

Ferratum

Growth driven by loans with longer maturities

Following the record-high results in FY17 (sales up 44% y-o-y), Ferratum's revenue growth decelerated in H118 to 20% y-o-y due to lower PlusLoan approval rates following prior credit scoring system adjustments. This triggered a downward revision of FY18 guidance in June. Remedial actions have already been introduced and this business line is showing first signs of a pick-up. Growth in the Credit Limit segment remains robust, while the company continues to develop the SME and Prime Loans products to increase their contribution to group results.

Guidance revised as revenue growth decelerates

The sequential increase in revenues, which exceeded 5% in each quarter in 2017, dropped to around 2% in H118. As a result, the original revenue guidance of €280–310m has been revised down to €260–280m as total revenue in H118 amounted to €124.2m. This still constitutes a c 20% y-o-y improvement but is below the 33% required to reach the mid-point of the original guidance. EBIT margin improved slightly y-o-y to reach 14.6% in H118 (FY17: 14.4%), comfortably within the guided range of 13–16%. As the company successfully placed €100m senior unsecured bonds in May 2018 (refinancing €45m of existing debt and raising an additional €55m for further growth), net profit (down 17% y-o-y to €8.3m) has been influenced by an increased interest burden.

Strategic shift towards longer-term lending

Ferratum continues to prioritise longer-term lending products, which is reflected in the company's portfolio as the share of microloans in total revenue was reduced from 28% to 16% over the last two years. Meanwhile, the company's flagship Credit Limit product is nearing 50% group share, as its quarterly sales broke the €30m mark in Q218. Management plans further actions aimed at enhancing business efficiency, including automation of lending processes and a review of all geographies with potential withdrawal from one or two countries.

Valuation: Trading at a discount to peers in FY19e

Following an over 50% decline YTD to €11.74, Ferratum's shares are trading at a P/E FY18e ratio of 11.9x (based on Bloomberg consensus), implying a 12.8% premium to peers, including MyBucks, Capitec Bank Holdings, Atlas Mara, On Deck Capital and Letshego Holdings. The premium changes to a 23.2% and 18.9% discount on FY19e and FY20e figures, respectively. On EV/sales FY18e ratios, the company's shares trade at 38.5% discount, which increases to 45.6% by FY20.

Consensus estimates

Year end	Revenue (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	221.6	34.6	0.92	0.18	12.8	1.5
12/18e	268.5	42.7	0.99	0.20	11.9	1.7
12/19e	332.5	55.1	1.55	0.31	7.6	2.6
12/20e	412.5	71.7	2.08	0.42	5.6	3.6

Source: Ferratum accounts and Bloomberg consensus (at 9 October 2018)

Financials

Price €11.74
Market cap €255m

Share price graph



Share details

Code	FRU
Shares in issue	21.7m
Net debt (€m) as at 30 June 2018	203.4

Business description

Ferratum Oyj provides mobile banking, digital consumer and small business loans. It operates in Finland, Europe, North America, South America, Africa and the Asia-Pacific region. The company was founded in 2005 and is headquartered in Helsinki, Finland. Ferratum has approximately two million active and former customers who have an account or have been granted one or more loans in the past.

Bull

- Rapid revenue growth supported by new products and geographic expansion.
- European banking licence enabling activity across EEA countries.
- Low entry barriers to new markets.

Bear

- Credit scoring model requiring adjustments.
- Highly competitive market.
- Geographic expansion beyond Europe more difficult.

Analyst

Milosz Papst +44 (0)20 3077 5700

financials@edisongroup.com