51bn into the German fund industry in H118) and as a result its share in JDC's total initial commission dropped from 30.5% to 20.8% in H118. Follow-up commission, which dropped 7.4% y-o-y to €8.9m, constituted another 20% of total commission income.

The return to growth resulted in a proportionate increase in commission expense, which rose by 11.0% y-o-y to reach €30.6m in H118. As a result, the commission expense to income ratio remained broadly stable at c 69% y-o-y. Thanks to lower D&A and other operating costs, total operating expense increased by only 8.3% y-o-y, resulting in a considerable EBIT improvement to €653k – quadrupling vs the modest €159k achieved in H117. Even though the company managed to report positive EBT of €70k (compared with a loss of €338k in H117) the net result for the period was still a loss at €210k.

Exhibit 1: H118 results highlights

in € '000	H118	H117	y-o-y
Initial commission	27,757	24,013	15.6%
Insurance products	20,219	14,996	34.8%
Investment funds	5,763	7,325	-21.3%
Shares/Closed-end funds	1,775	1,692	4.9%
Follow-up commission	8,898	9,605	-7.4%
Overrides	3,665	3,117	17.6%
Services	1,076	159	576.7%
Fee-based advisory	1,546	1,637	-5.6%
Other income	1,532	1,796	-14.7%
Total commission income	44,474	40,327	10.3%
Other operating income	507	758	-33.1%
Total Operating income	44,981	41,085	9.5%
Total operating expenses	(44,328)	(40,926)	8.3%
EBITDA	2,014	1,712	17.6%
EBIT	653	159	310.7%
EBT	70	(338)	-120.7%
Net profit for the period	(210)	(582)	-63.9%

Source: JDC accounts

We note that momentum slowed in Q218 compared with Q118, with total commission income increasing by 7.2% y-o-y compared with 12.1% y-o-y, respectively. However, Q2 is normally considered a low season in the broker business and the sequential decline was a modest 2.0%. Still, the sustainability of the recently regained momentum needs to be monitored, as the financial services market is still affected by ongoing uncertainty, volatility and the low interest rate environment.

Segmental analysis

The company operates in the Advisortech and Advisory segments, with the former generating c 81% of total commission income in H118 (broadly in line with H117). Commission income grew in both segments in H118, with Advisortech posting a 10% y-o-y increase and Advisory's income improving by 2.5% y-o-y. The segments differ both in size of operation and profitability, as the Advisortech segment recorded positive EBITDA of €2.6m (up 32.7% y-o-y) and net profit of €0.6m (up from a negligible number in H117), while EBITDA within the Advisory business was modest (€0.1m) and net loss was €0.3m. The Advisortech results benefited from the successful initiation of an outsourcing agreement with Albatros (Lufthansa subsidiary).

Exhibit 2: H118 segmental details

	Advisortech			Advisory		
€000s	**H118**	**H117**	**% change**	**H118**	**H117**	**% change**
Commission income	36,450	33,141	10.0%	12,110	11,809	2.5%
of which with other segments	607	678	-10.5%	3,479	3,693	-5.8%
Other income	443	338	31.1%	64	68	-5.9%
Segment expenses	(35,439)	(32,849)	7.9%	(12,291)	(11,771)	4.4%
EBITDA	2,563	1,931	32.7%	128	349	-63.3%
EBIT	1,454	630	130.8%	(117)	106	-210.4%
Segment EBT	969	278	248.6%	(395)	(172)	129.7%
Segment Net profit	636	46	1282.6%	(341)	(184)	85.3%

Source: JDC accounts

Outlook

While the company reported H118 sales and EBITDA representing 44.5% and 33.6% of FY18 guidance respectively, management maintained its expectations of reaching €100m in revenues and €6m in EBITDA. Management anticipates outsourcing to at least double its contribution to sales in H218 vs H118, with FY18 expectations for the Albatros contract in FY18 of up to €20m. The company, through its transaction platform, targets new key accounts that could boost revenue and business profitability by the year end. JDC plans to benefit from the ongoing sector consolidation through the acquisition of insurance portfolios as well as small and medium-sized insurance agencies.

Further digitalisation opens new opportunities

JDC continues to digitalise its operations. The process started with the introduction of a digital platform 'allesmeins' and the acquisition of the online comparison platform, Geld.de. In January 2018, the company opened Blockchain Lab (B-lab) to investigate the potential benefits of introducing blockchain technology. Possible gains include the reduction or elimination of transaction costs, shorter transaction times and increased security driven by the high cryptographic standards deployed.

JDC plans to deploy its own loyalty token as incentive for independent financial advisors (IFAs) and customers leveraging data insights from its platform. In order to build a proper regulatory setup as well as preferred partnership with Bank Frick in Liechtenstein, the ICO was postponed until Q418. Prototyping and partnerships will result in allesmeins becoming a full cryptowallet with the opportunity of cold storage for cryptocurrencies by the end of Q119 (vs Q418 according to the original roadmap). JDC's wide grown digital insurance platform should also help to attract German banks looking for a full service provider executing the 'bancassurance' model generating revenues from banking and insurance products with the same customer at a time.

Private share issue for the third major shareholder

In March 2018 JDC announced that Hallmann Holding International Investment, owned by the supervisory board member, Klemens Hallmann, intended to substantially increase its 9.14% stake in JDC. This would result in Mr Hallmann becoming the third major shareholder after the CEO Dr Sebastian Grabmaier and CFO Ralph Konrad, who each owned a c 21% stake prior to the announcement. The capital increase was completed on 23 August 2018, when a private placement was executed with 1,193,490 new shares issued at a price of €8.7 per share, a 6.7% discount to the closing share price that day (€9.32). The proceeds from the offering amounted to €10.4m and the post-issue share capital of the company increased to 13.1m shares, of which c 12% are now owned by Hallmann Holding.

Valuation

From a limited number of close domestic peers we have selected several companies that may be helpful in setting a context for the JDC valuation although most address somewhat different markets and have different business models. Compared with our previous reports we have removed banks from the analysis as we consider their traditional activities even more distant from JDC's operations which are becoming more dependent on new technologies. In the independent financial advisors (IFAs) peer group we have added MLP to the analysis as a direct competitor named by the management. JDC is currently trading at a considerable premium of >100% to the peer group on 2018e P/E. However, the premium diminishes over subsequent years, reflecting JDC's superior growth prospects (vs peers) based on consensus numbers.

Exhibit 3: Peer group comparison

	Currency	Market cap	P/E (x)		
COMPANY'S NAME		(m)	2018e	2019e	2020e
Fintech	EUR	511.3	19.4	15.7	14.1
Avanza	SEK	12,742.4	33.0	27.8	23.5
Swissquote	CHF	1,071.4	21.2	17.8	16.7
BinckBank	EUR	364.5	12.0	13.4	11.7
Interactive Brokers	USD	25,384.0	28.1	24.2	21.0
Average online brokers			**22.7**	**19.8**	**17.4**
Lighthouse	GBP	40.6	19.9	17.7	15.1
AFH	GBP	153.2	20.6	14.3	13.6
MLP AG	EUR	599.2	17.1	15.4	14.1
Average IFAs			**19.2**	**15.8**	**14.3**
Overall peer group average			**21.4**	**18.3**	**16.2**
JDC Group AG	EUR	117.6	56.0	32.0	22.4
Discount to peers			**161.7%**	**75.0%**	**37.9%**

Source: Bloomberg consensus estimates as at 6 September 2018. Note: JDC's consensus estimates are based on forecasts from a single broker (Montega) and do not reflect the recent share issue.

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