

FinTech Group

Austrian joint venture cancelled – upgrading to Buy

This morning, FinTech Group decided to cancel the joint venture with Austrian Post – very good news for the shares as the main driver for under performance has now been removed. The main reason for cancellation is a delay in the banking licence approval process according to the company. **View: Management can re-focus its capabilities on its core business and further expand its flatex operations. We increase our earnings estimates for 2020 and beyond and upgrade to Buy with a target price of €28.**

What is new? Management decided to withdraw from the planned joint-venture with the Austrian Post. The main reason for the cancellation is an anticipated delay of the banking licence as the Austrian regulator needed more time for the approval process. Hence, an approval was not possible in 2019 and was expected later in 2020 – a delay which was against all economics of the JV.

What are the implications? We welcome the cancellation of the JV given 1) management can refocus capacity on its core business flatex which we regard as underperforming at the moment but consider the market opportunities in the German online brokerage market still as high and there is enough to do: the number of executed trades was rather disappointing until October this year underperforming comdirect bank and the broader market; 2) the earnings drag from the JV with high ramp-up losses is gone: management expected losses from the JV until 2023; 3) the misallocation of capital can be avoided with positive implications for the valuation of the company: There was the risk that up to €112.5m of capital would be allocated into offline retail banking until 2024. Conclusion: If management realizes that there is excess capital in the company at some point in time, we would welcome the pay-out via dividends rather than expensive adventures into offline retail with shareholders money.

What to do with the shares? Given the change in fundamentals, we consider the recent collapse in the share price as a Buying opportunity. We increase our earnings estimates as the JV is eliminated from our forecast: we exclude €26m of losses until 2022, 9%-35% of net income. Consequently, we increase our target price to €28 and upgrade the stock to Buy. Next catalyst for the stock is the handling of management stock options in January 2019.

Key financial and valuation metrics

Year-end Dec	2015	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Sales rep. (€m)	75.2	95.0	107	123	137	156	13.3 %
EBITDA adj. (€m)	10.1	26.1	32.1	43.9	52.4	60.8	23.8 %
EBITDA rep. (€m)	19.8	30.6	32.1	43.9	52.4	60.8	23.8 %
EBITA adj. (€m)	7.6	21.0	26.5	36.7	43.8	50.6	24.1 %
EBITA margin	10.1%	22.1%	24.7%	29.9%	32.0%	32.5%	
EBITA rep. (€m)	17.3	25.5	26.5	36.7	43.8	50.6	
FCF pre-div (€m)	(106)	(153)	(12.4)	222	114	129	n.a.
FCF yield	(52.3%)	(58.3%)	(4.0%)	60.3%	29.3%	33.3%	
EPS rep. (€)	(0.11)	0.50	1.00	1.37	1.61	1.88	23.3 %
EPS adj. (€)	0.31	0.60	1.00	1.37	1.61	1.88	23.3 %
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	n.a.
EV/Sales (x)	2.4	2.9	3.1	2.8	1.9	1.2	
EV/EBITDA (x)	17.7	10.5	10.4	7.9	5.1	3.0	
EV/EBITA (x)	23.5	13.1	12.7	9.4	6.1	3.7	
P/E (x)	40.6	25.9	18.3	15.1	12.8	11.0	
Div yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net debt (€m)	(24.8)	11.5	26.6	(23.3)	(122)	(203)	
Net debt/EBITDA (x)	(2.5)	0.4	0.8	(0.5)	(2.3)	(3.3)	

Sources: Company data, Commerzbank Research

27 November 2018

Buy (from Hold)
TP €28 (from €25)
CP €20.70
 (Closing 26 November 2018)

Key information

Expected performance	35.3%
Volatility (60d, realized)	26.0%
1M / 3M performance	(1.0%) / (27.7%)
Bloomberg / Reuters:	FTK GY, FTKG.DE
Market cap (€m)	388
EV (€m)	266
Shares outstanding (m)	18.7
Free float	43.1%
Dly trading vol (last 3-mth) (€m)	1.1

Source: Commerzbank Research, Bloomberg

Changes in estimates

€m	2018o	2018n	2019o	2019n
Sales	123	-	137	-
EBITA	36.7	-	43.8	-
EPS	1.37	-	1.61	-

Source: Commerzbank Research

Relative and absolute performance (12M)



Source: Bloomberg

Shareholder structure

Major shareholders	Stake
GFBK	26.9%
Heliad	13.4%
Free float	59.7%

Sources: Bloomberg, Company data, Commerzbank Research

For important disclosure information please see pages 3 and 5.

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TABLE 1: Financials

Balance Sheet (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Property, plant & equipment	5.6	7.0	9.1	11.7	14.2	26.8%
Intangible fixed assets	57.3	62.9	65.5	65.0	62.2	(0.4%)
Goodwill	0.0	0.0	0.0	0.0	0.0	
Total operating fixed assets	62.9	69.9	74.7	76.7	76.4	3.0%
Net working capital	(15.8)	(4.0)	3.4	3.3	3.6	n.a.
as a % of sales	(16.6%)	(3.8%)	2.8%	2.4%	2.3%	
Operating invested capital	47.2	65.9	78.1	80.0	80.0	6.7%
ROIC (%)	26.8%	31.8%	34.7%	37.7%	43.0%	
IC/sales (x)	0.5	0.6	0.6	0.6	0.5	
Investments	0.0	0.0	0.0	0.0	0.0	n.a.
Capital employed	47.2	65.9	78.1	80.0	80.0	6.7%
ROCE	26.8%	31.8%	34.7%	37.7%	43.0%	
Cash and cash equivalents	389	397	606	790	965	34.5%
Interest-bearing liabilities	11.5	26.6	24.6	24.8	24.8	(2.2%)
Interest-bearing provisions	0.0	0.0	0.0	0.0	0.0	n.a.
Net debt	(378)	(370)	(582)	(765)	(940)	36.4%
thereof pension provisions	n.a.	n.a.	n.a.	n.a.	n.a.	
Total equity	90.6	113	172	272	307	39.7%
Equity Ratio	5.9%	10.4%	15.5%	21.0%	20.9%	
ROE	15.9%	16.7%	17.2%	13.6%	12.2%	
Total assets	1,534	1,081	1,110	1,296	1,471	10.8%
Income Statement (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Sales	95.0	107	123	137	156	13.3%
growth y/y	26.3%	12.6%	14.8%	11.5%	13.7%	
Operating expenses	64.4	74.9	78.9	84.5	94.7	8.1%
Gross margin	73.2%	71.0%	73.8%	74.3%	70.6%	
EBITDA	26.1	32.1	43.9	52.4	60.8	23.8%
as a % of sales	27.5%	30.0%	35.7%	38.3%	39.1%	
Depreciation and intangible amortisation	5.2	5.6	7.1	8.6	10.3	22.5%
EBITA	21.0	26.5	36.7	43.8	50.6	24.1%
as a % of sales	22.1%	24.7%	29.9%	32.0%	32.5%	
Impairments	0.0	0.0	0.0	0.0	0.0	
EBIT	21.0	26.5	36.7	43.8	50.6	
as a % of sales	22.1%	24.7%	29.9%	32.0%	32.5%	
Net interest result	(1.2)	(1.3)	(1.5)	(1.4)	(1.0)	(8.7%)
Result from participations	0.0	0.0	0.0	0.0	0.0	
Other financial result	0.0	0.0	0.0	0.0	0.0	
Adjustments	0.0	0.0	0.0	0.0	0.0	
PBT	19.8	25.2	35.3	42.4	49.6	25.4%
Tax expense	(4.0)	(8.2)	(10.8)	(12.2)	(14.4)	20.6%
Adjustment	(1.8)	0.0	0.0	0.0	0.0	
Tax rate	11.1%	32.6%	30.7%	28.7%	29.0%	
Net profit from continuing operations	14.0	17.0	24.5	30.2	35.2	27.5%
as a % of sales	14.8%	15.9%	19.9%	22.1%	22.6%	
Minorities	(3.9)	(0.1)	0.0	0.0	0.0	
Net income attributable to shareholders	10.1	16.9	24.5	30.2	35.2	27.8%
Cash Flow Statement (€m)	2016	2017	2018E	2019E	2020E	CAGR 2017-20E
Operating cash flow	(144)	0.2	234	124	139	824.4%
as a % of sales	(151.5%)	0.2%	190.6%	90.7%	89.4%	
Gross capex	(8.0)	(12.6)	(11.9)	(10.6)	(10.0)	(7.4%)
Asset disposals	(1.2)	0.0	0.0	0.0	0.0	
Net financial investments	0.0	0.0	0.0	0.0	-0.0	
Net acquisitions	0.0	0.0	0.0	0.0	0.0	
Gross capex as a % of sales	8.4%	11.8%	9.7%	7.7%	6.4%	
Gross capex as a % of depreciation	155.4%	224.8%	166.5%	123.6%	97.2%	
Free cash flow	(153)	(12.4)	222	114	129	n.a.
as a % of sales	(161.2%)	(11.6%)	180.9%	83.0%	82.9%	
Dividends	0.0	0.0	0.0	0.0	0.0	
Free cash flow (post dividend)	(153)	(12.4)	222	114	129	
Increase / (decrease) in debt	(3.3)	15.5	0.1	0.3	0.0	
Increase / (decrease) in equity	(5.0)	4.8	33.0	70.0	0.0	
Other financing cash flows	9.4	0.0	0.0	0.0	0.0	
FX effects	0.0	0.0	0.0	0.0	0.0	
Other items	0.0	0.0	0.0	0.0	0.0	
Change in cash	(152)	7.9	255	184	129	

Source: Commerzbank Research

FinTec Group price chart



Source: Commerzbank Research

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Source: Commerzbank Research

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