

flatexDEGIRO

Investing now a leading online pastime; TP up to €90

Equities have now surpassed the most popular adult entertainment-related search terms, according to Google Trends. This high degree of popularity, along with the current US retail investor hype, should result in a) strong client growth for online retail brokers: flatexDEGIRO is a major disrupter within the European market. b) Elevated client activity: We increase our forecast for client growth to above management's 2021 targets, we raise our forecast number of trades and consequently our EPS estimates which brings us 16% and 24% above 2021/2022 consensus estimates. Hence, our target price goes up to €90 (previously: €64). We confirm our Buy rating supported by an undemanding valuation: FTK shares trade at 17x 2022 earnings for 35% EPS CAGR and a 56% discount to Robinhood's implied valuation from the August 2020 funding round.

Strong underlying growth trends...

flatexDEGIRO has grown its client base to 1.25m, up 56% proforma, outperforming competitors such as Consors (+9% y/y) and ING (+15% y/y). Management expects growth to continue in 2021 and targets 1.6m at year-end - too conservative, in our view. Our forecast is for 1.7m clients, 6% above targets. We see structural medium-term growth drivers intact such as: a) low competition given advanced market consolidation; Trade Republic is the only meaningful new main competitor on the discount brokerage side; b) younger Germans are discovering equity investments in a zero interest rate environment; and c) an additional cyclical driver: covid-19 related restrictions to the German Bundesliga impact sports betting, and with social activities curbed, trading equities looks set to remain a gambling substitute for the next months.

... and short-term sentiment booster

According to Google Trends, shares have reached a peak in popularity in Germany. They had largely been out of favour since 2016 having attained scores of only 10-30 on Google Trend, but the opposite is true since 2020: Scores at Google Trend have improved to levels >70 beating other German investment favourites, such as real estate. We expect the retail hype on some US stocks to support this trend: Trade Republic, FTK's main discount brokerage competitor had temporary issues in 1) on-boarding new clients and 2) executing trades given the current client rush. Given strong market tailwinds, we expect a) robust client growth and b) continuous high trading activity at flatexDEGIRO, paving the way for a new record year in 2021.

Self-help potential: rising higher operational leverage

Given the high number of client wins, flatexDEGIRO's operational leverage has markedly increased: We calculate 10m additional trades to result in ~€1 additional EPS; +22% on the 2022 EPS estimate. However, the company's economics are skewed to the upside driven by low ETP penetration of DEGIRO clients: ETP products already accounted for 37% of 2019 trades at flatex (excluding DEGIRO), and we estimate that 54% of flatex net commission income has been generated with ETP trading that year. We calculate a ~€72m revenue pool with DEGIRO clients if the client base a) trades as active as flatex clients and b) at similar economics - a best-case scenario whose potential management needs to unlock over the coming years.

Key Financials

Year End Dec (€ m)	2018A	2019A	2020E	2021E	2022E	2023E
Net revenues	125	132	240	345	375	403
Adj. EBITDA	42	38	84	151	200	224
Adj. EBITDA margin	33.9	28.5	35.2	43.9	53.2	55.4
Adj. EBIT	34	25	70	129	173	192
Net income adjusted	17	15	45	90	122	135
EPS adjusted	0.98	0.77	2.02	3.30	4.50	5.00
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Price/Book	8.1	7.9	3.9	3.9	3.1	2.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
(P/E)	75.3	95.3	36.4	22.3	16.3	14.7

Source: Commerzbank Research, Bloomberg, Company Information

1 February 2021

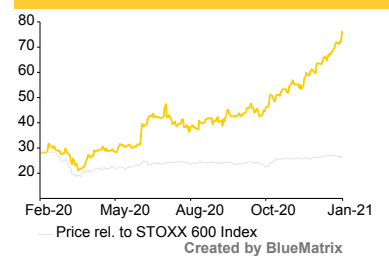
Buy
TP €90.00 (from €64.00)
CP €73.60[^]
 (Closing 28 January 2021)

Key information

Expected performance	22.3%
1M / 3M performance:	23.7% / 65.6%
Market Cap (m)	€2,007
Bloomberg:	FTK GY
Shares outstanding (m)	27
Equity Free Float	61.8%
Consensus rec (5=Buy)	5.0

Source: Commerzbank Research, Bloomberg

Relative and absolute performance (12M)



Source: Bloomberg

Changes in estimates

€(m)	2021n	2021o	2022n	2022o
Revenues	345	282	375	303
PBT	126	105	169	128
EPS	3.30	2.70	4.50	3.33

Source: Commerzbank Research,

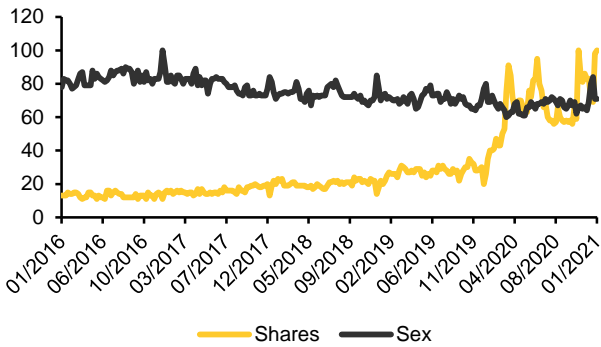
Bloomberg, Company Information

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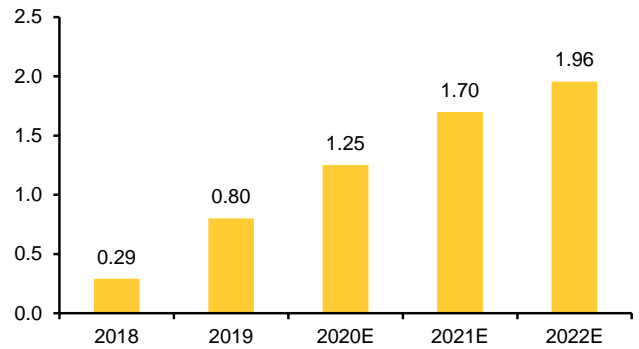
Investment case in six charts

Chart 1 - Google Trends: Shares more popular than sex



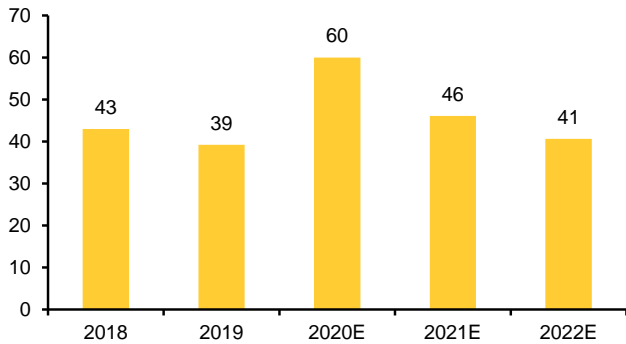
Source: Google Trends

Chart 2 - flatexDEGIRO: Trades per average number of accounts, m



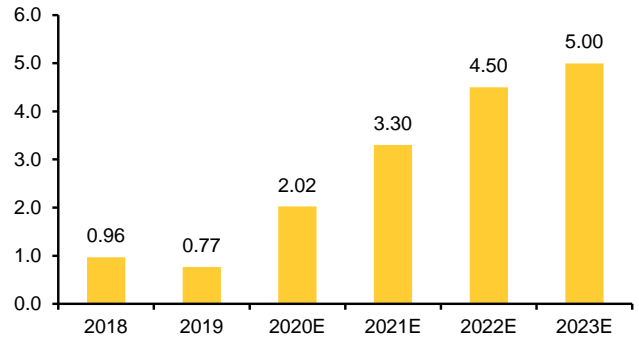
Source: company data, Commerzbank Research

Chart 3 - flatexDEGIRO: Number of trades per average account



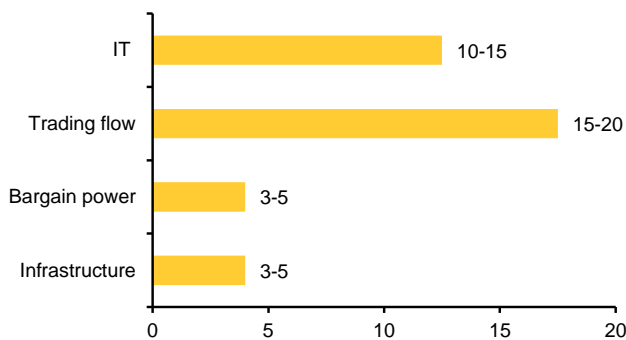
Source: company data, Commerzbank Research

Chart 4 - flatexDEGIRO: EPS driven by synergies and rising no. of clients, €



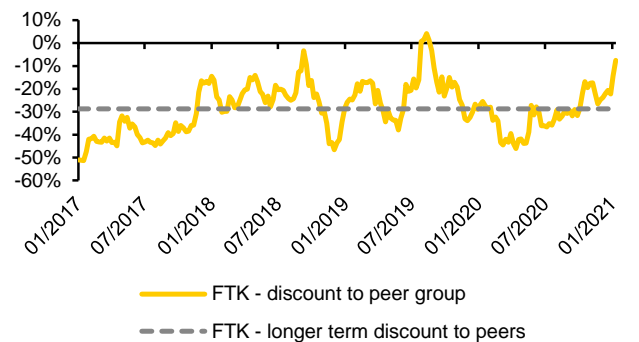
Source: company data, Commerzbank Research

Chart 5 - flatexDEGIRO: huge synergy potential, €m



Source: company data

Chart 6 - flatexDEGIRO: trading at a discount: P/E comparison



Source: Bloomberg

Valuation

We value flatex using a DCF model supported by relative P/E multiples from a peer group of online banks/brokers.

We use a WACC of 8.0% while acknowledging the capital light platform business model, and a long-term growth rate of 2.0%. We compute an enterprise value of €2.4bn from which we subtract flatex's pro forma net debt position of €-1m (including pension provisions and cash outflow related to the acquisition of DeGiro; all Commerzbank estimates) at year-end 2020. Dividing the equity value by the number of diluted shares leads to a fundamental fair value of €90 per share. Our target price leaves ~23% upside, and we confirm our Buy recommendation.

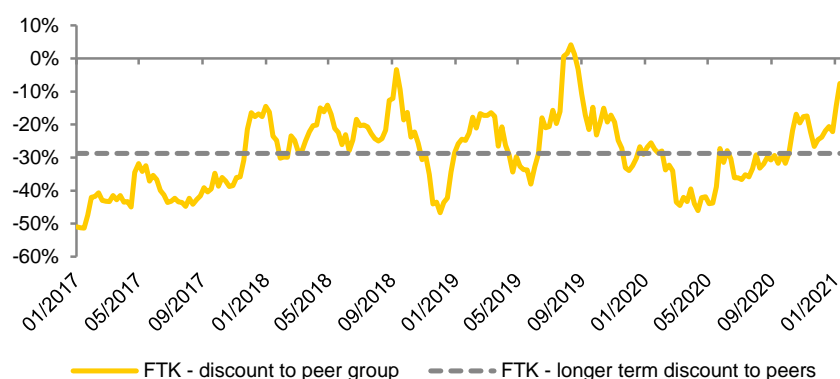
Table 1 - flatex: DCF valuation

€m	2021E	2022E	2023E	2024E	2025E
EBITDA core business	151	200	224	242	254
Notional tax	-36	-47	-53	-56	-59
CAPEX	-24	-27	-29	-32	-32
NOPAT	91	126	142	154	164
Discounted NOPAT	84	108	113	113	111
PV of cash flows					529
Terminal value					1,895
Enterprise value					2,424
Net debt/(cash)					-1
Equity value					2,425
NOS					27.1
Value per share					89.5
Target Price					90.0
Implied 2022E P/E ratio					20.0

Source: Commerzbank Research

Our target price implies a 2022E P/E multiple of 20.0x. Currently, flatex trades at an 8% discount to global online banks/brokers. We expect the discount to further narrow over time if a) synergies of the DeGiro deal become visible; b) strong client growth continues as well as c) the free float of 45% post DeGiro transaction would further increase.

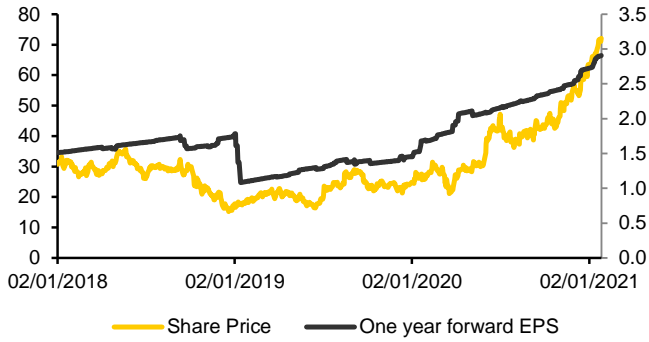
Chart 7 - flatexDEGIRO: trading at a discount: P/E comparison



Source: Bloomberg

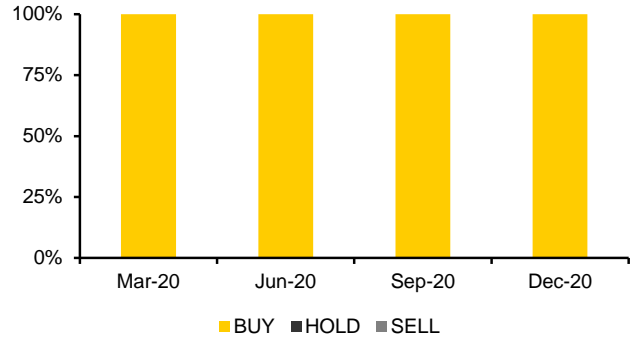
The greatest risks to our investment case are a) fading volatility resulting in much lower client trading activity than anticipated - we have a normalization of trading activity in our numbers; b) huge client churn on the back of a failed integration of DeGiro and c) a failure in the realization of synergies from DeGiro acquisition; d) rising market share of new incumbents offering trading free of charge.

Chart 8 - flatexDEGIRO: Share price vs. 1y forward EPS



Source: Bloomberg

Chart 9 - flatexDEGIRO: A sell-side darling

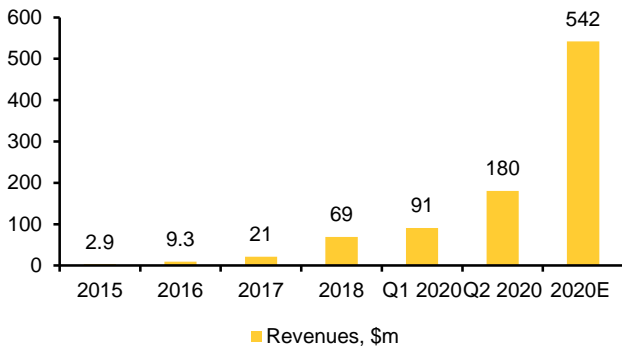


Source: Bloomberg

What is flatexDEGIRO worth on Robinhood's implied multiples?

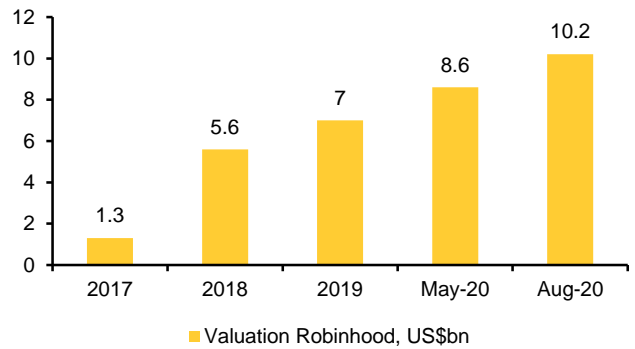
According to our analysis, Robinhood has been valued at 19x EV/Sales in the August 2020 funding round. Applying this multiple to flatexDEGIRO as one of the main disruptors in the European online brokerage market, the company would be worth €4.5bn - the shares currently trade at a 56% discount to Robinhood.

Chart 10 - Robinhood: revenues, \$m



Source: Alphacution, CNBC, Forbes, Commerzbank Research. Note: 2020E is annualized H1 20 data

Chart 11 - Robinhood: valuation in various funding rounds



Source: Alphacution, CNBC, Forbes

Earnings estimates at a glance

We raise our EPS estimates by 32% and 35% for 2021/2022 which brings us 16% and 24% above consensus estimates.

Table 2 - flatexDEGIRO: Commerzbank vs. consensus estimates

€m	2021E	2022E	2023E
Revenues			
Commerzbank estimates	344.8	375.0	403.5
Consensus estimates	321.2	364.9	427.7
CBK vs. consensus estimates	7.3%	2.8%	-5.7%
EBITDA			
Commerzbank estimates	151.3	199.6	223.7
Consensus estimates	137.3	171.8	210.0
CBK vs. consensus estimates	10.2%	16.2%	6.5%
EPS			
Commerzbank estimates	3.3	4.5	5.0
Consensus estimates	2.9	3.6	4.4
CBK vs. consensus estimates	15.8%	23.6%	14.6%

Source: Bloomberg, Commerzbank Research

Our EPS raise is mainly driven by a higher number of clients on the DEGIRO platform - we expect the company to reach 1.7m in 2021, exceeding management target by 6%, and 1.77m in 2022 - while we have fine-tuned the transactions of customers and continued to model the latter on normalized levels. Hence, we do not include the relatively high volatility of equity markets as of 2020 in our forecasts until 2023E. Moreover, we fully incorporate €30m of pre-tax synergies from the DEGIRO acquisition as guided by management. On the back of continuous client growth and slightly rising number of trades for the group, we forecast €5 EPS in 2023. However, there is significant upside to our numbers if volatility remains elevated: 10m additional trades per year, results in ~€1 EPS. Management targets for >3m costumers with more than 100m trades by 2025E.

Table 3 - flatexDEGIRO: earnings estimates at a glance, €m

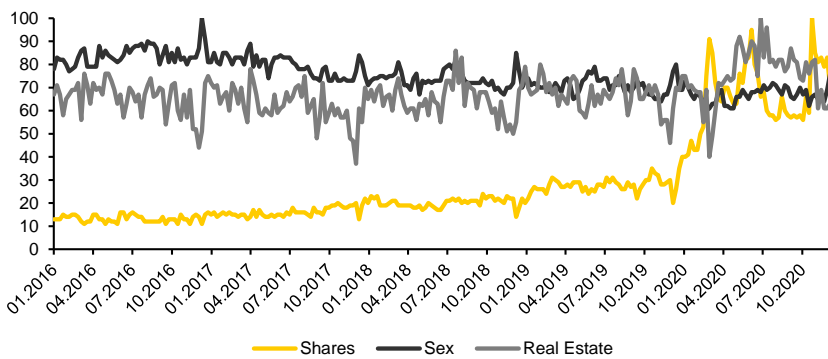
€m	2019	2020E	2021E	2022E	2023E	2020E	2021E	2022E	CAGR 20-23E
Provision of services	19.8	20.7	20.9	21.1	21.3	4.2%	1.0%	1.0%	1.0%
Commission income	90.4	195.5	275.4	304.3	330.6	116.2%	40.8%	10.5%	19.1%
Interest income	15.1	19.8	34.9	35.6	37.3	30.5%	76.3%	2.2%	23.5%
Other operating revenues	6.6	3.6	13.7	14.0	14.3	-45.5%	280.6%	2.0%	58.2%
Revenues	132.0	239.5	344.8	375.0	403.5	81.4%	43.9%	8.8%	19.0%
Raw materials and consumables used	-38.2	-44.3	-59.2	-63.5	-66.6	16.2%	33.5%	7.3%	14.5%
Personnel expenses	-25.4	-55.5	-70.0	-63.0	-64.2	118.6%	26.0%	-10.0%	5.0%
Marketing expenses	-12.5	-28.2	-40.5	-30.6	-28.2	125.3%	43.5%	-24.4%	-0.1%
Other administrative expenses	-18.3	-27.1	-23.8	-18.3	-20.7	48.1%	-12.0%	-23.1%	-8.5%
EBITDA	37.7	84.4	151.3	199.6	223.7	124.0%	79.3%	31.9%	38.4%
Depreciation and amortization	-12.8	-14.4	-22.0	-26.4	-31.7	12.5%	52.5%	20.0%	30.0%
EBIT	24.8	69.9	129.3	173.2	192.1	181.6%	84.9%	34.0%	40.0%
Financial results	-3.1	-3.4	-3.5	-3.8	-4.0	8.9%	2.9%	7.1%	5.5%
EBT	21.7	66.5	125.8	169.5	188.1	206.5%	89.1%	34.7%	41.4%
Income tax expenses	-6.7	-21.8	-36.3	-47.4	-52.7	223.8%	66.8%	30.7%	34.3%
Net profit	15.0	44.8	89.5	122.0	135.4	198.7%	99.9%	36.3%	44.6%
Minorities	0.0	0.0	0.0	0.0	0.0				
Profit attributable to shareholders	15.0	44.8	89.5	122.0	135.4	198.7%	99.9%	36.3%	44.6%
Adjustments	0.0	0.0	0.0	0.0	0.0				
Adj. Profit to shareholders	15.0	44.8	89.5	122.0	135.4	198.7%	99.9%	36.3%	44.6%
Adj. EPS	0.77	2.02	3.30	4.50	5.00	162.0%	63.3%	36.3%	35.2%
Key performance matrix									
Transactions executed, m - pro-forma	31.4	75.0	68.0	74.2	75.1	139.0%	-9.3%	9.2%	33.2%
Number of retail customers, k	800	1,250	1,700	1,955	2,111	56.3%	36.0%	15.0%	34.7%
Transactions per customer, pro-forma	39.2	60.0	46.1	40.6	37.0	53.0%	-23.2%	-11.9%	1.2%

Source: company data, Commerzbank Research

Equities enjoy high degree of popularity

According to Google Trends, stocks have reached peak popularity in Germany. While popularity has been low since 2016 having reached scores of 10-30 only, this trend has changed significantly since 2020: Scores at Google Trend have improved to levels >60 beating other German investment favourites such as real estate - see chart below. We expect this high degree of popularity to support a) the number of clients in online brokerage as well as b) the number of trades per account which has been significantly up since Q1 20.

Chart 12 - Shares more popular than sex and real estate



Source: Google Trends

flatexDEGIRO - a company full of optionality

ETP optionality

Larger scale to result in higher pricing power: ETP products have already accounted for 37% of 2019 trades at flatex (excluding DEGIRO), and we estimate that 54% of flatex net commission income has been generated with ETP trading that year: flatex clients pay a fixed fee of €0-3.9 per trade while flatex will be reimbursed by the product partner resulting in €7-9 per trade as total income, ~30% higher than a normal cash equity trade. On the back of increasing pricing power, flatex has been able to increase reimbursement with five out of seven partners resulting in 25-30% higher revenues for ~50% of ETP trades in 2021 - ~€7m higher commission income that year assuming a stable number of trades for flatex only. But what is the ETP revenue potential with DEGIRO clients? We calculate a €72m revenue pool with DEGIRO clients if this client base were to a) trade as active as flatex clients as well as b) at similar economics - a best-case scenario whose potential management needs to unlock over the years to come.

Chart 13 - flatex: ETP revenue upside potential



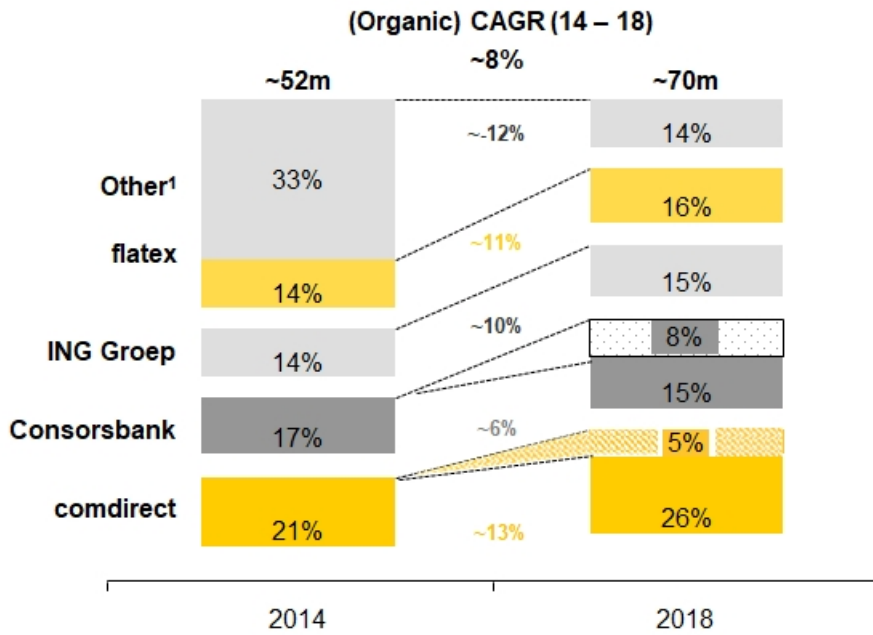
Source: Commerzbank Research

German mass market optionality

flatex next - attacking the mass German retail brokerage market: flatexDEGIRO is going to expand into the mass retail brokerage market in Germany as a first step

thereby attacking market incumbents such as *ING Diba*, *comdirect* and *Conyors bank!* with a combined market share of >65%.

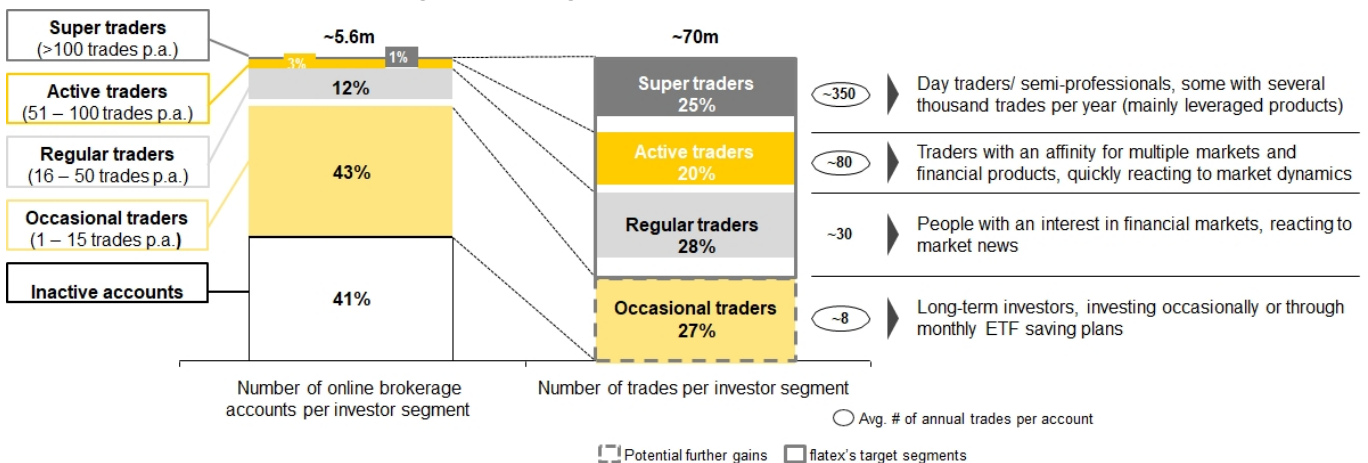
Chart 14 - Market share trends in the German online brokerage market



Source: approximation based on expert interviews and company report; flatexDEGIRO

We consider the market potential for flatex in the German market as relatively huge: We estimate ~6m brokerage clients in Germany generating 70-80m trades per year which results in an annual gross commission pool of >€1bn. Management will address the top 30% of this market, i.e. 1-2 million clients. If flatex were able to acquire 500k customers of this upper-end mass market clients, the revenue potential for the company would already be significant: we estimate €40m additional revenues based on 20 annual trades per account and net commission income of €4 per trade as a weighted average skewed to stocks and ETF trading. Given free trading for the first six months as a part of client acquisition, the impact on 2021 estimates will be negligible, but we consider 150-200k client wins in 2021 to support 2022 revenues, €12-16m incremental revenues this year, as realistic.

Chart 15 - German/Austrian Brokerage market: significant untapped market potential



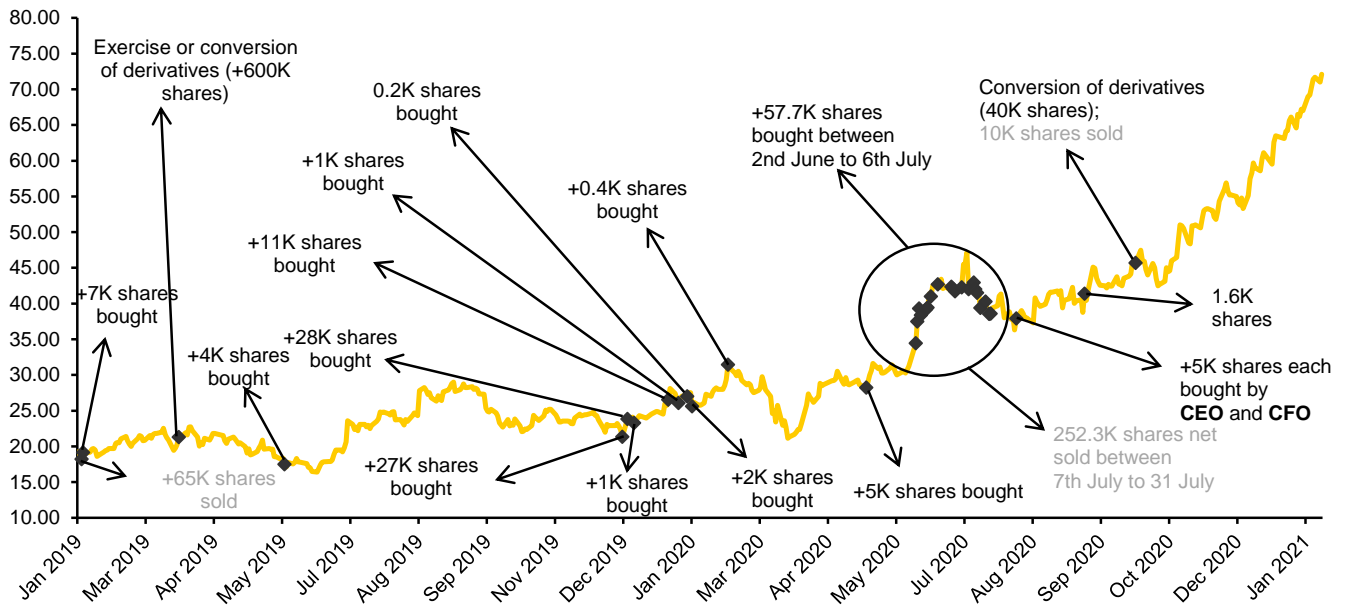
Source: market estimation based on expert interviews and company reports of leading providers, company data

Follow the insiders

flatex is a company where management and the supervisory board already own a relatively high stake. Hence, following directors' dealing activity is important and has often been a good indicator of sharply rising share prices in the past. Despite

the placement of founding member Bernd Förtsch, Heliad and board members at ~ €43 per share in July 2020, some insider buying activity was seen in Q4 20 - for good reason: The shares are trading at 17x 2022E earnings which we consider as inexpensive for 35% client growth CAGR (2020-2023E).

Chart 16 - flatex: directors dealing activity



Source: Bloomberg

Profit and Loss

Year End Dec (€ m)	2018A	2019A	2020E	2021E	2022E	2023E
Net revenues	125	132	240	345	375	403
Net revenue growth (%)	16.9	5.5	81.4	43.9	8.8	7.6
Operating expenses	(83)	(94)	(155)	(193)	(175)	(180)
Opex in % of sales	(5.3)	15.9	118.6	26.0	(10.0)	2.0
Adj. operating expenses	(83)	(94)	(155)	(193)	(175)	(180)
Adj. opex in % of sales	66.1	71.5	64.8	56.1	46.8	44.6
EBIT as reported	34	25	70	129	173	192
EBIT margin (%)	27.3	18.8	29.2	37.5	46.2	47.6
Adj. EBIT	34	25	70	129	173	192
Adj. EBIT margin (%)	27.3	18.8	29.2	37.5	46.2	47.6
D&A	(8)	(13)	(14)	(22)	(26)	(32)
EBITDA as reported	42	38	84	151	200	224
EBITDA margin (%)	33.9	28.5	35.2	43.9	53.2	55.4
Adj. EBITDA	42	38	84	151	200	224
Adj. EBITDA margin (%)	33.9	28.5	35.2	43.9	53.2	55.4
Pre-tax profit EBT reported	28	22	67	126	169	188
Adj. pre-tax profit	28	22	67	126	169	188
Tax	(11)	(7)	(22)	(36)	(47)	(53)
Tax rate (%)	38.6	31.0	32.7	28.9	28.0	28.0
Minorities	0	0	0	0	0	0
Net income attributable to all shareholders adjusted	17	15	45	90	122	135
Net income attributable to all shareholders reported	17	15	45	90	122	135
EPS reported	0.98	0.77	2.02	3.30	4.50	5.00
Adj. EPS	0.98	0.77	2.02	3.30	4.50	5.00
Adj. EPS growth (%)	(2)	(21)	162	63	36	11

Source: Commerzbank Research, Bloomberg, Company Information

Balance Sheet

Year End Dec (€ m)	2018A	2019A	2020E	2021E	2022E	2023E
Total assets	1,224	1,266	1,968	2,048	2,198	2,362
Trade account payables	2.8	5.6	4.9	4.9	5.0	5.0
Other liabilities	1,041.9	1,061.0	1,530.4	1,530.4	1,558.5	1,587.2
Total liabilities	1,061	1,084	1,546	1,535	1,563	1,592
Total equity and liabilities	1,224	1,266	1,968	2,048	2,198	2,362

Source: Commerzbank Research, Bloomberg, Company Information

Cash Flow

Year End Dec (€ m)	2018A	2019A	2020E	2021E	2022E	2023E
Operating cash Flow	250	(157)	580	(162)	126	166
Net financial investments	(12)	(0)	0	(0)	(0)	(0)
Investing Cash Flow	(28)	(33)	(10)	(10)	(10)	(10)
Free Cash Flow	222	(190)	569	(172)	116	156
Free Cash Flow (after dividend)	222	(190)	569	(172)	116	156
Increase / (decrease) in debt	(2)	1	(6)	(10)	0	0
Increase / (decrease) in equity	39	3	(4)	0	0	0
Other financing cash flows	(0)	0	0	0	0	0
Cash flow from financing activities	37	4	(11)	(10)	0	0
Net change in cash	260	(186)	559	(182)	116	156
Beginning cash	397	657	469	1,027	845	962
Ending cash	657	470	1,027	845	962	1,117

Source: Commerzbank Research, Bloomberg, Company Information

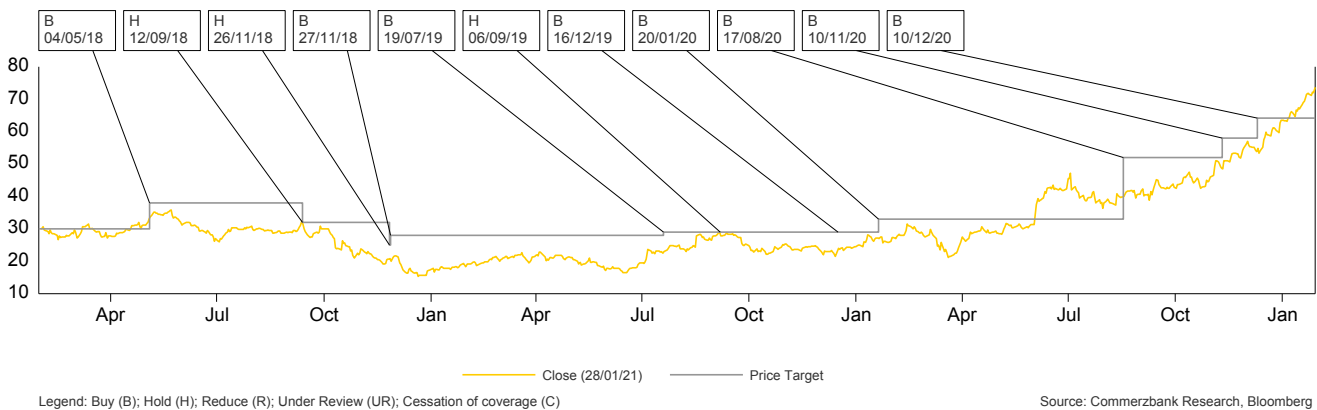
KPI

Year End Dec (€ m)	2018A	2019A	2020E	2021E	2022E	2023E
EBITDA growth (%)	32.2	(11.1)	124.0	79.3	31.9	12.1
EBIT growth (%)	2.8	(14.2)	198.7	99.9	36.3	11.0
No. of shares (class A) basic	18	19	22	27	27	27
No. of shares (class A) diluted	18.1	19.6	22.1	27.1	27.1	27.1
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Pay-out ratio	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	9.03	9.31	19.10	18.90	23.41	28.40
P/E (x)	75.3	95.3	36.4	22.3	16.3	14.7
P/B (x)	8.1	7.9	3.9	3.9	3.1	2.6
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
ROE	10.7	8.2	10.6	17.5	19.2	17.6
ROCE	10.5	8.0	10.5	17.3	19.1	17.5
ROA	1.4	1.2	2.3	4.4	5.6	5.7

Source: Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 29/1/2021 18:08 CET and disseminated 1/2/2021 07:16 CET.

flatexDEGIRO AG (FTK GY)



Distribution of ratings:

Number of recommendations from Commerzbank Research, at the end of Q4 2020	thereof recommendations for issuers to which investment banking services were provided during the preceding twelve months
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95 (44.81%) Hold	27 (28.42%)
15 (7.08%) Reduce	1 (6.67%)

Source: Commerzbank Research

[^] Prior trading day's closing price unless otherwise noted. Company name: flatexDEGIRO AG; Exchange: XETRA

In respect to Article 4 of ESMA MAR, for an overview of recommendations made in the previous 12 months on any instrument or issuer covered in this report as well as an overview of all recommendations made by the producer(s) of this report in the previous 12 months, please follow this [link](#). For recommendations on equities from our Technical Analysis team please follow this [link](#).

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