

flatexDEGIRO

10 December 2020

What if...three growth options for 2021

The easy money has been made with the shares which are up ~120% year-to-date, but we see further upside potential: 1) **More clients**: with "flatex next" the company is going to expand in the German mass brokerage market in a first step; 2) **Better monetisation**: ETP products to provide additional revenue potential; 3) **More trades** (than expected) in 2021: cyclical upside option if retail investors remain involved at equity markets. We raise our 2021/2022 estimates by 12% and 8% as management has increased pricing on the ETP side and increase our target price to €64.

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 *Consors bank*! We consider the market potential 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 is going to address the top 30% of this market, i.e. 1-2 million clients. If flatex would be 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.

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 €60m revenue pool with DEGIRO clients if this client base would 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.

Cyclical optionality

What if the engagement of retail client persists in 2021? Consensus and our estimates factor in a mean reversion of trading activity to 35-40 trades per account which implies normalised trading activity in 2021 vs. ~70 trades in 2020 on the back of elevated volatility in

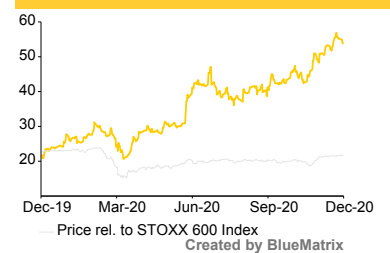
Buy
TP €64.00 (from €58.00)
CP €53.80[^]
 (Closing 9 December 2020)

Key information

Expected performance	19.0%
1M / 3M performance:	10.9% / 30.0%
Market Cap (m)	€1,467
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)	2020n	2020o	2021n	2021o
Revenues	192	-	282	264
PBT	64	-	105	94
EPS	2.28	-	2.70	2.42

Source: Commerzbank Research,

Bloomberg, Company Information

Key Financials

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Net revenues	107	125	132	192	282	303
Adj. EBITDA	32	42	38	77	129	159
Adj. EBITDA margin	30.0	33.9	28.5	40.2	45.9	52.5
Adj. EBIT	26	34	25	63	111	134
Net income adjusted	17	17	15	45	73	90
EPS adjusted	1.00	0.98	0.77	2.28	2.70	3.33
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Price/Book	8.0	6.0	5.8	4.8	4.9	3.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
(P/E)	53.9	55.1	69.7	23.6	19.9	16.2
EBIT margin	24.7	27.3	18.8	32.7	39.4	44.3

Source: Commerzbank Research, Bloomberg, Company Information

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particular in H1 2020. If retail investors would be in 2021 as active as in 2020, net commission income would increase by €84m, an 81% increase of our 2021 pre-tax profit estimate.

Profit and Loss

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Net revenues	107	125	132	192	282	303
Net revenue growth (%)	12.6	16.9	5.5	45.4	47.0	7.2
Operating expenses	(75)	(83)	(94)	(115)	(153)	(144)
Opex in % of sales	18.7	(5.3)	15.9	44.3	38.1	2.0
Adj. operating expenses	(75)	(83)	(94)	(115)	(153)	(144)
Adj. opex in % of sales	70.0	66.1	71.5	59.8	54.1	47.5
EBIT as reported	26	34	25	63	111	134
EBIT margin (%)	24.7	27.3	18.8	32.7	39.4	44.3
Adj. EBIT	26	34	25	63	111	134
Adj. EBIT margin (%)	24.7	27.3	18.8	32.7	39.4	44.3
D&A	(6)	(8)	(13)	(14)	(18)	(25)
EBITDA as reported	32	42	38	77	129	159
EBITDA margin (%)	30.0	33.9	28.5	40.2	45.9	52.5
Adj. EBITDA	32	42	38	77	129	159
Adj. EBITDA margin (%)	30.0	33.9	28.5	40.2	45.9	52.5
Pre-tax profit EBT reported	25	28	22	64	105	128
Adj. pre-tax profit	25	28	22	64	105	128
Tax	(8)	(11)	(7)	(20)	(32)	(37)
Tax rate (%)	32.5	38.6	31.0	30.4	30.2	29.3
Minorities	0	0	0	2	0	0
Net income attributable to all shareholders adjusted	17	17	15	45	73	90
Net income attributable to all shareholders reported	17	17	15	47	73	90
EPS reported	1.00	0.98	0.77	2.38	2.70	3.33
Adj. EPS	1.00	0.98	0.77	2.28	2.70	3.33
Adj. EPS growth (%)	66	(2)	(21)	196	18	23

Source: Commerzbank Research, Bloomberg, Company Information

Balance Sheet

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Total assets	1,107	1,224	1,266	1,743	1,868	1,987
Trade account payables	1.0	2.8	5.6	4.9	4.9	5.0
Other liabilities	974.4	1,041.9	1,061.0	1,505.9	1,568.5	1,597.4
Total liabilities	994.7	1,060.5	1,083.8	1,521.0	1,573.4	1,602.3
Total equity and liabilities	1,107	1,224	1,266	1,743	1,868	1,987

Source: Commerzbank Research, Bloomberg, Company Information

Cash Flow

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
Operating cash Flow	0	250	(157)	550	(79)	94
Net financial investments	0	(12)	(0)	0	(0)	(0)
Investing Cash Flow	(13)	(28)	(33)	(10)	(10)	(10)
Free Cash Flow	(12)	222	(190)	540	(89)	83
Free Cash Flow (after dividend)	(12)	222	(190)	540	(89)	83
Increase / (decrease) in debt	15	(2)	1	(6)	(10)	0
Increase / (decrease) in equity	5	39	3	(4)	0	0
Other financing cash flows	0	(0)	0	0	0	0
Cash flow from financing activities	20	37	4	(11)	(10)	0
Net change in cash	8	260	(186)	529	(100)	83
Beginning cash	389	397	657	469	998	898
Ending cash	397	657	470	998	898	982

Source: Commerzbank Research, Bloomberg, Company Information

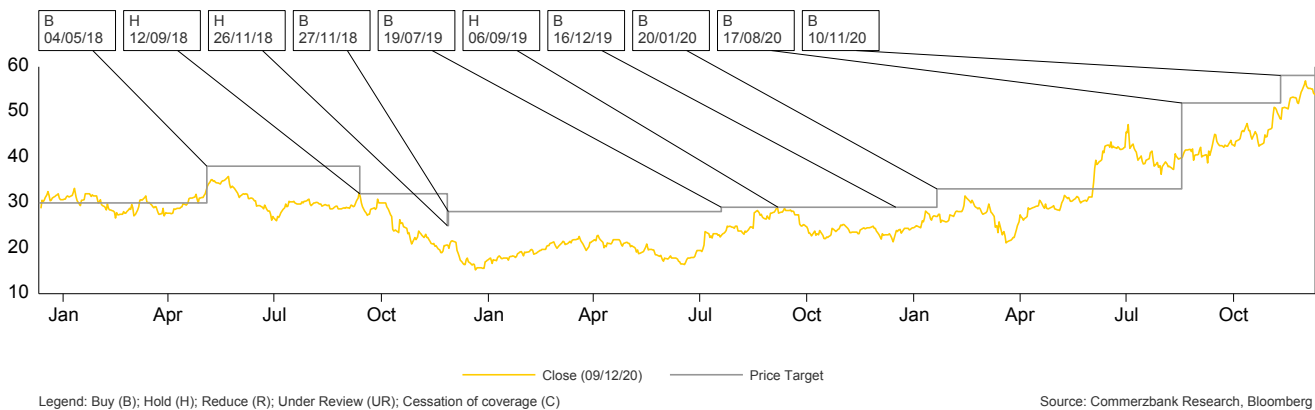
KPI

Year End Dec (€ m)	2017A	2018A	2019A	2020E	2021E	2022E
EBITDA growth (%)	22.7	32.2	(11.1)	104.8	67.8	22.6
EBIT growth (%)	(16.2)	2.8	(14.2)	198.8	63.3	23.3
No. of shares (class A) basic	16.8	17.9	19.4	19.6	27.1	27.1
No. of shares (class A) diluted	16.8	18.1	19.6	19.6	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	6.70	9.03	9.31	11.30	10.88	14.21
P/E (x)	53.9	55.1	69.7	23.6	19.9	16.2
P/B (x)	8.0	6.0	5.8	4.8	4.9	3.8
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
ROE	14.9	10.7	8.2	21.1	24.8	23.4
ROCE	14.8	10.5	8.0	20.6	24.4	23.1
ROA	1.5	1.4	1.2	2.6	3.9	4.5

Source: Commerzbank Research, Bloomberg, Company Information

In accordance with ESMA MAR requirements this report was completed 10/12/2020 07:45 CET and disseminated 10/12/2020 07:45 CET.

flatexDEGIRO AG (FTK GY)



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Source: Commerzbank Research

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

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