

Swissquote Group Holding SA

Switzerland | Financials

Event update

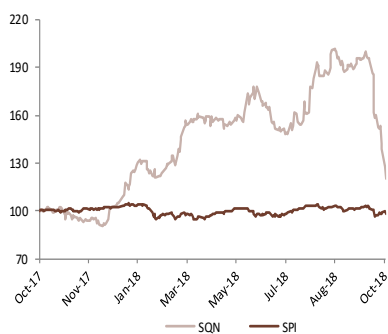
24 October 2018

Company Data

Price:	CHF 43.75
Market Cap:	CHF 670.6mn
Free Float:	63.4%
No. of shares:	15.3mn
Avg. traded volume (30 Day):	47,076
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	31.4x	16.0x	12.1x	9.4x
P/BV	2.4x	2.3x	2.0x	1.8x
Yield (%)	1.4%	2.1%	2.5%	3.2%

Source: Research Dynamics, Company data

Analysts

Doris Rudischhauser
dru@researchdynamics.ch

Alexandre Müller
amu@researchdynamics.ch

Tel: +41 43 268 3232

www.researchdynamics.ch

Another feather in the cap

Swissquote continues to augment its offerings.

On 22 October, Swissquote became the first bank worldwide to provide its clients the opportunity to participate in Initial Coin Offerings (ICOs). This enables Swissquote's clients to diversify their asset base and be part of start-up or scale-up companies from the convenience of their traditional trading account. This is a significant addition to Swissquote's platform. Previously, to participate in an ICO, investors needed to understand the blockchain technology and had to own a blockchain wallet. However, with Swissquote's new offering, that is no longer a prerequisite: clients can directly purchase coins (tokens) of the issuing company using Swiss francs through their existing Swissquote trading account. Swissquote will manage execution and custody of tokens.

An Initial Coin Offering is an innovative way for companies to raise money via crowdfunding using blockchain. ICO is a close equivalent to IPO: companies undertaking an ICO issue blockchain-based 'tokens' instead of shares as in the case of an IPO. To summarise, the three fundamental differences between the two are that ICOs are i) decentralised (no single governing entity), ii) largely unregulated globally, but regulated in Switzerland under FINMA ICO guidelines and iii) structurally more flexible as compared to IPOs.

The first company whose tokens are available on Swissquote's platform is a Swiss start-up company named LakeDiamond (spin-off of the Swiss Federal Institute of Technology, EPFL Lausanne). LakeDiamond (www.lakediamond.ch), combining competencies and expertise with a team of strategy and business developers, quantum physicists and computer scientists, blockchain and crypto professionals, and experts in diamond growth, photonics and electronics, strives to power the diamond revolution by developing the infrastructure to grow, transform and sell machine-made diamonds. Diamonds are used in many industrial applications such as, among others, micromechanics, photonics, electronics or biotech. The company has been focused on creating laboratory-grown diamonds of highest-grade quality. Now, on the advent of moving manufacturing into industrial scale production, LakeDiamond is looking to finance its further development by a public ICO.

LakeDiamond thus aims to sell machine production minutes in the form of tokens using the ICO route. Accordingly, LakeDiamond has issued virtual tokens worth CHF 60.5mn which correspond to the actual machine time. The tokens follow the technical standards used for the Ethereum platform. The minimum purchase consists of 60 LakeDiamond tokens (LKD), which is equivalent to CHF 33. Swissquote clients in addition have an exclusive advantage offered on its platform: clients will receive one additional free token for every ten tokens purchased until CHF 4mn are raised through the issue.

As mentioned in our earlier reports, technology and innovation remain the primary differentiating factors for Swissquote. Currently, Swissquote's platform 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. We believe the inclusion of ICO on its platform underlines Swissquote's focus on innovatively expanding its product portfolio. This offer positions Swissquote once more as online technology leader to its client base as well as its investors.

Valuation

While we are optimistic about this development, we have kept our estimates unchanged at the moment, until we can fully assess the financial impact of this initiative. Our blended fair value of CHF 82.80 per share remains unchanged as well, implying an upside of 89.2% from current levels. The stock has corrected ~42.3% from its 52-week high, which in our view provides an attractive entry point for mid to long-term investors, given Swissquote's strong fundamentals along with a well-diversified product and service portfolio. The negative development of the share price over the last few days seems unwarranted and overdone in our view. Although bank shares in general have been under pressure for a while due to the flattening of the yield curve, Swissquote is not affected because it benefits from the rise in short term US interest rates. In addition, the negative impact of the implementation of the new European Securities Markets Authority (ESMA) regulations on some EU based competitors active in leverage forex does not affect Swissquote, as it has a minimal exposure in the EU. With no negative news announced by the company, and with a current increased market volatility which is supportive to Swissquote's business model (higher trading income), we continue to be optimistic about the share price development mid to long term.

Exhibit 1: Swissquote – Comparison with average of peers

Company	P/E			P/B		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Swissquote Group Holding-Reg	63.6x	13.3x	11.2x	1.8x	2.0x	1.7x
Peers:						
Compagnie Financiere Trad-Br	13.3x	NA	NA	1.6x	NA	NA
Tradegate Ag	28.7x	NA	NA	9.6x	NA	NA
Euwax Ag	65.6x	NA	NA	5.1x	NA	NA
Renta 4 Banco Sa	18.1x	NA	NA	2.8x	NA	NA
IG Group Holdings Plc	16.5x	10.6x	11.2x	3.9x	NA	NA
Interactive Brokers Gro-Cl A	35.4x	23.4x	19.3x	3.2x	NA	NA
Ubs Group Ag-Reg	14.4x	9.9x	8.6x	1.1x	1.0x	0.9x
Credit Suisse Group Ag-Reg	18.7x	11.2x	7.6x	0.8x	0.7x	0.7x
TD AMERITRADE HOLDING CORP	26.5x	14.6x	12.6x	4.0x	3.5x	3.1x
E*TRADE FINANCIAL CORP	23.7x	13.4x	11.7x	1.7x	1.9x	1.7x
Median	21.2x	12.3x	11.4x	3.0x	1.4x	1.3x
High	65.6x	23.4x	19.3x	9.6x	3.5x	3.1x
Low	13.3x	9.9x	7.6x	0.8x	0.7x	0.7x
Premium (disc) to peers	200%	8%	(2%)	(38%)	38%	27%

Source: Research Dynamics, Bloomberg (as on 24th Oct 2018)

Exhibit 2: Swissquote – Blended Target price

	Weight	Target price
DCF	50%	84.2
Relative	50%	81.4
Blended target price		82.8
Upside %		89.2%

Source: Research Dynamics, Bloomberg (as on 24th Oct 2018)

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)
Net fee and commission income	67	70	85	108	125
Interest income	21	22	32	36	42
Negative interest rates expense	(9)	(10)	(18)	(16)	(16)
Interest expense	(2)	(1)	(2)	(2)	(3)
Net interest income	10	11	12	18	24
Net trading income	70	69	90	104	111
Operating income	147	150	188	231	260
Non-expected income	0	0	0	7	0
Non-expected expense/Credit loss	0	0	0	(8)	0
Adjusted operating income	138	140	170	215	245
Operating expenses	(145)	(127)	(142)	(162)	(181)
Operating profit	2	23	46	61	79
Income tax expense	0	(2)	(7)	(9)	(13)
Net profit	2	21	39	52	67
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
Assets					
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
Total Assets	3,717.8	3,966.3	5,115.8	5,203.0	5,302.8
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	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
Total liabilities	3,450.1	3,685.4	4,820.6	4,872.7	4,927.3
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	322.1	367.4
Total equity	267.7	280.8	295.1	330.3	375.6
Total liabilities and equity	3,717.8	3,966.3	5,115.8	5,203.0	5,302.8

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	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)
Cash flow from operating profit before changes in operating assets and liabilities	41.2	61.7	92.0	59.9	66.7
Net change in operating assets and liabilities:					
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
Net cash from operating activities	(9.8)	240.0	1,010.4	(106.7)	90.4
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	54.6	(16.5)
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	41.4	(31.2)
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)	(16.6)	(21.4)
Net cash used in financing activities	(10.6)	(9.8)	(26.1)	(16.6)	(21.4)
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	-	-
Cash and cash equivalents as at 31 December	2,359.3	2,789.8	3,927.2	3,845.2	3,883.0

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	314.5x	31.4x	16.0x	12.1x	9.4x
P/BV	2.5x	2.4x	2.3x	2.0x	1.8x
P/TBV	3.0x	2.8x	2.6x	2.3x	2.0x
Yield%	1.2%	1.2%	1.8%	2.1%	2.8%
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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Dynamics Group AG

Utoquai 43
CH-8008 Zürich
Tel. +41 43 268 32 32
Fax +41 43 268 32 39

Zeughausgasse 22
CH-3011 Bern
Tel. +41 31 312 28 41
Fax +41 31 312 28 49

21, rue des Caroubiers
CH-1227 Carouge/GE
Tel. +41 22 308 62 20
Fax +41 22 308 62 36

contact@dynamicsgroup.ch

www.dynamicsgroup.ch