

flatex

A gambling and betting substitute: raising our target to €52

The shares are up 62% year to date, and we expect this upward trend to continue. These are the reasons: 1) Elevated volatility will tempt retail investors to trade frequently as other forms of entertainment such as Bundesliga and closed casinos are currently less attractive - more trades and more clients are on the cards; 2) Management has restarted to increase engagement in the company signaling confidence in a further rising share price; 3) We expect covid-19 winners to be the performance winners for the year - this trend is unlikely to change in H2 in our view. We increase our 2021-2022 estimates by 26%-41% on the back of strong client wins, raise our target price to €52 (previous: €33) and confirm our Buy recommendation.

Trading behavior - this time is different?

Trading behavior of German retail clients has been relatively uncorrelated to massive volatility spikes since 2011. However, covid-19 related restrictions to the German Bundesliga making sports betting less emotional, casinos were temporarily closed and many employees have been locked in home offices. Hence, trading of equity products seems to a suitable substitute for gambling activities: high volatility and rising market levels supported this trend. We expect client involvement in equity markets to continue as long as volatility remains elevated and equity market level do not crash - July was another strong month according to comdirect data.

Follow the insiders

flatex is a company where management and the supervisory board already own a relatively high stake. Hence, following directors' dealing activity is important and has often been a good indicator of sharply rising share prices in the past. Despite the placement of founding member Bernd Förtsch, heliad and board members at ~€43 per share in July 2020, insiders' buying activity has recently picked up - for good reasons: The shares are trading at 17.6x 2021E earnings which we consider as inexpensive for 17% client growth CAGR (2019-2022E).

DeGiro acquisition to drive earnings growth - valuation remains attractive

The easy money has been made with flatex shares this year - the stock is up 62% year-to-date: Its valuation discount to international online brokerage has been significantly narrowed and consensus has included the vast majority of anticipated synergies from the DeGiro acquisition. However, we believe there is more upside potential for the shares given a) more revenue synergy potential to be realized from the DeGiro acquisition in particular driven by flatex's ETP partnership program which we expect to attract DeGiro clients as well: up to €50m of additional revenues are in the cards; b) more consolidation potential in the fragmented European online brokerage market and c) flatex's significant potential to gain further market share. We see further re-rating potential for the stock as well as consensus upside pressure beyond 2021 if management is able to extract additional revenue synergies. We confirm our Buy recommendation with a new target price of €52 leaving 30% upside.

Key Financials

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Net revenues	107	125	132	202	268	290
Adj. EBITDA	32	42	38	82	120	150
Adj. EBITDA margin	30.0	33.9	28.5	40.7	44.6	51.8
Adj. EBIT	26	34	25	64	95	123
Net income adjusted	17	17	15	39	62	81
EPS adjusted	1.00	0.98	0.77	2.00	2.27	3.00
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Price/Book	6.0	4.4	4.3	3.5	3.8	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
(P/E)	40.0	40.8	51.7	19.9	17.6	13.3
EBIT margin	24.7	27.3	18.8	31.8	35.3	42.5

Source: Commerzbank Research, Bloomberg, Company Information

17 August 2020

Buy
TP €52.00 (from €33.00)
CP €39.90[^]
 (Closing 13 August 2020)

Key information

Expected performance	30.3%
1M / 3M performance:	(1.0)% / 31.9%
Market Cap (m)	€1,086
Bloomberg:	FTK GY
Shares outstanding (m)	27
Equity Free Float	88.0%
Consensus rec (5=Buy)	5.0

Source: Commerzbank Research, Bloomberg

Relative and absolute performance (12M)



Source: Bloomberg

Changes in estimates

€(m)	2020n	2020o	2021n	2021o
Revenues	202	144	268	253
PBT	58	37	88	72
EPS	2.00	1.30	2.27	1.80

Source: Commerzbank Research,

Bloomberg, Company Information

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Valuation

We value flatex using a DCF model supported by relative P/E multiples from a peer group of online banks/brokers.

We use a WACC of 8.25% (previously: 9.25%; down by 100bps due to higher revenue diversification from a client and geographic perspective), while acknowledging the capital light platform business model, and a long-term growth rate of 2.0%. We compute an enterprise value of €1.4bn from which we subtract flatex's pro forma net debt position of €41m (including pension provisions and cash outflow related to the acquisition of DeGiro; all Commerzbank estimate) at year-end 2019. Dividing the equity value by the number of diluted shares leads to a fundamental fair value of €52 per share. Our target price leaves 30% upside, and we confirm our Buy recommendation.

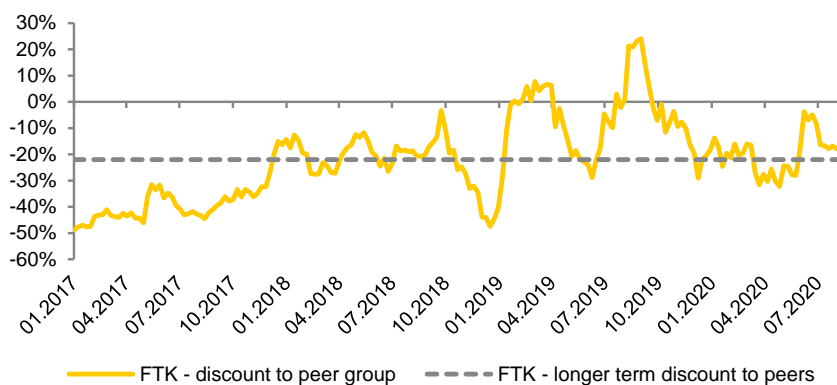
Table 1 - flatex: DCF valuation, €

€m	2020E	2021E	2022E	2023E	2024E
EBITDA core business	71	119	149	159	166
Notional tax	-15	-26	-34	-38	-40
CAPEX	-14	-18	-19	-21	-24
NOPAT	41	75	95	100	103
Discounted NOPAT	38	64	75	73	69
PV of cash flows					319
Terminal value					1,130
Enterprise value					1,450
Net debt/(cash)					41
Equity value					1,409
NOS					27.1
Value per share					52.0
Target Price					52.0
Implied 2021E P/E ratio					23.1

Source: Commerzbank Research

Our target price implies a 2021E P/E multiple of 23.1x. Currently, flatex trades at an 18% discount to global online banks/brokers. We expect the discount to further narrow over time if a) synergies of the DeGiro deal will become visible while client growth continues; b) flatex would be listed in the SDAX and c) the free float of 45% post DeGiro transaction would further increase.

Chart 1 - flatex: discount to international brokerage peer group - 1y forward P/E

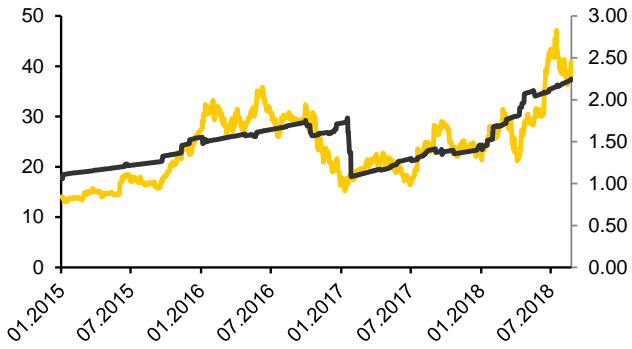


Source: Bloomberg

The largest risk to our investment case are a) fading volatility resulting in much lower client trading activity than anticipated - we have a normalization of trading activity in our numbers; b) huge client churn on the back of a failed integration of DeGiro and

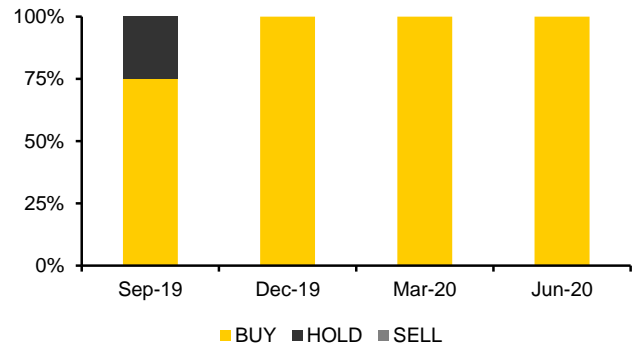
c) a failure in the realization of synergies from DeGiro acquisition; d) rising market share of new incumbents offering trading free of charge.

Chart 2 - flatex: 1y forward EPS vs. share price



Source: Bloomberg

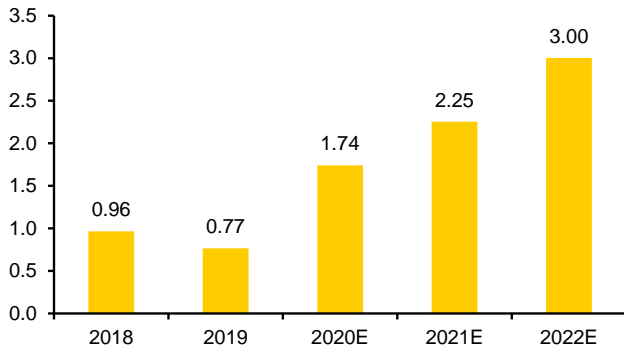
Chart 3 - flatex: A sell-side darling



Source: Bloomberg

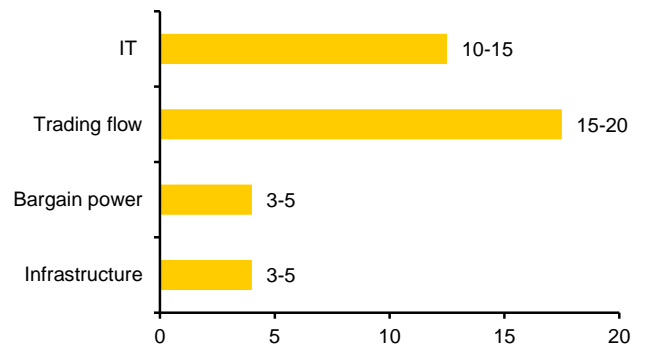
Investment case in six charts

Chart 4 - Earnings per share, €



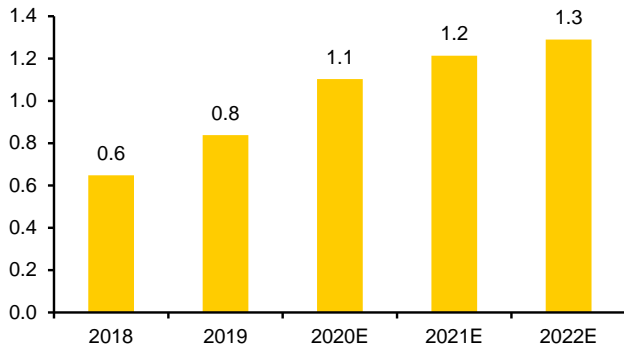
Source: company data, Commerzbank Research

Chart 5 - EPS growth supported by synergies from DeGiro..., €m



Source: company data

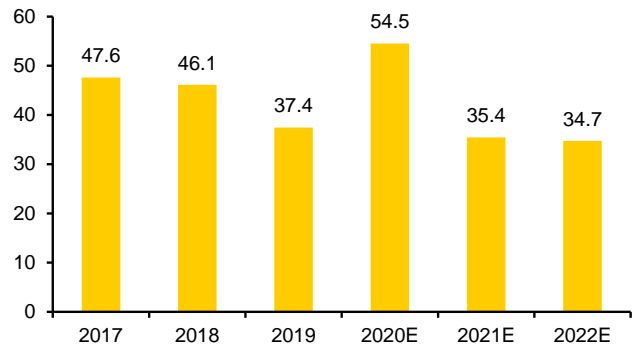
Chart 6 - ... and rising client base, m



Source: company data, Commerzbank Research. Note: pro-forma

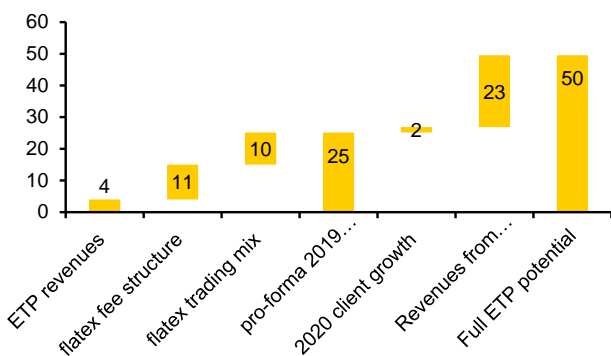
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Chart 7 - Trading activity expected to normalize



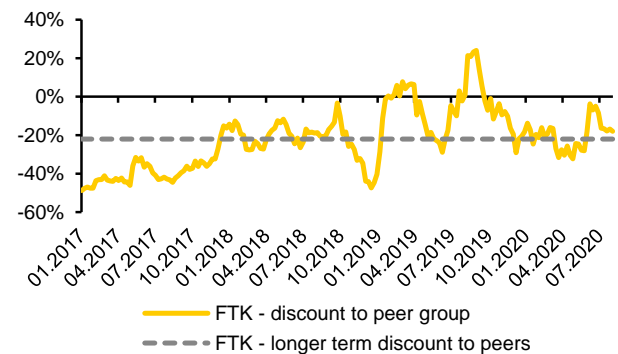
Source: Commerzbank Research, company data. Note: trades per client

Chart 8 - DeGiro: significant additional ETP revenue potential, €m



Source: Commerzbank Research

Chart 9 - flatex: discount to peers



Source: Bloomberg; 1y forward P/E

Earnings estimates at a glance

We expect flatex's EPS to increase from €0.77 in 2019 to €3.0 in 2022 on the back of cost and revenue synergies derived from the DeGiro acquisition while maintaining flatex's underlying growth trend in client acquisition: We expect client growth of 16.8% per year for the combined entity in 2019-2022E.

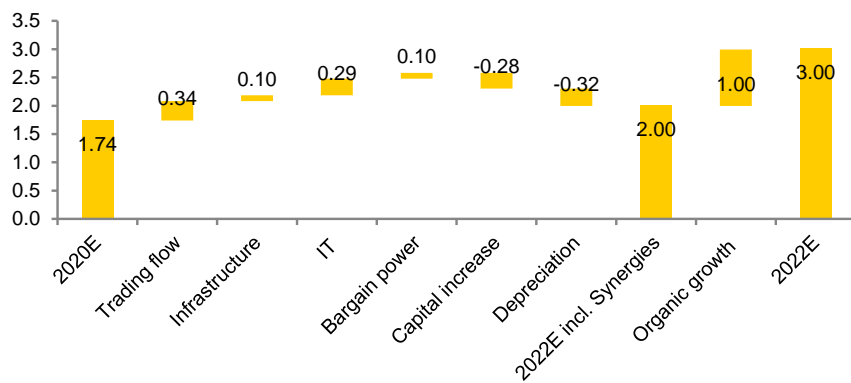
Table 2 - flatex: Earnings estimates at a glance

€m	2019	2020E	2021E	2022E	2020E	2021E	2022E	CAGR 19-22E
Provision of services	19.8	20.8	21.2	21.6	4.8%	2.0%	2.0%	2.9%
Commission income	90.4	136.9	183.3	202.2	51.4%	33.9%	10.3%	30.8%
Interest income	15.1	19.1	34.3	35.0	26.1%	79.4%	2.3%	32.3%
Other operating revenues	6.6	3.9	13.7	13.9	-41.0%	250.6%	2.0%	28.3%
Revenues	132.0	180.7	252.4	272.8	36.8%	39.7%	8.1%	27.4%
Raw materials and consumables used	-38.2	-39.9	-43.8	-44.5	4.7%	9.6%	1.7%	5.3%
Personnel expenses	-25.4	-34.8	-45.5	-40.4	36.9%	30.7%	-11.2%	16.7%
Marketing expenses	-12.5	-13.6	-19.0	-22.0	8.7%	39.5%	15.8%	20.6%
Other administrative expenses	-18.3	-21.7	-25.3	-17.3	18.6%	16.8%	-31.6%	-1.8%
EBITDA	37.7	70.7	118.9	148.6	87.6%	68.2%	25.1%	58.0%
Depreciation and amortization	-12.8	-15.0	-25.0	-27.0	16.9%	66.7%	8.0%	28.2%
EBIT	24.8	55.7	93.9	121.6	124.1%	68.6%	29.6%	40.0%
Financial results	-3.1	-6.3	-6.5	-6.5	100.1%	4.0%	0.0%	27.7%
EBT	21.7	49.4	87.4	115.1	127.6%	76.8%	31.8%	74.4%
Income tax expenses	-6.7	-15.3	-26.3	-33.7	127.9%	71.7%	28.3%	71.2%
Net profit	15.0	34.1	61.1	81.4	127.5%	79.1%	33.3%	75.8%
Minorities	0.0	0.0	0.0	0.0				
Profit attributable to shareholders	15.0	34.1	61.1	81.4	127.5%	79.1%	33.3%	75.8%
Adjustments	0.0	0.0	0.0	0.0				
Adj. Profit to shareholders	15.0	34.1	61.1	81.4	127.5%	79.1%	33.3%	75.8%
Adj. EPS	0.77	1.74	2.25	3.00	125.3%	29.5%	33.3%	32.1%
Key performance matrix								
Transactions executed, m - pro-forma	31.4	60.2	43.8	46.4	91.7%	-27.2%	5.8%	13.9%
Number of retail customers, k	838.1	1,103.3	1,235.7	1,334.5	31.6%	12.0%	8.0%	16.8%
Transactions per customer, pro-forma	37.4	54.5	35.4	34.7	45.7%	-35.0%	-2.0%	-2.5%

Source: company data, Commerzbank Research

Key for our investment case is the realization of anticipated synergies from the DeGiro acquisition which management quantifies at >€30m, worth >€0.78 per share pre-capital increase and additional depreciation/amortization. Management expected this amount to be realized within 12 months post acquisition without any material restructuring costs. We take a more cautious approach: 1) we model an elevated operating expense base in 2020 including €9m of synergy/deal closure related expenses; 2) we include 85% of targeted synergies into our model; 3) we expect synergies to be realized at year-end 2022 - one year later than anticipated by management.

Chart 10 - flatex: synergies and client growth are key EPS drivers, €

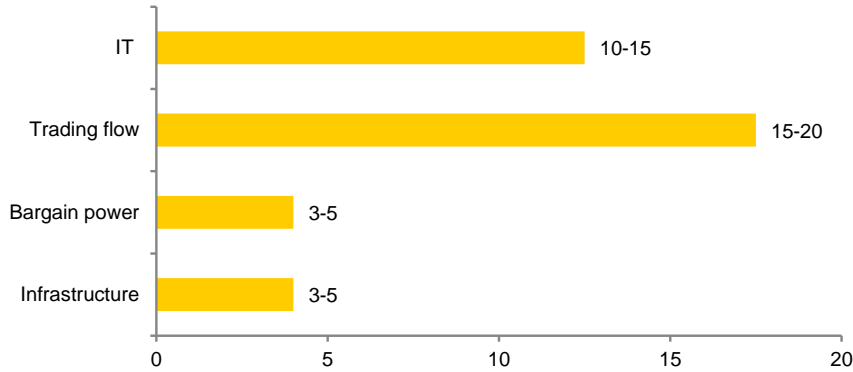


Source: Commerzbank Research

A closer look at cost synergies...

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 12 month post closure.

Chart 11 - flatex: Anticipated synergies from DeGiro acquisition, €m



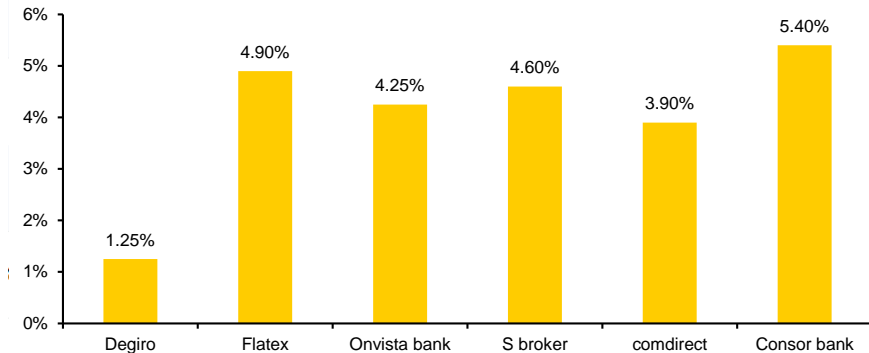
Source: company data

... as well as revenue synergies

We expect some price increases to be already implemented in 2021:

- **Repricing of DeGiro's lombard loan book:** DeGiro currently offers lombard loans at 1.25%. Flatex and German competitors offer a similar product while charging between 3.9% (comdirect) and 5.4% consorsbank.

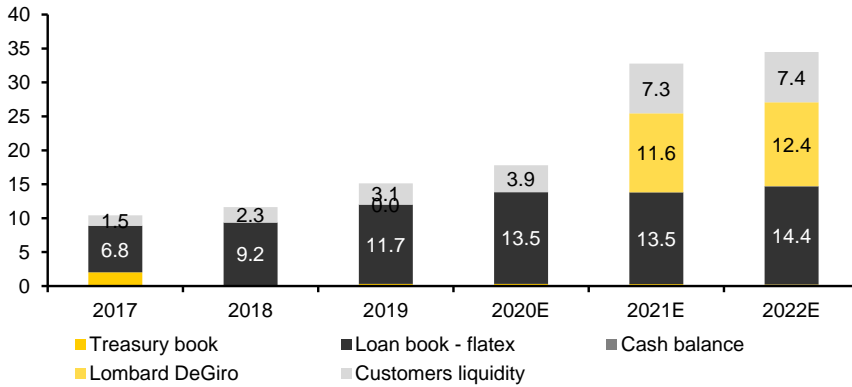
Chart 12 - German online brokerage market: Interest rates for lombard loans



Source: DeGiro

flatex is already at the higher end of the range at a 4.9% rate. We model 3.75% as the new rate to be charged to new combined client base resulting in a positive mix effect for flatex. This potential price increase would result in €7.7m of additional revenues.

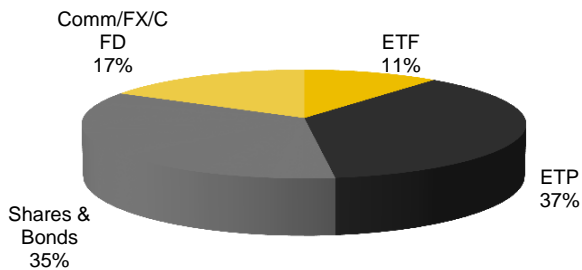
Chart 13 - flatex: breakdown of net interest income, €m



Source: Commerzbank Research

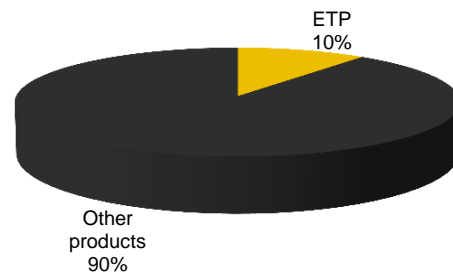
- More favorable product and pricing mix for ETP products:** We expect flatex to change the fee structure for its ETP offering. While DeGiro clients pay ~€2 per ETP trade, flatex clients trade ETP partnership products for free while flatex will be compensated from issuers of €7-9 per trade. Moreover, we expect a modest improvement in the DeGiro product mix from 10% to 15% in 2021 leaving significant upside for the years to come: We model €9.4m of additional revenues based on 2019 fundamentals in 2021.

Chart 14 - flatex: product mix (2019)



Source: flatex

Chart 15 - DeGiro: product mix (2019)



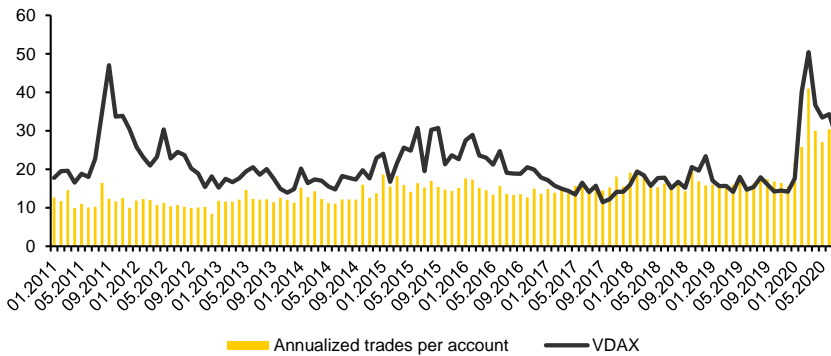
Source: DeGiro

- Custody fee:** We expect management to charge DeGiro clients a custody fee of 10bps including VAT - similar to the flatex client base. We estimate €4bn of AuM contribution from DeGiro resulting in a net contribution of €3.4m in 2021.

Why do we remain positive?

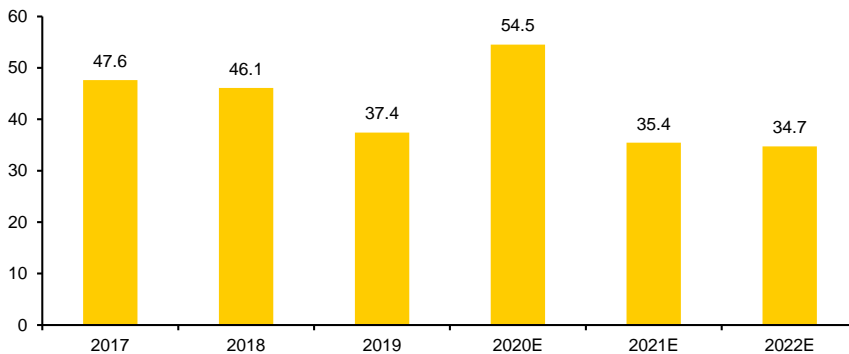
Rising earnings even in a normalized trading environment

Is the boost in trading activity sustainable? The trading behaviour of German mass retail client is relatively uncorrelated to change in volatility as we show using publicly disclosed trading data from comdirect - see chart below.

Chart 16 - comdirect: annualized trades per account vs. VDAX

Source: comdirect, Bloomberg

This might be different for flatex as its client base is more skewed towards heavy traders with average trades per account of 37.4x at flatex/DeGiro pro-forma vs. 16.4x at comdirect in 2019. However, given continuous growth at flatex, we expect this difference to level off over time.

Chart 17 - Trades per client to normalize

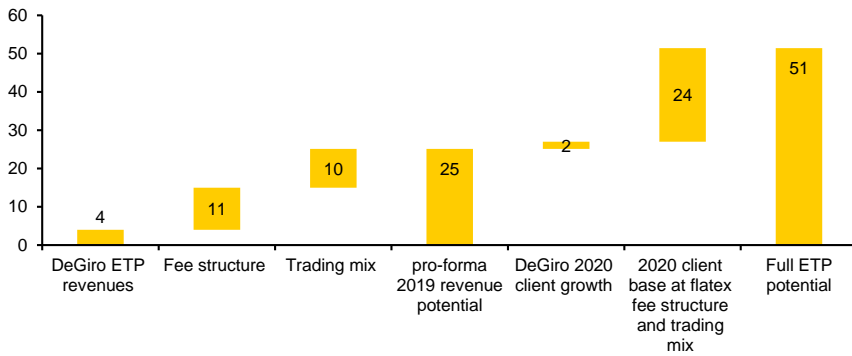
Source: Commerzbank Research, company data

ETP products are significant upside option to earnings

We believe a key value driver of the DeGiro transaction is the upside potential from flatex's ETP partnerships: We estimate up to €47m of additional revenue potential in a best case scenario. Why is it that significant?

- **Fees structure:** We estimate that DeGiro generated ~€4m of revenues, 9.5% of total trading fees, with ETP products while providing clients the opportunity to trade options and futures directly. We estimate that DeGiro receives on average €2 trading fee per ETP trade from its clients. If clients would use flatex products, they would save €2 of trading fees while flatex would be compensated at €7-9 per trade from this ETP partners: €11m revenue upside potential on 2019 numbers.
- **Trading mix:** According to flatex, its 2019 client base traded ~4.5m ETP products (37% of trades) while DeGiro clients made only ~2m trades in ETP products (~11% of trades). Assuming that DeGiro clients could be incentivised with zero trading fees to increase its ETP product trading share to 37%, the upside would be significant: €10m of revenue upside based on 2019 DeGiro trading fees of €2 on average.
- **Client wins in 2020:** We expect DeGiro to gain of 228k of new clients in 2020 of which 152k, 66% of the fully-year estimate, have already been onboarded in H1 2020. Based on the 2019 DeGiro trading mix and fees structure, we expect DeGiro to generate €2m of revenues.
- **Revenue upside potential from new clients:** Assuming that the 2020 new client base could be a) converted to the flatex client mix and b) to the flatex partnership fee structure, the revenue upside would be significant: we estimate €24m of additional revenue potential.

Chart 18 - flatex: ETP revenue upside potential, €m

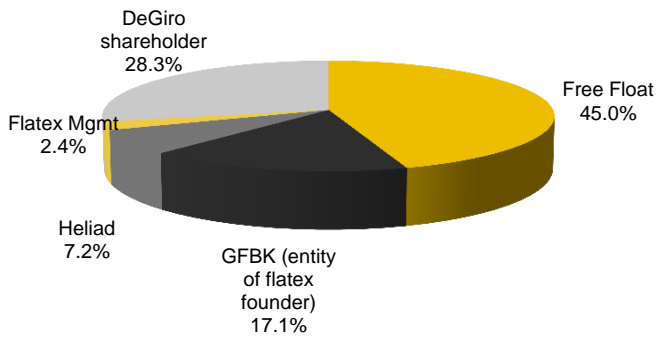


Source: Commerzbank Research

Management and supervisory board continue to buy shares

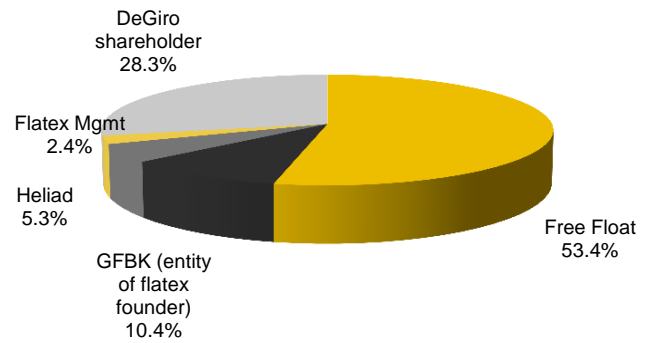
flatex is a company where management already owns at 2.4% a relatively high stake while supervisory board members are invested as well.

Chart 19 - flatex: Shareholder structure post DeGiro acquisition



Source: company data

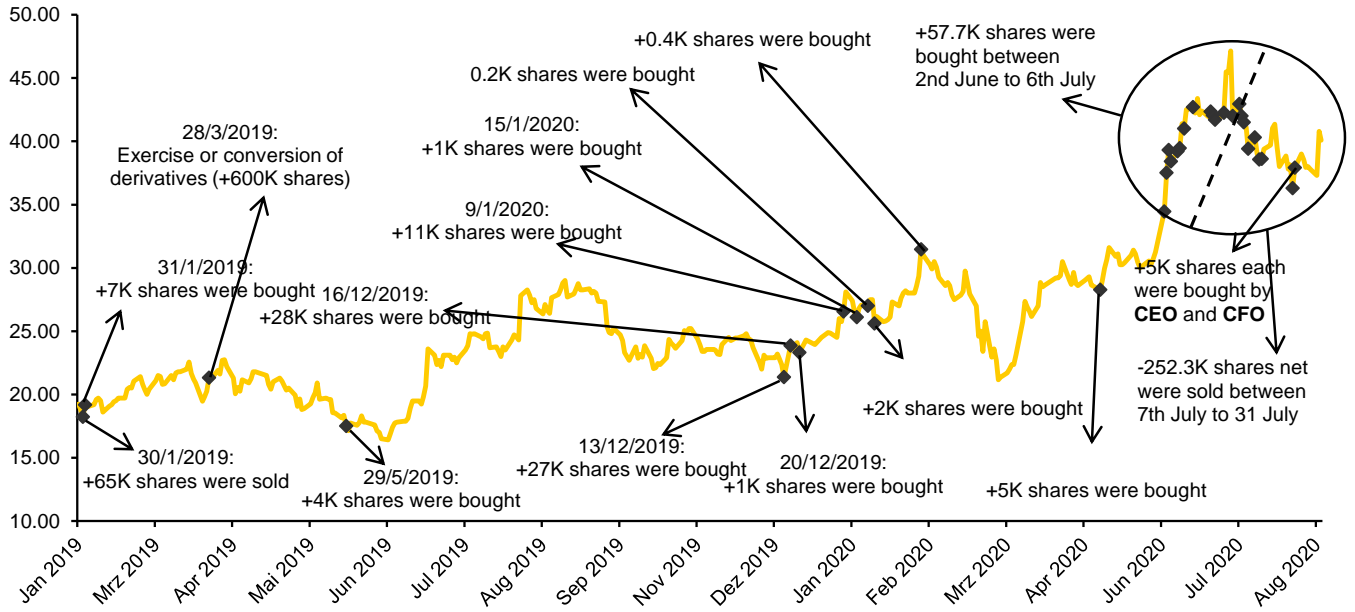
Chart 20 - flatex: Shareholder structure post DeGiro post placement



Source: company data, Bloomberg

Hence, following directors' dealing activity is important and has often been a good indicator of sharply rising share prices in the past. Despite the placement of founding member Bernd Förtsch and heliad capital in July 2020, insiders have continued to buy shares at levels of €42-43. In addition, CEO and CFO have acquired 5k shares each at €37.64 on average on 31 July 2020 after having sold 180k and 10k shares respectively on 7 July 2020.

Chart 21 - flatex: directors dealing activity



Source: Bloomberg

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Net revenues	107	125	132	202	268	290
Net revenue growth (%)	12.6	16.9	5.5	53.3	32.3	8.4
Operating expenses	(75)	(83)	(94)	(120)	(148)	(140)
Opex in % of sales	18.7	(5.3)	15.9	15.3	55.3	(11.2)
Adj. operating expenses	(75)	(83)	(94)	(120)	(148)	(140)
Adj. opex in % of sales	70.0	66.1	71.5	59.3	55.4	48.2
EBIT as reported	26	34	25	64	95	123
EBIT margin (%)	24.7	27.3	18.8	31.8	35.3	42.5
Adj. EBIT	26	34	25	64	95	123
Adj. EBIT margin (%)	24.7	27.3	18.8	31.8	35.3	42.5
D&A	(6)	(8)	(13)	(18)	(25)	(27)
EBITDA as reported	32	42	38	82	120	150
EBITDA margin (%)	30.0	33.9	28.5	40.7	44.6	51.8
Adj. EBITDA	32	42	38	82	120	150
Adj. EBITDA margin (%)	30.0	33.9	28.5	40.7	44.6	51.8
Pre-tax profit EBT reported	25	28	22	58	88	117
Adj. pre-tax profit	25	28	22	58	88	117
Tax	(8)	(11)	(7)	(19)	(26)	(36)
Tax rate (%)	32.5	38.6	31.0	32.5	30.1	30.5
Minorities	0	0	0	0	0	0
Net income attributable to all shareholders adjusted	17	17	15	39	62	81
Net income attributable to all shareholders reported	17	17	15	39	62	81
EPS reported	1.00	0.98	0.77	2.00	2.27	3.00
Adj. EPS	1.00	0.98	0.77	2.00	2.27	3.00
Adj. EPS growth (%)	65.8	(2.1)	(21.0)	159.0	13.5	32.0

Source: Commerzbank Research, Bloomberg, Company Information

Balance Sheet

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Total assets	1,107	1,224	1,266	1,562	1,652	1,758
Trade account payables	1.0	2.8	5.6	5.6	5.7	5.8
Other liabilities	974	1,042	1,061	1,325	1,361	1,386
Total liabilities	995	1,061	1,084	1,339	1,367	1,392
Total equity and liabilities	1,107	1,224	1,266	1,561	1,650	1,756

Source: Commerzbank Research, Bloomberg, Company Information

Cash Flow

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Operating cash Flow	0	250	(157)	421	(151)	83
Net financial investments	0	(12)	(0)	0	(0)	(0)
Investing Cash Flow	(13)	(28)	(33)	(10)	(10)	(10)
Free Cash Flow	(12)	222	(190)	411	(161)	73
Free Cash Flow (after dividend)	(12)	222	(190)	411	(161)	73
Increase / (decrease) in debt	15	(2)	1	(9)	(9)	0
Increase / (decrease) in equity	5	39	3	0	0	0
Other financing cash flows	0	(0)	0	0	0	0
Cash flow from financing activities	20	37	4	(9)	(9)	0
Net change in cash	8	260	(186)	403	(170)	73
Beginning cash	389	397	657	470	873	703
Ending cash	397	657	470	873	703	776

Source: Commerzbank Research, Bloomberg, Company Information

KPI

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
EBITDA growth (%)	22.7	32.2	(11.1)	118.9	45.0	25.8
EBIT growth (%)	(16.2)	2.8	(14.2)	161.6	56.9	32.0
No. of shares (class A) basic	16.8	17.9	19.4	19.6	27.1	27.1
No. of shares (class A) diluted	16.8	18.1	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	9.03	9.31	11.30	10.44	13.44
P/E (x)	40.0	40.8	51.7	19.9	17.6	13.3
P/B (x)	6.0	4.4	4.3	3.5	3.8	3.0
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
ROE	14.9	10.7	8.2	17.7	21.7	22.3
ROCE	14.8	10.5	8.0	17.3	21.3	22.0
ROA	1.5	1.4	1.2	2.5	3.7	4.6

Source: Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 14/8/2020 16:03 CEST and disseminated 17/8/2020 07:50 CEST.

flatex AG (FTK GY)



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Source: Commerzbank Research

[^] Prior trading day's closing price unless otherwise noted. Company name: flatex AG; Exchange: XETRA

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