Swissquote Group Holding SA

Switzerland | Financials

FY2018 earnings update

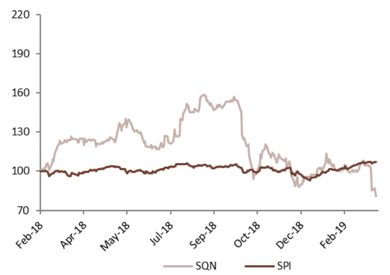
14 March 2019

Company Data

Price:	CHF 38.15
Market Cap:	CHF 584.8mn
Free Float:	63.4%
No. of shares:	15.3mn
Avg. traded volume (30 Day):	51,056
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)

	FY17	FY18	FY19E	FY20E
Operating Inc. Growth	25.0%	14.3%	6.4%	11.2%
Net fee & comm. Inc./OI	45.4%	46.4%	45.5%	46.7%
Cost/income	75.6%	74.9%	80.0%	77.8%
Net Margin (%)	20.9%	20.8%	17.2%	19.1%
Basic EPS	2.73	3.04	2.68	3.32
Diluted EPS	2.73	3.02	2.66	3.29
DPS	0.90	1.00	1.00	1.23
P/E	14.0x	12.5x	14.2x	11.5x
P/BV	2.0x	1.7x	1.7x	1.6x
Yield (%)	2.4%	2.6%	2.7%	3.2%

Source: Research Dynamics, Company data

Agenda

AGM in Zurich	10 May 2019
1H2019 Results	06 August 2019

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Operating revenue above the CHF 200mn mark

Record high results as revenue surpassed the CHF 200mn mark for the first time

The company posted an impressive set of result for the full year 2018 thus achieving its earlier targets as already published end of January. Operating revenue increased by 16.2% y/y to CHF 225.4mn (CHF 193.9mn in 2017). Adjusted for unexpected (market-driven) events of CHF 1.4mn and negative interest rates of CHF 9.0mn, net operating revenue as reported increased by 14.3% y/y to CHF 214.5mn (CHF 187.8mn in 2017). The growth was driven by robust performance across all business divisions and was supported by increased volatility across financial markets during the full year 2018. Net fee and commission income grew 16.8% y/y to CHF 99.5mn (CHF 85.2mn in 2017) and net interest income reported has almost doubled from CHF 12.2mn in 2017 to CHF 24.1mn. Net trading income also increased by 10.0% y/y to CHF 99.3mn, mainly due to an increase in eForex income of 7.7% y/y to CHF 71.8mn (CHF 66.7mn in 2017), partially offset by a decline in security trading income by 6.5% y/y to CHF 20.9mn (CHF 22.3mn in 2017).

Operating expenses increased to CHF 160.8mn (13.2% y/y) in absolute terms, primarily due to high investment in technology, marketing and employees. However, as percentage of the net operating revenue it, decreased by 70bps to 74.9% (75.6% in 2017), indicating efficiency gains. Employee -related expenses rose to CHF 73.2mn (+13.3% y/y) while marketing expenses increased to CHF 22.7mn (+11.1% y/y). However, both employee (34.1%) and marketing (10.6%) expenses decreased 30bps each in terms of percentage of net operating revenue. The pre-tax profit jumped to CHF 53.8mn (+17.4% y/y) and corresponding margin improved 70bps to 25.1%. Net profit rose by 13.8% y/y to CHF 44.6mn and the corresponding margin was almost flat at 20.8% vs 20.9% in 2017. The net new money inflow grew 14.8% y/y to CHF 3,115mn. Out of this, 42.8% came from APAC & the Americas regions, followed by Switzerland (36.6%), Europe (15.1%) and MEA (5.6%). The rise in net new money from Switzerland has increased the total cash exposed to negative interest rates. Despite the growth in net new money, total client assets decreased by 1.2% y/y to CHF 23.8bn, reflecting negative market conditions in the second half of the year, due to which saving client assets decreased to CHF 306.3k (CHF 600.6k in 2017), along with Robo-Advisory (ePB) assets, which decreased 5.6% y/y to CHF 191.7mn. Assets in trading accounts remained almost flat y/y at CHF 23.0mn (-0.1% y/y). Within client asstes, eForex increased 11.0% y/y to CHF 365.2k partially offseting the decline.

The total number of accounts grew 6.4% y/y to 329,100, reflecting increased Robo-advisory accounts, which grew 43.9% y/y to 2,732. The number of eForex accounts grew by 15.4% y/y to 47,972 and the number of trading accounts also increased by 8.3% y/y to 256,565. All accounts witnessed significant growth, except savings accounts which decreased by 24.6% y/y to 21,831. In addition, total equity increased by 19.3% y/y to CHF 352.2mn (CHF 295.1mn in 2017), bringing the capital ratio to a very strong level of 29%. However, EUR 27.7mn are scheduled to be paid out for the purchase of Luxembourg-based Internaxx Bank during 1H19 from the total shareholder's equity of Swissquote, which, together with the expected dividend pay-out of CHF 1.00 per share would reduce the pro-forma capital ratio to 22.7%.

Sustained investments in technology and geographical expansion to drive growth

Swissquote is continuously focussing on innovation and technological advancement as part of its strategy. In 2018, operating expenses increased primarily due to persistently high investments into technology. During the year, Swissquote expanded its investment universe to include cryptocurrencies as an additional optional asset class within its Robo-Advisory platform. In addition, the company launched a multi-currency credit card which enables the holder to make transactions in 12 different currencies without any additional fee. The company founded a subsidiary named Swissquote Pte Ltd. in Singapore in order to get better and more direct access to the Asian markets. Thus for 2019, the company plans to invest around CHF 5mn to set-up its Singapore operations. We believe the investment into technology and the continued introduction of new and user-friendly products along with geographical expansion (Europe through Internaxx and Asia through Singapore) should result in further sustainable growth for the company.

Current valuation level offers a good entry opportunity

We believe the negative response from the market after management's cautious commentary regarding FY2019 results is a knee-jerk reaction and the correction reflects investors' disappointment. We believe, the current price level provides an attractive entry point for long term investors. We have reduced our target price, incorporating management commentary on the slow start to the year and other long term risks, and have arrived at a fair value of CHF 64.0 per share (CHF 82.2 earlier) providing an attractive upside from the current trading levels.

DIVISIONAL RESULTS

Fee and commission income increased by 14.4% y/y to CHF 110.0mn, reflecting growth in the brokerage and related income, which increased by 11.1% y/y to CHF 80.8mn, not least supported by growth in custody fees of 34.2% y/y to CHF 12.6mn. Other commission income was up 11.8% y/y to CHF 12.5mn and advertising and subscription fees income increased by 46.8% y/y to CHF 4.1mn. The fee and commission expenses decreased by 3.9% y/y to CHF 10.5mn, resulting in a 16.8% higher net fee and commission income of CHF 99.5mn. The number of average trading accounts increased by 4.3% y/y to 246,713, while total trading client assets remained almost flat at CHF 23.0bn (down 0.1% y/y) with average assets per client coming at ~CHF 90k (~CHF 97k in 2017). In addition, the total number of transactions also increased by 14.4% to 3.0mn, which resulted in total transactions per client per year of 11.9, up 8.2% from 11.0x in 2017, which is highest figure since 2015 (after the PostFinance merger). Fee and commission income also benefited from the strong support from cryptocurrencies trading from crypto-trading.

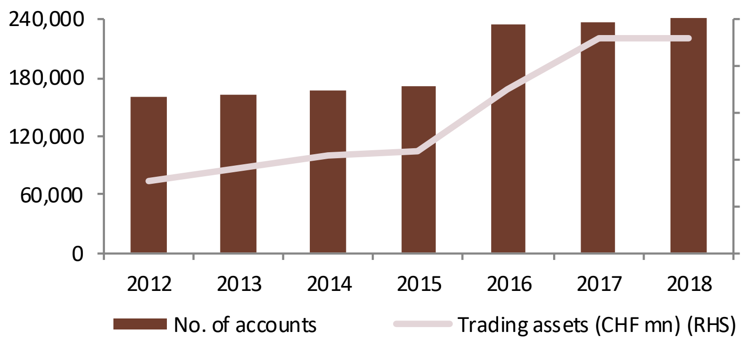
Interest income increased by 68.1% y/y to CHF 33.2mn, thanks to a positive impact from FX swaps (+94.8% y/y to CHF 36.2mn) and also supported by interest income from activities other than FX swaps which increased by 4.3% y/y to CHF 14.0mn. Despite negative interest rate expenses (excluding FX) which rose by 20.2% y/y to CHF 9.0mn, the net interest income increased by 97.6% y/y to CHF 24.2mn. The primary reason behind the increase in negative interest rate expenses was net new money inflow from Switzerland (~36% of total net new inflow). The spike in the net interest income was due to the growth in the income from derivative financial instruments which was supported by a steady increase in short-term interest rates in the US, and the increase in volumes of client's assets in foreign currencies.

Net trading income increased by 10.0% y/y to CHF 99.4mn, primarily driven by higher revenue from the eForex (eFX, currency trading with leverage) division, which was up 7.7% y/y to CHF 71.8mn, 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, net trading income increased by 8.4% to CHF 97.9mn. Due to these unexpected events, the company incurred a credit loss of CHF 8.5mn (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 7.1mn in unexpected trading income which is ~83.0% of the total credit loss. So the net credit loss arising from to these one-off events amounts to ~CHF 1.4mn for the period. The total number of active clients in the eFX division increased by 15.4% y/y to 47,972, while total assets increased by 11.0% y/y at CHF 365.2mn. The total volume for eFX increased by 8.2% y/y to USD 1,179.8bn. Moreover, dollar per million (DPM) improved to USD 62.3, as compared to USD 61.2 in 1H2018, which supported by the growth of eFX income. However, the net trading income excluding eFx income decreased by 6.5% y/y to CHF 20.9mn.

UPDATE ON KEY DRIVERS

Swissquote's revenues are driven by a combination of three key variables: 1.) volume of transactions within the securities trading segment, 2.) volume of transactions in eFX, and 3.) 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

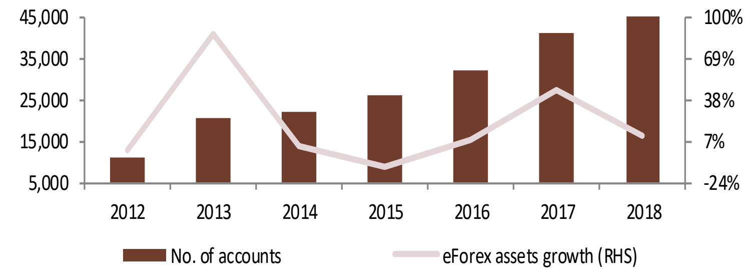


Source: Company data, Research Dynamics

During 2018, Swissquote's total trading accounts increased by 8.3% y/y to 256,565, while total trading client assets have decreased by 0.1% y/y to CHF 22.9bn. Average assets per account stood at ~CHF 90,000, and translated to 11.9 transaction per client per year.

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. For 2018, the company reported a DPM of USD 62.3 improved, from 61.2 in 1H2018. We believe this is going to increase further as the company is focussing on high net worth clients. The company's eFX assets have grown during the period to CHF 365.2mn (+11.1% y/y). The total eFX volume traded increased by 8.2% y/y to USD 1,179.8bn which resulted in an increase of eFX income of 7.7% to CHF 71.8mn.

Exhibit 2: eForex accounts and assets growth

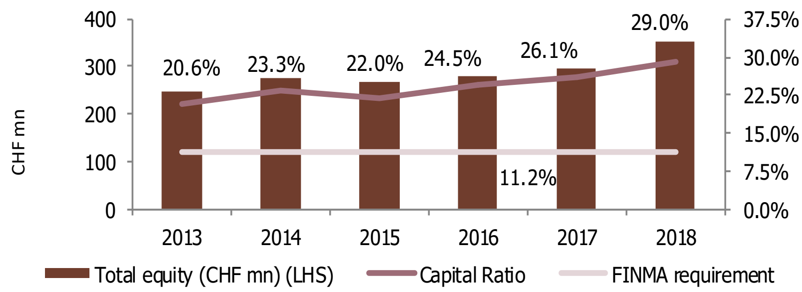


Source: Company data, Research Dynamics

The banking business generates revenue through investments into 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 21,831 as of December 2018, while assets in savings accounts amounted to CHF 306.3mn. We believe the savings deposits should increase as and when the negative interest rate scenario reverses in the future.

Capital ratio improved further to 29.0% as total equity increased by 19.3% y/y to CHF 352.2mn in 2018. Swissquote thus has remained well capitalised over the years (FY17: 26.1%, F16: 24.5%). The EUR 27.7mn acquisition of Internaxx will reduce the total equity of CHF 352.2mn as the purchase price for Internaxx, the closing of the transaction expected to take place still in 1Q 2019, will be entirely funded through internal funds. Even after this deduction from total equity, along with 2019 dividend payout proposed for FY2018, the tier one capital ratio should be around 22.7% as reported by the company. Accordingly, the company remains one of the best capitalised banks in Switzerland.

Exhibit 3: Total equity and capital ratio



Source: Research Dynamics, Company data

Our long-term projections remain intact as we assume a reversal of the negative interest rate regime to zero interest rate starting from FY2021, which should free-up excess cash from the balance sheet. On 7th March 2019, ECB governing council guided for a status quo on interest rates at least for 2019. Thus our earlier assumption of negative interest rates till 2020 stands validated. On the reversal of negative interest rates, the excess cash freed up 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% by FY 2021 as compared to the pro-forma capital adequacy ratio (CAR) of ~22.7% (Including the impact of Internaxx acquisition and dividend pay-off). 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, to be able to implement on its European expansion plans out of London. The acquisition and subsequent integration of Internaxx Bank will thus provide a much needed full access to the European markets (which generated ~10% of total revenue and contributed 8% of total financial assets in 2018). 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 of Internaxx are from across the world, providing Swissquote global exposure and fund bases in different currencies. Management is expecting ~50% revenue growth for the next years from the European region with a good momentum going forward, supported by Internaxx's 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 offered by Internaxx Bank, so losing clients due to unavailability of services (both existing and acquired) is not a concern. Swissquote is calculating with around CHF 5mn in integration costs for 2019, while revenue synergies are difficult to predict. However, Swissquote should progressively provide its large technology platform to Internaxx and integrate its product and services' solution, which should also enable the migration of white label solutions. As a result, the demanding (expat) Internaxx client base should have a much broader portfolio of products at its disposal.

In addition, the acquisition will also provide international exposure to Swissquote's balance sheet in terms of client assets. Thus, the group may mitigate the negative interest rate regime in its local currency over time. At the time of acquisition, Internaxx had 40 employees, 12,000 client accounts and a total of EUR 2.2bn 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, Internaxx was expected to achieve revenues of around EUR 12-13mn, representing a significant organic growth of 20%-30% before integration and cross-selling benefits.

On 6 March 2019, the transaction was approved by Luxembourg and European supervisory authorities and the company expects the closing to take place still in 1Q19. As indicated, Swissquote plans to invest around CHF 5mn in 2019 for new platforms along with new products and related marketing expenses in order to integrate and expand the operations of Internaxx Bank in Europe.

UPDATE ON OUTLOOK AND STRATEGY

For 2019, management has guided for a 5-10% y/y growth in operating revenues. However, the company reportedly has witnessed a slow start in trading activities during the initial two months of 2019. In addition, the company plans to invest in total an amount of ~CHF 10mn in 2019, the investment being equally divided between geographical expansion and integration of Internaxx Bank. For geographical expansion, the company founded a new subsidiary in Singapore to expand its reach in the Asian markets and expects to replicate the business model and thus repeat the success it achieved in Dubai. The company has already requested a Capital Market Service License (CMSL) with the Monetary Authority of Singapore (MAS). The company intends to target external asset managers based in Asia to order to increase its geographical reach by offering its White label solutions for brokerage and custody services. Singapore-based Swissquote Pte Ltd. (newly founded subsidiary of Swissquote) expects to include 14 new Asian trading exchanges on Swissquote's platform for trading in real time and expects to be fully operational in 2019 itself. The other CHF 5mn is expected to be invested for the integration of Internaxx Bank within Swissquote's existing platforms and to expand Internaxx product portfolio further. Due to these reasons, investments of CHF 10mn coupled with slow trading start, the company expects a decline of CHF 10mn at its pre-tax profit levels in 2019 to CHF 45mn.

The increase in net new money inflow by 3,115mn (+14.8% y/y) is a positive development on the client's assets side. However, total clients assets decreased for the first time in years due to negative market condition. The client margin was at 90bps, similar to the level achieved in 2017, but less than what the company was able to generate historically. The decrease in client margin was due to an increase in institutional clients within the company's client mix. However, institutional clients are more active and provide a stable client margin, accordingly the company expects a client margin of ~90bps and a similar net new money inflow for the next couple of years.

On outlook, one positive development for people trading in cryptocurrencies (whose biggest fear or drawback of trading in cryptocurrencies was following the tedious process of converting it into fiat money), Swissquote, in a bid to simplify the process and also attract more traders, is planning to launch an e-wallet which will enable the customers to transfer crypto from external wallet to their account at Swissquote. This new feature is set to launch on 21st March 2019. We believe this is a positive development and should results in more crypto trading. Still, as mentioned previously, given the current crypto environment, Swissquote is not expecting more than CHF 2mn in crypto revenue in 2019.

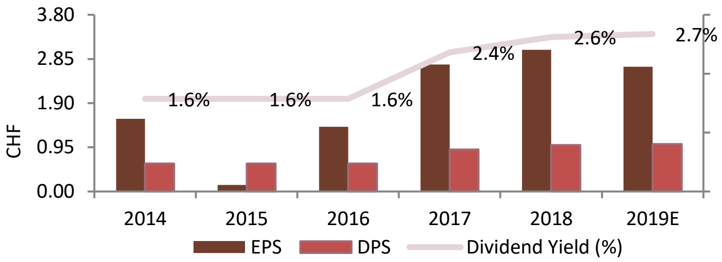
New Organizational Structure

As Swissquote's business is growing and increasing in terms of products, services and geographical reach, the Board of Directors appointed new positions for better execution of its strategy. As such, the former CFO Michael Ploog is now the CIO – Chief Investment Officer – of the company and Yvan Cardenas has been appointed as the new CFO. By bringing new people to the Executive Board and giving them a focused responsibility, the organisation should be better and more appropriately managed for its growth. All new Executive Team members are from within the Group - employees with over a decade or more of history and experience with Swissquote. We believe this is an excellent step as they are expected to be well-aligned with the Group's vision and should have an excellent understanding of the company's business strategies and plans for the future.

DIVIDENDS

For FY2018, Swissquote raised its proposed dividend per share (DPS) by 11.1% to CHF 1.0 (FY2017: CHF 0.90 per share) driven by strong set of financials. The proposed dividend pay-out would come in at 33% for FY2018 for an earnings per share (EPS) of CHF 3.04. Going forward, the company intends to pay 30-60% of its profits as dividends. We assumed the company would maintain a minimum pay-out ratio of 30% going forward.

Exhibit 4: Dividends



Source: Research Dynamics

Exhibit 5: Beat and miss

CHF mn (except per share)	**2018A**				
	Actual	***Guidance***	***Estimates***	***Δ guidance***	***Δ Estimates***
Net fee and commission income	99.5	NA	108.0	*n/a*	*-7.9%*
Net interest income	24.2	NA	18.0	*n/a*	*34.4%*
Net Operating income	**214.5**	**214**	**215.0**	***0.2%***	***-0.2%***
Operating profit/PBT	53.7	53	60.7	*1.4%*	*-11.5%*
Net profit	44.6	NA	51.5	*n/a*	*-13.4%*
Diluted EPS	3.04	NA	3.60	*n/a*	*-11.2%*

Source: Research Dynamics

For 2018, the company reported a strong set of results, but below our expectations. While Swissquote already reported operating profit and pre-tax profit numbers on 10 Jan 2019 with its preliminary results release, we didn't not revise our estimates at that time as we awaited the full financial statements release.

The company's reported net operating revenue was in-line with our projections of CHF 215.0mn (reported CHF 214.5mn). Interest income of CHF 50.2mn was significantly ahead of our projections of CHF 36mn, and same for net interest income, which was 25.6% ahead of our projections of CHF18mn. However, the most significant difference was operating profit (pre-tax profit) of CHF 53.7mn, compared to our projections of CHF 61.1mn. The main reason was the unexpected increase in SNB cash exposed to negative interest rate, accordingly increased negative rate expenses (CHF 9.0mn) and poor performance by cryptos in the second half of the year (only CHF 2mn in 2H18) in comparison of CHF 8mn in the first half of 2018. The EPS of CHF 3.04 was 15.6% lower than what we had projected for full year 2018.

Exhibit 6: Changes in estimates

CHF mn (except per share)	FY2019E			FY2020E		
	Previous	***Current***	***% change***	***Previous***	***Current***	***% change***
Net fee and commission income	108	103.9	*-3.8%*	125	118.6	*-5.1%*
Net interest income	18.4	26.1	*42.1%*	23.9	33.0	*38.2%*
Operating income	231	228.2	*-1.2%*	260	253.9	*-2.4%*
Operating profit	61.1	45.6	*-25.3%*	79.2	56.4	*-28.8%*
Net profit	52	39.3	*-24.4%*	67	48.6	*-27.5%*
Diluted EPS	3.60	2.66	*-26.0%*	4.60	3.29	*-28.5%*

Source: Research Dynamics

We have revised our financial projections based on the current business dynamics and management commentary. We have revised our estimates downward given the current business scenario, as Swissquote as per its statements is expecting a decline of around 18.0% in pre-tax profit to around CHF 45mn. The operating profit is expected to be impacted by increased operating expenses and additional investments of ~CHF 10mn and as well as the slow start in trading. In addition, management is only expecting revenue of ~CHF 2mn in 2019 from crypto trading as compared to ~CHF 10mn in 2018. In our view, the Group 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 25.1% might not be sustainable in the long-term, instead we believe a pre-tax margin 18-20% should be more realistic (~15% in tough conditions) in the long term. We have thus adjusted our operating profit for one-time investment of CHF 10mn and an expected drop in crypto currency revenue. Consequently, net profit and diluted EPS have been adjusted for FY2019. However, the company would benefit from the decrease in corporate tax rate to 13.79% from 20.95% in the canton of Vaud effective from 2019 following the cantonal implementation of the Federal Act on Tax Reform and AHV Financing (TRAF). We have reduced our tax rate assumptions in the model accordingly. Although we have revised our near term estimates downwards, we believe the company's fundamentals are sound and, in the long run, assuming a reversal in the negative interest rate, Swissquote should deliver significant growth.

In our model, we have consolidated Internaxx within Swissquote financials from 2Q19. We have increase our estimates of an additional ~EUR 8.2mn of revenue from Internaxx to ~CHF 12mn for the last three quarters of financial year FY2019, under the assumption that the transaction will have closed and thus be consolidated from the beginning of the second quarter of 2019. At the same time, we have considered some margin dilution as Swissquote needs to invest to integrate Internaxx operations.

VALUATION

We believe the negative response from the market after management's cautious commentary regarding FY2019 results is a knee-jerk reaction and the correction reflects investors' disappointment. We believe, the current price level provides an attractive entry point for long term investors. We have reduced our target price, incorporating management commentary on the slow start to the year and other long term risks, and have arrived at a fair value of CHF 64.0 per share (CHF 82.8 earlier) providing an upside of 67.9% from the current trading level.

The intrinsic value per share for the group comes at CHF 64.6 (earlier: CHF 84.2) using the discounted cash flow (DCF) methodology. 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 15.0x, P/B of 3.0x and P/TBV of 4.0x. We arrive at a fair value of CHF 63.4 per share (earlier: CHF 81.40) by using RV technique.

The final value using the blended valuation is CHF 64.0, which gives an upside of 67.9% from the current levels. Thus, we believe the current price levels at which Swissquote is trading offers an attractive entry opportunity

Exhibit 7: Sensitivity of WACC & terminal growth rate with the share price

Sensitivity Table					
Terminal growth rate \ WACC	8.6%	9.6%	10.6%	11.6%	12.6%
0.25%	73	67	62	58	55
0.50%	74	68	63	59	55
0.75%	76	69	64	60	56
1.00%	77	70	65	60	56
1.25%	78	71	65	61	57
1.50%	80	72	66	62	58
1.75%	82	74	67	62	58

Source: Research Dynamics

Exhibit 8: Swissquote – Comparison with average of peers

	P/E			P/B		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
Peer multiples	21.2x	11.6x	10.8x	3.0x	1.3x	1.2x
Swissquote	38.0x	10.4x	10.1x	1.9x	1.5x	1.4x
Premium (disc) to peers	79%	(11%)	(7%)	(36%)	17%	19%

Source: Research Dynamics, Bloomberg (as on 13 March 2019)

Company	P/E			P/B		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
Swissquote Group Holding-Reg	38.0x	10.4x	10.1x	1.9x	1.5x	1.4x
Peers:						
Compagnie Financiere Trad-Br	13.5x	NA	NA	1.7x	NA	NA
Tradegate Ag	30.8x	NA	NA	11.0x	NA	NA
Euwax Ag	70.9x	NA	NA	5.1x	NA	NA
Renta 4 Banco Sa	18.4x	NA	NA	2.8x	NA	NA
IG Group Holdings Plc	15.1x	11.6x	11.1x	3.7x	NA	NA
Interactive Brokers Gro-Cl A	28.6x	22.4x	19.7x	3.2x	NA	NA
Ubs Group Ag-Reg	14.3x	9.1x	8.3x	1.1x	0.8x	0.8x
Credit Suisse Group Ag-Reg	21.2x	8.7x	7.6x	0.8x	0.7x	0.6x
TD AMERITRADE HOLDING CORP	26.4x	13.6x	12.0x	4.0x	3.3x	3.0x
E*TRADE FINANCIAL CORP	21.2x	11.6x	10.5x	1.7x	1.7x	1.5x
Median	21.2x	11.6x	10.8x	3.0x	1.3x	1.2x
High	70.9x	22.4x	19.7x	11.0x	3.3x	3.0x
Low	13.5x	8.7x	7.6x	0.8x	0.7x	0.6x
Premium (disc) to peers	79%	(11%)	(7%)	(36%)	17%	19%

Source: Research Dynamics, Bloomberg (as on 13 March 2019)

Exhibit 9: Swissquote – Blended Target price

	Weight	Target price
DCF	*50%*	64.6
Relative	*50%*	63.4
Blended target price		64.0
Upside %		*67.9%*

Source: Research Dynamics, Bloomberg (as on 13 March 2019)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY16A	FY17A	FY18A	FY19E	FY20E
Fee and commission income	79	96	110	115	131
Fee and commission expense	(9)	(11)	(11)	(12)	(13)
Net fee and commission income	**70**	**85**	**100**	**104**	**119**
Interest income	22	32	50	54	59
Negative interest rates expense	(10)	(18)	(24)	(25)	(23)
Interest expense	(1)	(2)	(2)	(3)	(3)
Net interest income	**11**	**12**	**24**	**26**	**33**
Net trading income	69	90	99	98	102
Operating income	**150**	**188**	**223**	**228**	**254**
Operating expenses	(127)	(142)	(161)	(183)	(198)
Operating profit	**23**	**46**	**54**	**46**	**56**
Income tax expense	(2)	(7)	(9)	(6)	(8)
Net profit	**21**	**39**	**45**	**39**	**49**
Basic EPS	1.39	2.73	3.04	2.68	3.32
Diluted EPS	1.39	2.73	3.02	2.66	3.29
DPS	0.60	0.90	1.00	1.00	1.23

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY16A	FY17A	FY18A	FY19E	FY20E
Assets					
Cash and balances with central bank	2,284.7	3,517.1	3,612.2	3,730.0	3,868.7
Treasury bills and other eligible bills	277.6	259.9	346.1	461.0	614.1
Due from banks	398.2	425.4	657.4	657.4	657.4
Derivative financial instruments	41.5	72.4	57.5	45.6	36.2
Trading assets	6.9	8.3	2.8	2.9	3.1
Loans	226.4	278.6	271.2	276.8	280.1
Investment securities	554.5	384.9	318.3	263.2	217.7
Deferred income tax assets	1.0	1.3	1.6	1.6	1.6
Intangible assets	40.5	40.3	40.1	39.9	39.8
Information technology systems	40.7	44.9	51.4	48.0	45.9
Property, plant and equipment	63.9	61.6	59.0	56.8	54.6
Other assets	30.4	21.2	31.9	47.9	67.0
Total Assets	**3,966.3**	**5,115.8**	**5,449.5**	**5,631.2**	**5,886.2**
Liabilities and equity					
Liabilities					
Deposits from banks	32.8	171.0	209.2	256.0	313.2
Derivative financial instruments	12.7	24.1	35.8	53.0	78.6
Due to customers	3,600.2	4,566.4	4,782.7	4,897.3	5,026.8
Other liabilities	35.7	50.3	59.3	70.0	82.9
Current income tax liabilities	0.4	5.3	4.8	4.8	4.8
Deferred tax liabilities	1.2	1.6	0.9	0.9	0.9
Provisions	2.3	2.0	4.6	4.6	4.6
Total liabilities	**3,685.4**	**4,820.6**	**5,097.3**	**5,286.7**	**5,511.8**
Equity					
Ordinary shares	3.1	3.1	3.1	3.1	3.1
Share premium	42.6	35.3	51.6	51.6	51.6
Share option reserve	2.0	1.5	1.3	1.3	1.3
Other reserve	(1.5)	(2.4)	(6.5)	(6.5)	(6.5)
Treasury shares	(14.0)	(29.3)	(16.7)	(16.7)	(16.7)
Retained earnings	248.7	287.0	319.5	311.8	341.6
Total equity	**280.8**	**295.1**	**352.2**	**344.6**	**374.4**
Total liabilities and equity	**3,966.3**	**5,115.8**	**5,449.5**	**5,631.2**	**5,886.2**

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY16A	FY17A	FY18A	FY19E	FY20E
Cash flow from/(used in) operating activities:					
Fees and commission received	79.2	96.5	110.6	115.4	131.5
Fees and commission paid	(9.3)	(10.3)	(10.9)	(11.5)	(12.9)
Interest received	37.9	41.1	54.7	54.5	59.0
Interest paid	(10.7)	(17.6)	(26.2)	(28.3)	(26.0)
Net trading income received	69.3	88.4	100.6	98.2	102.3
Income tax paid/reimbursed	(0.7)	8.3	(10.3)	(6.3)	(7.8)
Payments to employees	(54.9)	(58.2)	(64.7)	(76.9)	(78.4)
Payments to suppliers	(49.2)	(56.3)	(59.1)	(105.7)	(119.1)
Cash flow from operating profit before changes in operating assets and liabilities	**61.7**	**92.0**	**94.7**	**39.3**	**48.6**
Net change in operating assets and liabilities:					
Treasury bills and other eligible bills (above 3 months)	(117.3)	23.1	(112.4)	(114.9)	(153.1)
Due from banks (above 3 months)	14.0	10.5	(46.6)	-	-
Derivative financial instruments (assets)	27.5	(30.9)	14.9	11.8	9.4
Trading assets	-	-	3.7	(0.1)	(0.1)
Loans	(20.9)	(52.5)	(2.6)	(5.6)	(3.3)
Other assets	-	-	-	(16.0)	(19.2)
Derivative financial instruments (liabilities)	(10.0)	11.4	11.6	17.3	25.6
Due to customers	284.9	956.8	200.6	114.6	129.5
Other liabilities	-	-	-	10.7	12.9
Net cash from operating activities	**240.0**	**1,010.4**	**164.1**	**104.0**	**107.4**
Cash flow from/(used in) investing activities:					
Purchase of PPE and information technology systems and Intangible assets	(24.6)	(20.1)	(26.2)	(15.7)	(17.3)
Proceeds from sale and reimbursement of investment securities	848.0	306.5	227.1	55.1	45.5
Purchase of investment securities	(621.6)	(145.3)	(165.5)	-	-
Loans and advances to banks (above 3 months)	-	-	-	-	-
Net cash from investing activities	**201.7**	**141.1**	**35.4**	**39.4**	**28.2**
Cash flow from/(used in) financing activities:					
Purchase of treasury shares	(0.9)	(22.7)	(8.8)	-	-
Sale of treasury shares	-	5.4	37.5	-	-
Transaction costs	-	(0.3)	-	-	-
Dividend and reimbursement from reserves	(8.9)	(8.5)	(13.1)	(15.6)	(18.8)
Net cash used in financing activities	**(9.8)**	**(26.1)**	**15.6**	**(15.6)**	**(18.8)**
Net increase in cash and cash equivalents	431.9	1,125.5	215.1	127.7	116.8
Cash and cash equivalents as at 1 January	2,359.3	2,789.8	3,927.2	4,144.1	4,271.8
Exchange difference on cash and cash equivalents	(1.4)	11.9	1.8	-	-
Cash and cash equivalents as at 31 December	**2,789.8**	**3,927.2**	**4,144.1**	**4,271.8**	**4,388.6**

Source: Research Dynamics, Company data

Key Ratios

	FY16A	FY17A	FY18A	FY19E	FY20E
Operating Income Growth	2.5%	25.0%	14.3%	6.4%	11.2%
Net fee & comm. Inc./OI	46.3%	45.4%	46.4%	45.5%	46.7%
Net int. inc./OI	7.5%	6.5%	11.3%	11.5%	13.0%
Cost to income ratio	84.6%	75.6%	74.9%	80.0%	77.8%
Net Margin (%)	13.8%	20.9%	16.8%	17.2%	19.1%
ROA (%)	0.5%	0.8%	0.8%	0.7%	0.8%
ROE (%)	7.4%	13.3%	12.7%	11.4%	13.0%
P/E	27.4x	14.0x	12.5x	14.2x	11.5x
P/BV	2.1x	2.0x	1.7x	1.7x	1.6x
P/TBV	2.4x	2.3x	1.9x	1.9x	1.7x
Yield%	1.6%	2.4%	2.6%	2.7%	3.2%
Payout %	43.1%	32.9%	32.9%	38.0%	37.0%
CET 1 ratio %	24.5%	26.1%	29.0%		

Source: Research Dynamics, Bloomberg, Company data

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