EDISON **Scale research report - Update**

MyBucks

Financials

15 November 2018

Building mass while improving efficiency

MyBucks (MBC) continues to expand its lending business organically, leveraging the acquisitions of banks from Opportunity International (in particular those operating in Mozambique and Uganda) completed in H117. At the same time, it introduced several measures to optimise its funding structure and reduce the cost of debt. MBC aims to move towards break-even at net income level through expanding its product offering, entering new regional markets, further technological innovations, as well as continued focus on operating and funding cost reductions.

Solid growth and improving quality of loan book

MBC's loan book increased by 25.1% y-o-y to €85.7m in FY18 assisted by all segments, in particular individual and SME lending (as banking income is still a minor contributor and insurance revenues grew by c 6.5% y-o-y). At the same time, loan impairment charges declined by 3.0% y-o-y (despite the spike in South Africa), and compared to revenues stood at 19% (vs 22% in FY17). The company was able to improve the quality of its portfolio with provisions to gross book ratio standing at 10.9% in FY18 vs 20.2% last year. Amid the lack of recognized restructuring expenses (FY17: €0.7m), operating profit rose 26.6% y-o-y to €14.4m in FY18.

Gearing and cost of debt optimisation underway

The company retains its focus on optimising its funding sources. Proceeds from the private placement conducted in February 2018 were used to reduce the cost of debt from 21% to 15% pa (which will be fully reflected in the FY19 results). Although MBC's gearing ratio remained stable at 84% vs last year, its debt structure has altered. MBC reduced its exposure to loans from related parties that had a relatively high interest rate, while increasing the reliance on operational-level bonds and local bank facilities. It has also grown its customer deposit base to €20.6m from €11.5m.

Valuation: Reflecting early stage of the business

The company is yet to reach break-even at the net income level and there is no consensus available at the moment. MBC's shares trade at a last 12-month (LTM) EV/Sales ratio of 3.6x, implying a 8% premium to peers. MBC's LTM EV/EBITDA stands at 12.1x vs 6.4x for Ferratum (one of its closest peers), which is common for growth stocks.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (€)	P/E (x)	Yield (%)
06/15	31.3	5.7	33.42	0.0	21.7	N/A
06/16	38.9	0.9	(6.45)	0.0	N/A	N/A
06/17	55.8	(7.2)	(1.10)*	0.0	N/A	N/A
06/18	61.3	(4.6)	(0.83)*	0.0	N/A	N/A

Source: MyBucks accounts. Note: *From continuing operations.

Price	**€7.25**
Market cap	**€92m**

Share price graph

Share details

Code	MBC
Listing	Deutsche Börse Scale
Shares in issue	12.7m
Last reported net debt at 30 June 2018	€127.6m

Business description

MyBucks is a Luxembourg fintech company listed in Frankfurt. It provides unsecured loans, banking solutions and insurance to customers and SMEs in 11 African countries, Europe and Australia. It uses AI technology to assess creditworthiness and is fully integrated with local banking systems.

Bull

- Large target market, with mobile and internet penetration well ahead of traditional banking.
- Well-capitalised, and with new and pending banking licences.
- Proprietary AI and integration with local government and banking systems.

Bear

- Sub-Saharan Africa is arguably at higher risk from financial and political shocks than more developed markets.
- Competition from traditional microfinance institutes and banks.
- Regulatory risks related to cryptocurrencies and their usage.

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Financials: Loan book expansion with improved quality

MBC was able to increase its loan book by 25.1% y-o-y to €85.7m in FY18 (ending June 2018), which translated into a 9.9% y-o-y increase in the company's revenues to €61.3m. This was driven in particular by organic sales growth in the individual and SME lending segments (up by 7.5% y-o-y to €55.5m and 158.9% y-o-y to €1.8m, respectively).

The largest top-line contribution came from South Africa, where revenues increased by 34% y-o-y to €13.3m. Mozambique operations (established in July 2017) recorded an improvement in loan book of 30% y-o-y and revenue more than doubled from €2.3m to €5.0m. Importantly, this was accompanied by an improvement in loan quality (as measured by provisions to gross loan book) to 4% from 8% a year ago. As a result, operations in this region turned profitable, with profit after tax at €1.2m. Uganda also performed well, with growth in loan book at 55% y-o-y, profit after tax of €0.9m and loan quality at 4%. In Zimbabwe, despite the political turmoil, MyBucks achieved an increase in loan book to €18.4m from €12.3m a year ago and a profit after tax at €3.8m. This was driven by the business model shift to include product financing through a joint venture model with retailers. Business in Kenya remains challenging (with revenues down 28% y-o-y), although it was able to reduce its loss by 69% to €0.6m and local management plans to reach break-even point in FY19.

MBC recorded a lower impairment charge to revenue ratio at 19% in FY18 (vs 22% in FY17). This was despite a 114% y-o-y increase in South African impairment charges to €7.4m, resulting from a change in the debit order dispute mechanism at South African banks. Importantly, the company highlighted that debt relief legislation (debt cancellation for consumers earning less than ZAR7.5k with total debt of less than ZAR50k) remains a real risk ahead of the elections. MBC maintained its loan impairment charges in nominal terms at a broadly stable level (down 3% y-o-y) and improved the loan book quality, which was reflected in a reduction of provisions to the gross loan book ratio from 20.2% to 10.9%. This was assisted by the higher contribution from banking operations (which on average have a better loan book quality than MBC's lending operations) and the continued implementation of AI-driven solutions. With the cost to revenue ratio remaining stable at 69%, MBC's operating profit reached €14.4m, implying a 26.6% y-o-y increase.

In February 2018, MBC issued 1.3m new shares in a private placement, with a dilutive impact of c 11%. Net proceeds of €11.5m were used to drive lending volumes, but also to restructure the company's borrowings, which resulted in a decline in the average cost of debt (as measured by the hard currency refinancing rate) from 21% to 15% pa. As at end FY18, the cost of funding has been already reduced from 24.2% to 19.1%. Nevertheless, MBC's interest expense went up to €20.9m in FY18 from €17.5m, as the full effect of these funding cost savings (estimated by MBC at a pro forma annualised level at around €3.5m) will not be fully visible until FY19. Consequently, MBC remains below its break-even point, with FY18 loss after tax from continuing operations at €7.2m (reduced from a €10.7m loss in FY17). The company also booked a loss from discontinued operations at €1.0m, associated primarily with activities in Poland.

Exhibit 1: Results summary

€000s	FY18	FY17	y-o-y % change
Revenue	**61,307**	**55,791**	**9.9%**
Individual lending revenue	55,468	51,611	7.5%
Banking income	733	387	89.3%
Insurance revenue	3,293	3,093	6.5%
SME lending revenue	1,812	700	158.9%
Loan book impairment charges	(11,834)	(12,194)	-3.0%
Other income	6,792	6,512	4.3%
Operating expenses	(12,401)	(12,964)	-4.3%
Operating profit	**14,440**	**11,410**	**26.6%**
Operating margin	24%	20%	310bp
Investment revenue	3,671	2,684	36.8%
Finance costs	(22,724)	(21,326)	6.6%
Profit before tax	**(4,613)**	**(7,233)**	**-36.2%**
Income tax	(2,587)	(3,429)	-24.6%
Profit after tax from continuing operations	**(7,199)**	**(10,661)**	**-32.5%**
Discontinued operations	(993)	(2,353)	-57.8%
Profit after tax	**(8,192)**	**(13,014)**	**-37.1%**

Source: MyBucks accounts, Edison Investment Research

MBC's gearing level, as measured by net debt (including customer deposits) to the sum of equity and net debt, remained broadly unchanged vs FY17 at 84%, as higher net borrowings were accompanied by the capital raise. The company recently received additional funding from the bond listings in Mozambique and Malawi. It is also visibly expanding its deposit base, which reached €20.6m in FY18 compared with €11.5m in FY17. It currently covers c 24% of its loan book (vs 17% in FY17) and it is worth noting that MyBucks for now has a banking licence in selected countries in which it operates. MBC reported negative cash flow from operations (which includes interest paid) at €25.1m in FY18 (vs €28.4m in FY17), which is primarily associated with the growing loan book. This was largely funded by the equity issue to shareholders of the parent company, as well as minority holders of MBC's subsidiaries.

Further technological initiatives underway

MBC continues to develop and expand its product offering, with a strategic focus on financial institutions in Africa. In the course of FY18, the company entered into an exclusive partnership with the NAGA Group. The partnership will enable MBC's 1.5 million customers to gain access to NAGA's crypto wallet and hence expand its product offering. MBC continues to place AI at the forefront of its technology drive. Its new technology, text-based virtual assistant (TESS), has already been launched to a WhatsApp-based lending application and is utilised on the company's website.

In addition to the improvement of its current business operations (which involves, for instance upgrades to the core IT systems of acquired banks), MBC is deploying its technology globally through joint ventures, franchises and service agreements. Moreover, MBC acquired the parent company of Fundco, an Australian consumer lending business. Consequently, Fair Go doubled the size of its loan portfolio and became the fifth largest lender in the Australian market. The purchase price amounted to c €7m.

Valuation

It is difficult to value MBC given that the business is at a relatively early stage and the company has recently acquired a number of entities, which subsequently required a certain amount of restructuring and integration efforts. Moreover, MBC's reported financing costs still translate into a consolidated net loss (despite selected regional operations being profitable). As there is no market consensus available for MyBucks, we have decided to examine the LTM EV/Sales ratio, which currently stands at 3.6x for MBC. This represents a c 8% premium to peer average. In turn, MBC's

LTM EV/EBITDA ratio equals 12.1x, which compares with the corresponding multiple of 6.4x for Ferratum, also a Germany-listed, technology-led mobile consumer lender.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			EV/Sales (x)		
	(€m)	LTM	2019e	2020e	LTM	2019e	2020e
Ferratum	264.16	12.27	9.29	6.51	1.01	0.82	0.68
On Deck Capital	667.16	57.83	15.51	13.08	3.28	2.91	2.55
Letshego	318.43	5.41	4.81	4.24	3.34	2.92	2.56
Capitec Bank	7,691.06	25.26	20.88	17.19	5.36	4.65	4.03
Atlas Mara	346.34	7.78	8.02	6.82	3.48	2.81	2.43
Peer group average		21.71	11.70	9.57	3.29	2.82	2.45
MBC	90.80	N/M	N/A	N/A	3.56	N/A	N/A
Premium/discount		N/M	N/A	N/A	8%	N/A	N/A

Source: Thomson Reuters, Edison Investment Research. Note: Prices as at 14 November 2018. Numbers for peers adjusted for differences in fiscal year-end.