

Hypoport AG

Buy → | Target 102.00 EUR

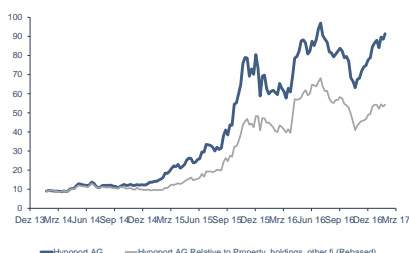
Price (23/02/2017) : 91.41 EUR | Upside : 12 %

Est.chg	2016e	2017e
EPS	-	-

Roadshow leaves us confident

Publication date 24.02.2017 17:34

Writing date 24.02.2017 17:33



Capital			
HYQ GY HYQGn.DE			
Market Cap (EURm)			561
Enterprise value (EURm)			521
Extrema 12 months		57.50 -	97.00
Free Float (%)			56.1
Performance (%)			
	1m	3m	12m
Absolute	6.2	39.2	53.4
Perf. rel. Country Index	2.8	27.3	34.9
Perf. rel. Property, holding	1.5	28.7	33.9
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)	23.1	24.1	21.5
P/B (x)	6.4	5.9	4.6
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	2.0	3.6	3.9
EV/Sales (x)	2.87	3.01	2.63
EV/EBITDA (x)	14.6	15.1	13.0
EV/Current EBIT (x)	17.8	18.3	15.7
Gearing (%)	-31	-44	-53
Net Debt/EBITDA(x)	ns	ns	ns

Next Events	
13.03.2017	Earnings Release
27.03.2017	Q4 Results
04.05.2017	Q1 Results
04.05.2017	Earnings Release

Roadshow with CEO

We accompanied Hypoport's (HYQ) CEO Ronald Slabke on a roadshow in Brussels this week. The roadshow confirmed our positive view on the stock. In this note we provide our key takeaways.

Growth drivers intact

Investors' focus was clearly on the following topics: i/ the outlook for 2017, ii/ growth opportunities in the existing business and iii/ growth opportunities in the new businesses "insurance tech" and "real estate appraisal". Our key takeaways:

Q4 should come in strong: Hypoport will report preliminary Q4 2016 figures on 13 March. We expect a strong Q4 i/ against the backdrop of the recently released Europace transaction figures; and ii/ due to a catch-up effect (postponed projects) in the Institutional Clients segment in Q4 (9M: EBIT -25% yoy).

Outlook for 2017: Management was bullish for 2017 and reiterated its mid-term guidance for top-line and EBIT growth at annual rates in the low double-digit range. In particular, Hypoport does not expect any regulatory headwinds as was the case in 2016. Reminder: The March 2016 implementation of the EU Mortgage Credit Directive ('Wohnimmobilienkreditrichtlinie') in Germany had a significant negative impact on the German housing market in Q2 16. For example, saving banks in the German states of Baden-Württemberg and Bavaria reported a decrease in newly issued mortgage volume of 20% yoy in Q2 2016. This downturn was also reflected in the Bundesbank's Q2 figures with an overall mortgage volume decrease of 10.6% yoy. While Europace did very well and won market share in this market environment, the company nevertheless experienced a negative effect due to regulation in 2016 which should be absent in 2017.

Returning cash to shareholders: Management stated that as in the past it does not plan to pay a dividend going forward. Instead, the company will focus on repurchasing shares if it sees the stock as undervalued. Moreover, management believes that it can generate the highest return for shareholders via acquisitions that can be integrated into Hypoport's current business model with high operational leverage (e.g. real estate appraisal, see next page).

Where is growth coming from in the existing business?

Continued on next page.

Buy; TP € 102.00

We reiterate our Buy recommendation and TP of € 102 (EPS CAGR 2015-18e: 17.4%). We see the 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, new growth opportunities such as insurance tech could drive the equity story.

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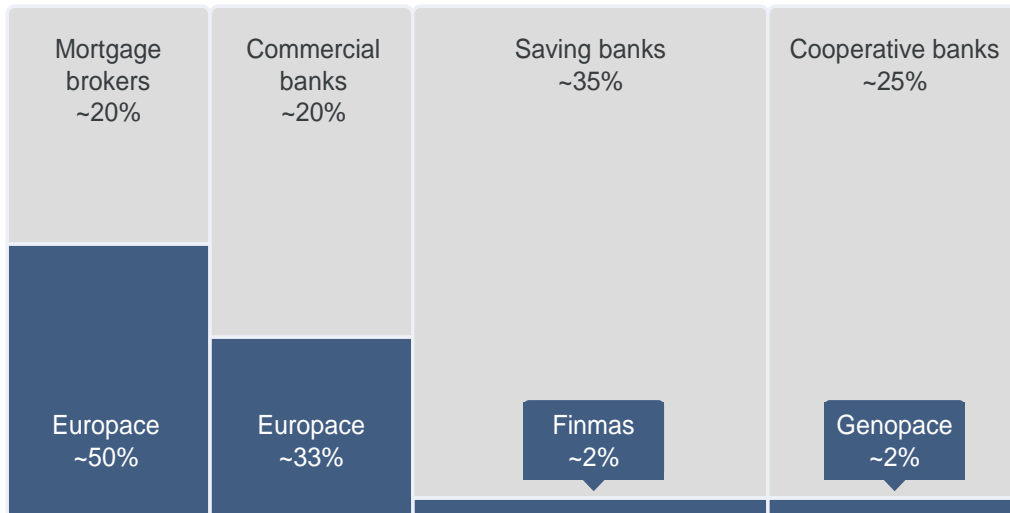
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Where is growth coming from in the existing business?

Breakdown of market share: From a sales split perspective (i.e. who sells the mortgages), mortgage brokers and private banks each account for about 20% of overall mortgage volume in Germany, savings banks 35%, and cooperative banks 25% (see chart below). As an IT platform, Europace has a 50% market share 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

Management sees the following growth opportunities in the respective market segments:

- (1) Mortgage brokers segment:** Management reiterated that it sees the broker segment of the market outperforming the rest of the market. In particular, brokers offer consumers significant advantages compared to traditional banks:

An independent financial advisor such as Hypoport's Dr. Klein selects the mortgage with the most favourable terms for the household from several hundred suppliers on the platform. Households thus enjoy the advantage of Europace's independent advisory feature. Europace is beneficial for private households because of its high price transparency, i.e. it enables the financial advisor to quickly find the mortgage with the most favourable conditions for the household. Without Europace, the household would have to talk to all banks separately to get the same range of offers. Thus, Europace provides an easier and less time-consuming market search at lower transaction costs than the conventional mortgage lending process.

- (2) Commercial banks space:** Commercial banks can use Europace as an IT outsourcing solution. This is currently practiced by Postbank (#1 in Germany in terms of mortgage sales) and Bank Santander (#4). Management was very confident that other major German banks will follow:

The #2 and #3 in the market (i.e. Deutsche Bank and Commerzbank) currently do not use Europace but operate proprietary IT systems. According to Hypoport's management, however, switching to Europace would be significantly cheaper for banks than maintaining in-house operations. An example that management gave during the roadshow: To replace its old IT system a major bank would probably have to pay around € 100m vs € 7m per year for the use of Europace as an outsourcing solution. Switching to Europace would also eliminate ongoing maintenance cost and would avoid the project risk of developing a new IT system. Management also mentioned that banks with proprietary IT systems may find themselves confronted with a new (unforeseen) regulation that their own system cannot implement. Switching to Europace would eliminate this risk.

While management was very confident that Europace as a software-as-a-service (SaaS) solution will gain market share, it also stated that visibility is low as to when this will happen, i.e. "black swan events" would drive this process.

- (3) Savings banks/Cooperative banks:** Management was also confident that it can grow the market share of Europace significantly in this market space. Hypoport's currently very small share of the mortgage business of savings banks and cooperative banks (~2% each) suggests significant growth potential in these two spaces compared to the mortgage broker

and commercial bank spaces. Hypoport addresses savings banks and cooperative banks with two customised versions of Europace, Finmas and Genopace:

Europace 3: Hypoport is currently developing the third version of Europace, Europace 3, which will replace Europace 2 in about 5 years. Management was very confident that Europace 3 will extend Hypoport's technological lead. It stated that Europace is already the "state-of-the-art system" in Germany and Europace 3 will set it apart even further. The goal of the new system is to "make every mortgage advisor as good the best" by using software support functions during the sales process. Furthermore, Europace 3 will also likely feature the option to close a mortgage contract entirely online, i.e. without human-to-human interaction.

Growth opportunities for the new businesses "insurance tech" and "real estate appraisal"

Overall, management was very bullish on both new businesses, in particular "insurance tech". While it is difficult to put a number on these opportunities, and we do not include them in our valuation, investors should nevertheless be aware of their significant potential:

(1) Insurance Tech (total addressable market/TAM: € 800m): Hypoport's overall goal is to build a system similar to Europace for insurance brokers, i.e. a B2B IT system that makes it easier for brokers to conclude new contracts, facilitates the management of insurance contracts after closing, and makes price comparisons within the insurance space easier. Hypoport aims to build a system that can reduce costs for insurance brokers by 70%. Management stated that it sees a very big market opportunity here since insurance brokers are currently under heavy pressure to maintain profitability.

To build this new platform, Hypoport has made three acquisitions which are currently being integrated into one system:

NKK Programm Service AG (acquired in June 2016): NKK is a software company that basically develops and maintains an insurance inventory system, i.e. a system that allows insurance brokers to keep track of the insurance products they have sold and maintain linkage to the underlying insurance company.

Maklersoftware.com (acquired in January 2017): Maklersoftware.com is basically an independent insurance broker, i.e. the equivalent of Dr. Klein on the mortgage side.

Innosystems GmbH (acquired in January 2017): Innosystems is developing software to compare individual insurance products.

We estimate the combined revenues of these three companies at around € 10m. Management also made clear during the roadshow that all three companies are free cash flow-positive. The overall addressable market for Hypoport is about € 800m, according to management, which breaks down as follows: Total insurance premiums in the German insurance market are about € 200bn per year, of which independent insurance brokers generate about 40%, i.e. € 80bn. Management believes it can charge about 1% of premiums for its insurance tech platform, which would put its total addressable market at € 800m.

Real estate appraisal business (TAM: € 200m): Hypoport's overall goal for this new business is to capture a bigger piece of the real estate value chain. When a real estate object is mortgage-financed, the bank issuing the mortgage usually requires the property to be appraised. As an intermediary between the bank and the household, Hypoport aims to provide this service, which would allow it to monetize its large data base of real estate transactions. According to management, the addressable market for real estate appraisal is about € 200m per year in Germany.

Management explained that four components are important for this business: (1) Data from historical real estate transactions 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. Hypoport is currently 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 (we assume the purchase price was below € 0.5m; financials were not disclosed). The new entity currently has about 50 employees.

What are Hypoport's geographic growth opportunities?

At present Hypoport only generates revenues in Germany. Since Europace is a highly scalable IT platform, expansion into other European countries would seem like a natural progression.

However, management stated that geographic expansion is currently not a strategic priority. Due in particular to country-specific regulatory regimens within the EU, Europace currently cannot be used outside of Germany.

A big game changer would be an EU-wide directive for mortgages that would completely replace country-specific mortgage regulations (Note: This was not the case with the EU mortgage credit directive, as it was implemented by each EU member state individually through national laws). If such a directive should happen – which however seems unlikely from our current perspective – Europace could be adapted to this regulation and then used throughout the EU.

Another angle for geographic growth would be the acquisition of a broker outside of Germany as a means to enter a specific country with a locally adapted Europace system. Management stated that any potential target broker would have to be a top-3 player in its national market.

Is there currently a housing bubble in Germany?

Some market observers are saying that Germany is already in a “housing bubble” and that prices and market volumes will fall going forward. Management said that it does not see a bubble and in fact believes current market prices are too low.

We believe several factors will continue to support a strong real estate market in Germany:

- Demand for housing in Germany is rising (e.g. due to net immigration and a growing number of one-person households) while the housing supply (at least in the major cities) is limited by the low number of building permits being issued and more demanding requirements for new buildings (e.g. heat efficiency). According to the statistics portal Statista, annual demand for new homes in Germany until 2025 will be c.310k while only c.200k homes are currently being constructed per year. The gap of 110k homes p.a. multiplied by 10 years results in a cumulative shortfall of 1.1m homes in Germany by 2025. This persistent annual gap should support an upward trend in housing prices, and thus mortgage transaction volume (=average housing price x number of transactions).
- Germany appears to have catch-up potential in terms of its low ownership rate, i.e. only about 46% of German households own their homes vs e.g. 85% in Spain or 58% in France.
- The German economy remains strong (e.g. highest credit rating in the world, solid macro figures), and the low interest rate environment will likely persist for a longer period of time.

Overall, we value Hypoport based on a mortgage market growth of 1.5% per year from 2017e on (CAGR 2010-2015: 6%).

HYQGN.DE | HYQ GY
Financial Services | Germany

	Buy					Price 91.41EUR		
	Upside	11.59%				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	91.41	
12m lowest price	6.95	6.95	7.03	8.67	12.16	53.59	77.48	
(*) Reference price	9.42	8.94	8.27	11.01	33.28	75.07	91.41	91.41
Capitalization	58.4	55.1	50.7	67.6	201	461	561	561
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	446	521	499
P/E (x)	15.7	ns	16.1	11.4	12.7	23.1	24.1	21.5
P/CF (x)	6.4	58.8	5.2	4.4	5.7	14.4	18.5	16.8
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%	2.0%	3.6%	3.9%
P/B incl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.37	5.87	4.61
P/B excl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.37	5.87	4.61
EV/Sales (x)	0.85	0.76	0.58	0.65	1.36	2.87	3.01	2.63
EV/EBITDA (x)	6.3	8.2	7.0	5.7	7.6	14.6	15.1	13.0
EV/EBIT (x)	10.7	20.9	14.5	9.1	9.8	17.8	18.3	15.7
(*) historical average price								
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	-0.08	-0.11
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.

• All publications by Oddo Securities or Oddo Seydler concerning the companies covered and mentioned in this document are available on the research site: www.oddosecurities.com

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

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(417)	48%	43%	9%
Liquidity providers coverage	(152)	52%	43%	5%
Research service coverage	(67)	57%	40%	3%
Investment banking services	(40)	75%	20%	5%

Risk of conflict of interest :

Investment banking and/or Distribution

Has Oddo Group, or Oddo & Cie, or Oddo Seydler managed or co-managed in the past 12 months a public offering of securities for the subject company/ies? No

Has Oddo Group, or Oddo & Cie, or Oddo Seydler received compensation for investment banking services from the subject company/ies in the past 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the last 12 months? No

Research contract between Oddo group & the issuer

Oddo & Cie and the issuer have agreed that Oddo & Cie will produce and disseminate investment recommendations on the said issuer as a service to the issuer Yes

Liquidity provider agreement and market-making

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