

# Swissquote Group Holding SA

Switzerland | Financials

## 1H 2018 earnings update

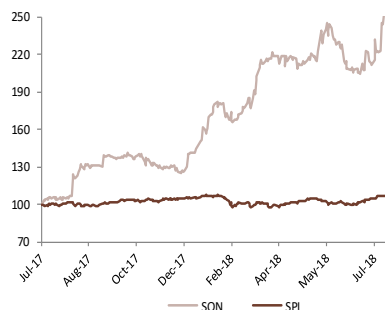
09 August 2018

### Company Data

Price:	CHF 69.50
Market Cap:	CHF 1,065.0mn
Free Float:	63.4%
No. of shares:	15.3mn
Avg. traded volume (30 Day):	42,927
Bloomberg:	SQN SW
Reuters:	SQN.S
ISIN:	CH0010675863

Source: SIX Swiss Exchange, Bloomberg

### Share Price Development (rebased to 100)



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

	FY16	FY17	FY18E	FY19E
Operating Income Growth	2.5%	25.0%	23.1%	12.6%
Net fee & comm. Inc./OI	46.3%	45.4%	46.8%	48.1%
Cost/income ratio	84.6%	75.6%	70.0%	69.6%
Net Margin (%)	13.8%	20.9%	22.4%	25.6%
Basic EPS	1.39	2.73	3.61	4.65
Diluted EPS	1.39	2.73	3.61	4.65
DPS	0.60	0.90	1.08	1.39
P/E	46.65x	23.79x	19.54x	15.17x
P/BV	3.5x	3.4x	3.3x	2.9x
Yield (%)	0.9%	1.4%	1.5%	2.0%

Source: Research Dynamics, Company data

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## Robust 1H 2018 results, growth in all areas and a very sensible strategic acquisition in the EU

### Healthy 1<sup>st</sup> half 2018 numbers; positive outlook over the medium-term

The company posted impressive numbers for 1H2018 results, with net operating income increasing to CHF 120.9mn (up 35.8% y/y). Adjusted for unexpected events and negative interest rates, the operating income increased by 30.3% y/y to CHF 117.8mn. The growth was driven by robust performance across all business divisions, with net fee and commission income increasing by 42.8% y/y to CHF 55.6mn and net interest income up 89.6% y/y to CHF 11.4mn. Net trading income also increased by 22.3% y/y to CHF 54.0mn, whereas the adjusted net trading income was up 9% to CHF 46.8mn. As a result of the excellent set of half-year numbers, management increased its full-year guidance to a 15% growth rate for revenues and profit, from 10% previously.

At CHF 25.5bn, client assets rose 20.6% y/y, driven primarily by assets in trading accounts (22.2% y/y) as the number of trading accounts increased to 249,699 (+7.0% y/y) and also supported by Robo-Advisory (ePB) assets which grew 36.9% y/y to CHF 228.3mn. Net new money inflow came in at CHF 2.4bn. The total number of accounts grew by 6.3% y/y to 322,032 led by eForex accounts (13.5% y/y) and trading client accounts (7% y/y). All accounts witnessed significant growth, except savings accounts which decreased by 10.4% y/y to 26,968, mainly due to the negative interest rate environment.

Operating expenses increased to CHF 82.0mn (21.2% y/y), as Swissquote continued to invest in technology, marketing and employees. Employee related expenses rose to CHF 37.4mn (+22.6% y/y) with marketing expenses increasing by 16.6% y/y to CHF 11.9mn. The pre-tax profit margin jumped to 27.3% (+3.2pp y/y), while net profit rose by 43.9% to CHF 25.7mn and the corresponding margin improved 2.7pp to 22.8%.

**Fee and commission income** increased by 39.4% to CHF 61.1mn reflecting growth in brokerage and related income, which increased ~47% to CHF 46.6mn, supported by the inclusion of cryptocurrencies' trading revenue in the brokerage and related income and robust performance of white labels overseas (9% of total revenue). In 1H2018, Swissquote generated revenue of CHF 8mn from trading of cryptocurrencies led by 28.9% y/y growth in the volumes to CHF 1,157.5mn. The number of trading accounts increased by 7.0% y/y to 249,699 and the total trading client assets increased to CHF 24.5bn (up 22.2% y/y) with average assets per client coming at ~CHF 98K. In addition, the total number of transactions also increased by 10.1% sequentially to 1.4mn, which led the total transactions per client per year to 11.8, up 6.3% sequentially, for the first time since 2015.

**Net interest income** increased 89.6% y/y to CHF 11.4mn, despite the negative interest rate expenses in the first half of FY2018. However, the total cash deposit, subject to negative interest, has come down to CHF 780.9mn from CHF 881mn in FY2017. Consequently, costs related to the negative interest rate reduced to CHF 4.2mn from CHF 4.9mn in 1H2017. The primary reason behind a spike in net interest income was the growth in the income from derivative financial instruments, which increased to CHF 17.4mn from CHF 7.4mn in 1H2017.

**Net trading income increased** by 22.3% to CHF 53.9mn, primarily driven by higher revenue from eForex (eFX, currency trading with leverage) division, which was up 7.5% y/y to CHF 35.1mn, and also supported by income from derivative financial instruments of CHF 7.1mn. Adjusted for unexpected events such as the sharp equity market sell-off and volatility spikes that occurred in early February 2018, the net trading income increased by 9% to CHF 46.8mn. Due to these events the company incurred a credit loss of CHF 8.2mn (which, under IFRS rules on hedge accounting, cannot be netted in the income statement and thus show up separately). However, the unexpected market developments and increased volatility also resulted in ~CHF 7.2mn in unexpected trading income which is ~87.3% of the total credit loss. So the net credit loss arising due to these one-off events amounts to ~CHF 1mn for the period. The total number of active clients in the eFX division increased 13.5% y/y to 42,986 with total assets almost flat y/y at CHF 328.6mn. On a sequential basis, the total volume for eFX remained flat at USD 594.4bn. However, Dollar per million (DPM) increased to USD 61.2, as compared to USD 60.1 in 2H2017.

**Sustained investments in technology, providing an edge**

The company is continuously focussing on innovation and technological advancement as part of its strategy. Swissquote introduced 9 new certificates under its newly launched thematic trading platforms during the first half of FY2018. These new certificates were instrumental in increasing the assets under management by CHF 10mn within thematic trading. In addition, the company launched a multi-currency credit card, enabling the holder to make transactions in 12 different currencies with no additional fee, also users will get a credit of up to 0.5-1.0% of their transaction value during the quarter to their respective accounts. We believe this should help the company to attract more clients leading to significant cross-selling opportunities going forward.

**Internaxx Bank acquisition to provide reach across Europe**

On 7 August 2018, Swissquote announced the planned acquisition of the Luxembourg-based Internaxx Bank. The purchase will be fully funded in cash (EUR 27.7mn, ~CHF 32.0mn), which the company has available on its balance sheet. The acquisition is a much needed strategic move as Brexit jeopardised Swissquote's plans to expand its business in Europe through London. Currently, Internaxx has a client base of 12,000 with EUR 2bn assets in custody and generated around EUR 10mn in revenue and EUR 1.4mn in profit for FY2017. We believe the full consolidation will occur as of the beginning of H2-2019 (due to the necessary regulatory approvals by the Luxembourg financial market authority) as we assume that due to the looming Brexit deadline in March 2019 the authorities might take longer to approve the acquisition.

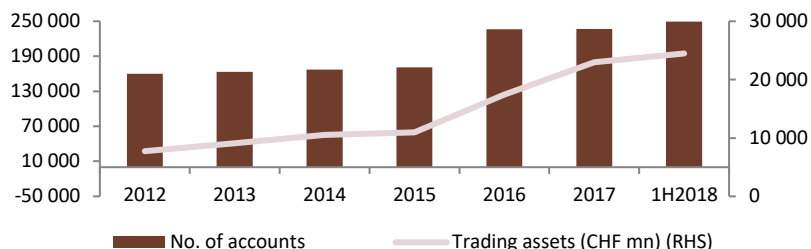
**Valuation**

We have revised our estimates upwards (exhibit 5), based on the stronger than expected 1H2018 performance and positive outlook shared by the company. The robust performance during the period demonstrated the successful implementation of its growth strategy and provided the investors conviction on its ability to grow consistently. Consequently, we have revised our DCF based target price, upwards to CHF 84.2. In addition, through relative valuation we have arrived at a fair value of CHF 81.4 per share. The blended fair value of CHF 82.80 per share (earlier: CHF 71.00) giving equal weight given to DCF and Relative Valuation, provides an upside of 19.1% from the current level. Hence, we believe the current price level at which Swissquote is trading offers an attractive entry opportunity.

### UPDATE ON KEY DRIVERS

The revenues of Swissquote is driven by a combination of three key variables: volume of transactions within the securities trading segment as well as in the eFX, 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 few other asset classes.

**Exhibit 1: Trading accounts and trading assets growth**

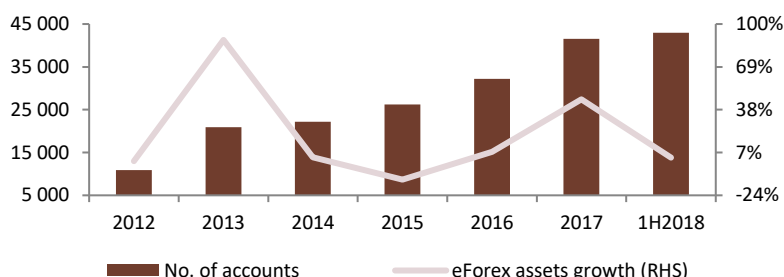


Source: Company data, Research Dynamics

During 1H2018, Swissquote's total trading accounts increased to 249,699, while total trading client assets have increased by 22.2% sequentially to CHF 24.5bn during the same period.

Income generated through eFX is also dependent on the volume of transactions. The Dollar per million (DPM in CHF/USD) metric shows how much the group is earning on each million of transaction value. In 1H2018, the company reported a DPM of USD 61.2, which we believe is going to increase going forward as the company is focussing on high net worth clients. The company's eFX assets have grown during the period to CHF 328.6mn.

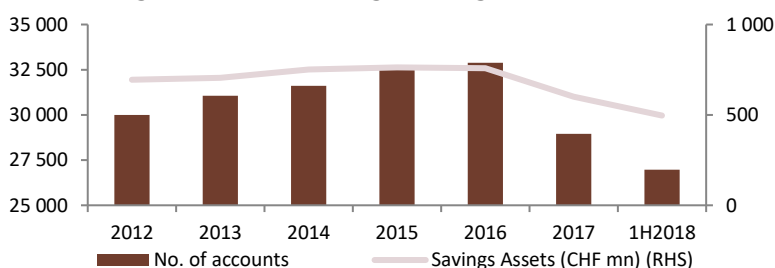
**Exhibit 2: eForex accounts and assets growth**



Source: Company data, Research Dynamics

The banking business generates revenue through investment in securities, lending of money to third parties (banks and other institutions) and providing margin loans to clients, who maintain an account with Swissquote and trade through its platform. Swissquote's client deposits, with ~50% denominated in Euro and USD, can be divided into two categories: 1.) Deposits meant for trading and 2.) Money in the savings account. The client trading deposits earns nil or marginal remuneration as the purpose of these deposits are solely investments 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 26,968 as of June 2018, while assets in savings accounts amounted to CHF 496.5mn. We believe the savings deposits should increase as the negative interest rate scenario reverses in the future.

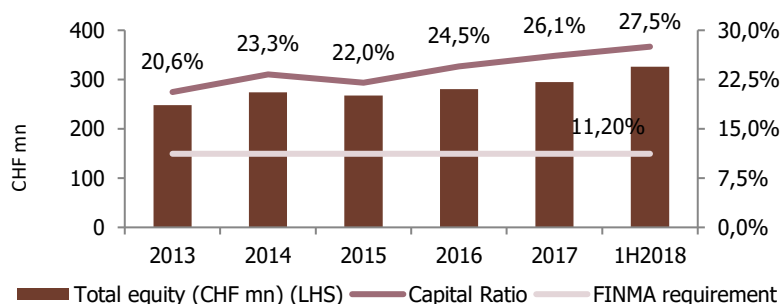
**Exhibit 3: Savings accounts and savings assets growth**



Source: Company data, Research Dynamics

**Capital ratio improved further to 27.5%** as total equity increased to 20% y/y to CHF 325.7mn in 1H2018. The company has remained well capitalised over the years. As of June 2018, Swissquote's capital ratio was at 27.5%, a consecutive increment from 26.1% in FY2017 (24.5% in FY2016). The acquisition of Internaxx, which was entirely funded through cash, should have a quite limited impact on the balance sheet of Swissquote. The tier one capital ratio should, according to our estimates, still remain above 22%. Accordingly, the company remains on the list of best capitalised banks in Switzerland.

**Exhibit 4: Total equity and capital ratio**



Source: Research Dynamics, Company data

Our long-term projections assumes reversal of the negative interest rate regime to zero interest rate starting from FY2021, which should free-up excess cash from the balance sheet. This excess cash can be utilised for various revenue generating activities such as inter-bank deposits and lending. Accordingly, we foresee an incremental 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 ~22.0%. Nevertheless, the reduced CAR (~18%) would still be significantly above the current FINMA requirement of 11.2%.

**Internaxx Bank acquisition to provide reach across Europe**

On 7 August 2018, Swissquote announced the acquisition of Internaxx, a Luxembourg based online bank, for a price of EUR 27.7mn (all internally funded, c.2.7x of FY17 revenue). This transaction provides a very sensible strategic fit for Swissquote as due to Brexit (once enforced) the Group would have difficulties to be present in the European markets and, especially, would be able to implement on its significant European expansion plans out of London. The acquisition and subsequent integration of Internaxx bank will thus give the Group a much needed full access to the European markets (which generated ~10% of their total revenue in 1H2018). We believe this acquisition should also help Swissquote to achieve significant cross-selling benefits as its existing products and services fit perfectly to the needs of Internaxx's international and upscale expat client base of 12,000 investment customers. We see low execution risks as from a language, cultural, and also financial market place side (Luxembourg besides Switzerland being another AAA-rated financial and well-regulated market place), but also from a business model point of view both companies are largely compatible.

The 12,000 client accounts with Internaxx are from across the world, providing Swissquote global exposure and fund base in different currencies. Management is expecting ~50% revenue growth for next year from the European region with a good momentum going forward, supported by Internaxx client base and reach. The company can further increase and strengthen its client base in Europe by offering its unique product and services such as Robo-advisory, white labels, Thematic trading, crypto trading etc. Similar to Switzerland, Luxembourg is another place, where crypto assets have been regulated, thus we expect that cryptocurrencies trading could generate substantial additional value. Most of Swissquote's offering complements the existing product and services offering of Internaxx bank, so losing clients due to unavailability of services (both existing and acquired) is not a concern. At this point in time it is difficult to assess the cost synergies, but Swissquote will progressively provide its large technology platform into Internaxx and integrate its product and services' solution, which will also enable the migration of white label solutions.

In addition, the acquisition will also provide international exposure to Swissquote's balance sheet in terms of client assets and the company may mitigate the negative interest rate regime in its local currency over time. At the time of acquisition, Internaxx has 40 employees, 12,000 client accounts and a total of EUR 2bn assets under custody. The acquired company reported revenues of EUR 10mn in FY2017 with a bottom line of EUR 1.4mn. For the financial year 2018 it is expected that Internaxx might report revenues of EUR 12-13mn, representing a significant organic growth of 20%-30% before integration and cross-selling benefits.

**Exhibit 5: Changes in estimates**

CHF mn (except per share)	FY2018E			FY2019E		
	Previous	Current	% change	Previous	Current	% change
Net fee and commission income	102	108	6.2%	108	125	15.9%
Net interest income	14.0	18.4	31.6%	16.0	23.9	49.2%
Operating income	210	231	10.1%	219	260	18.8%
Operating profit	63.0	61.1	-3.0%	67.0	79.2	18.2%
Net profit	55	52	-5.9%	58	67	14.9%
Diluted EPS	3.8	3.6	-5.1%	4.0	4.6	16.2%

Source: Research Dynamics

We have revised our financial projections based on the current business dynamics and management commentary. Although, we have revised our estimates upward given the broad based strong performance across all business divisions, we are however being conservative as Swissquote will have to grow against higher base. In our view, the company will have to increase its operating expenses in absolute terms, mainly for marketing and employees to sustain the top line growth. Hence, the current pre-tax margin of 27.3% might not be sustainable in the long-term, instead we believe a pre-tax margin of 18-20% should be sustainable (~15% in tough conditions) in the long term. We have adjusted our operating profit for one-time gain and credit loss of CHF 7.2mn and CHF 8.2mn respectively, due to the change in accounting standards in FY2018 (adoption of IFRS 9). Consequently, net profit and diluted EPS are adjusted for FY2018. However, we have not forecasted credit-losses going forward due to uncertainty related to it.

In our model estimates we have consolidated Internaxx within Swissquote financials from 2H19. We have estimated an additional ~EUR 8.2mn of revenue from Internaxx for the second half of financial year FY2019, under the assumption that the transaction will have closed and thus be consolidated as of mid-2019. At the same time we have not considered any margin dilution as both companies have similar profitability.

## VALUATION

Given the diversified business profile of Swissquote, we believe a blended valuation technique is apt for valuing the company 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 value per share for the group comes at CHF 84.2 (earlier, CHF 75.5). Our weighted average cost of capital (WACC) of 10.6% (remains unchanged) 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 forecast 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. While using the RV, we have considered 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 20.0x, P/B of 3.5x and P/TBV of 4.0x (all multiples we have used are significantly below its past three year's average). We arrive at a fair value of CHF 81.4 per share by using RV technique.

The final value using the blended valuation is CHF 82.80, which gives an upside of 19.1% from the current levels. Thus, we believe the current price levels at which Swissquote is trading offers an attractive entry opportunity.

**Exhibit 6: Sensitivity of WACC & terminal growth rate with the share price**

**Sensitivity of Value per share (CHF)**

		Sensitivity Table				
		WACC				
		8,6%	9,6%	10,6%	11,6%	12,6%
Terminal growth rate	0,25%	100	89	80	72	66
	0,50%	103	91	81	73	67
	0,75%	105	93	83	75	68
	1,00%	108	95	84	76	69
	1,25%	111	97	86	77	70
	1,50%	114	99	88	78	71
	1,75%	117	101	89	80	72

Source: Research Dynamics

**Exhibit 7: Sensitivity of upside**

		Sensitivity Table				
		WACC				
		8,6%	9,6%	10,6%	11,6%	12,6%
Terminal growth rate	0,25%	44,4%	28,0%	14,8%	4,0%	-5,1%
	0,50%	47,8%	30,6%	16,8%	5,6%	-3,8%
	0,75%	51,4%	33,3%	19,0%	7,3%	-2,4%
	1,00%	55,2%	36,2%	21,2%	9,0%	-1,0%
	1,25%	59,2%	39,2%	23,5%	10,9%	0,5%
	1,50%	63,6%	42,5%	26,0%	12,8%	2,0%
	1,75%	68,3%	45,9%	28,6%	14,8%	3,6%

Source: Research Dynamics

**Exhibit 8: Swissquote – Comparison with average of peers**

	P/E			P/B		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Peer multiples	20.9x	16.4x	14.9x	3.0x	1.8x	1.6x
Swissquote	76.9x	20.6x	18.1x	1.7x	3.0x	2.6x
Premium (disc) to peers	268%	26%	21%	(42%)	67%	61%

Source: Research Dynamics, Bloomberg (as on 08 Aug 2018)

Company	P/E			P/B		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Swissquote Group Holding-Reg	76.9x	20.6x	18.1x	1.7x	3.0x	2.6x
<b>Peers:</b>						
Compagnie Financiere Trad-Br	13.1x	NA	NA	1.6x	NA	NA
Tradegate Ag	27.5x	NA	NA	8.9x	NA	NA
Euwax Ag	62.5x	NA	NA	5.1x	NA	NA
Renta 4 Banco Sa	18.1x	NA	NA	2.8x	NA	NA
IG Group Holdings Plc	17.0x	15.7x	16.2x	4.0x	NA	NA
Interactive Brokers Gro-Cl A	43.1x	28.6x	24.2x	3.1x	NA	NA
Ubs Group Ag-Reg	14.5x	11.6x	10.1x	1.2x	1.2x	1.1x
Credit Suisse Group Ag-Reg	16.6x	13.5x	9.2x	0.8x	0.9x	0.9x
TD AMERITRADE HOLDING CORP	26.2x	17.0x	14.6x	4.0x	3.9x	3.5x
E*TRADE FINANCIAL CORP	23.6x	17.1x	15.3x	1.6x	2.4x	2.2x
Median	20.9x	16.4x	14.9x	3.0x	1.8x	1.6x
High	62.5x	28.6x	24.2x	8.9x	3.9x	3.5x
Low	13.1x	11.6x	9.2x	0.8x	0.9x	0.9x
Premium (disc) to peers	268%	26%	21%	(42%)	67%	61%

Source: Research Dynamics, Bloomberg (as on 08 Aug 2018)

**Exhibit 9: Swissquote – Blended Target price**

	Weight	Target price
DCF	50%	84.2
Relative	50%	81.4
Blended target price		82.8
Upside %		19.1%

Source: Research Dynamics, Bloomberg (as on 08 Aug 2018)

**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. As Swissquote’s business model is evolving to include more services on offer (such as cryptocurrency trading or the multi-currency credit card ) that entice the cross-selling of its various products on offer and thus opens up more growth initiatives, the company plans to redefine and announce its new growth strategy along with the FY18 results.

We believe, the company is still focussed on growing organically by leveraging its technological expertise to develop digital solutions, which will enable it to tap into the growing trend of digitalisation. However, with the excess cash of ~CHF 174.7mn (as per international comparison), the company is in a comfortable position to make strategic acquisitions further. Further, assets under ePB and trading business have witnessed a growth in 1H2018 at 12.4% and 6.5%, respectively, over the previous year. In our view, ePB has the potential to grow further on the back of new age technology such as robo-advisory and higher machine learning capabilities, which should drive volumes through improved performance. On the other hand, eFX business should witness growth on the back of increased volatility in the currency markets across the globe. Accordingly, higher volumes are foreseen to lift Swissquote’s top-line in the near to medium term. We have estimated an operating income of CHF 288.4mn, with net fee & commission income reaching CHF 144.0mn in 2020. We have forecast a net interest income of CHF 58.1mn in 2021, assuming the interest rate scenario changing to zero.

## Detailed Financial Statements

### Income Statement

CHF mn (except per share)	FY15A	FY16A	FY17A	FY18E	FY19E
Fee and commission income	74	79	96	120	138
Fee and commission expense	(8)	(9)	(11)	(11)	(13)
<b>Net fee and commission income</b>	<b>67</b>	<b>70</b>	<b>85</b>	<b>108</b>	<b>125</b>
Interest income	21	22	32	36	42
Negative interest rates expense	(9)	(10)	(18)	(16)	(16)
Interest expense	(2)	(1)	(2)	(2)	(3)
<b>Net interest income</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>18</b>	<b>24</b>
Net trading income	70	69	90	104	111
<b>Operating income</b>	<b>147</b>	<b>150</b>	<b>188</b>	<b>231</b>	<b>260</b>
Non-expected income	0	0	0	7	0
Non-expected expense/Credit loss	0	0	0	(8)	0
<b>Adjusted operating income</b>	<b>138</b>	<b>140</b>	<b>170</b>	<b>215</b>	<b>245</b>
Operating expenses	(145)	(127)	(142)	(162)	(181)
<b>Operating profit</b>	<b>2</b>	<b>23</b>	<b>46</b>	<b>61</b>	<b>79</b>
Income tax expense	0	(2)	(7)	(9)	(13)
<b>Net profit</b>	<b>2</b>	<b>21</b>	<b>39</b>	<b>52</b>	<b>67</b>
Diluted EPS	0.1	1.4	2.7	3.6	4.6
DPS	0.6	0.6	0.9	1.1	4.6

Source: Research Dynamics, Company data

### Balance Sheet

CHF mn	FY15A	FY16A	FY17A	FY18E	FY19E
<b>Assets</b>					
Cash and balances with central bank	2,032.0	2,284.7	3,517.1	3,439.1	3,497.6
Treasury bills and other eligible bills	88.1	277.6	259.9	266.0	271.3
Due from banks	350.4	398.2	425.4	604.0	604.0
Derivative financial instruments	69.0	41.5	72.4	68.5	71.9
Trading assets	6.8	6.9	8.3	8.5	8.7
Loans	205.9	226.4	278.6	306.6	326.9
Investment securities	788.8	554.5	384.9	330.3	346.8
Deferred income tax assets	2.2	1.0	1.3	1.4	1.4
Intangible assets	40.6	40.5	40.3	40.1	39.9
Information technology systems	35.1	40.7	44.9	40.8	37.8
Property, plant and equipment	61.5	63.9	61.6	58.9	56.3
Other assets	37.3	30.4	21.2	30.8	32.4
<b>Total Assets</b>	<b>3,717.8</b>	<b>3,966.3</b>	<b>5,115.8</b>	<b>5,203.0</b>	<b>5,302.8</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Deposits from banks	76.2	32.8	171.0	171.0	171.0
Derivative financial instruments	22.7	12.7	24.1	20.2	20.7
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	51.7	52.9
Current income tax liabilities	0.4	0.4	5.3	4.1	4.1
Deferred tax liabilities	1.4	1.2	1.6	1.2	1.2
Provisions	3.7	2.3	2.0	2.8	2.8
<b>Total liabilities</b>	<b>3,450.1</b>	<b>3,685.4</b>	<b>4,820.6</b>	<b>4,872.7</b>	<b>4,927.3</b>
<b>Equity</b>					
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	322.1	367.4
<b>Total equity</b>	<b>267.7</b>	<b>280.8</b>	<b>295.1</b>	<b>330.3</b>	<b>375.6</b>
<b>Total liabilities and equity</b>	<b>3,717.8</b>	<b>3,966.3</b>	<b>5,115.8</b>	<b>5,203.0</b>	<b>5,302.8</b>

Source: Research Dynamics, Company data

### Cash Flow Statement

CHF mn	FY15A	FY16A	FY17A	FY18E	FY19E
<b>Cash flow from/ (used in) operating activities:</b>					
Fees and commission received	72.7	79.2	96.5	119.6	138.0
Fees and commission paid	(7.7)	(9.3)	(10.3)	(11.4)	(12.8)
Interest received	35.1	37.9	41.1	35.9	42.0
Interest paid	(9.8)	(10.7)	(17.6)	(17.4)	(18.2)
Net trading income received	70.2	69.3	88.4	104.4	111.1
Income tax paid/reimbursed	(2.5)	(0.7)	8.3	(9.4)	(12.5)
Payments to employees	(57.8)	(54.9)	(58.2)	(75.6)	(79.4)
Payments to suppliers	(59.1)	(49.2)	(56.3)	(86.2)	(101.6)
<b>Cash flow from operating profit before changes in operating assets and liabilities</b>	<b>41.2</b>	<b>61.7</b>	<b>92.0</b>	<b>59.9</b>	<b>66.7</b>
<b>Net change in operating assets and liabilities:</b>					
Treasury bills and other eligible bills (above 3 months)	-	(117.3)	23.1	(6.2)	(5.3)
Due from banks (above 3 months)	-	14.0	10.5	(178.6)	-
Derivative financial instruments (assets)	27.7	27.5	(30.9)	3.9	(3.4)
Trading assets	-	-	-	(0.2)	(0.2)
Loans	(65.0)	(20.9)	(52.5)	(28.0)	(20.3)
Other assets	-	-	-	(9.7)	(1.5)
Derivative financial instruments (liabilities)	(10.7)	(10.0)	11.4	(3.9)	0.4
Due to customers	(3.0)	284.9	956.8	55.2	53.0
Other liabilities	-	-	-	0.7	1.2
<b>Net cash from operating activities</b>	<b>(9.8)</b>	<b>240.0</b>	<b>1,010.4</b>	<b>(106.7)</b>	<b>90.4</b>
<b>Cash flow from/ (used in) investing activities:</b>					
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	54.6	(16.5)
Purchase of investment securities	(463.1)	(621.6)	(145.3)	-	-
Loans and advances to banks (above 3 months)	(35.0)	-	-	-	-
<b>Net cash from investing activities</b>	<b>(45.6)</b>	<b>201.7</b>	<b>141.1</b>	<b>41.4</b>	<b>(31.2)</b>
<b>Cash flow from/ (used in) financing activities:</b>					
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)	(16.6)	(21.4)
<b>Net cash used in financing activities</b>	<b>(10.6)</b>	<b>(9.8)</b>	<b>(26.1)</b>	<b>(16.6)</b>	<b>(21.4)</b>
Net increase in cash and cash equivalents	(66.1)	431.9	1,125.5	(82.0)	37.8
Cash and cash equivalents as at 1 January	2,428.1	2,359.3	2,789.8	3,927.2	3,845.2
Exchange difference on cash and cash equivalents	(2.7)	(1.4)	11.9	-	-
<b>Cash and cash equivalents as at 31 December</b>	<b>2,359.3</b>	<b>2,789.8</b>	<b>3,927.2</b>	<b>3,845.2</b>	<b>3,883.0</b>

Source: Research Dynamics, Company data

**Key Ratios**

	FY15A	FY16A	FY17A	FY18E	FY19E
Operating Income Growth	0.8%	2.5%	25.0%	23.1%	12.6%
Net fee & comm. Inc./OI	45.4%	46.3%	45.4%	46.8%	48.1%
Net int. inc./OI	7.0%	7.5%	6.5%	8.0%	9.2%
Cost to income ratio	98.7%	84.6%	75.6%	70.0%	69.6%
Net Margin (%)	1.4%	13.8%	20.9%	22.4%	25.6%
ROA (%)	0.1%	0.5%	0.8%	1.0%	1.3%
ROE (%)	0.8%	7.4%	13.3%	15.7%	17.7%
P/E	499.7x	49.9x	25.4x	19.3x	15.0x
P/BV	4.0x	3.8x	3.6x	3.2x	2.8x
P/TBV	4.7x	4.4x	4.2x	3.7x	3.2x
Yield%	0.9%	0.9%	1.3%	1.6%	2.0%
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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