

flatex

Buying DeGiro - upgrading to Buy

The strategic review came to an end: flatex acquired DeGiro for €250m - expensive at 18x EV/EBITDA but the synergy potential is high. We calculate EPS accretion of 26% for 2021 and 39% for 2022 lifting EPS to €2 that year. Its new mid-term guidance of €3.0 EPS offers additional upside to our estimates. Trading at 13x 2021E earnings post DeGiro acquisition, flatex shares are very cheap, a >40% discount to the relevant peer group. We upgrade to Buy.

flatex expanding to a pan-European brokerage platform

flatex acquired 100% of DeGiro, a fast growing pan-European brokerage platform operating in 18 European countries and serving 470k clients. The focus is on price-sensitive heavy traders which DeGiro acquired with a discount pricing strategy: DeGiro generated relatively low revenues per trade of €3.20 in H1 19 vs. €8.0 at flatex while the number of trades per account is relatively comparable: 40 trades per account at DeGiro vs. 37 trades at flatex. The focus of DeGiro's management has been on client growth rather than on short-term profit optimization in the past: The company generated an average annual client growth of 47% over the last three years.

Purchase price no bargain...

The acquisition price of €250m is not cheap valuing DeGiro at 25x 2019 P/E and 18x EV/EBITDA for 23% EBITDA-margin in 2019E, a ~38% premium to the relevant global industry peer group. However, the deal offers a) material cost savings potential; b) a significant client base in major European countries - a replication would need 4-5 years and a massive marketing budget in our view. The purchase price will be paid in 1) €60m of cash and 2) €190m financed through a capital increase against contribution in kind excluding subscription rights to existing shareholders. flatex share count will be increased by 7.5m shares to 27.1m, a 38% increase.

... but deal is EPS accretive

We estimate 26% EPS accretion in 2021 and 39% for 2022 driven by two sources: 1) **Net income of DeGiro** - the company presentation shows €10m of net income for DeGiro - likely to be a random number mainly depending on marketing expenses - flatex does not provide historic data for DeGiro. We take a 60% haircut and include €4m of net income in our forecast for the years to come excl. any cost and revenue synergies; 2) **Synergies**: Management anticipates to create synergies of >€30m already in 2021, worth >€0.78 EPS, without any material restructuring costs - the total amount looks ambitious to us as well. Those synergies are driven by a) cost savings in post-trade services totaling to €15-20m; b) the creation of one common IT platform which should result in cost savings of €10-15m; c) using flatex' banking license for DeGiro operations (€3-5m) and d) combining marketing/bargaining power worth €2-5m of synergies. Management expects to achieve 100% of synergies already in 2021. We are more cautious and include only 70% in our forecast for 2021.

Key Financials

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Net revenues	107	125	133	138	215	229
Adj. EBITDA	32	42	45	49	89	105
Adj. EBITDA margin	30.0	33.9	34.1	35.6	41.4	45.6
Adj. EBIT	26	34	34	36	69	82
Net income adjusted	17	21	21	22	45	54
EPS adjusted	1.00	1.18	1.08	1.14	1.66	2.00
DPS	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales (x)	3.4	2.7	2.6	2.3	1.3	(0.7)
EV/adj. EBITDA (x)	11.4	7.9	8.8	5.5	4.3	-
Price/Book	3.2	2.2	1.6	1.5	1.8	1.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
(P/E)	21.4	18.1	19.7	18.8	12.8	10.7

Source: Commerzbank Research, Bloomberg, Company Information

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16 December 2019

Buy (from Hold)
TP €29.00
CP €21.35

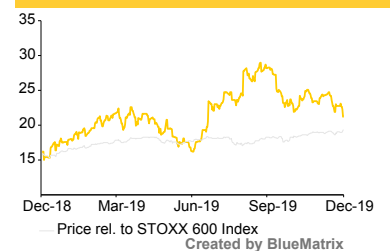
(Closing 13 December 2019)

Key information

Expected performance	35.8%
1M / 3M performance:	(8.0)% / (24.4)%
Market Cap (m)	€418
Bloomberg:	FTK GY
Shares outstanding (m)	20
Equity Free Float	70.1%
Consensus rec (5=Buy)	4.6

Source: Commerzbank Research, Bloomberg

Relative and absolute performance (12M)



Source: Bloomberg

Changes in estimates

€(m)	2019n	2019o	2020n	2020o
Revenues	133	136	138	150
PBT	31	33	33	41
EPS	1.08	1.14	1.14	1.44

Source: Commerzbank Research,

Bloomberg, Company Information

Author

Christoph Blieffert

Equity Analyst Financials

+49 69 136 47033

christoph.blieffert@commerzbank.com

Upgrading to Buy with target of €29

The acquisition of DeGiro puts an end to the strategic review - good news. We see substantial value creation beyond 2021 not only from the cost but also from the revenue side: flatex' lombard loan as well its strategic partnerships on the ETP side will provide value to the DeGiro clients base. While a significant re-rating of the shares might take some time as a) the former DeGiro shareholders are likely to place their flatex shares (entry level at €25.33) after a 12 months look-up period we believe and b) valuation multiples in the industry contracted materially on the back of declining fee levels, we upgrade the stock to Buy: A 23% EPS CAGR (2019-2022E) for 13x 2021 earnings is too attractive to ignore.

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
Net revenues	107	125	133	138	215	229
Net revenue growth (%)	12.6	16.9	6.2	3.7	56.0	6.5
Operating expenses	(75)	(83)	(88)	(89)	(126)	(125)
Opex in % of sales	18.7	(5.3)	2.6	4.0	4.0	4.0
Adj. operating expenses	(75)	(83)	(88)	(89)	(126)	(125)
Adj. opex in % of sales	70.0	66.1	65.9	64.4	58.6	54.4
EBIT as reported	26	34	34	36	69	82
EBIT margin (%)	24.7	27.3	25.4	25.9	32.1	35.6
Adj. EBIT	26	34	34	36	69	82
Adj. EBIT margin (%)	24.7	27.3	25.4	25.9	32.1	35.6
D&A	(6)	(8)	(12)	(13)	(20)	(23)
EBITDA as reported	32	42	45	49	89	105
EBITDA margin (%)	30.0	33.9	34.1	35.6	41.4	45.6
Adj. EBITDA	32	42	45	49	89	105
Adj. EBITDA margin (%)	30.0	33.9	34.1	35.6	41.4	45.6
Pre-tax profit EBT reported	25	32	31	33	66	78
Adj. pre-tax profit	25	32	31	33	66	78
Tax	(8)	(11)	(10)	(10)	(21)	(24)
Tax rate (%)	32.5	34.3	31.5	32.0	31.5	31.5
Minorities	0	0	0	0	0	0
Net income attributable to all shareholders adjusted	17	21	21	22	45	54
Net income attributable to all shareholders reported	17	21	21	22	45	54
EPS reported	1.00	1.18	1.08	1.14	1.66	2.00
Adj. EPS	1.00	1.18	1.08	1.14	1.66	2.00
Adj. EPS growth (%)	66	18	(8)	5	47	20

Source: Commerzbank Research, Bloomberg, Company Information

KPI

Year End Dec (€ m)	2017A	2018A	2019E	2020E	2021E	2022E
EBITDA growth (%)	22.7	32.2	7.0	8.2	81.6	17.4
EBIT growth (%)	(16.2)	23.8	0.6	5.1	102.7	20.1
No. of shares (class A) basic	16.8	17.9	19.6	19.6	27.1	27.1
No. of shares (class A) diluted	16.8	17.5	19.6	19.6	27.1	27.1
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Pay-out ratio	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	6.70	9.57	13.21	14.32	12.02	14.02
P/E (x)	21.4	18.1	19.7	18.8	12.8	10.7
P/B (x)	3.2	2.2	1.6	1.5	1.8	1.5
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
ROE	14.9	12.6	8.2	7.9	13.8	14.3
ROCE	14.8	12.4	8.1	7.8	13.7	14.2
ROA	1.5	1.7	1.6	1.6	2.9	3.1

Source: Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 16/12/2019 08:24 CET and disseminated 16/12/2019 08:24 CET.

flatex AG (FTK GY)



Rating and PT Changes:

Company Name	Covering Analyst	Rating	Previous Rating	Price Target	Previous PT	Closing Price	Change Date
flatex AG	Christoph Blieffert	Buy	Hold	€29.00	€29.00	€21.35	16/12/2019
flatex AG	Christoph Blieffert	Hold	Buy	€29.00	€29.00	€28.80	6/9/2019
flatex AG	Christoph Blieffert	Buy	Buy	€29.00	€28.00	€22.95	19/7/2019
flatex AG	Christoph Blieffert	Buy	-	€28.00	-	€20.65	5/7/2019

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88 (43.78%) Buy	16 (18.18%)
93 (46.27%) Hold	12 (12.90%)
20 (9.95%) Reduce	0 (0.00%)

Source: Commerzbank Research

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Hold: 0-20%

Reduce: <0%

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DLZ - Gebäude 2, Händlerhaus	PO BOX 52715 30 Gresham Street	225 Liberty Street, 32nd floor, New York,	71, Robinson Road, #12-01 Singapore 068895	15th Floor, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Mainzer Landstraße 153 60327 Frankfurt	London, EC2P 2XY	NY 10281-1050		
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000	Tel: +852 3988 0988