

Swissquote Group Holding SA

Switzerland | Financials

Event update

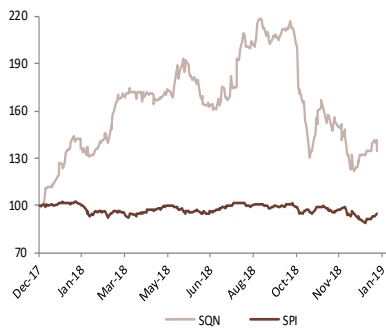
10 January 2019

Company Data

Price:	CHF 45.9
Market Cap:	CHF 699.7mn
Free Float:	63.4%
No. of shares:	15.3mn
Avg. traded volume (30 Day):	37,840
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	32.9x	16.8x	12.7x	9.9x
P/BV	2.5x	2.4x	2.1x	1.9x
Yield (%)	1.3%	2.0%	2.4%	3.0%

Source: Research Dynamics, Company data

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The group delivers as guided

For the full year 2018, Swissquote announced best ever historical annual results. The bank achieved its guidance of 15% earnings growth as guided during the first-half 2018 results' presentation. The company recorded total earnings and pre-tax profit of CHF 214 million and CHF 53.5 million, which increased by 15% and 16%, respectively, as compared to the previous year. The earnings growth reflects significant improvements in the traditional business, along with a revenue contribution of ~CHF 10 million from crypto currency trading which we projected at CHF 12 million for the full year 2018. We believe the reason for not achieving our estimated numbers was due to the slow performance of digital currency trading in the last three quarters of FY 2018. This is apparent from the CEO's statement in "Finanz + Wirtschaft" where he mentioned that the amount of business in cryptocurrencies for the last three quarters of 2018 was ~CHF 5 million, whereas the same amount had been done in the first quarter alone.

While Swissquote announced the acquisition of Luxemburg-based Internaxx bank in August 2018, the transaction has not yet closed, pending approvals from authorities. Thus, the FY2018 results do not reflect the acquisition yet. Management expects the approval to occur at the end of the first quarter of 2019 and thus consolidation will impact full year results of 2019. In addition, we expect Swissquote to benefit from the recent addition of Initial Coin Offerings (ICO) – the first one being LakeDiamond as announced back in October 2018 – to its product portfolio, which would provide clients the opportunity to diversify their asset base and invest in cryptocurrencies even without access to blockchain wallet.

Valuation

While we view the confirmation of FY 2018 guidance achievements as positive news, we have not made any adjustments to our estimates at this time. Rather, we look for a guidance update on occasion of the release of full FY2018 results on 8 March 2019. Our blended fair value of CHF 82.8 per share has thus not changed and implies an upside of 80.4% from current levels. The stock has corrected ~39.4% from its 52-week high, which we believe offers an attractive opportunity for investors to enter into a fundamentally attractive equity story based on a strong organisation with robust business model backed by constant innovation.

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	49.9x	13.8x	11.4x	1.9x	2.0x	1.8x
Peers:						
Compagnie Financiere Trad-Br	13.4x	NA	NA	1.7x	NA	NA
Tradegate Ag	29.9x	NA	NA	10.4x	NA	NA
Euwax Ag	68.7x	NA	NA	5.1x	NA	NA
Renta 4 Banco Sa	18.2x	NA	NA	2.8x	NA	NA
IG Group Holdings Plc	15.7x	11.3x	12.1x	3.8x	NA	NA
Interactive Brokers Gro-CIA	30.7x	24.3x	20.1x	3.2x	NA	NA
Ubs Group Ag-Reg	14.3x	9.5x	8.8x	1.1x	0.9x	0.9x
Credit Suisse Group Ag-Reg	19.8x	11.3x	7.6x	0.8x	0.7x	0.6x
TD AMERITRADE HOLDING CORP	26.4x	14.7x	13.1x	4.0x	3.6x	3.3x
E*TRADE FINANCIAL CORP	22.1x	12.5x	11.4x	1.7x	1.9x	1.7x
Median	21.0x	11.9x	11.7x	3.0x	1.4x	1.3x
High	68.7x	24.3x	20.1x	10.4x	3.6x	3.3x
Low	13.4x	9.5x	7.6x	0.8x	0.7x	0.6x
Premium (disc) to peers	138%	16%	(3%)	(37%)	42%	36%

Source: Research Dynamics, Bloomberg (as on 10th Jan 2019)

Exhibit 2: Swissquote – Blended Target price

	Weight	Target price
DCF	50%	84.2
Relative	50%	81.4
Blended target price		82.8
Upside %		80.4%

Source: Research Dynamics, Bloomberg (as on 10th Jan 2019)

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	NM	32.9x	16.8x	12.7x	9.9x
P/BV	2.6x	2.5x	2.4x	2.1x	1.9x
P/TBV	3.2x	2.9x	2.8x	2.4x	2.1x
Yield%	1.3%	1.3%	2.0%	2.4%	3.0%
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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