LBBW
Landesbank Baden-Württemberg

20 May 2009

Institutional Equity Research

Company

Flash

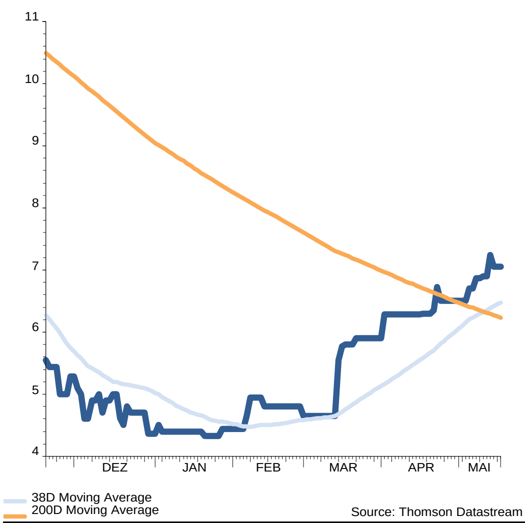
Hypoport

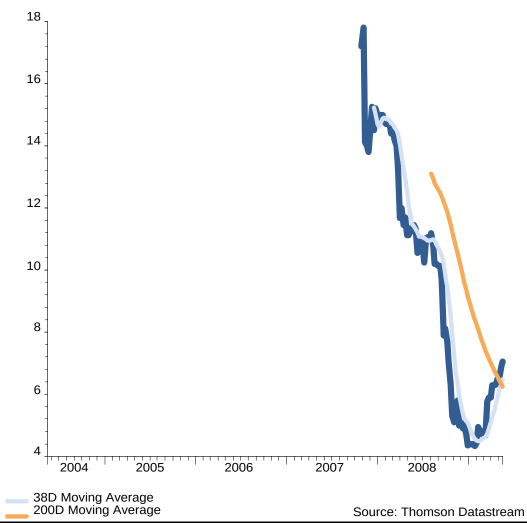
HYPOPORT
THE FINANCE INTEGRATOR

Rating	Hold (unchanged)

Growth counters the market trend

- Higher sales in Q1 despite the financial crisis
- Expansion of the business model weighs on margins
- Long-term prospects still promising
- Price target lifted from EUR 6.10 to 7.20 – rating confirmed





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Hypoport

05/20/2009

Topic: Comment on the Q1 financial figures

Hold

Target price: € 7.20

Price: € 7.68
05/20/09
11:50 h

Last rating/Target price:
Hold /€ 6.10

Last analysis:
05/15/2009

S&P rating: n.a.

Financial Services

Number of shares:
6.1 m

Market capitalisation:
€ 46.8 m

Index: PRIME ALL SHARE

Index weight: n.a.

Beta: 1.10

Accounting:
-IFRS

Calendar: AGM
on 06/05/2009

2009e dividend: 0.0

2009e div. yield:
0.0 %

ISIN: DE0005493365

Bloomberg: HYQ GY

Reuters: HYQGn.DE

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Lower margins

Despite the ongoing financial crisis, Hypoport was able to increase its sales by 4 % to EUR 12.7 m in Q1/09. EBIT, however, slumped by 32 % to EUR 1.2 m. Growth was generated on the one hand at the expense of the margins. On the other hand, the expansion of the EUROPACE transaction platform diluted the EBIT margin, which fell from 13.9 % to 9.5 %. For 2009, Hypoport still anticipates a double-digit sales increase with unchanged earnings. The growth drivers of the business model remain intact and should show their advantage more clearly after the end of the financial crisis. The margins should also recover after the conclusion of the investment phase in 2011 at the latest. For the time being, we merely expect a disproportionately low earnings performance and we are confirming our Hold recommendation.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new	old			
	€	€			
2008	**-0.05**	-0.05	0.7	4.9	n.m.
2009e	**0.51**	0.52	1.0	6.6	13.8
2010e	**0.60**	0.67	0.8	5.9	11.8
2011e	**0.92**	new	0.7	4.6	7.7

Company ratios	Sales	EBITDA	EBIT	EBIT-Margin	Net result
	m €	m €	m €		m €
2008	52.7	8.1	5.0	9.4 %	-0.3
2009e	59.3	8.6	5.0	8.5 %	3.1
2010e	67.6	9.8	5.8	8.6 %	3.7
2011e	77.5	12.5	8.4	10.9 %	5.6

- A drop in demand for real estate financing proved a burden above all in Q1/09. While the company managed to compensate for this in the most important segment of Private Clients (+2 % to EUR 7.7 m) with rising sales from other financial investment and insurance products, the EUROPACE transaction platform posted a 7 % decline in sales to EUR 1.9 m.
- Sales of the smaller segments, Corporate Real Estate Clients (+12 % to EUR 2.1 m) and Institutional Clients (+38 % to EUR 0.8 m), showed a positive performance. This allowed Hypoport to profit from its diversified business model.
- Hypoport would like to continue gaining market shares and, in order to do so, will expand its branch network and broker sales more than proportionately. By opening up new market segments on the EUROPACE platform, the company will also invest in additional growth.
- We are lowering our estimates for 2009e EPS: EUR 0.51 (EUR 0.52) and 2010e: EUR 0.60 (EUR 0.67). For 2011, we estimate EUR 0.92 for the first time. Despite the lowered EPS estimate, the fair value in our model is increased from EUR 6.10 to EUR 7.20. This is due to the fact that the risk premium was lowered from 6.7% to 6.1%.

Growth strategy weighing on results

Diversified business model

Internet-based one-stop financial service provider

The Hypoport Group is an internet-based one-stop financial service provider. The business model consists of the two pillars, one-stop financial services and B2B financial marketplace, which benefit from one another. The 100 % subsidiary Dr. Klein forms the first business unit of one-stop financial service sales. This offers private clients a broad range of bank and financial products online and, upon request, with telephone and personal consultation. These products range from a current account or insurance services to mortgage financing via the internet. In addition, Dr. Klein specialises in financing municipal and cooperative housing companies.

The second business unit - B2B financial marketplace - consists of the EUROPACE transaction platform with the two business segments of Financial Service Providers and Institutional Clients. With EUROPACE, Hypoport operates the largest German online transaction platform through to the conclusion of financing products. A fully integrated system links a number of banks with several thousand financial consultants and thus makes it possible to sign contracts quickly, directly and efficiently.

The two pillars are an ideal supplement: Dr. Klein gains an efficient transaction platform and benefits from the purchasing power of the financial sales operations linked to EUROPACE. At the same time, the EUROPACE business gains Dr. Klein's customer expertise and uses the demand volume generated by Dr. Klein to establish the transaction platform in the market. The scalability of the platform allows for high margins.

Gaining market shares

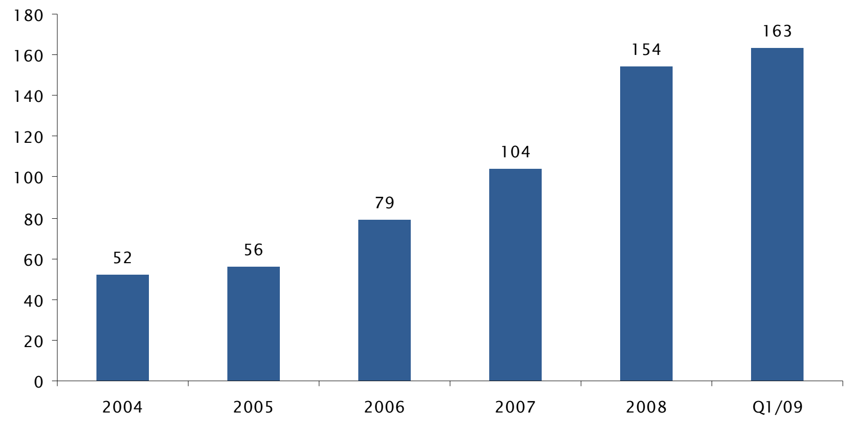
Growth trends intact

Hypoport's heavily diversified business model benefits from significant growth trends in the financial sector, which we still see as intact despite the crisis. On the one hand, the acceptance of the internet as an efficient information, communication and transaction medium rises. On the other hand, the rising need for private pension provisioning allows for growing demand for consultation with independent service providers.

Business model being expanded

By expanding its branch and broker sales as well as the B2B financial marketplace, Hypoport is attempting to participate to a disproportionately high extent from the long-term growth trends in the financial sector. The branch network is being expanded relatively quickly and at low cost through a franchise system. Hypoport now has more than 163 branches and 260 consultants in branches across Germany. One significant advantage is that the branch managers themselves do not depend on the acquisition of new customers, but rather receive their clients for a fee when they register their request for personal consultation through Dr. Klein's internet portal.

Number of branches (franchisee)



Investments weigh on results

Another company goal is to expand the EUROPACE platform, which should guzzle investments for opening up new products and the geographic expansion of more than EUR 10 m by 2011. For example, with the founding of GENOPACE GmbH in the past year, the company provided the efficient EUROPACE technology to the cooperative financial network. The savings bank sector should be included by 2011. Moreover, progress has been made in the expansion in the Netherlands.

Investments for tapping into new market segments and new financial service products will weigh on the results in the short term, but after successful implementation, will lead to a growth impulse using the platform. A total of EUR 1.8 m was invested in the expansion of the marketplace in Q1/09, of which EUR 1.3 m has been capitalised.

Development in the current business year

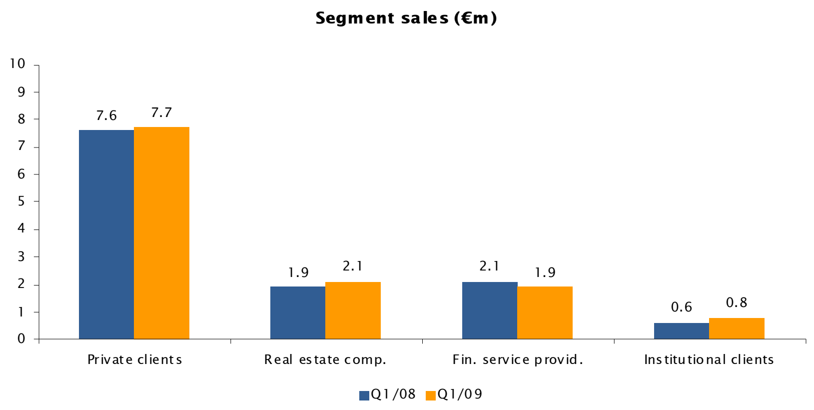
Difficult Q1 mastered

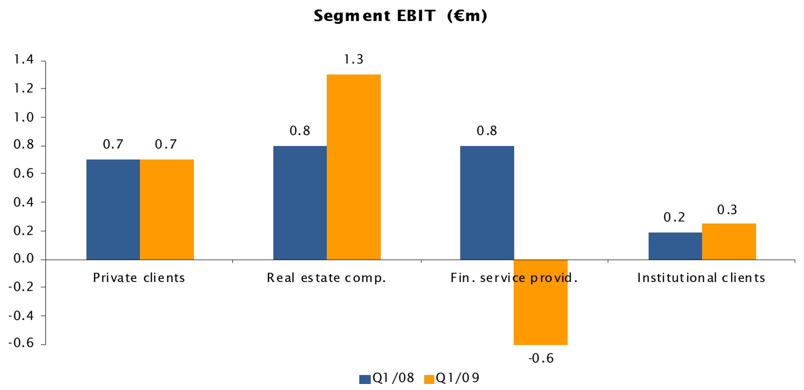
EUROPACE disappoints in Q1

The Hypoport Group increased its sales in Q1/09 by just under 4 % to EUR 12.7 m, although the development in the most important segment of Private Clients stagnated and the otherwise heavy-growth segment of Financial Service Providers posted a decrease in sales. The major reason for this was a drop in demand for real estate financing. While this was offset in the Private Clients segment through rising sales from other financial investment and insurance products, the brokered transaction volume on the EUROPACE platform (90 % is real estate financing) fell by a good 9 % to EUR 3.1 bn. Accordingly, the Financial Services segment generated negative EBIT of EUR -0.6 m and was thus responsible for the significant EBIT decline of 32 % within the group to EUR 1.2 m. However, investments in the EUROPACE platform of EUR 1.8 m also contributed to the loss. Of this amount, only EUR 1.3 m was capitalised.

Corporate clients benefit from the crisis

Sales of the smaller segments, Corporate Real Estate Clients (+12 % to EUR 2.1 m) and Institutional Clients (+38 % to EUR 0.8 m), showed a positive performance. Here, the EBIT of EUR 1.3 m (EBIT margin: 62 %) in the Corporate Real Estate segment was outstanding. The record result, however, is not expected to be sustainable, as the segment benefited from the financial crisis particularly in Q1. Dr. Klein benefited from extremely high demand from real estate investors and corporate clients as a result of the restrictive issuing of credit on the part of many local banks. All in all, Hypoport's well-diversified business model has also stood the test of time in a difficult market environment like in Q1.





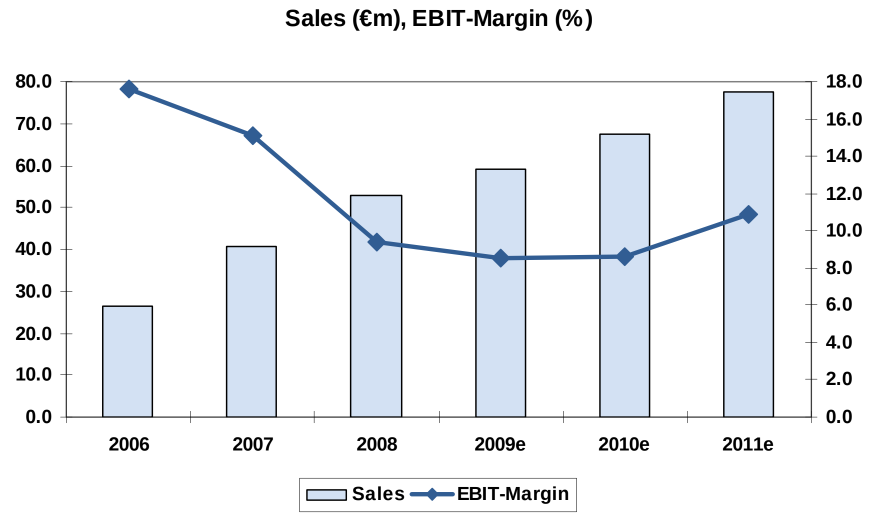
Source: LBBW Research; Hypoport

Outlook

Higher margins first expected in 2011

After the difficult Q1, we expect a rise in sales at Hypoport once again in the next few quarters and we anticipate double-digit growth of approximately 13 % to EUR 59.3 m. In our view, both the Private Clients segment and the Financial Services segment in particular should provide impulses. The sales decline in Q1 was mainly the result of some non-competitive conditions by EUROPACE product suppliers in the first two months. In the meantime, new product suppliers have been acquired for the platform, thus changing the situation. In March, sales with a positive EBIT figure were already above the same level of the previous year.

Group EBIT at EUR 5.0 m in the current year is expected to have changed little from the previous year. This is in line with Hypoport's guidance. The continuous company expansion will therefore lead to a further dilution of the margins. Only with the end of investments in the EUROPACE platform from 2011 do we anticipate double-digit EBIT margins once again.



Source: LBBW Research

Valuation

Discounted cash flow valuation

Our central valuation is an analysis of the discounted free cash flows. In calculating the free cash flows we have used a three-year detailed forecasting period. In a second phase (2012-2018), we have modelled a normalised business performance, with the high growth rates presumably weakening over the course of time in the initial phase of a young company. For the calculation of the terminal value (phase III), we have assumed an average sales growth of 1.5 % and an EBIT margin of 9.5 %.

DCF-model - assumptions	
risk-free interest	*3.4%*
Market risk premium	*6.1%*
Beta factor	*1.10*
Cost of equity	*10.1%*
Cost of debt (after tax)	*7.3%*
Equity ratio (market value)	*85%*
WACC	*9.7%*
Terminal growth rate	*1.5%*

Source: LBBW

We have also departed from the following additional, central assumptions relevant to the valuation:

- A beta of 1.10
- A target equity ratio of 85 % and a risk-free interest rate of 3.4 % as well as a market risk premium of 6.1 %. This yields a WACC of 9.7 %.

Free Cashflow (€ '000)	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**	**2016e**	**2017e**	**2018e**
Sales	64,370	73,030	83,040	89,766	96,499	103,254	109,449	114,921	120,667	126,701
Growth (yoy)	*14.0%*	*13.5%*	*13.7%*	*8.1%*	*7.5%*	*7.0%*	*6.0%*	*5.0%*	*5.0%*	*5.0%*
EBIT	5,020	5,830	8,410	10,323	11,966	13,733	14,228	14,365	14,480	14,571
EBIT-Margin	*7.8%*	*8.0%*	*10.1%*	*11.5%*	*12.4%*	*13.3%*	*13.0%*	*12.5%*	*12.0%*	*11.5%*
- EE taxes on EBIT	1,025	1,250	1,890	2,581	2,991	3,433	3,557	3,591	3,620	3,643
Tax rate	*20.4%*	*21.4%*	*22.5%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
+ Depreciation and amortizati	3,600	3,920	4,100	4,399	4,632	4,853	5,144	5,401	5,551	5,828
of sales	5.6%	5.4%	4.9%	4.9%	4.8%	4.7%	4.7%	4.7%	4.6%	4.6%
Provisions	308	355	413	359	386	413	438	460	483	507
of revenues	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
+ change in provisions	245	47	58	-54	27	27	25	22	23	24
= Operating Cashflow	7,840	8,547	10,678	12,087	13,633	15,179	15,840	16,197	16,434	16,780
- Capital expenditure	7,000	7,550	6,870	7,451	7,816	8,260	8,537	8,504	8,447	8,362
of sales	*10.9%*	*10.3%*	*8.3%*	*8.3%*	*8.1%*	*8.0%*	*7.8%*	*7.4%*	*7.0%*	*6.6%*
Net Working Capital	11,124	11,536	12,066	13,196	14,089	15,075	15,870	16,664	17,497	18,372
of sales	*17.3%*	*15.8%*	*14.5%*	*14.7%*	*14.6%*	*14.6%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*
- change in Net Working Capit	1,744	412	530	1,130	893	986	795	794	833	875
= Free Cashflow	-904	585	3,278	3,507	4,924	5,933	6,508	6,899	7,154	7,543
Present Value	-854	504	2,574	2,510	3,214	3,531	3,531	3,413	3,226	3,102

source: LBBW

Calculation of fair value (€ m)	
Present value of Free Cashflow planning years	24 751
+ Present value of Terminal Value	31 777
= Enterprise Value	**56 528**
Share of TV in Enterprise Value	*56.2%*
- Net financial debt	12 618
+ Peripheral assets	0
=Fair value	**43 910**
/Number of shares ('000)	**6 113**
=Fair value per share	**7.18**

source: LBBW

Fair value of EUR 7.20 per share

The fair value per share recently increased from EUR 6.10 to EUR 7.20. The main reasons for this are:

- The WACC fell from 10.6 to 9.7 % in the course of a fallen market risk premium.
- Our detailed forecast for the first time includes an estimate for 2011, for which we expect a significant rise in profit.

Recommendation

Hold rating, price target € 7.20

Despite the financial crisis, we expect double-digit sales growth at Hypoport in the next few years. However, the expansion of the business model should weigh on margins until 2010 and lead to a disproportionately low earnings performance. We first expect to see double-digit EBIT margins again in 2011. Against this backdrop, we are confirming our Hold recommendation, but lifting the price target to EUR 7.20 (EUR 6.10). This equals the fair value from our valuation model. Our price target of EUR 7.20 implies a (2010e) PER of 12.0, which seems adequate in our view given the difficult market environment for financial stocks at the moment and against the background of the share’s low liquidity.

Income statement

	12/2006 T €	12/2007 T €	12/2008 T €	12/2009e T €	12/2010e T €	12/2011e T €
Sales	**26,286**	**41,714**	**52,679**	**59,300**	**67,600**	**77,500**
% change	27.9	58.7	26.3	12.6	14.0	14.6
Change in inventories and own work capitalised	2,642	3,333	3,776	5,070	5,430	5,540
Total output	**28,928**	**45,047**	**56,455**	**64,370**	**73,030**	**83,040**
	110.1	108.0	107.2	108.5	108.0	107.1
Cost of materials	(22)	(73)	0	0	0	0
Personnel expenses	(13,073)	(17,466)	(20,223)	(24,200)	(26,950)	(29,130)
Other operating income	1,172	503	745	800	870	900
Other operating expenses	(10,502)	(20,714)	(28,914)	(32,350)	(37,200)	(42,300)
Restructuring costs	0	0	0	0	0	0
EBITDA	**6,503**	**7,297**	**8,063**	**8,620**	**9,750**	**12,510**
% margin	22.5	16.2	14.3	13.4	13.4	15.1
Depreciation	(1,883)	(3,337)	(3,094)	(3,600)	(3,920)	(4,100)
EBIT	**4,620**	**3,960**	**4,969**	**5,020**	**5,830**	**8,410**
Financial result	(644)	(735)	(859)	(900)	(900)	(900)
Profit from ordinary activities	**3,976**	**3,225**	**4,110**	**4,120**	**4,930**	**7,510**
Extraordinary items	0	0	0	0	0	0
Profit before income tax	**3,976**	**3,225**	**4,110**	**4,120**	**4,930**	**7,510**
Income tax	105	1,034	(1,024)	(1,025)	(1,250)	(1,890)
Tax rate (%)	n/m	n/m	24.9	24.9	25.4	25.2
Continued operations before minorities	**4,081**	**4,259**	**3,086**	**3,095**	**3,680**	**5,620**
Minority interests	0	0	0	0	0	0
Continued operations	**4,081**	**4,259**	**3,086**	**3,095**	**3,680**	**5,620**
Discontinued operations	0	0	(3,367)	0	0	0
Net income after minorities	**4,081**	**4,259**	**(281)**	**3,095**	**3,680**	**5,620**
% change	0.0	4.4	n/m	n/m	18.9	52.7
Number of shares	6,288	6,094	6,113	6,113	6,113	6,113
Net profit per ordinary share (€)	**0.65**	**0.70**	**(0.05)**	**0.51**	**0.60**	**0.92**
% change	(74.6)	7.7	n/m	n/m	17.6	53.3

Balance sheet

Assets

Assets	12/2006	12/2007	12/2008	12/2009e	12/2010e	12/2011e
	T €	T €	T €	T €	T €	T €
Longterm assets	**26,238**	**28,070**	**29,242**	**31,817**	**32,837**	**35,617**
Intangible assets	22,175	23,319	23,945	26,590	27,260	29,710
thereof Goodwill	14,825	14,825	14,825	14,825	14,825	14,825
Tangible assets	1,314	1,553	2,045	2,120	2,260	2,480
Financial assets	454	522	1,395	1,250	1,460	1,570
Other assets	17	0	0	0	0	0
Deferred taxes	2,278	2,676	1,857	1,857	1,857	1,857
Shortterm assets	**17,958**	**20,161**	**27,748**	**26,419**	**29,404**	**32,058**
Inventories	0	0	0	0	0	0
Trade accounts receivable	10,514	15,847	18,271	17,760	18,900	19,940
Other assets	4,264	1,214	2,019	2,880	3,340	3,506
Securities	0	0	0	0	0	0
Liquid assets	3,180	3,100	7,458	5,779	7,164	8,612
Total assets	**44,196**	**48,231**	**56,990**	**58,236**	**62,241**	**67,675**

Liabilities and shareholders' equity

	12/2006	12/2007	12/2008	12/2009e	12/2010e	12/2011e
Shareholders' equity	**18,820**	**22,930**	**22,910**	**26,005**	**29,685**	**35,305**
in % of total liabilities	42.6	47.5	40.2	44.7	47.7	52.2
Subscribed capital	6,288	6,094	6,113	6,113	6,113	6,113
Unissued shares	0	0	0	0	0	0
Additional paid-in capital	1,350	1,704	1,748	1,748	1,748	1,748
Retained earnings	11,182	15,132	14,849	17,944	21,624	27,244
Unappropriated loss	0	0	0	0	0	0
Other comprehensive income	0	0	0	0	0	0
Discontinued operations equity	0	0	0	0	0	0
Minority interests	(0)	(0)	200	200	200	200
Profit-sharing certificates	**0**	**0**	**0**	**0**	**0**	**0**
Longterm liabilities	**12,305**	**15,579**	**22,952**	**22,299**	**20,846**	**19,754**
Provisions for pensions	0	0	0	0	0	0
Other provisions	0	0	42	68	75	83
Financial liabilities	7,368	12,059	19,939	19,260	17,800	16,700
Other liabilities	58	0	0	0	0	0
Deferred taxes	4,879	3,520	2,971	2,971	2,971	2,971
Shortterm liabilities	**13,071**	**9,722**	**11,128**	**9,932**	**11,710**	**12,616**
Other provisions	18	21	21	240	280	330
Financial liabilities	7,738	1,341	1,332	1,530	2,120	2,350
Trade accounts payable	1,309	3,399	4,876	3,532	4,330	4,806
Other liabilities	4,006	4,961	4,899	4,630	4,980	5,130
Total liabilities and shareholders' equity	**44,196**	**48,231**	**56,990**	**58,236**	**62,241**	**67,675**

Key Indicators

	12/2006 € '000	12/2007 € '000	12/2008 € '000	12/2009e € '000	12/2010e € '000	12/2011e € '000
Multiples						
PE	n.a.	21.4	n.m.	13.8	11.8	7.7
EPS growth (%)	(74.6)	7.7	(107.1)	(1,120.0)	17.6	53.3
Price / Bookvalue	n.a.	4.0	1.2	1.7	1.5	1.2
Enterprise Value / Sales	0.4	2.2	0.7	0.9	0.8	0.7
Enterprise Value / EBITDA	1.8	13.9	4.9	6.6	5.9	4.6
Enterprise Value / EBIT	2.5	25.6	7.9	11.4	9.8	6.8
Financial key ratios						
Net debt / EBITDA	1.8	1.3	1.6	1.6	1.2	0.7
Gearing (%)	61.0	42.6	54.2	52.9	38.1	25.1
Equity ratio adjusted (%)	37.5	46.4	51.4	47.6	50.8	55.4

Appendix-1

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Notes:

Rating definitions prior to 6th April, 2009 were:

Buy: The price potential of the share is at least 10%. Hold: The price potential of the share is between 0% and 10%. Sell: A negative price performance of the share is expected. Ratings relate to a time horizon of up to 6 months.

Percentage of companies within this rating category				
Buy	Hold	Sell	Under Review	Suspended
33,9%	39,0%	25,8%	0,4%	0,8%

Rating History

Date	Rating
05/20/2009	Hold
05/15/2009	Hold
05/15/2009	Hold
05/14/2009	Hold
05/07/2009	Hold