



Hypoport AG

Buy → | Target 102.00 EUR

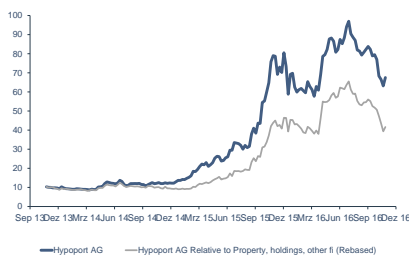
Price (11/25/2016) : 67.53 EUR | Upside : 51 %

Est.chg	2016e	2017e
EPS	-	-

Roadshow confirms our positive view

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Capital			
HYQ GY HYQGn.DE			
Market Cap (EURm)			414
Enterprise value (EURm)			400
Extrema 12 months		53.59	- 97.00
Free Float (%)			56.1
Performance (%)			
	1m	3m	12m
Absolute	-12.6	-18.1	-12.9
Perf. rel. Country Index	-12.4	-18.2	-3.1
Perf. rel. Property, holding	-14.6	-20.5	-1.4
P&L			
	12/16e	12/17e	12/18e
Sales (EURm)	155	173	190
EBITDA (EURm)	30.6	34.5	38.5
Current EBIT (EURm)	25.0	28.4	31.8
Attr. net profit (EURm)	20.0	23.2	26.1
Adjusted EPS (EUR)	3.25	3.79	4.26
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	20.8	17.8	15.9
P/B (x)	5.7	4.3	3.4
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	2.2	4.8	5.2
EV/Sales (x)	2.58	2.16	1.86
EV/EBITDA (x)	13.1	10.8	9.2
EV/Current EBIT (x)	16.0	13.1	11.1
Gearing (%)	-31	-44	-53
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

Roadshow with CEO

We accompanied Hypoport's CEO Ronald Slabke on a roadshow last week in Paris. Overall, the roadshow confirmed our positive view on the stock (Buy, TP € 102.00).

Equity story intact

Driven primarily by the Financial Service Providers segment (Europace), earnings should benefit mid-term from i/ structural trends supporting the German housing market, ii/ Europace's strong position, which is attracting increasing volume, thereby leading to market share growth and rising economies of scale, and iii/ a highly scalable business model. Longer-term, further growth opportunities e.g. geographic growth and new markets such as insurance tech could drive the equity story.

Key takeaways

Market growth going forward: The company expects 5-10% growth in the mortgage market going forward. Management stated that it is confident Hypoport can outperform the market and aims at growing 10-20% per year going forward.

Strong Q4 2016 in Institutional Clients segment: Management stated that while the in 9M 2016 performance of the Institutional Clients segment was a disappointment (i.e. EBIT -25% yoy), it expects a strong Q4 in this segment. Also, going forward, management pointed out that demand for social housing is accelerating, but municipalities are hesitant to invest, and this is currently driving up the backlog. In the not too distant future, however, this backlog should translate to additional business for Hypoport.

Threat of declining prices due to rising interest rates: Management stated that it does not see a significant threat from rising interest rates. In particular, it explained that in many areas in Germany buying an apartment with mortgage financing is currently still significantly cheaper than renting, i.e. financing costs for an apartment in Berlin that costs € 3,000/sqm is about € 3/sqm per month vs. rent costs of € 10/sqm per month. Based on this example, even if financing costs were to double, buying an apartment with mortgage financing would still be significantly cheaper than renting it.

Continued on next page.

Buy, TP € 102.00

We reiterate our Buy recommendation and TP of € 102.00 (EPS CAGR 2015-18e: 17.4%). Our TP is based on a mortgage market CAGR of 1.5% and an increase in Europace's market share of 1pp per year. If we were to assume growth rates of the past 5 years, i.e. a market CAGR of 6%, and c.1.5pp market share growth per year, our fair DCF value per share would be € 167.84. Assuming zero growth and zero market share gains, we derive a fair value of € 65.89.

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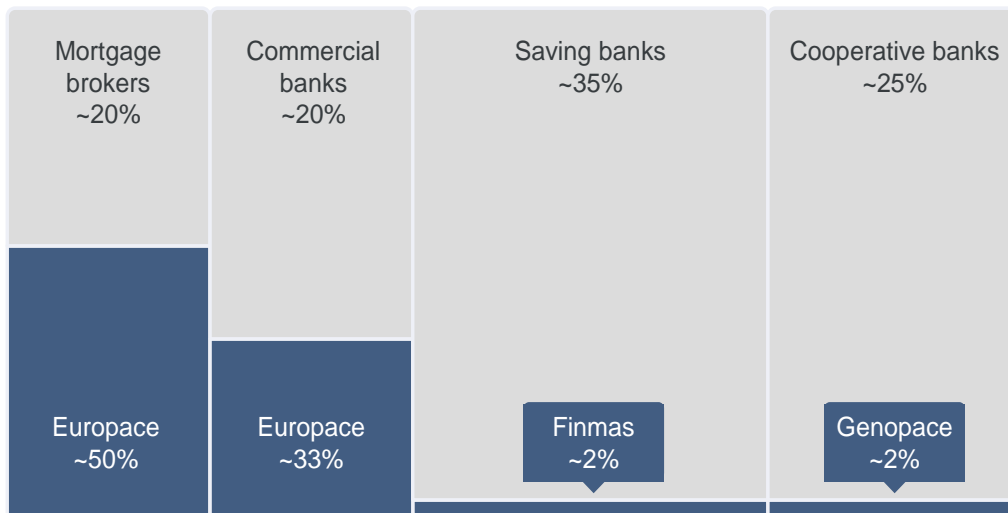
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Key takeaways (continued)

Breakdown of market share: From a sales side perspective, mortgage brokers and private banks each account for about 20% of overall mortgage volume in Germany, savings banks for 35%, and cooperative banks 25% (see graphic below). Europace's market share is 50% in the mortgage broker space, about 33% in the private banks space, and 2% each in the savings banks and cooperative banks spaces.

Breakdown of Europace's market share from a sales perspective



Source: Company data, Oddo Seydler Bank AG

In this market, Hypoport currently sees two major growth opportunities:

- (1) **Commercial banks space:** Europace as an IT outsourcing solution is currently used by Postbank (#1) and Bank Santander (#4). Management was very confident that other major German banks will follow since Europace can be significantly cheaper for banks than maintaining in-house operations. Used as a software-as-a-service solution, Europace saves banks the cost of developing (and continually updating) a proprietary platform. Economies of scale enable Hypoport to offer the software at a cheaper price compared to a self-developed software solution.
- (2) **Savings banks/Cooperative banks:** Management was also confident that it can grow its market share significantly within this market space. Hypoport's currently very small share of the mortgage business from the savings banks and cooperative banks (only ~2% each), suggests significant growth potential in these two spaces. Hypoport addresses these two market segments with two versions of Europace that have been customised for the savings banks and cooperative banks: Finmas provides the Europace platform to German savings banks (Sparkassen). There are about 420 regional savings banks in Germany. Hypoport reports that 124 or c.30% these 420 are connected to Finmas. Genopace is a customized version of Europace available only to Germany's cooperative banks (i.e. Volksbanken & Raiffeisenbanken). There are 1,046 cooperative banks in Germany. Hypoport reports that 146 cooperative banks or c.14% of the total cooperative banks are connected to Genopace.

Overall, while management was very confident of winning market share in these two market spaces, it also stated that it has only low visibility as to when this will happen because the decision to switch from a proprietary IT system to Europace is mainly driven by companies' internal politics and not economics (i.e. using Europace would be more cost effective). The company also stated that it would not be willing to give a discount on its 10bp transaction fee to get new players on board.

Effect of left coalition: In H2 2017 (likely in September) Germany will hold its next parliamentary elections. Angela Merkel will be running for her fourth term of office, but a possible alternative outcome would be a leftist government (e.g. a coalition of SPD, the Left and the Greens). This coalition would likely push for a further regulation of rents, i.e. capped rents. Management stated that it does not see capped rents as a major threat and pointed out that the rent controls enacted in July 2015 ('Mietpreisbremse') had a positive effect on real estate turnover (i.e. positive for Hypoport) due to investors selling objects where rent could not be increased sufficiently to meet their return thresholds.

Real estate appraisal business: Hypoport's overall goal with this new business is to capture a larger piece of the real estate value chain: When a real estate object is mortgage-financed, the



bank issuing the mortgage usually requires a valuation of the property. As an intermediary between the bank and the household, Hypoport wants to provide this service, also by monetizing its large data base on real estate transactions. According to management, the addressable market is about € 200m per year in Germany.

Management explained that four components are important for this business: (1) Data from real estate transaction to estimate the value of the property: Since Europace is the largest platform on the market, Hypoport already has a very large data base. (2) An algorithm to value property based on the characteristics of recent transactions in the area: Here Hypoport is currently working on developing this algorithm but also stated that an acquisition would be possible. (3) A team for physical inspection of the properties: Hypoport acquired a real estate valuation company on 1 July 2016 in an asset deal (here we assume the purchase price was below € 0.5m; financials were not disclosed). The new entity currently has about 50 employees.

CapEx spending: Hypoport spends about € 9m per year on developing its Europace platform. Management stated that about 2/3 of this CapEx is allocated to future business and only 1/3 for maintenance.

Europace 3: Hypoport is currently developing the third version of Europace, which will replace Europace 2 in about 5 years. In particular, the focus of Europace 3 will be (1) predicting credit scores of customers with a high reliability, and (2) estimating the probability of a closing with a particular customer to support the sales force to allocate its resources accordingly. Europace 3 will also likely have the option to close a mortgage contract purely online, i.e. without human-to-human interaction.

Main risk: As the main risk going forward management sees regulatory risks related to the mortgage market.

M&A: The company is currently working on acquisitions for its real estate appraisal business. This would be smaller acquisition in the lower single-digit €m range.

HYQGN.DE | HYQ GY
Financial Services | Germany

	Buy		51.04%			Price 67.53EUR		
	Upside					TP 102.00EUR		
PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	0.60	-0.13	0.51	0.96	2.63	3.25	3.79	4.26
Reported EPS	0.60	-0.13	0.51	0.96	2.63	3.25	3.79	4.26
Growth in EPS(%)	13.2%	ns	ns	88.0%	ns	23.8%	16.4%	12.5%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	-0.10	0.20	0.67	0.37	3.24	1.49	3.25	3.53
Book value per share	5.01	4.81	5.34	6.29	8.68	11.79	15.57	19.83
Number of shares market cap	6.19	6.16	6.14	6.14	6.04	6.14	6.14	6.14
Number of diluted shares	6.19	6.16	6.14	6.14	6.04	6.14	6.14	6.14
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	11.95	12.15	10.46	13.78	80.50	97.00		
12m lowest price	6.95	6.95	7.03	8.67	12.16	53.59		
(*) Reference price	9.42	8.94	8.27	11.01	33.28	67.53	67.53	67.53
Capitalization	58.4	55.1	50.7	67.6	201	414	414	414
Restated Net debt	11.1	9.7	5.9	3.9	-13.5	-22.7	-42.6	-64.3
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	2.5	1.9	0.5	1.0	2.1	8.1	2.1	2.1
Enterprise Value	72.0	66.7	57.1	72.5	190	400	374	352
P/E (x)	15.7	ns	16.1	11.4	12.7	20.8	17.8	15.9
P/CF (x)	6.4	58.8	5.2	4.4	5.7	13.0	13.7	12.4
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	ns	2.3%	8.1%	3.3%	9.7%	2.2%	4.8%	5.2%
P/B incl. GW (x)	1.88	1.86	1.55	1.75	3.84	5.73	4.34	3.41
P/B excl. GW (x)	1.88	1.86	1.55	1.75	3.84	5.73	4.34	3.41
EV/Sales (x)	0.85	0.76	0.58	0.65	1.36	2.58	2.16	1.86
EV/EBITDA (x)	6.3	8.2	7.0	5.7	7.6	13.1	10.8	9.2
EV/EBIT (x)	10.7	20.9	14.5	9.1	9.8	16.0	13.1	11.1
<i>(*) historical average price</i>								
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	84	88	98	112	139	155	173	190
EBITDA	11.5	8.1	8.1	12.7	25.1	30.6	34.5	38.5
Depreciations	-4.7	-4.9	-4.2	-4.8	-5.8	-5.6	-6.1	-6.6
Current EBIT	6.8	3.2	3.9	7.9	19.3	25.0	28.4	31.8
Published EBIT	6.8	3.2	3.9	7.9	19.3	25.0	28.4	31.8
Net financial income	-0.7	-0.9	-0.9	-0.7	-0.1	-0.6	-0.5	-0.4
Corporate Tax	-1.6	-0.4	0.1	-1.3	-3.2	-4.5	-4.8	-5.4
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	-0.7	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	3.7	-0.8	3.1	5.9	15.9	20.0	23.2	26.1
Adjusted attributable net profit	3.7	-0.8	3.1	5.9	15.9	20.0	23.2	26.1
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	27.9	27.7	29.6	31.0	31.9	30.3	27.5	25.4
Tangible fixed assets	2.5	2.6	2.2	2.2	2.6	2.5	2.3	2.0
WCR	12.4	10.7	6.9	9.0	4.9	17.4	23.7	30.6
Financial assets	2.2	0.5	0.8	1.6	1.9	1.9	1.9	1.9
Ordinary shareholders equity	31.0	29.6	32.8	38.6	52.4	72.4	95.6	122
Minority interests	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Shareholders equity	31.3	29.8	33.1	38.9	52.7	72.6	95.9	122
Non-current provisions	2.5	1.9	0.5	1.0	2.1	2.1	2.1	2.1
Net debt	11.1	9.7	5.9	3.9	-13.5	-22.7	-42.6	-64.3
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	11.5	8.1	8.1	12.7	25.1	30.6	34.5	38.5
Change in WCR	-4.4	1.2	3.7	-3.0	2.9	-12.5	-6.3	-6.9
Interests & taxes	-1.4	-1.5	-1.5	-1.3	-2.9	-5.1	-5.2	-5.7
Others	-1.0	-0.1	-0.5	0.0	1.6	0.6	1.0	0.7
Operating Cash flow	4.7	7.8	9.9	8.4	26.7	13.7	24.0	26.6
CAPEX	-5.3	-6.5	-5.7	-6.2	-7.1	-4.5	-4.1	-4.9
Free cash-flow	-0.6	1.2	4.1	2.2	19.6	9.2	19.9	21.7
Acquisitions / disposals	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	-0.6	0.0	0.0	-2.3	0.0	0.0	0.0
Others	-2.6	0.4	-1.4	-1.2	-4.6	-1.1	-1.1	-1.1
Change in net debt	-1.1	0.7	4.2	1.9	17.3	9.2	19.9	21.7
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	26.1%	4.0%	11.8%	14.5%	23.7%	11.7%	11.3%	9.7%
Lfl sales growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current EBIT growth	5.1%	-52.7%	23.5%	ns	ns	30.0%	13.6%	11.9%
Growth in EPS(%)	13.2%	ns	ns	88.0%	ns	23.8%	16.4%	12.5%
Net margin	4.4%	-0.9%	3.2%	5.3%	11.4%	12.9%	13.4%	13.8%
EBITDA margin	13.6%	9.3%	8.3%	11.3%	18.0%	19.7%	20.0%	20.3%
Current EBIT margin	8.0%	3.6%	4.0%	7.1%	13.9%	16.1%	16.5%	16.8%
CAPEX / Sales	-6.2%	-7.4%	-5.8%	-5.5%	-5.1%	-2.9%	-2.4%	-2.6%
WCR / Sales	14.7%	12.2%	7.0%	8.0%	3.5%	11.2%	13.7%	16.1%
Tax Rate	25.8%	16.9%	-3.3%	18.2%	16.9%	18.5%	17.0%	17.0%
Normative tax rate	-23.8%	-53.2%	-31.1%	-20.1%	-28.3%	-30.3%	-25.8%	22.2%
Asset Turnover	2.1	2.1	2.5	2.8	3.4	3.5	3.3	3.4
ROCE post-tax (normative tax rate)	20.8%	11.7%	13.0%	23.6%	60.6%	72.9%	69.0%	44.5%
ROCE post-tax hors GW (normative tax rate)	20.8%	11.7%	13.0%	23.6%	60.6%	72.9%	69.0%	44.5%
ROE	12.8%	-2.7%	10.1%	16.6%	34.9%	32.0%	27.7%	24.1%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	36%	33%	18%	10%	-26%	-31%	-44%	-53%
Net Debt / Market Cap	0.19	0.18	0.12	0.06	-0.07	-0.05	-0.10	-0.16
Net debt / EBITDA	0.97	1.20	0.72	0.31	ns	ns	ns	ns
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns

Mention of conflicts of interest

• Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• The prices of the financial instruments used and mentioned in this document are the closing prices.

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Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
22.09.16	Buy	102.00	83.29	Dr. Oliver Pucker, CFA
03.05.16	Buy	89.00	71.69	Ivo Višić
22.03.16	Buy	74.00	64.84	Ivo Višić
23.02.16	Buy	72.00	59.58	Ivo Višić
11.01.16	Neutral	77.00	73.68	Ivo Višić
02.11.15	Buy	64.00	56.00	Ivo Višić

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(414)	48%	42%	10%
Liquidity providers coverage	(154)	51%	44%	6%
Research service coverage	(67)	63%	34%	3%
Investment banking services	(38)	66%	32%	3%

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