

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

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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)
Total	95,021	107,014	12.6

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
R&D total	6628	9975	50.5
% 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		Revenue (local currency m's)				Operating profit (local curr m's)		Operating margin (%)		PE (x)	
				local curr	local curr	Curr	Year 0	Year 1	Year 2	CAGR	Year 1	Year 2	Year 1
FinTech Group	29.75	521	EUR	107.0	125.0	143.8	15.9%	39.3	48.6	31.4%	33.8%	19.9	15.9
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
FincoBank	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
Medians excl FinTech Group							10.5%			50.2%	49.8%	21.7	18.9
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
Medians excl FinTech Group							10.7%			11.8%	13.2%	25.5	20.7

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

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