

Swissquote Group Holding SA

Switzerland | Financials

Initiation of Coverage

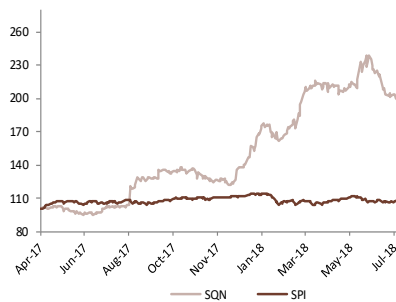
09 July 2018

Company Data

Price:	CHF 54.20
Market Cap:	CHF 830.8mn
Free Float:	63.4%
No. of shares:	15.3mn
Avg. traded volume (30 Day):	43,765
Bloomberg:	SQN SW
Reuters:	SQN.S
ISIN:	CH0010675863

Source: SIX Swiss Exchange, Bloomberg

Share Price Development (rebased 100)



Key Financial Data (CHF mn, except ratios and per share data)

	FY16	FY17	FY18E	FY19E
Operating Income Growth	2.5%	25.0%	11.7%	4.3%
Net fee & comm. Inc./OI	46.3%	45.4%	48.8%	49.4%
Cost/income ratio	84.6%	75.6%	70.2%	69.4%
Net Margin (%)	13.8%	20.9%	26.1%	26.5%
Basic EPS	1.39	2.73	3.82	4.04
Diluted EPS	1.39	2.73	3.82	4.04
DPS	0.60	0.90	1.15	1.21
P/E	38.90x	19.84x	14.20x	13.43x
P/BV	3.0x	2.8x	2.5x	2.2x
Yield (%)	1.1%	1.7%	2.1%	2.2%

Source: Research Dynamics, Company data

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Technological expertise providing an edge in Digital Banking

Founded in 1999, Swissquote Group Holding Ltd (SQN, the group) is Switzerland's leading Online Bank. Headquartered in Lake of Geneva area, Switzerland, Swissquote employed 593 personnel as of 31 December 2017. Swissquote is listed on SIX Swiss Exchange since 29 May 2000 and maintains offices in Zurich, Bern, Dubai, Malta, Hong Kong and London.

Global exposure, wide range of products and innovation to drive growth

Swissquote grew in its demanding Swiss home market and started the internationalization of its operations since 2010. The company's trading platform provides access to over 3mn investment products across 65 different markets globally, which makes it a leading provider of online banking and financial services. Availability of multiple trading platforms offering a wide range of products and investment services enables clients to invest in various asset classes directly through their multiple currency online bank account while keeping control over their portfolios.

Investments in technology to increase range of services

Swissquote started its operation as a provider of an online financial platform which allowed real-time access to prices of all securities traded on Swiss Stock Exchange to private investors. Since inception, cutting-edge technology is the backbone of Swissquote. On the back of technology and regular innovation, the company started expanding its product offerings, which is accessible to their direct and indirect clients such as private and institutional investors, business partners or white label clients and which can be replicated on a worldwide scale. The latest in the offering is the cryptocurrencies trading platform, which allows trading of major cryptocurrencies against the EUR or USD. Management is keen to invest more in R&D, so that the group can introduce more innovative and user-friendly products and services. We believe continuous investment in technology should support the company to stay ahead of the curve in the long-term.

Healthy 2017 numbers; positive outlook over the medium-term

Despite the continued pressure of negative interest rates on the banking sector of Switzerland, Swissquote was able to report a healthy set of FY numbers. The company reported net profit of CHF 39.2mn, up 88.8% y/y, in 2017. The net fee and commission income increased 22.5% y/y to CHF 85.2mn. The increase in net fee and commission income was supported by the inclusion of cryptocurrencies' trading revenue in the brokerage and related income and robust performance of white labels overseas. In 2017, Swissquote introduced a trading platform for cryptocurrencies and generated revenue of CHF 5.6mn for the year from the same. We believe cryptocurrencies' trading is in the nascent stage, so volume and revenue from this segment should increase in the coming years. Net interest income also increased by 8.3% y/y to CHF 12.2mn, despite the negative interest rate expenses of CHF 17.9mn. The eForex (currency trading with leverage) division too reported a 26.2% y/y rise in revenue to CHF 66.7mn on the back of strong volume, which increased 35.1% y/y to USD 1,091bn. However, corresponding commission income as measured by dollar per million (DPM) remained stable at CHF 62.4. In terms of client accounts, ePrivate banking and eForex witnessed significant growth as both improved by 22% and 29% to 1,898mn and 41,572mn, respectively. However, the number of trading accounts was almost flat at 236,861 whereas savings accounts decreased by 12% y/y to 28,955. In value terms, all three except savings accounts witnessed growth.

Current valuation level offers an entry opportunity

In view of the diversified business profile of Swissquote within the investment services industry, we have used a blended valuation technique of discounted cash flow (DCF) and relative valuation with appropriate weights. For relative valuation, we have considered relevant multiples such as P/E, P/B and P/TBV, vis-à-vis the average multiple of its peers and historical average, to value the stock. In addition, we have used DCF methodology as non-banking operations contribute over 90% of the group's operating income. We have arrived at a fair value of CHF 71.0 per share using the blended valuation technique, which gives an upside of 31.0% from the current levels. Thus, we believe the current price levels at which Swissquote is trading offers an attractive entry opportunity.

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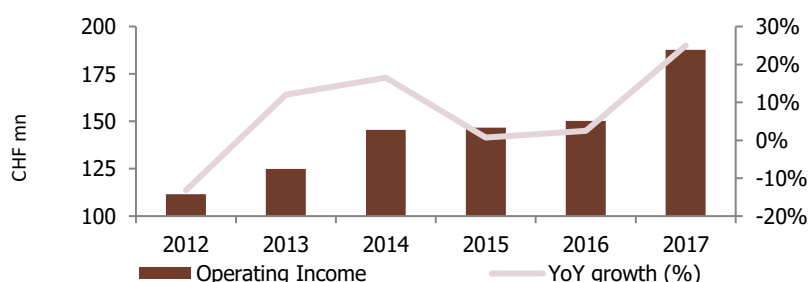
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INVESTMENT HIGHLIGHTS

Blend of technological, financial and compliance expertise provides an edge over peers

Technology and innovation are the primary differentiating factors for Swissquote as the company remains a technology-focussed firm while at the same time being a regulated, licensed and listed Swiss bank. Technological expertise enables the company to seamlessly integrate its IT and trading platforms thereby eliminating issues arising out of technical integration of different systems into its core banking solutions unlike its peers. Swissquote’s trading platform provides access to 65 global markets across multi-asset classes. The platform also allows its clients to trade in ~80,000 ETFs, ~50,000 tradable bonds, ~20,000 mutual funds, securities, options, futures, commodities, currencies and indices from their online banking account. Moreover, the company’s ~100 B2B partners could use Swissquote’s platform to offer over three million products.

Exhibit 1: Operating income trend during the past six-year period



Source: Research Dynamics, Company data

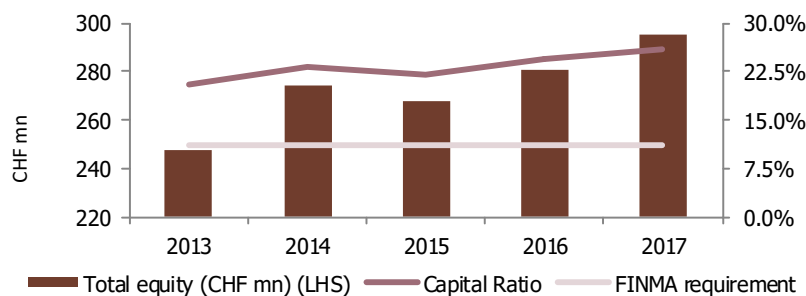
The group’s easy-to-use platform enables users to trade from anywhere in the world and at their own time, and clients retain complete control over their investments. Accordingly, the ease of access, minimum turnaround time and wide universe of investment vehicles make the platform attractive to individuals, institutional as well as B2B clients. Moreover, the absence of advisory or discretionary services minimises the potential of conflict of interest, which further helps Swissquote to expand its relationship with its B2B clients. The success of the platform is evident by the client-base of over 350,000 client accounts served over the digital platform of the company as of Feb 2018.

Swissquote continuously invests in technology to improve the attractiveness of its platform, thereby maintaining its edge over competitors. The company’s expertise in technology and finance allows it to seamlessly integrate the technology within its core banking system, improve customer experience, without compromising on quality and security of the services. Swissquote’s diverse offerings allows it to cater to customers who prefer to receive all the required services under one single platform.

Amongst the best capitalised banks in Switzerland

The company has remained well capitalised over the years. As of December 2017, Swissquote’s capital ratio was at 26.1%, a consecutive second year rise from 22.0% in FY2015 (24.5% in FY2016). Total equity has increased to CHF 295.1mn (4.5% CAGR in 2012-17), while the capital ratio has improved to 26.1% in FY2017 compared to 20.6% in FY2012. Accordingly, the company remains on the list of best capitalised banks in Switzerland.

Exhibit 2: Total equity and capital ratio



Source: Research Dynamics, Company data

Banks in Switzerland are divided into four different categories, which are required to maintain a minimum capital ratio in accordance with their respective category. Swissquote, categorised as a level 3 bank, which required to maintain a minimum capital ratio of 11.2% (incl. capital conservation buffer of 3.2%) under the FINMA regulations. However, the company has continually maintained capital well above the stipulated levels over the years. Moreover, Swissquote’s total risk-weighted assets have declined for a consecutive two years since FY2015, thereby displaying better risk-management in the recent past. The company’s cash position remains comfortable with excess cash available above the minimum requirements under different regulations. The group enjoyed a substantially high liquidity coverage ratio of over 500% during all four quarters of FY2017. Moreover, the structural liquidity ratio, Net Stable Funding Ratio (NSFR), which will be applicable starting FY2018, stands at 366% against the minimum requirement of 100%.

Our long-term projections are based on the assumption of reversal of negative interest rate regime to zero interest rate starting from FY 2021, which should free-up excess cash from the balance sheet of Swissquote. This excess cash can be utilised for revenue generating activities such as inter-bank deposits and lending. Accordingly, we foresee an additional revenue generation of ~ CHF 10mn initially, without incurring any additional capital cost by 2021. However, it might drag down the capital ratio to ~18% in FY 2021 as compared to the current capital adequacy ratio (CAR) of 26.1%. Nevertheless, the reduced CAR (~18%) will still be significantly above the current FINMA requirement of 11.2%.

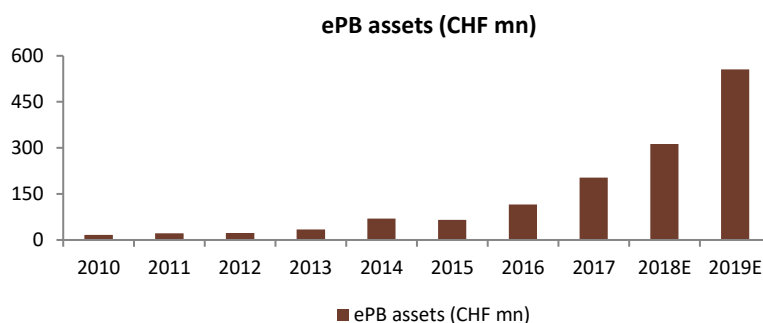
GROWTH OPPORTUNITIES & KEY DRIVERS

Robo-Advisory, the new financial advisor on the horizon

Robo-advisors are machine-based financial advisors who provide online financial/investment management services without or with minimal human intervention. The financial advice is based on specific algorithms, which are programmed to allocate, manage and optimize clients' assets based on their individual risk profiles. Robo-advisory is a breakthrough in investment management services, which has expanded the footprint of investment advisory services across a broader audience. In recent years, automated investment advisors have gained popularity on the back of reduced cost of advice, which was a by-product of the development on the technological front. Robo-advisory has become disruptive to the traditional investment advisory services industry, which was otherwise available to the exclusive few in the past. Moreover, availability of data and data processing capabilities has allowed for an improvement in the quality of services provided to clients with minimal subjectivity. Moreover, robo-advisory attracts self-motivated and informed clients to carry on their investment decisions in a convenient manner without losing control and breaching their individual risk profile.

Swissquote has followed a strategy of focussing on increasing the number of clients and client assets as compared to improvement in the number of transactions per client. This strategy underlines the company’s core value of increasing the top-line through continuous innovation and product improvements, not by pushing existing clients to do more transactions. This allows the company to serve its clients while providing a cutting-edge platform without influencing their decisions related to their investment portfolio. Moreover, the company is using big data analytics to cluster various client groups to create innovative products for a better personalised experience for the clients through an improved platform.

Exhibit 3: Global leader in Robo-advisory



Source: Company data, Research Dynamics

Expansion of global footprint on the back of white label agreements

Swissquote’s medium-to-long-term strategy involves tapping the synergies arising from the combination of its technological expertise with the continually expanding financial market reach. Accordingly, the company has entered into various white-label contracts with third party financial institutions (e.g. PostFinance), allowing those institutions to use the company’s technology platform after rebranding the same in their own name. Revenues from white-label agreements are generated on a profit sharing basis and contributed ~9% of total revenues in FY17, which should grow further in the forecasted period as the company expands into new financial markets. As such, the group plans to increase its geographical outreach through the extension of online services and access to OTC eForex services with the help of its technology platform to third party financial institutions under white-label agreements. Opportunities for white label agreements are growing in various regions such as the Middle-East, South America, South Africa and across the globe. As such, we believe that revenues from white-label contracts should start accruing in the medium-to-longer term.

Growing interest in theme-based investment should drive growth

Swissquote offers execution services to its self-directed clients and discretionary asset management services based on its advanced robo advisory technology. It does not provide advisory services but instead has developed Theme Trading that helps its clients to translate topics/treads arising from the news flow into baskets of securities that reflects such topics and clients can invest in that, through direct investment and for a selected number of themes through investment in certificates that mirror the basket of securities selected by Swissquote. Certificates are issued by third party partners not by Swissquote.

Volumes in thematic investments should grow on the back of shifting of wealth towards innovative themes from traditional sector- and country-based investment avenues and thus reduce clients’ high cash quota in their accounts towards a more revenue-generative exposure for Swissquote.

Cryptocurrencies and Blockchain Technology

The cryptocurrency market, which trades various cryptocurrencies, has witnessed a surge in both total volumes and value, which has given many traditional investment avenues a run for their money. Accordingly, investors’ interest in cryptocurrencies has grown manifolds. Even though the future of cryptocurrencies remains uncertain, Swissquote is continuing to invest in the offering of blockchain based investment products and is a founding member together with Switzerland’s most prestigious law firm of the Capital Markets and Technology Association. Trading volumes derived from blockchain technology are set to grow in the future.

Advancement in Financial technology

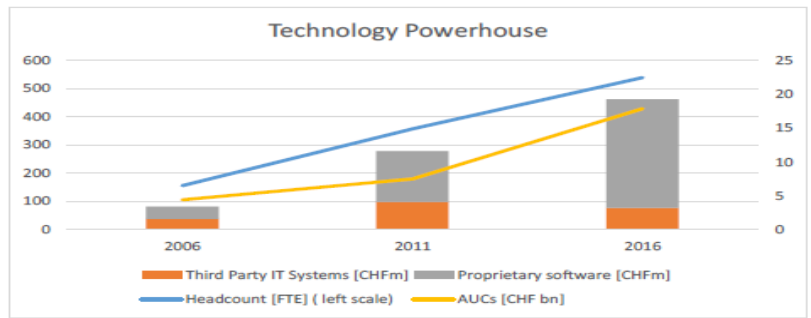
The term financial technology (Fintech) refers to innovations in the financial services sector. The companies in the Fintech space develop innovative lines of business avenues to update or to offer new solutions related to traditional business issues. The rise in start-ups, along with the development of new technologies in the financial service industry, has the capacity to change the manner in which the traditional financial services industry operates. This can be easily evidenced by the growing online transactions, bank transfers, crowdfunding, virtual currencies and digital investment advisors. The growth in digital banking and its acceptance across customers have nudged every brick and mortar bank to shift their focus on improving their technological competencies. Swissquote’s technological and financial expertise with a deep experience in the financial service industry should help the group to maintain a sustainable edge over its competitors in the medium term.

Exhibit 4: Fintech in Switzerland



Source: Company data, Research Dynamics

Exhibit 5: Technological expertise



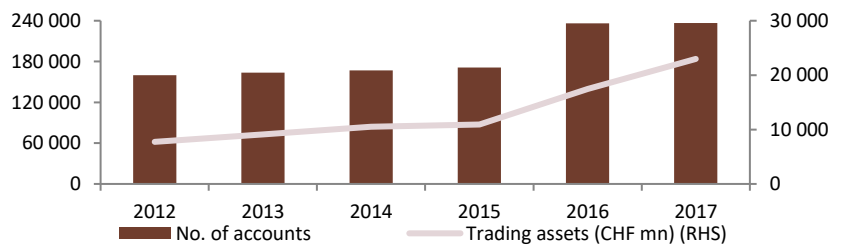
- >35% are qualified engineers
- Offshoring strategy offers capacity flexibility
- Own software: Front, Middle and Risk management
- Increasing importance of mobile application. Up to 30% of all orders depending on financial instrument

Source: Company data, Research Dynamics

KEY DRIVERS

The revenue for Swissquote is driven by a combination of three key variables: volume of transactions within the securities trading segment as well as the eForex, and the amount of banking assets in the balance sheet. The company’s fee & commission income is generated from the volume of transactions initiated by the clients through its platform. The clients’ trade on various asset classes such as securities, derivatives, mutual funds, currencies, ETFs, bonds, commodities, cryptocurrencies and various other asset classes. Swissquote’s total trading accounts have grown at a CAGR of 8.2% during the period of 2012-17 to 236,861, while total assets have nearly trebled to CHF 22,979mn during the same period. The total number of transactions has grown at a CAGR of 8.1% during the period of 2012-2017 to 2.6mn.

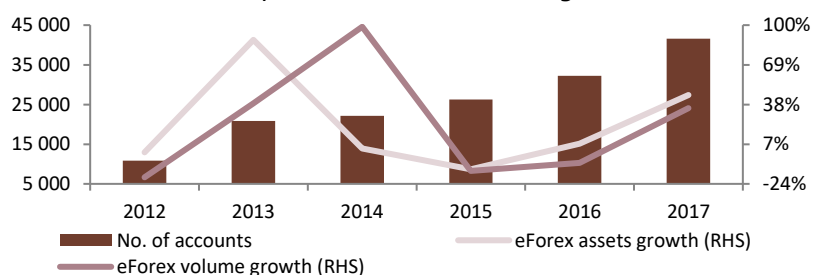
Exhibit 6: Trading accounts and trading assets growth



Source: Company data, Research Dynamics

Income generated through eForex is dependent on the volume of transactions. The Dollar per million (DPM in CHF) matrix shows how much the group is earning on the transaction value of one million. In 2017, the company reported a DPM of CHF 62.4, which we believe is going to increase going forward as the company is focussing on high net worth clients. The company’s eForex assets have grown over the period, however, Swissquote and its clients had lost a significant amount in FY2015, when the decision was taken to de-peg the Swiss Franc from the Euro.

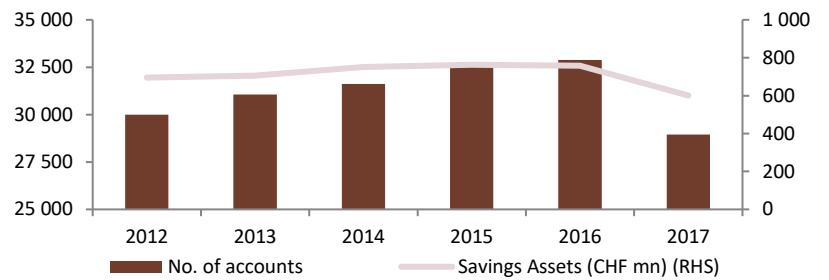
Exhibit 7: eForex accounts, eForex assets and volume growth



Source: Company data, Research Dynamics

The income for banking business is generated through investment in investment securities, lending of money to third parties (banks and Swiss sovereign entities) and providing margin loans to clients who maintain an account with Swissquote and trade through Swissquote’s platform. Clients’ deposit, half of which are denominated in Swiss Francs and the other half in Euro and USD, can be divided into two categories: 1.) Deposits meant for trading and 2.) Money in the savings account. The remuneration of client money meant for trading is nil or marginal as the main purpose of client is to invest it in securities. On the other hand, money in the savings account is eligible for interest. However, record-low interest rates have resulted in a reduction in savings accounts over the years. Accordingly, the total number of savings accounts stood at 28,955 as at Dec 2017, while assets in savings accounts amounted to CHF 601mn.

Exhibit 8: Savings accounts and savings assets growth



Source: Company data, Research Dynamics

GROUP OVERVIEW

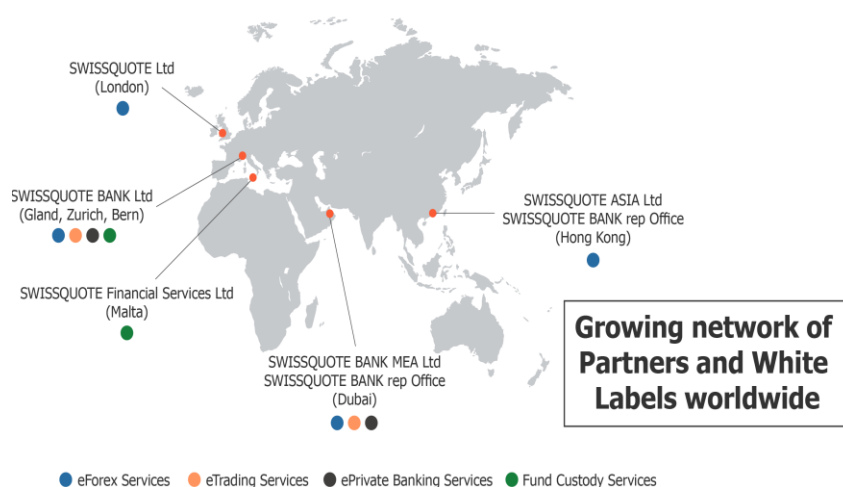
Swissquote Group Holding Ltd (Swissquote, the group) is Switzerland's leading provider of online financial and trading services. Swissquote is primarily a digital bank with strong Swiss roots with the majority of its operations still in Switzerland. The company initiated their services through offering online trading in securities on stock exchanges for instruments such as bonds, equities etc. which are also categorised as low risk or on exchange products. Initially, Swissquote served the clients with no advisory services. Over the period, the company expanded its services by adding clients through partners before venturing into eForex. Swissquote entered into their first white label agreement in the eForex service and in the process extended their services beyond Swiss boundaries. The group plans to expand its geographical footprint further through white label agreements.

Swissquote primarily operates in Switzerland (~86%) followed by Europe (excl. Switzerland; ~9%), with ~95% of total assets located in this region. However, over the years and through acquisitions, the group increased its footprint in different geographies across the globe. Currently, Swissquote operates through offices in seven locations globally. The company has operations in Gland, Zurich and Berne in Switzerland from where it provides services such as eForex, eTrading, ePrivate Banking and Fund Custody Services. The operations in Dubai provide all the services except the Fund custody services, while operations in London and Hong Kong exclusively provide eForex services. The operations in Malta, which consists of a very small part of the total revenue, provide Fund custody services.

The company, headquartered in Gland, Switzerland, employed 593 personnel as of 31 December 2017. Swissquote is listed on SIX Swiss Exchange since May 29, 2000 and the company maintains offices in Zurich, Bern, Dubai, Malta, Hong Kong and London. Together with its subsidiaries, Swissquote provides online financial and foreign exchange trading services in Switzerland, Europe, North America, the Middle East and Asia.

Exhibit 9: International operations

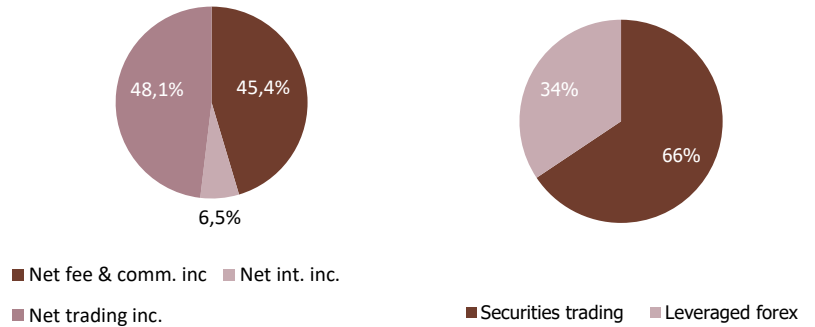
International Operations



Source: Research Dynamics, Company data

Through its Securities Trading and Leveraged Forex segments, the company caters to self-directed private investors by providing online securities trading and robo-advisory services. Swissquote provides the necessary tools, which route the orders to the stock exchanges over their online platform and provide assistance in decision-making to private investors. On the other hand, for independent asset managers, Swissquote provides tools to process grouped orders on behalf of their clients and allow them to access their account. The client-base of Swissquote also includes institutional investors, investment funds and third party financial institutions. The company also provides access to leveraged forex platforms to retail and institutional customers, money managers, and third-party financial institutions wherein the clients can trade in foreign currencies with a predefined margin. In addition, the company's banking operations provide core-banking services such as accepting deposits (current and saving accounts) from its customers in various currencies such as, CHF, USD, EUR, and GBP, offering margin loans and loans to Swiss municipalities, and invests in debt securities and other asset classes.

Exhibit 10:
Operating income break-up (2017) **Segmental operating income**



Source: Research Dynamics, Company data

Source: Research Dynamics, Company data

The company operates through the following five subsidiaries:

Swissquote Bank SA: Swissquote Bank SA holds a banking licence and is regulated by FINMA. In addition to its head office in Gland, the bank also has offices in Zurich, Bern, Dubai and Hong Kong.

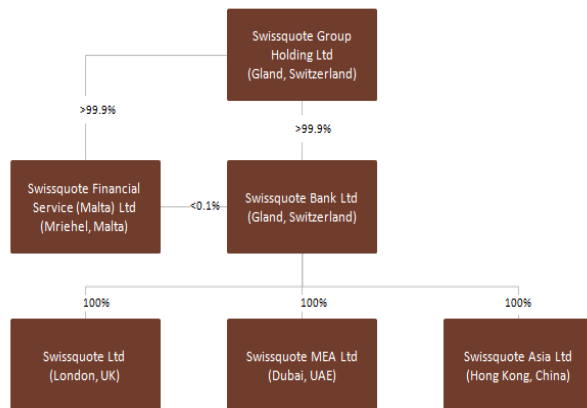
Swissquote Financial Services (Malta) Limited: Swissquote Financial Services, based in Malta, is an investment services company.

Swissquote Ltd (formerly MIG Capital (Europe) Limited): Swissquote Ltd, regulated by the Financial Conduct Authority (FCA), is an investment company based in London.

Swissquote Bank MEA Limited: Swissquote Bank MEA Ltd, regulated by the Dubai Financial Services Authority (DFSA)

Swissquote Asia Limited: Swissquote Asia Ltd, based in Hong Kong, is regulated by the Securities and Futures Commission (SFC).

Exhibit 11: CORPORATE STRUCTURE



Source: Research Dynamics, Company data

HISTORY AND EVOLUTION OF SWISSQUOTE

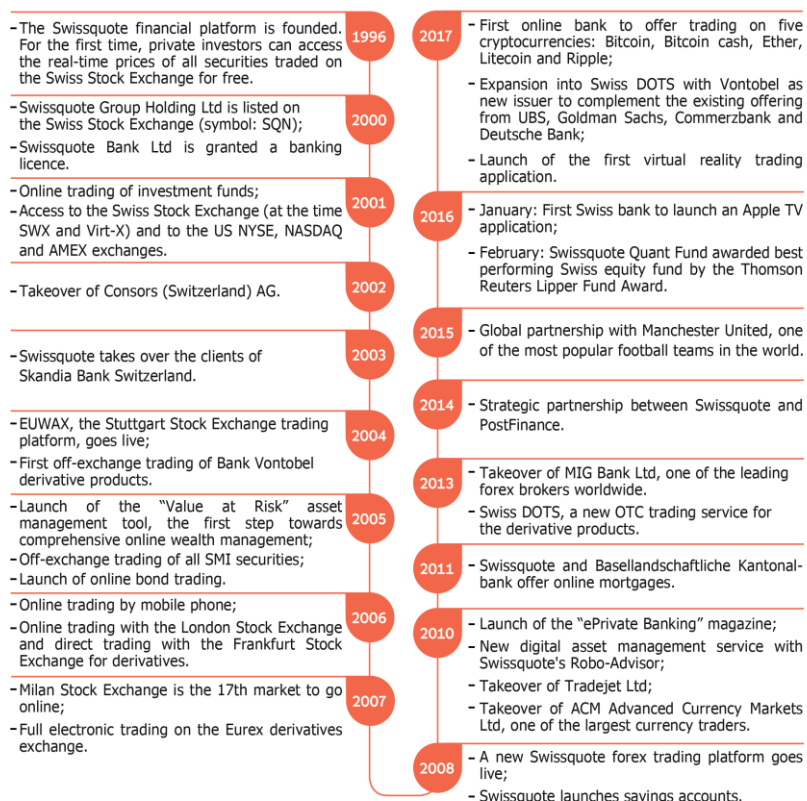
In 1996, Swissquote started its operations as a provider of a financial platform which allowed online real-time access to prices of all securities traded on Swiss Stock Exchange to private investors. The success of the platform led to the creation of Swissquote Group Holding Ltd, which was listed on the SIX Swiss Exchange in May 2000. In the same year, Swissquote Bank Ltd received a banking licence. Apart from the Swiss Stock Exchange, Swissquote gained access to the US NYSE, NASDAQ and AMEX exchanges in 2001.

Over the years, the company expanded its operations through the takeover of Consors AG (Switzerland) in 2002, followed by the acquisition of the clients of Skandia Bank Switzerland. Swissquote consolidated its place as a major player in online trading through the acquisition of the Advanced Currency Markets AG (ACM), one of the Switzerland's largest currency traders, in 2010. Further, the company launched Robo advisory services, an electronic asset management service for clients who were looking for a professional tool to manage their portfolios independently. In 2013, Swissquote acquired MIG Bank to expand its geographical footprint in forex broker services, which enabled the company to enter amongst the top ten online currency trading service providers.

In recent years, the company has broadened the universe of offerings e.g. Swiss DOTS (the trading platform for derivative products in collaboration with UBS, Goldman Sachs, Commerzbank, Vontobel and Deutsche Bank), which can be traded through its platform over the years. The universe includes both the company's wide range of services as well as third party products such as online mortgages (in collaboration with BLKB), and its partnership with PostFinance. The company's multi-asset platform has progressively expanded through the addition of eForex, cryptocurrencies and other investment assets. Further, Themes Trading, a new service in the financial investment environment, provides clients useful insights to invest in comprehensible and relatable trends. The latest in the offering is the introduction of a cryptocurrencies' trading platform, which allows the trading of major cryptocurrencies against the EUR or USD.

Exhibit 12: Timeline of events

The current scope of the operations is the result of a historic development of which key milestones are summarised as follows:



Source: Research Dynamics, Company data

BUSINESS MODEL

Swissquote started as an execution platform provider for security investors only. Initially the platform offered by Swissquote was only for on-exchange (low risk) products, such as equities, bonds etc. The company expanded its reach by adding direct clients and clients through its partners. In 2010, the company acquired Dubai based ACM and thus added eFX into its universe of product offerings. Along with the new product category, this allowed the group also to expand its footprint overseas. Further in 2013, the company acquired MIG which brought them the additional location London, Hong Kong as well as other relationships across the globe.

Swissquote business model can be displayed in four following dimensions:

Universe of investment products: Swissquote’s universe of products can be classified into two divisions, on-exchange (low risk) products such as equities, funds, certificates and bonds, and off-exchange products which include eFX, cryptocurrencies and Contract for Difference (CFD).

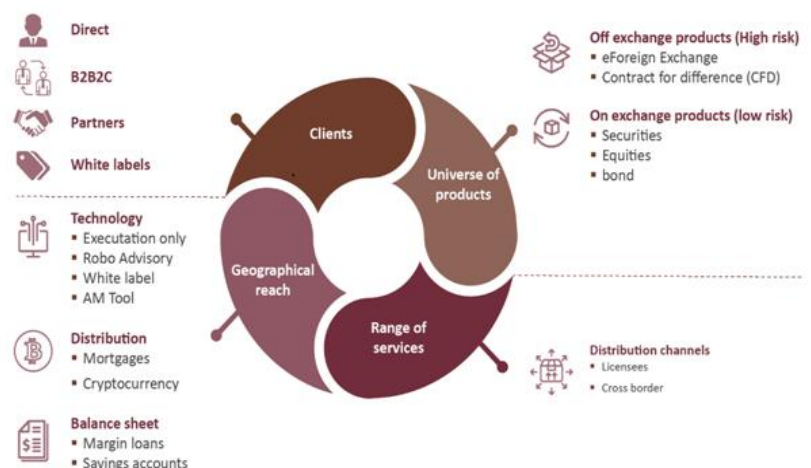
Clients: Swissquote clients can be divided into three categories: direct clients, B2B2C and white labels. Clients who were directly acquired by Swissquote and deal with the company are direct clients, the cash deposits by direct clients stay in the company’s balance sheet. B2B clients are the partners who work for Swissquote to get clients, the clients acquired by partners for Swissquote are B2C clients. Partners could be individual asset managers, business finders or financial institutions. Partners work on a profit sharing basis.

Under the white label agreements, partner clients of Swissquote are enabled to use Swissquote’s technology/platform under their own brand to serve their respective end customers. The white label arrangement allows Swissquote to expand its reach even further, as the company only needs to deal with the respective white label client and not with the associated end customers.

Technology, distribution and balance sheet: Under this dimension, the company provides services through its cutting-edge technology, enabling clients to execute various trades through its platform. It also includes services such as, robo-advisory services which enables self-directed clients to trade in various asset classes in accordance with their risk profile without losing control over their portfolio. Further, the company provides eMortgage facilities which are third party mortgages distributed by Swissquote. These mortgages are not reflected in the company’s balance sheet as they are not issued by the company but are only distributed. In addition to the above, the balance sheet services include traditional banking services such as, savings accounts, margin loans etc.

Geographical reach: The fourth dimension covers the group’s international operations through its international branches/offices, its distributions channels, licences and cross border transactions. Currently, Swissquote maintains its own offices in Dubai, London, Hong Kong and Malta. Swissquote plans to expand its global footprint through white label agreements with clients from different countries. These agreements would allow Swissquote to mitigate regulatory and compliance risks as the white label partners are primarily responsible for complying with the respective domestic regulations. White label agreements also allow the company to save on direct marketing costs as the company does not operate in its own brand name.

Exhibit 13: Business Model



Source: Research Dynamics, Company data

Swissquote generates revenues through a combination of volume, value (volume of eFX trade) and banking assets. The company's fee & commission income is generated from the number of transactions initiated by the clients through its platform. The clients trade on various asset classes such as securities, derivatives, mutual funds, ETFs, bonds, currencies, commodities, cryptocurrencies and various other instruments. Swissquote's total trading accounts has grown at a CAGR of 8.2% during the period of 2012-17 to 236,861 while total assets have nearly tripled to CHF 22,979mn during the same period.

On the other hand, income generated through eForex is dependent on the volume of the transactions, while the banking assets generate income through lending of money to third parties. Record-low interest rates have resulted in decline in the number of savings accounts over the years. Accordingly, total savings accounts stood at 28,955 as at Dec 2017, while assets in savings accounts amounted to CHF 601mn.

Multi Asset Platform

In essence, Swissquote offers a multi-asset platform to direct clients such as private and institutional investors, or to business partners or white label clients. With cutting-edge technology, a broad range of services can be offered to these clients, such as trading execution, robo-advising or eMortgage. In turn, the successful implantation of these services in the Swiss market can be multiplied in other countries around the globe.

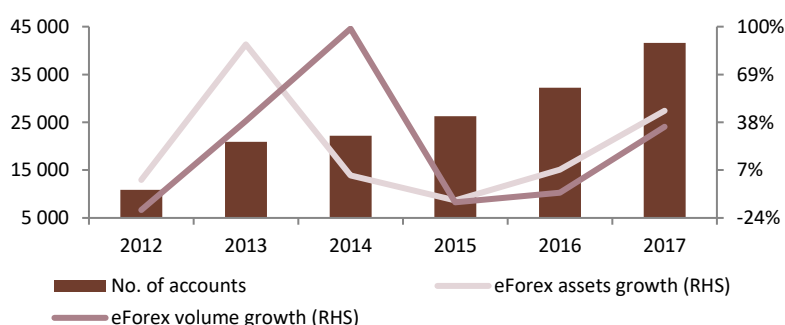
eForex

Swissquote is one of the foremost players in the foreign exchange markets across the globe. Under the universe of its eForex services, Swissquote allows trading in currency, precious metal and CFDs to its clients. The forex market is the largest market in the world with average trading of over USD 5.0tn per day characterised by high liquidity and round the clock trading. Swissquote has capitalised on its technological expertise to offer leveraged forex trading covering major and emerging market currency pairs apart from offering precious metals such as gold, silver, platinum and palladium against the main currencies.

In September 2013, Swissquote acquired 100% of the share capital of MIG Bank Ltd (MIG), a Swiss broker engaged primarily in the foreign exchange and bullion market. The acquisition resulted in Swissquote becoming a major global player in the retail forex brokerage business. The acquisition of MIG enabled Swissquote to build up on the base it had created by acquiring Advanced Currency Markets (ACM) in October 2010. At the time of purchase, MIG's monthly forex volumes were nearly 2.0x of Swissquote's monthly forex volumes. The integration of MIG helped the company to expand its footprint in the key forex markets of Hong Kong and London. Swissquote leveraged MIG's expertise in forex business to grow its forex trading volumes to USD 1,091bn in FY2017, as compared to USD 459bn in FY2013, while eForex income has grown at 15.0% CAGR during the same period.

One major advantage that gives Swissquote an edge over the multitude of competitors in this space is the "Swissness" branding and the fact that the company actually maintains a banking licence.

Exhibit 14: eForex accounts, eForex assets and volume growth



Source: Company data, Research Dynamics

Swiss DOTS

In May 2012, Swissquote expanded its product offering through the introduction of a Swiss Derivatives OTC Trading System (Swiss DOTS). Swissquote initially collaborated with Goldman Sachs and UBS to design the system, which provides investors the necessary market access to trade in derivatives products on underlying assets such as international and Swiss equities, currency pairs, indices and precious metals offered by the partner issuers.

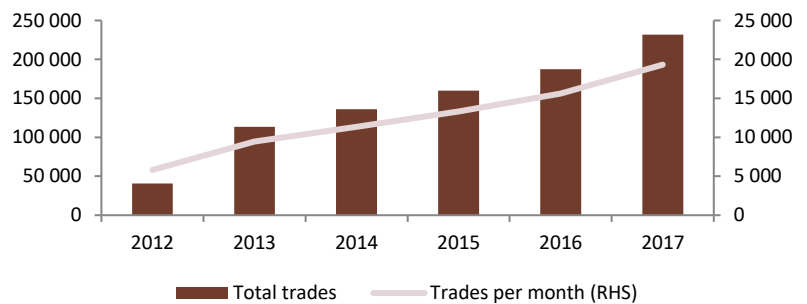
Swiss DOTS has been a popular platform amongst both investors and traders as the platform allows trading at a flat rate with long trading hours of 8.00 to 22.00. The success of the platform is evident from the gradual rise in the number of trades being carried on the platform over the years. Swiss DOTS allows the issuer partners to unveil a new product segment for their active trading clients, which in turn results in higher market share for the partners. In FY2017, Swissquote on-boarded Vontobel Investment Banking as its fifth issuer, thereby taking the total number of issuer partners to five with Goldman Sachs, UBS, Commerzbank, Deutsche Bank X-markets and Vontobel.

Exhibit 15: Swiss DOTS issuer partners



Source: Company data, Research Dynamics

Exhibit 16: No. of trades on Swiss DOTS and trades per month



Source: Company data, Research Dynamics

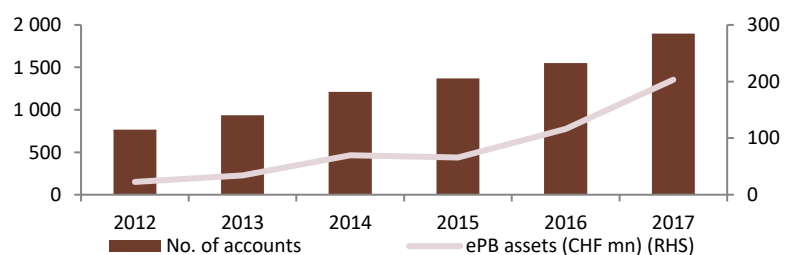
Total number of products has risen to over 90k as of December 2017, from ~40k as at the end of 2012. While catering to Swissquote’s clients and PostFinance e-trading clients apart from the issuer partners’ clients, Swiss DOTS handled ~19k transactions per month on an average in FY2017. Products available for trading on Swiss DOTS include Warrants (~51k), Knock-out warrants (~26k), Mini futures (~12.5k) and Factor certificates (~0.5k) provided by issuer partners.

Robo-Advisory services

In 2010, Swissquote launched robo-advisory, an electronic wealth manager (first robo-advisor in Switzerland) for clients who require asset management solutions without continuous market monitoring, while staying in control of their investments. The platform allows the client to choose a risk profile and investment universe, before taking over for continuous monitoring and optimising the portfolio. The advantage of the platform is its flexibility and user-friendliness with an element of objectivity, thereby removing risks arising out of emotional judgments.

Robo-advisory uses an algorithm to construct an optimal portfolio based on the principles of quantitative management. Moreover, the robo-advisor considers relationships between assets, historical data, market cycles and investment preferences to arrive at an optimal portfolio which limits the overall risks to the prescribed levels, even as it maximises total returns on the investment. Moreover, the robo-advisor is programmed to adapt to the changing risk-reward profile of a portfolio in line with the market to maintain the optimal balance.

Exhibit 17: ePrivate Banking accounts and ePrivate Banking assets growth



Source: Company data, Research Dynamics

Themes Trading

In 2015, Swissquote entered the growing market of thematic trading. Thematic trading, based on Swissquote's advanced robo-advisory technology, provides execution services to its self-directed clients. It does not provide advisory services, instead has developed 'Theme Trading' that helps its clients to translate topics/trends arising from the news flow into baskets of securities that reflects such topics and trends. The clients can invest directly or through certificates (issued by third party partners) which mirror the basket of securities selected by Swissquote. Accordingly, the customer is exposed to a basket of stocks that represent the underlying theme.

Initially, the company launched thirty themes, which included themes such as cyber security, fitness trends, Greek recovery and wind energy. The themes are market reactive, which undergo changes by third-party analysts in accordance with the changing dynamics of the global markets and broader economy. With the launch of thematic investments, issued by various providers e.g. Vontobel or Leonteq, over its platform, Swissquote ventured into one of the more innovative investment products, which became popular in the recent times for its cost advantage, coupled with reduced risk on the back of diversification. With the thematic investing the company expects to increase investor's returns by reducing the relatively high cash quota on their accounts, with a limited risk involved in trading.

Cryptocurrencies trading platform

Swissquote is the first Swiss online bank to offer a platform to invest and to trade in five cryptocurrencies against the EUR or USD. Currently, Swissquote offers Crypto-currencies to direct clients, and clients through white-labels but it's not available to asset managers or other investment advisors. The company is planning to make it available for asset managers or other investment advisors, which will further increase trading volume in crypto.

Although initially the platform was capable of trading only Bitcoin, since December 2017 other cryptocurrencies such as Ether, Litecoin and Ripple have also been made available. Clients, through their ordinary Swissquote trading account, can invest and trade in cryptocurrencies in the same manner as they do in currencies, stocks or funds. The sharp increase in interest in crypto trading in the last quarter of 2017 led to significant increase in new accounts. Even though the future of cryptocurrencies remains uncertain, Swissquote continues to invest in the offering of blockchain based investment products and is a founding member together with Switzerland's most prestigious law firm of the Capital Markets and Technology Association. Trading volumes derived from blockchain technology are set to grow in the future.

White-label agreements

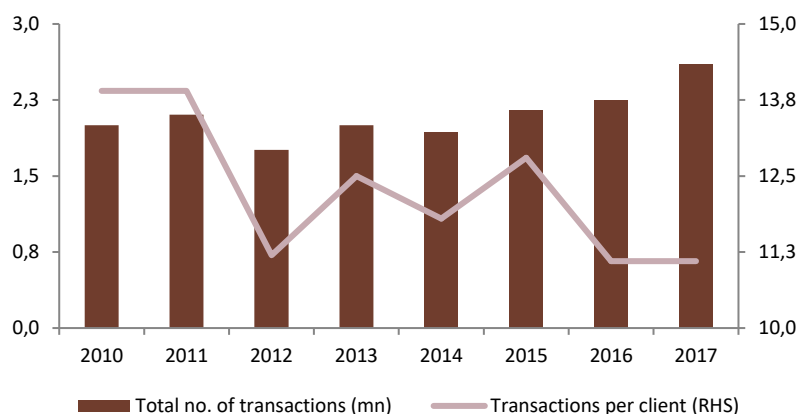
Swissquote has entered into white label agreements with various financial institutions, thereby allowing them to utilise the company's cutting-edge technology under their own brand name to serve their clients. The facility of account level segregation in the platform allows financial institutions to serve their clients independently. On the other hand, Swissquote gains steady income from the financial institutions, in addition to increasing Swissquote's reach in different markets on the back of such agreements. The use of white label agreements provides international reach and reduce regulatory hurdles for the company.

The company offers B2B services to its partners wherein they utilise Swissquote's platform as a global custodian, an execution broker across various global markets, multiple asset classes and three million financial products. Swissquote's platform can be used by an external asset manager or a smaller bank to access the markets, its products and also to manage their clients via the platform with custom-built B2B functionality.

Strategic partnership between Swissquote and PostFinance

In May 2014, Swissquote entered into a partnership with PostFinance (its main competitor in Swiss online trading), the financial services arm of Swiss Post, wherein Swissquote agreed to operate as a trading platform for clients of PostFinance. Accordingly, Swissquote started handling orders placed by PostFinance clients in e-trading, starting from 2015. The partnership agreement provided that PostFinance was to acquire 5% stake in Swissquote. The move helped both organisations to develop their online brokerage businesses without compromising their individual services. The partnership was formed in the backdrop of rising investor interest in alternative investment avenues amid record low interest rates on their savings accounts. Through the partnership, Swissquote gained access to a large number of retail customers who used PostFinance's services to manage their investments.

Exhibit 18: Total number of transactions and transactions per client post and pre PostFinance acquisition in 2014.



Source: Company data, Research Dynamics

Custody services

Swissquote Bank Ltd and Swissquote Financial Services (Malta) Limited provides custody and depository services covering financial instruments and underlying assets for investment funds, including offshore vehicles.

Value Added Services

Swissquote’s value-added services include Cash Accounts (Subscription/Redemption) and Securities Accounts (Safekeeping) opened with Swissquote Bank Ltd., among others.

INDUSTRY OVERVIEW

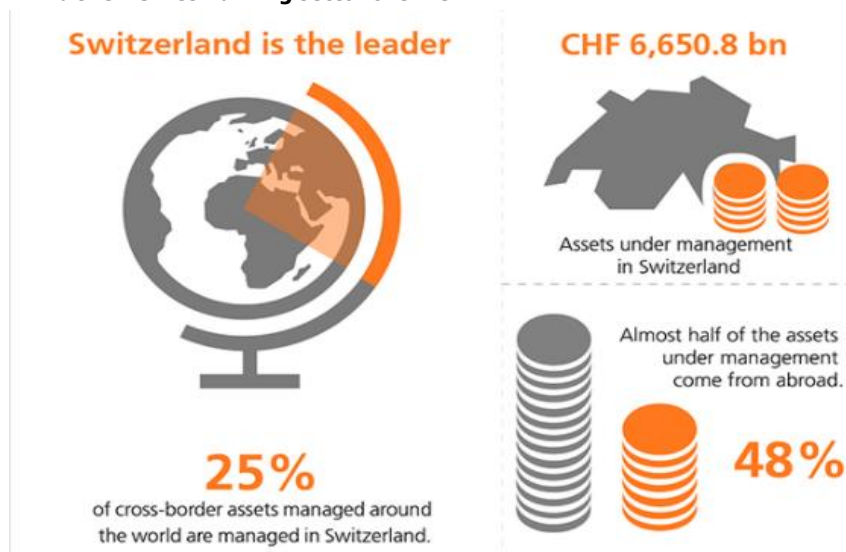
Switzerland’s Banking sector

Swissquote’s banking licence exposes the company to the banking related regulatory and legal framework of the country. Switzerland’s banking sector is comprised of various banking institutions with different business models and a broad-spectrum of services. The country’s banking sector contributes ~6% to total GDP. The Swiss financial services industry has a footprint across the globe, evidenced by being a leading provider of cross-border wealth management services. However, the banking sector in Switzerland is grappling with various economic and regulatory challenges such as rising regulatory costs, negative interest rates, shrinking margins, increasing customer demands and digitalisation. Also from the political and legal uncertainties during the Brexit negotiations as well as uncertainty regarding the future policies of the EU and US. At the end of 2016, there were 261 banks operating in Switzerland compared to 312 in 2011.

We expect the Swiss banking sector to continue to face headwinds in form of regulations, uncertainties driven from Brexit and political developments in the EU and US. The sector’s close relation with the financial services sector of the UK shall weigh upon the sector’s outlook in the period during the negotiation phase and the eventual transition of the UK moving out of the EU. We anticipate that Swissquote, as part of Switzerland’s banking industry, might get impacted by the impending uncertainties. However, the increased trading volume driven by the volatility arising from such events should offset any adverse effect on the banking services of the company.

In the recent past, Swissquote’s number of savings accounts and the corresponding assets has witnessed a decline. The decline is attributable to the negative interest rate situation. However, the number of savings accounts and the related assets should grow on the back of gradual recovery in the economy and the elimination of the negative interest rate situation. Moreover, Swissquote’s platform, which allows the clients to trade in various instruments directly through their savings accounts, acts as an added incentive to open savings accounts with the bank as compared to linking an external saving accounts with the trading platform.

Exhibit 19: Swiss Banking sector overview



Source: SwissBanking – Swiss Bankers Association

Competition

Swissquote operates in a market that faces intense competition in different product offerings within and outside Europe. Moreover, the market witnesses continuous innovation of new technologies which can impact the operations of the company. The Swiss market, being more conservative with high regulations/compliance, has high entry barriers. Swissquote, together with PostFinance, controls ~50% of the total market size in the online trading business. The company benefits from the wide variety of offerings on its platform, which provides it an edge over the peers. Swissquote’s more direct competitors include IG Group, Saxo Bank, Interactive Brokers and large Swiss banks. IG Group, a UK based organisation, offers trading in financial derivatives such as contracts for difference and financial spread betting, while Saxo Bank, a Danish Investment Bank, specialises in eForex trading apart from offering online trading and investment services. Swissquote further faces competition from organisations such as Interactive Brokers, a US-based electronic brokerage firm, which operates in areas of stocks, options, futures, EFPs, futures & options, forex, bonds, funds and CFDs. However, Swissquote’s primary competitors are the large Swiss banks such as UBS, Credit Suisse which offer similar kind of services, and also includes banking services. Large Swiss banks compete with Swissquote on a more localised manner using their large size and financial clout, thereby providing tough competition to the company.

Cryptocurrencies

Cryptocurrencies are a type of digital, alternative and virtual currency. Trading of cryptocurrencies is not much different from the traditional trading function. However, the asset class is completely different. Cryptocurrencies are based on the Blockchain technology and are not yet regulated by any regulatory body in any part of the world. However, FINMA has published guidelines on Initial Coin Offerings (ICO) under the Swiss anti-money-laundering and securities laws, taking note of the surge in number of Swiss ICOs. Favourable Swiss tax laws has resulted in Switzerland becoming an attractive place for trading in cryptocurrencies. Swissquote with Switzerland’s most prestigious law firm of the Capital Markets and Technology Association provides simple and safe trading options for the investors who want to invest in this asset class.

Although many cryptocurrencies are available in the market to trade, it is difficult to know which one is going to be the most dominant in the future and which will fail. However, currently Bitcoin is the most popular and most traded amongst all.

Unlike stock markets, there are no official Bitcoin exchanges. Instead, there are hundreds of exchanges around the world, which operate 24/7. As there is no official Bitcoin exchange, there is also no official Bitcoin price. This can create arbitrage opportunities, but most of the time exchanges stay within the same general price range.

Cryptocurrency has witnessed a surge in volatility since the start of 2018. Bitcoin is known for its rapid and frequent price movements and the products with more volatility means more volume.

Exhibit 20: Cryptocurrencies – Ranking by volume

Name	Symbol	Volume in USD billion		
		1day	7day	30day
Bitcoin	BTC	4.8	31.5	175.3
Tether	USDT	1.9	12.3	64.4
Ethereum	ETH	1.3	9.4	49.2
Ripple	XRP	0.3	2.1	16.6
Litecoin	LTC	0.3	2.2	14.2
EOS	EOS	0.4	3.1	12.4
Bitcoin Cash	BCH	0.3	2.2	11.3
Ethereum Classic	ETC	0.1	0.9	8.0
TRON	TRX	0.2	1.9	7.8
Storm	STORM	0.1	1.5	5.6

Source: Coinmarketcap.com, as on 1st April 2018

SWOT Analysis

<p>Strengths</p> <ol style="list-style-type: none"> Swiss market leader in online brokerage (about 50% of total online trading market) Good mixture of financial and technological expertise Robust online trading platform offering over three million products globally across asset classes Well-diversified business profile and wide range of product offerings within the BFSI sector 	<p>Weakness</p> <ol style="list-style-type: none"> Limited exposure to markets outside Europe, as 86% of total assets located in Switzerland Operates in highly regulated market Limited organic growth potential in home market
<p>Opportunities</p> <ol style="list-style-type: none"> Increased market size on the back of new and improved technological integration Technological and legal barriers limits competition Geographical expansion on the back of strategic partnerships under white-label agreements Large cash position on balance sheets provides a big leverage with interest rates normalization 	<p>Threats</p> <ol style="list-style-type: none"> Sustained investments required in new research and developments Disruptive innovation can substantially jeopardise the company's prospects Exposure to new regulatory requirements as the company expands its geographical reach Prolonged negative stock market development

VALUATION

Given Swissquote’s diversified business profile, we believe a blended valuation technique is apt for valuing Swissquote as the group has passed through the entire business cycle over the past decade. We have forecast the fundamentals and used DCF methodology to arrive at the fair value. We have also used Relative Valuation (RV) technique, details of which are given below.

Using the discounted cash flow (DCF) methodology, the intrinsic price of the group comes to CHF 75.5. Our weighted average cost of capital (WACC) of 10.6% represents the cost of equity as there are no other capital used by the company. We have considered a beta of 1, which is higher than that indicated by regression due to the group’s small size and vulnerability to macro-economic events. We have explicitly forecasted cash flows until FY2023E and thereafter assumed a conservative terminal growth rate of 1%. For relative valuation, we have created a customised set of peers based on the company’s business model and global reach. In the RV, we have used an average of all three relevant multiples such as P/E, P/B and P/TBV to value the stock. We have used a P/E of 18.0x, P/B of 3.0x and P/TBV of 3.5x. We arrive at a fair value of CHF 66.8 per share by using relative technology.

The final value using the blended valuation is CHF 71.0, which gives an upside of 31.0% from the current levels. Thus, we believe the current price levels at which Swissquote is trading offers an attractive entry opportunity.

Exhibit 21: Sensitivity of WACC & terminal growth rate with the share price

		Sensitivity Table				
		WACC				
		8.6%	9.6%	10.6%	11.6%	12.6%
Terminal growth rate	0.25%	88	79	72	66	61
	0.50%	90	81	73	67	62
	0.75%	92	82	74	68	63
	1.00%	94	84	76	69	64
	1.25%	96	85	77	70	64
	1.50%	98	87	78	71	65
	1.75%	101	89	79	72	66

Source: Research Dynamics

Exhibit 22: Sensitivity of upside

		Sensitivity Table				
		WACC				
		8.6%	9.6%	10.6%	11.6%	12.6%
Terminal growth rate	0.25%	62.6%	46.3%	33.2%	22.4%	13.3%
	0.50%	65.9%	48.8%	35.1%	23.9%	14.6%
	0.75%	69.4%	51.5%	37.2%	25.6%	15.9%
	1.00%	73.1%	54.3%	39.4%	27.3%	17.3%
	1.25%	77.1%	57.3%	41.7%	29.1%	18.7%
	1.50%	81.4%	60.4%	44.1%	31.0%	20.2%
	1.75%	86.0%	63.8%	46.6%	33.0%	21.8%

Source: Research Dynamics

Exhibit 23: Swissquote – Comparison with average of peers

	P/E			P/B		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Peer multiples	21.1x	16.1x	14.3x	2.9x	1.7x	1.6x
Swissquote	78.9x	18.1x	16.2x	1.7x	2.5x	2.2x
Premium (disc) to peers	274%	12%	13%	(43%)	45%	41%

Source: Research Dynamics, Bloomberg (as on 06 July 2018)

Company	P/E			P/B		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Swissquote Group Holding-Reg	78.9x	18.1x	16.2x	1.7x	2.5x	2.2x
Peers:						
Compagnie Financiere Trad-Br	13.1x	NA	NA	1.6x	NA	NA
Tradegate Ag	26.9x	NA	NA	8.6x	NA	NA
Euwax Ag	61.5x	NA	NA	5.1x	NA	NA
Renta 4 Banco Sa	18.2x	NA	NA	2.8x	NA	NA
IG Group Holdings Plc	17.1x	15.7x	16.0x	4.0x	NA	NA
Interactive Brokers Gro-CIA	48.7x	27.3x	24.2x	3.1x	NA	NA
Ubs Group Ag-Reg	14.6x	11.1x	9.7x	1.2x	1.1x	1.0x
Credit Suisse Group Ag-Reg	16.2x	12.6x	8.7x	0.8x	0.9x	0.8x
TD AMERITRADE HOLDING CORP	26.0x	16.5x	13.7x	4.0x	3.7x	3.3x
E*TRADE FINANCIAL CORP	24.0x	16.9x	14.9x	1.6x	2.3x	2.1x
Median	21.1x	16.1x	14.3x	2.9x	1.7x	1.6x
High	61.5x	27.3x	24.2x	8.6x	3.7x	3.3x
Low	13.1x	11.1x	8.7x	0.8x	0.9x	0.8x
Premium (disc) to peers	274%	12%	13%	(43%)	45%	41%

Source: Research Dynamics, Bloomberg (as on 06 July 2018)

Exhibit 24: Swissquote – Blended Target price

	Weight	Target price
DCF	50%	37.8
Relative	50%	33.2
Blended target price		71.0
Upside %		31.0%

Source: Research Dynamics, Bloomberg (as on 06 July 2018)

FINANCIALS (HISTORICALS AND KEY FORECASTS)

OPERATING INCOME

Swissquote has demonstrated strong operating performance over the last six years. Operating income (OI) has grown at 11% CAGR during 2012-17 with brokerage and related income being the highest contributor to the total. Over the years, contribution from net fee & commission income has hovered around ~45% of total OI, while that of interest income has nearly halved to ~7% in FY2017, as compared to ~15% in FY2012. Net trading income, primarily driven by eForex revenues, contributed ~48% to total OI in FY2017. With the advent of negative interest rate scenario, Swissquote witnessed a brief lull period in 2015-16, when OI growth remained muted at 0.8% y/y and 2.5% y/y in FY2015 and FY2016, respectively. However, the group recovered spectacularly in FY2017, with OI growth of 25%, led by both fee & commission income (+22.5% y/y) and trading income (+30.1% y/y).

Segment-wise, OI from Securities Trading displayed a steady growth at 10% CAGR during 2012-17 with positive y/y growth across the period, even as direct marketing expenses attributable to the segment declined by 2% CAGR during the same period. The securities trading contribution to the group revenues has declined to 66% in FY2017, as compared to 73% in FY2012. This decline can be attributed to OI growth in the Leveraged Forex (eForex) segment, which easily outpaced the revenue growth in the Securities Trading division. eForex OI grew to CHF 67.1million (18% CAGR in 2012-2017), which can be primarily attributed to acquisition of MIG in 2013.

With expected a gradual recovery in the global economy, thus we are confident of a steady growth in total trading volumes across the globe. Moreover, innovative offerings such as robo advisory and thematic investing are expected to increase investor returns even as limiting risks involved in trading. Accordingly, we forecast 9.2% y/y growth in FY2018 in total operating income, led by 14.4% y/y growth in the net fee & commission income, even as net interest income and net trading income grow by 14.9% y/y and 3.5% y/y, respectively. For FY2019, we foresee moderation in growth rates owing to modest growth in volumes traded on the back of reduced volatility in the world markets and also the increased base effect. Accordingly, we estimate operating income to grow by 3.9% y/y to CHF 212.9mn as net trading income is foreseen to grow modestly by 1.8% y/y. On the other hand, net fee & commission income and net interest income should grow by 4.8% y/y and 10.8% y/y respectively.

PROFITABILITY

Swissquote's net income came in at CHF 39.2mn in FY2017, indicating a ~9% CAGR in 2012-17 period. However, the growth rate over the period has remained mixed with y/y decline in three out of six years until 2017. While the decline in FY2013 can be primarily attributed to higher operating expenses (+31.7% y/y), the near wipe out of net profit (-91.2% YOY) in FY2015 was largely due to one-off impairment allowance of CHF 19.9mn pertaining to removal of currency peg of CHF with EUR by the Swiss National Bank. However, the company has recovered spectacularly with a growth of over 9.0x in the next year.

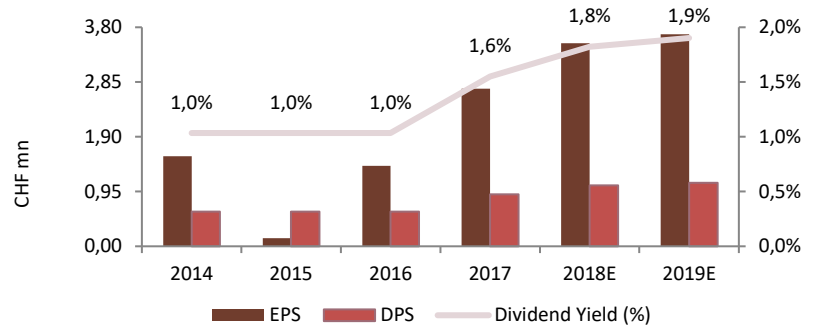
Segment-wise, direct contribution margin of the Securities Trading grew at 9% CAGR during 2012-17 with consecutive y/y growth since FY2013. In FY2017, the segment contributed ~71.4% of the total segmental direct contribution margin, declining by ~10ppt from FY2012. On the other hand, contribution to the total segmental direct contribution margin for eForex segment has grown to 29%, up by ~10ppt over FY2012. From the cost perspective, Swissquote's expenses on technology remain the highest with CHF 35.3mn (+13% CAGR in FY2012-17) in FY2017, while expenses on operations remained largely stable with 3% CAGR in the same period. The company's increased focus on marketing can be witnessed by an increase to CHF 13.5mn in the corresponding expense, indicating a 29% CAGR during FY2012-17. However, marketing expenses has witnessed a decline of 6% from its peak of CHF 14.4mn incurred in FY2015.

Looking ahead, we expect net margins to pick up as we expect the growth in OI should outpace the rise in expenses in the forecasted period. OI should grow on the back of rising volumes as the company further expands its global footprint, while the operating expenses should remain under control due to various cost rationalisation initiatives. Accordingly, we forecast net income to rise to CHF 50.5mn, up by 28.8% y/y, in FY2018, primarily driven by 26.0% y/y rise in operating profit. Net margin is anticipated to rise by ~380bps to 24.6%. For FY2019, net income should rise to CHF 52.7mn, up by 4.5% y/y, as growth in operating income (+3.9% y/y) will partially be offset by 3.2% y/y rise in operating expenses. Accordingly, net margin is anticipated to rise slightly to 24.8% (+14bps y/y).

DIVIDENDS

In FY2017, Swissquote raised dividend per share (DPS) by 50% to CHF 0.90 (FY2016: CHF 0.60 per share) driven by strong set of financials. Dividend payout came in at 33% in FY2017 for an earnings per share (EPS) of CHF 2.73. Going forward, the company intends to pay 30-60% of its profits as dividends while keeping CHF 0.60 per share as the minimum threshold. We expect the company to maintain a pay-out ratio of 30% in FY2018 and FY2019.

Exhibit 25: Dividends



Source: Research Dynamics

FY2017 RESULTS

Cryptocurrencies and eForex spurs bottom-line growth

Swissquote posted an impressive performance in FY2017, with a 25% y/y growth in OI, even as operating profit nearly doubled to CHF 45.8mn (+97.3% y/y). Total client assets came in at CHF 24.1bn, up by 30% over FY2016. OI growth was characterised by broad-based improvement across business divisions. Net fee & commission income grew to CHF 85.2mn (+22.5% y/y), driven by higher number of transactions. However, transactions per client remained stable at 11.0. The company's performance was positively impacted by growing acceptance of robo-advisory services, successful trading in derivative products via Swiss DOTS, and trading in cryptocurrencies. A significant rise in number of clients (+29.0% y/y) drove eForex income higher to CHF 66.7mn (+26.2% y/y). Growth in assets of eForex clients was even higher at 45% y/y (CHF 329mn). Net trading income (currency trading excluding eForex) grew to CHF 22.3mn, up by 32.7% y/y. Rise in lombard loans and rising US short-term interest rates lifted net interest income by 27.8% y/y to CHF 19.7mn.

Operating expenses increased to CHF 142mn, up by 12% y/y, as Swissquote continued its investment in technology marketing and staff. Employee related expenses rose to CHF 64.6mn (+13% y/y) as the number of employees grew by 43 to 593, while average cost per employee was up by 5.1% to CHF 109k. The pre-tax profit margin jumped to 24.4% (+894bps y/y), while net profit rose by 88.8% y/y to CHF 39.2mn.

At CHF 24.1bn, client assets surged by 30% y/y, driven primarily by 32% y/y growth in assets in trading accounts, even as the number of trading accounts remained flat (+0.3% y/y). Net new money inflow came in at CHF 2.7bn. The total number of accounts grew by 2.1% y/y to 309,286 attributable to 29% y/y surge in eForex accounts. Savings accounts witnessed a decrease in the number of accounts (-12% y/y) as well as client assets (-21% y/y).

FY2017 was marked by Swissquote becoming the first European online bank to offer its clients the facility to invest in cryptocurrencies and trade them against EUR and USD. Started initially with Bitcoin, Swissquote gradually expanded its portfolio with offering Bitcoin Cash, Ether, Litecoin and Ripple. Accordingly, Swissquote's portfolio of offerings became the largest amongst its peers. Revenues from cryptocurrencies came in at CHF 5.6mn in FY2017, indicating a sharp rise in investor interest in the offerings.

GROWTH STRATEGY 2020

In FY2016, Swissquote unveiled its growth strategy 2020, wherein the company talked about its intention to grow organically by focussing on providing services through a combination of technology and broker functions offered through white-label agreements. Further, the company also plans to utilise its partnership with PostFinance to aid top-line growth in the coming years. Meanwhile, Swissquote plans to leverage its technology expertise to develop digital solutions, which will enable it to tap into the growing trend towards digitalisation. Further, in order to achieve the goal of becoming Switzerland's largest digital bank, Swissquote aims to increase 100,000 client accounts by 2020. Swissquote also targets to build up assets under custody (AUC) of over CHF 1bn by 2020 through organic growth, coupled with partnerships by utilising the growth potential in the ePrivate Banking (ePB) segment and eForex business. Assets under ePB and eForex business have witnessed a robust growth in FY2017 at 75% and 45%, respectively, over the previous year. In our view, ePB has the potential to further grow on the back of introduction of new age technology such as robo-advisory and higher machine learning capabilities, which should drive volumes through improved performance, thereby limiting human errors. On the other hand, eForex business should witness growth on the back of increased volatility in the currency markets across the globe. Accordingly, higher volumes is foreseen to lift Swissquote's top-line growth in the near to medium term.

We believe the company is on track to achieve its 2020 financial targets. We have estimated an operating income of CHF 218.8mn, with net fee & commission income reaching CHF 120.1mn in 2020. We have forecasted a net interest income of CHF 43.8mn in 2021, assuming the interest rate scenario to change to zero rate.

KEY RISKS

Non-adherence to compliance of regulatory requirements can expose the bank to legal penalties and losses and loss of reputation

Swissquote's global presence, coupled with usage of its platform through various white label agreements to deal in different asset classes exposes the bank to risks related to money laundering and non-compliance to other regulatory requirements. Recent past has witnessed increased tightening of measures to minimise instances to money laundering. However, Swissquote's robust due diligence process while entering into a white label agreement allows it to mitigate this risk to a large extent.

Banking operations of Swissquote exposes it to credit risk

Credit risk pertains to the risk of failure by a borrower in repayment of a loan and that the lender may lose the principal/interest amount due to such default. The banking operations carry an inherent risk for default, however, Swissquote is exposed to credit risk pertaining to margin loans which are extended to its clients who are allowed to trade for a much higher value (margin loans) as compared to the actual amount deposited in their account with Swissquote.

Steep correction in the market can result in decline in overall asset size and reduced client interest in trading

Substantial exposure to the volatility in the market can result in reduced assets under custody in an instance of a steep market correction. Moreover, a higher than expected correction can adversely impact the top-line through a decline in the number of transactions due to a reduced willingness of clients to trade, coupled with reduced liquidity in the markets.

Inefficient technological backup against cyberattacks could lead to loss of valuable information

Increased adoption of new monetary measures has resulted in increased reliance on technology. For example, introduction of new cryptocurrencies for trading have made them an easy target for cyberattacks. Use of obsolete technologies could make the company vulnerable against cyberattacks and jeopardise valuable information.

Trading in cryptocurrencies if declared illegal could have a substantial impact on the company

The company emerged as the sole player in Switzerland to permit trading in the cryptocurrencies. The trading, if declared illegal, could result in losses to customers and halt of trading in the company's platform. Also, countries such as India have started implementing taxes to discourage trading. All these measures could affect the company's top and bottom line.

Huge investment in innovation

Swissquote invests in R&D on a regular basis to stay ahead of competitors and until now the company has remained successful in launching new products and services. The continuous evolution of the financial and technological landscape requires the companies to remain vigilant to mitigate risks related to becoming obsolete. However, considering the company's ~30% employee strength consists of software engineers, we opine that Swissquote is better poised to mitigate the risks arising out of evolution of technology as compared to its peers.

ADDITIONAL DETAILS

MANAGEMENT TEAM

Mark Buerki

Founding partner and Chief Executive Officer

Mr. Buerki currently serves as the Chief Executive Officer of Swissquote Group Holding Ltd (since 1999) and Swissquote Bank Ltd (since 2002). Besides, Mr. Buerki also serves as the member of the Board of Directors of various companies including Swissquote MEA Ltd, Swissquote Ltd, Swissquote Asia Ltd and ETH. Mr. Buerki earlier worked with Marvel Communications Ltd as Co-Managing Director. Prior to that, he served as a Telecommunication specialist in European Space Agency, Netherlands. He has obtained a degree in electrical engineering from Swiss Federal Institute of Technology (EPFL), Lausanne.

Paolo Buzzi

Founding partner and Chief Technology Officer

Mr. Buzzi currently serves as the Chief Technology Officer of Swissquote Group Holding Ltd (since 1999) and Swissquote Bank Ltd (since 2002). Besides, Mr. Buzzi also serves as the member of the Board of Directors of various companies including Swissquote Trade Ltd, Swissquote MEA Ltd and Swissquote Financial Services (Malta) Limited. Mr. Buzzi had served as Chief Executive Officer at Swissquote Info during 2000-2002. Earlier he worked with Marvel Communications SA as Co-Managing Director. Prior to that, he served as a Software Engineer and New Technology Integration Engineer in Rolm Systems, Santa Clara, USA. He has obtained a degree in micro engineering from Swiss Federal Institute of Technology (EPFL), Lausanne.

Michel Ploog

Chief Financial Officer

Mr. Ploog currently serves as the Chief Financial Officer of Swissquote Group Holding Ltd (since 1999) and Swissquote Bank Ltd (since 2000). Besides, Mr. Ploog serves as the member of the Board of Directors of various companies including Swissquote Trade Ltd and Swissquote MEA Ltd. He is also Secretary of the Board for the Swissquote Group Holding Ltd and Swissquote Bank Ltd and Chairman for the Foundation Swissquote 3rd Pillar. Earlier he worked for PricewaterhouseCoopers and Deloitte as Senior manager. Prior to that, he served as a Graduate Teaching Assistant in University of Lausanne. He is a graduate from University of Lausanne and a Swiss Certified Public Accountant from Swiss Federal Institute of Certified Public Accountant, Lausanne.

Gilles Chantrier

Chief Risk Officer

Mr. Chantrier currently serves as the Chief Risk Officer of Swissquote Group Holding Ltd and Swissquote Bank Ltd since 2017. Besides, Mr. Chantrier also serves as the member of the Board of Directors of various companies including Swissquote Ltd and Swissquote MEA Ltd and Swissquote Asia Ltd. He joined Swissquote Bank Ltd in 2000 as Deputy Head Accounting and worked with the company for various roles until 2017 including Head Back office, Head Internal Controlling, Head Reporting & Controlling and Head Controlling & Risk. In 2017, Mr. Chantrier promoted as Chief Risk Officer for Swissquote Group Holding Ltd and Swissquote Bank Ltd. He has obtained a bachelor's degree B.Sc. in Economics from School of Business Administration (HEG), Lausanne.

Morgan Lavanchy

Chief Legal Officer

Mr. Lavanchy currently serves as the Chief Legal Officer of Swissquote Group Holding Ltd and Swissquote Bank Ltd since 2017. Besides, Mr. Lavanchy serves as a Secretary for the Foundation Swissquote 3rd Pillar. He joined Swissquote Bank Ltd in 2003 as a Legal Officer and promoted to Head of Legal & Compliance department in 2006. In 2017, Mr. Lavanchy appointed as Chief Legal Officer for Swissquote Group Holding Ltd and Swissquote Bank Ltd. He has obtained a Master's degree in Law from Law School of the University of Neuchatel and Master of Advanced Studies (LL.M.) in Business Law from Law School of the Universities of Lausanne and Geneva.

BOARD OF DIRECTORS

Mario Fontana

Chairman of the Board

Mr. Fontana currently serves as the Chairman of the Board of Swissquote Group Holding Ltd (since 2002) and Chairman of the Board of Swissquote Bank Ltd (since 2004). He has a vast Executive experience in various European companies including IBM Switzerland, Brown Boveri Brazil, Storage Technology Switzerland and Hewlett-Packard in Switzerland, Germany, Europe and USA. Besides, Mr. Fontana is the board member of various companies including Buro Furrer, SBB, Bon appetite Group, Leica Geosystems, AC Services, Sulzer, Inficon, Amazys, Dufry, X-Rite and Hexagon. He has obtained a degree in Mechanical Engineering from ETH Zurich and Master of Science Degree in Aerospace Engineering from Georgia Tech, USA.

Markus Dennler

Vice Chairman of the Board, Chairman of the Nomination & Remuneration Committee.

Mr. Dennler currently serves as a Member of the Board of Swissquote Group Holding Ltd since 2005 and as Vice Chairman of the Board of Swissquote Bank Ltd since May 2015. He has a vast experience in the financial industry, serving on the board and executive positions in various banks and insurances. He served as a Member of the Corporate Executive Board of Credit Suisse Financial Services and as CEO responsible for the global, operational life and pensions business. Besides, he was a Member of the Corporate Executive Board and Head of Individual and Group Life Division at Winterthur Insurance. He has a Ph.D. in law from the University of Zurich and attended the International Bankers School in New York and the Harvard Business School (AMP) in Boston.

Martin Naville

Member of the Board, Member of the Audit & Risk Committee and Nomination & Remuneration Committee

Mr. Naville currently serves as the Member of the Board of Swissquote Group Holding Ltd and Member of the Board of Swissquote Bank Ltd since 2007. He has a vast Executive experience in various companies including J.P. Morgan Bank, The Boston Consulting Group and Swiss-American Chamber of Commerce. Besides, Mr. Naville is the Chairman of Zoo Zurich Inc since 2004. He has obtained a Master's degree in Law from University of Zurich.

Jean-Christophe Pernollet

Member of the Board and Chairman of the Audit & Risk Committee

Mr. Pernollet currently serves as the Member of the Board of Swissquote Group Holding Ltd (since 2015) and Member of the Board of Swissquote Bank Ltd (since 2014). He has a vast Executive experience in various companies including Deloitte & Touche, PricewaterhouseCoopers, EFG International AG and Edmond de Rothschild. Besides, Mr. Pernollet is the Chairman of the Audit Committee for Edmond de Rothschild and Member of the Audit & Risk Committee for EFG Private Bank Ltd. He has obtained a Bachelor of Science in Economics and Politics from Institute d'Etudes Politiques, Master in Management from EDHEC Business School.

Beat Oberlin

Member of the Board and Member of the Audit & Risk Committee

Mr. Oberlin currently serves as the Member of the Board of Swissquote Group Holding Ltd and Member of the Board of Swissquote Bank Ltd since 2016. He has a vast Executive experience in various companies including SBG, UBS and Basellandschaftliche Kantonalbank. Besides, Mr. Oberlin serves as the Member of the Board for Association of Swiss Cantonal Banks and Basel Bank Association. He has obtained Licentiate in Law, Attorney at Law and notary and Doctorate in Law from University of Basel. In 1999, he has done a Senior Executive course from Stanford Business School.

Monica Dell'Anna

Member of the Board and Member of the Nomination & Remuneration Committee

Ms Dell'Anna currently serves as the Member of the Board of Swissquote Group Holding Ltd and Member of the Board of Swissquote Bank Ltd since May 2018. She has a vast Executive experience in various companies, including McKinsey, Swisscom Fixnet and BKW. Since 2016, she is the head of Business Media and Member of the Group Executive Board at NZZ-Mediengruppe Ltd. Ms Dell'Anna has a Degree (M.Sc. equivalent) in Telecommunications Engineering, University of Pisa, PhD in Telecommunication Engineering from King's College London and did a McKinsey Mini-MBA in Finance, Strategy and Marketing, Kellogg/Harvard in 2002.

Holdings of Major Shareholders

Name	Ownership position (%)
Marc Burki	12.72%
Paolo Buzzi	12.72%
PostFinance AG	5.00%
Mario Fontana	4.97%
Basellandschaftliche Kantonalbank	4.77%
Janus Henderson Group plc	3.00%

Source: Company data

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY15A	FY16A	FY17A	FY18E	FY19E
Fee and commission income	74	79	96	115	121
Fee and commission expense	(8)	(9)	(11)	(13)	(13)
Net fee and commission income	67	70	85	102	108
Interest income	21	22	32	33	35
Negative interest rates expense	(9)	(10)	(18)	(18)	(18)
Interest expense	(2)	(1)	(2)	(2)	(2)
Net interest income	10	11	12	14	16
Net trading income	70	69	90	93	95
Operating income	147	150	188	210	219
Operating expenses	(145)	(127)	(142)	(147)	(152)
Operating profit	2	23	46	63	67
Income tax expense	0	(2)	(7)	(8)	(9)
Net profit	2	21	39	55	58
Basic EPS	0.1	1.4	2.7	3.8	4.0
Diluted EPS	0.1	1.4	2.7	3.8	4.0
DPS	0.6	0.6	0.9	1.1	1.2

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY15A	FY16A	FY17A	FY18E	FY19E
Assets					
Cash and balances with central bank	2,032.0	2,284.7	3,517.1	3,554.4	3,601.1
Treasury bills and other eligible bills	88.1	277.6	259.9	265.0	270.3
Due from banks	350.4	398.2	425.4	433.9	433.9
Derivative financial instruments	69.0	41.5	72.4	76.0	79.8
Trading assets	6.8	6.9	8.3	8.4	8.6
Loans	205.9	226.4	278.6	302.0	322.0
Investment securities	788.8	554.5	384.9	404.1	424.3
Deferred income tax assets	2.2	1.0	1.3	1.3	1.3
Intangible assets	40.6	40.5	40.3	40.1	39.9
Information technology systems	35.1	40.7	44.9	42.1	40.4
Property, plant and equipment	61.5	63.9	61.6	58.9	56.3
Other assets	37.3	30.4	21.2	23.3	25.7
Total Assets	3,717.8	3,966.3	5,115.8	5,209.7	5,303.7
Liabilities and equity					
Liabilities					
Deposits from banks	76.2	32.8	171.0	171.0	171.0
Derivative financial instruments	22.7	12.7	24.1	24.6	25.1
Due to customers	3,313.9	3,600.2	4,566.4	4,621.6	4,674.6
Other liabilities	31.7	35.7	50.3	51.3	52.4
Current income tax liabilities	0.4	0.4	5.3	5.3	5.3
Deferred tax liabilities	1.4	1.2	1.6	1.6	1.6
Provisions	3.7	2.3	2.0	2.0	2.0
Total liabilities	3,450.1	3,685.4	4,820.6	4,877.4	4,932.0
Equity					
Ordinary shares	3.1	3.1	3.1	3.1	3.1
Share premium	51.7	42.6	35.3	35.3	35.3
Share option reserve	2.2	2.0	1.5	1.5	1.5
Other reserve	(2.4)	(1.5)	(2.4)	(2.4)	(2.4)
Treasury shares	(13.9)	(14.0)	(29.3)	(29.3)	(29.3)
Retained earnings	227.0	248.7	287.0	324.2	363.5
Total equity	267.7	280.8	295.1	332.3	371.7
Total liabilities and equity	3,717.8	3,966.3	5,115.8	5,209.7	5,303.7

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY15A	FY16A	FY17A	FY18E	FY19E
Cash flow from/(used in) operating activities:					
Fees and commission received	72.7	79.2	96.5	115.2	121.4
Fees and commission paid	(7.7)	(9.3)	(10.3)	(12.9)	(13.3)
Interest received	35.1	37.9	41.1	33.5	35.1
Interest paid	(9.8)	(10.7)	(17.6)	(19.4)	(19.5)
Net trading income received	70.2	69.3	88.4	93.4	95.2
Income tax paid/reimbursed	(2.5)	(0.7)	8.3	(7.8)	(9.0)
Payments to employees	(57.8)	(54.9)	(58.2)	(65.9)	(66.6)
Payments to suppliers	(59.1)	(49.2)	(56.3)	(81.3)	(85.4)
Cash flow from operating profit before changes in operating assets and liabilities	41.2	61.7	92.0	54.8	57.9
Net change in operating assets and liabilities:					
Treasury bills and other eligible bills (above 3 months)	-	(117.3)	23.1	(5.2)	(5.3)
Due from banks (above 3 months)	-	14.0	10.5	(8.5)	-
Derivative financial instruments (assets)	27.7	27.5	(30.9)	(3.6)	(3.8)
Trading assets	-	-	-	(0.2)	(0.2)
Loans	(65.0)	(20.9)	(52.5)	(23.4)	(20.0)
Other assets	-	-	-	(2.1)	(2.3)
Derivative financial instruments (liabilities)	(10.7)	(10.0)	11.4	0.5	0.5
Due to customers	(3.0)	284.9	956.8	55.2	53.0
Other liabilities	-	-	-	1.0	1.2
Net cash from operating activities	(9.8)	240.0	1,010.4	68.4	80.9
Cash flow from/(used in) investing activities:					
Purchase of PPE and information technology systems and Intangible assets	(18.4)	(24.6)	(20.1)	(13.3)	(14.7)
Proceeds from sale and reimbursement of investment securities	470.9	848.0	306.5	(19.2)	(20.2)
Purchase of investment securities	(463.1)	(621.6)	(145.3)	-	-
Loans and advances to banks (above 3 months)	(35.0)	-	-	-	-
Net cash from investing activities	(45.6)	201.7	141.1	(32.5)	(34.9)
Cash flow from/(used in) financing activities:					
Purchase of treasury shares	(1.7)	(0.9)	(22.7)	-	-
Sale of treasury shares	-	-	5.4	-	-
Transaction costs	-	-	(0.3)	-	-
Dividend and reimbursement from reserves	(8.9)	(8.9)	(8.5)	(17.6)	(18.6)
Net cash used in financing activities	(10.6)	(9.8)	(26.1)	(17.6)	(18.6)
Net increase in cash and cash equivalents	(66.1)	431.9	1,125.5	18.4	27.4
Cash and cash equivalents as at 1 January	2,428.1	2,359.3	2,789.8	3,927.2	3,945.5
Exchange difference on cash and cash equivalents	(2.7)	(1.4)	11.9	-	-
Cash and cash equivalents as at 31 December	2,359.3	2,789.8	3,927.2	3,945.5	3,973.0

Source: Research Dynamics, Company data

Key Ratios

	FY15A	FY16A	FY17A	FY18E	FY19E
Operating Income Growth	0.8%	2.5%	25.0%	11.7%	4.3%
Net fee & comm. Inc./OI	45.4%	46.3%	45.4%	48.8%	49.4%
Net int. inc./OI	7.0%	7.5%	6.5%	6.7%	7.1%
Cost to income ratio	98.7%	84.6%	75.6%	70.2%	69.4%
Net Margin (%)	1.4%	13.8%	20.9%	26.1%	26.5%
ROA (%)	0.1%	0.5%	0.8%	1.1%	1.1%
ROE (%)	0.8%	7.4%	13.3%	16.5%	15.6%
P/E	389.7x	38.9x	19.8x	14.2x	13.4x
P/BV	3.1x	3.0x	2.8x	2.5x	2.2x
P/TBV	3.7x	3.5x	3.3x	2.8x	2.5x
Yield%	1.1%	1.1%	1.7%	2.1%	2.2%
Payout %	431.4%	43.1%	32.9%	30.0%	30.0%
CET 1 ratio %	22.0%	24.5%	26.1%	-	-

Source: Research Dynamics, Bloomberg, Company data

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