

Hypoport (HYQ.GY) | Financial services

February 21, 2020

Structurally well positioned but under pressure to succeed

For Hypoport's B2B online marketplace for private mortgage loans, Europace, we expect a market share of 24.5% for 2020e in Germany (2018: 20% based on our calculations). We recognize clients' increasing desire to compare conditions for new mortgage loans as a key reason for Europace's mid-term growth prospects. Moreover, in our opinion several German retail banks will steer themselves more towards a "producer" of mortgage loans and scale back distribution via own outlets and replace older IT-systems. Therefore, we see good growth prospects for Europace as well as for Hypoport's financial advisory arm "Dr. Klein". Largest risk for Hypoport is in our view failure of successful integration of acquired companies (also with regard to impairment risk on intangibles) or failure to ramp up the group's organizational structure in line with company growth. We keep our HOLD-recommendation for HYQ-shares with a new PT of EUR 360 (290).

Multiple expansion: Our EPS 2020e is 4% lower than it was when we initiated coverage in 03/2018, underlining the P/E hike since then.

Valuation: HYQ-shares currently trade at a P/E 2020e of ~65. Due to our expectation of strong earnings growth we consider the current share price level as more or less adequate. Simultaneously we see the need for Hypoport to deliver on high growth estimates. From our valuation tools we derive a wide range of fair value estimates (EUR 302 from our ROE/COE-model and EUR 390 from our peer group) from which we derive a new PT of EUR 360, slightly above the rounded average.

Fundamentals (in EUR m)	2016	2017	2018	2019e	2020e	2021e
Interest income (net)	-0	-0	-1	-2	-2	-2
Non-interest income	165	207	281	355	410	459
Total expenses	142	183	252	320	363	398
EBT	23	23	28	33	45	59
EPS adj. (EUR)	3.00	3.10	3.66	4.25	5.77	7.47
EBIT	23.2	23.3	29.3	35.2	47.4	60.9
DPS (EUR)	0.00	0.00	0.00	0.00	0.00	1.00
Goodwill	19	25	140	173	173	173
Ratios	2016	2017	2018	2019e	2020e	2021e
PER	25.9	46.9	40.5	74.1	65.0	49.3
PBV	7.3	10.5	5.9	11.0	10.4	8.5
Price/NAV	10.3	14.9	69.0	292.4	45.3	23.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.3
ROE (%)	31.0	25.2	19.1	16.0	17.8	18.9
Cost / income ratio (%)	31.2	31.7	32.7	35.5	34.6	33.6
Pay-out ratio (%)	0.0	0.0	0.0	0.0	0.0	13.4
Equity/total assets (%)	57.2	58.8	50.2	46.1	55.1	65.2

Sources: Refinitiv, Metzler Research

Hold

 **unchanged**

Price* **EUR 375.00**

Price target **EUR 360.00 (290)**

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)	2,347
Free Float (%)	61.6

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	10.3	39.1	104.5
Rel. to SDAX	6.6	27.5	71.3

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2019e	2020e	2021e
Total operating revenues	0.0	0.2	0.7
EBT	0.0	0.0	1.9
EPS	0.0	-0.1	1.6



Author: Jochen Schmitt

Financial Analyst Equities

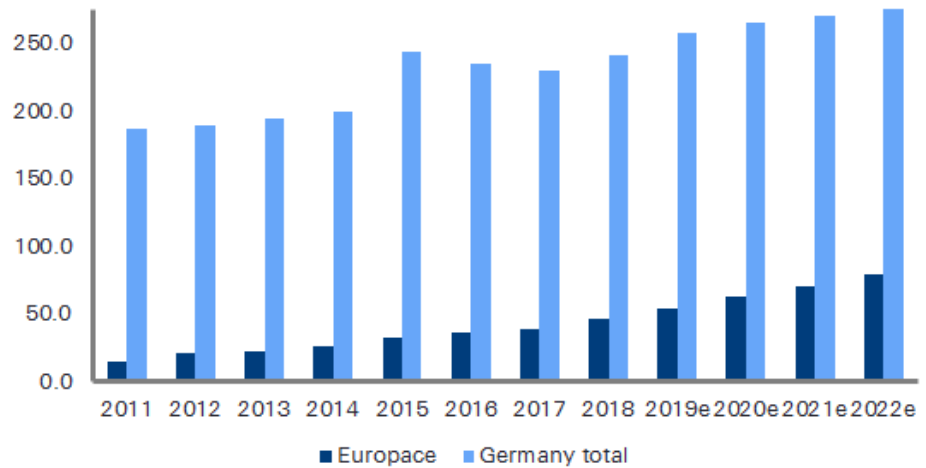
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company note

B2B marketplace Europace offers comparison and software solution for German loan brokerage and offering

Hypoport: Europace has been strongly gaining market share in private mortgage transaction volume in Germany in recent years (new business in EUR bn)



Sources: Bundesbank, Hypoport, Metzler Research / estimates by Metzler
We have adjusted Europace's transaction volume for estimated cancellations and for other loan types;; 2010-2014 also adjusted by us due to change of Hypoport's disclosure.

Dr. Klein also benefitting from changing client behavior

While we see the credit platform segment as the main earnings driver for Hypoport at this stage, we believe that medium-term growth prospects for its financial advisory arm "Dr. Klein" are favorable, too. This segment acts as independent financial advisor and applies Europace. In our opinion, an increasing number of new mortgage clients is likely to seek advice at an independent financial advisor rather than attending a bank's outlet (however, meanwhile an increasing number of banks with an own mortgage book also offer mortgage comparison for interested clients).

Advisory capacity at Dr. Klein has been growing rapidly

Hypoport: Number of finance consultants in Dr. Klein's outlets



Sources: Hypoport, Metzler Research / Some historical figures were adjusted by Hypoport.

Europace also being applied as software tool

According to our understanding, currently some banks apply Europace as a software tool rather than for online comparison. Margin-wise, this apparently does not matter for Hypoport. We believe that this is also important to understand Hypoport's growth prospects, i.e. banks can replace their old software system for mortgage sale and pay a transaction-based fee rather than having major upfront costs for a new software tool.

Segmental estimates

Hypoport: We expect the credit platform (mainly representing Europace) to remain the group's key earnings driver in the medium-term and to benefit from economies of scale

<i>in EUR m</i>	2016	2017	2018	2019e	2020e	2021e	2022e
	2016 as formerly reported						
Credit Platform							
Sales	65.9	83.6	114.7	140.0	166.0	188.0	209.0
EBIT	13.6	18.9	26.1	31.5	38.5	46.5	55.0
<i>EBIT-margin</i>	20.6%	22.6%	22.8%	22.5%	23.2%	24.7%	26.3%
<i>Europace volume (in EUR bn)*</i>	44.7	48.3	57.9	68.0	78.2	88.4	98.1
Private Clients							
Sales	66.9	74.9	86.4	106.0	117.0	128.0	139.0
EBIT	9.5	9.9	10.8	11.7	14.5	17.5	19.0
<i>EBIT-margin</i>	14.1%	13.2%	12.5%	11.0%	12.4%	13.7%	13.7%
Real Estate Platform (before: Institutional Clients)							
Sales	18.6	20.8	34.1	46.0	52.0	57.0	62.0
EBIT	6.3	3.8	6.0	7.5	8.7	9.8	11.0
<i>EBIT-margin</i>	34.0%	18.5%	17.6%	16.3%	16.7%	17.2%	17.7%
Insurance Platform							
Sales	5.1	15.2	30.4	44.0	55.0	64.0	73.0
EBIT	0.4	-1.2	-2.7	-1.8	0.6	2.9	5.3
<i>EBIT-margin</i>	8.2%	-7.9%	-8.8%	-4.1%	1.1%	4.5%	7.3%
Consolidation							
Sales	0.2	0.5	0.4	0.5	0.5	0.5	0.5
EBIT	-6.5	-8.1	-10.9	-13.7	-14.9	-15.8	-17.0
Group							
Sales	156.7	194.8	265.9	336.5	390.5	437.5	483.5
EBIT	23.3	23.3	29.3	35.2	47.4	60.9	73.3
<i>EBIT-margin</i>	14.9%	12.0%	11.0%	10.5%	12.1%	13.9%	15.2%
EPS (in EUR)	3.00	3.10	3.66	4.25	5.77	7.47	9.09

Sources: Hypoport, Metzler Research

company note

Absolute valuation

Hypoport: From our ROE/COE-model, we derive a fair value estimate of EUR 302

	2020e	2021e	2022e
Calculation of fair value			
ROE (after taxes and minorities)	17.8%	18.9%	19.2%
Cost of equity (COE)	7.0%	7.0%	7.0%
Long-term growth estimate			5.00%
Fair multiple derived by our estimates			7.1
Shareholders equity per share, year 2 (in EUR)			51.6
Fair value of equity per share, year 2 (in EUR)			365.2
Dividend (in EUR)	0.0	1.0	
Discounting			
Discounting period (years)	0.9	1.9	2.9
Cost of Equity (COE)	7.00%		
Discounted fair value of equity per share (in EUR)	300.7		
Discounted dividend (in EUR)	0.0	0.9	
Sum of discounted dividends (in EUR)	0.9		
Estimated fair value share price (in EUR)	301.6		

Source: Metzler Research

We have lifted our co.-specific long-term earnings growth rate estimate by 50 basis points to 5.0%.

Hypoport: Based on 2021e, we currently derive a fair value estimate of EUR 390 from our peer group

	Bloomberg code	Currency	Price 02/19/20 Close	Market cap (in bn)	Rated or not rated by Metzler	P/E			EPS CAGR 2018–2022e (in %)	EV/EBITDA		
						2020e	2021e	2022e		2020e	2021e	2022e
Guidewire (USA)	GWRE.US	USD	122.60	10.1	Not rated	93.5	74.5	57.9	14	61.3	47.5	39.2
Nemetschek (GER)	NEM.GY	EUR	67.95	7.8	Rated*	67.3	56.6	47.9	19	41.3	35.7	30.3
Sartorius Pref. (GER)	SRT3.GY	EUR	240.00	17.0	Rated*	64.9	55.7	48.1	18	30.8	27.0	24.3
SimCorp (DEN)	SIM.DC	DKK	720.00	29.2	Not rated	38.9	32.0	28.4	15	27.8	23.5	21.5
Temenos (CH)	TEMN.SW	CHF	164.60	12.0	Not rated	41.4	35.8	31.2	20	27.6	24.4	21.3
Mean						61.2	50.9	42.7		37.8	31.6	27.3
Hypoport (GER)	HYQ.GY	EUR	368.00	2.3	Rated*	63.8	49.3	40.5	26	35.5	29.2	25.1
Fair value estimate in EUR per HYQ-share						353	380	388		392	399	402

*see recommendation history on pages following

EPS-estimates for HYQ by Metzler, others Bloomberg consensus EPS adj. and EBITDA; for net debt, we took most recently disclosed figures, only for HYQ we applied our estimate for YE 2019e; CAGR Metzler-calculations based on the corresponding EPS-estimates / we have adjusted Guidewire's earnings estimates to the calendar year (business year ends in July)

Sources: Bloomberg, Metzler Research

Comment on our price target hike, valuation

The lift in our price target reflects recently risen peer group multiples as well as our company-specific increased long-term earnings growth assumption. Our estimate of 5.0% long-term earnings growth is the highest in our financial coverage and in our view it also implies that there is no major headroom for any earnings misses. Otherwise, HYQ-shares would probably face significant downside risk. Furthermore, with regard to the result of our absolute valuation tool, we consider the current valuation of HYQ-shares to be highly geared towards currently ultra-low (or even negative) interest rates in Germany. Our new PT of EUR 360 is slightly below yesterday's closing rate.

HOLD-recommendation

However, one key reason why we believe that a HOLD-recommendation is still justified for Hypoport is our take that structurally, the company is most likely on the winner side,

company note

at least with regard to German mortgage finance. These structural changes in combination with what we would call a high scalability of Hypoport's business model offer significant longer-term growth prospects for the company, according to our assessment. In contrast, the segment insurance platform still has to prove that it can post positive results.

Intangibles in the balance sheet

We expect that intangibles will stand for almost 140% of shareholders' equity (book value) at year-end 2019e (2017: 68%). Hypoport has in recent years mainly acquired software developers, IT enterprises or advisory companies. Therefore, it is logical that it capitalized a significant part of the purchase price as intangibles. We expect goodwill at an amount of EUR 173 m at year-end 2019e and EUR 74 m other intangibles (i.e. in total EUR 247 m). Relative to shareholders' equity of EUR 180 m for year-end 2019e, this has in our view become significant. It looks rather insignificant compared to Hypoport's current market capitalization of EUR >2 bn.

From today's perspective, goodwill impairment risk looks fairly limited to us

The bulk of the goodwill is in the real estate platform segment (also cash-generating unit for impairment tests) followed by the insurance platform. Within the real estate platform segment, one could see as further relief to any possible future impairment tests that even if some acquired companies were not to fulfil their business plan, the overall result of the cash-generating-unit might still be good enough to prevent any impairment charge. We would rather see impairment risk in the insurance platform in the medium-term if this segment struggled to deliver positive EBIT.

company note

Key Data

Company profile

CEO: Ronald Slabke

CFO:

Lübeck, Germany

Hypoport is a financial services provider which develops software and IT-solutions. The company runs an internet-based B2B marketplace for the brokerage of mortgage loans. In addition, it offers financial advisory services (mainly on mortgage loans) for private clients in Germany. It has also developed and enhanced its IT-solutions and software products for the insurance industry, running a platform for the administration and sales process. Hypoport also advises housing companies and institutional investors, predominantly on the topic of finance. Hypoport focusses mainly on the German market.

Major shareholders

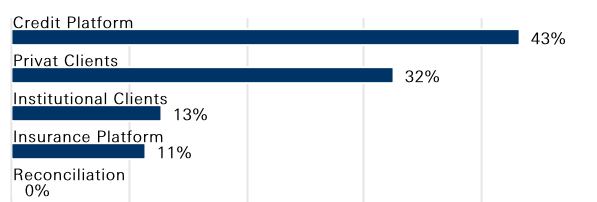
Ronald Slabke (34.63%)

Key figures

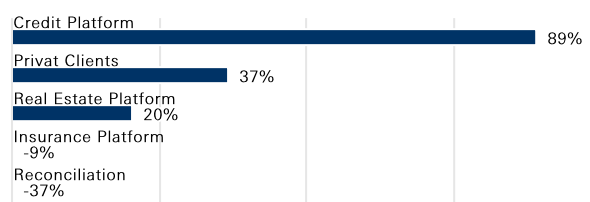
P&L (in EUR m)	2016	%	2017	%	2018	%	2019e	%	2020e	%	2021e	%
Interest income (net)	-0	-174.7	-0	18.5	-1	-254.4	-2	-72.6	-2	0.0	-2	20.0
Loan loss provisions	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	n.a.	n.a.
NII after loan loss provisions	-0	-174.7	-0	18.5	-1	-254.4	-2	-72.6	-2	0.0	-2	20.0
Commission income	157	12.7	195	24.4	266	36.5	336	26.5	390	16.0	438	12.0
Other income	9	28.2	12	33.5	15	27.0	18	21.9	20	9.3	22	8.0
Total operating revenues	165	13.2	206	25.0	280	35.6	353	26.1	408	15.8	457	12.0
Personnel expenses	46	21.3	59	26.3	82	39.6	106	30.0	122	14.3	133	9.3
Expenditure for sales	71	6.1	93	29.7	126	35.9	155	23.4	178	14.5	197	10.9
Stated depreciation	5	-12.6	7	33.9	10	43.9	19	93.9	20	5.3	21	5.0
Other administrative expenses	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	n.a.	n.a.
Other expenses	19	26.8	25	31.2	34	35.2	39	13.8	44	12.3	47	8.0
Total expenses	142	12.3	183	28.9	252	37.3	320	27.0	363	13.6	398	9.7
EBT	23	19.5	23	0.7	28	22.4	33	18.0	45	36.7	59	30.6
Taxes	5	47.1	5	-4.1	6	24.1	7	17.2	9	40.2	12	33.8
Tax rate (%)	20.8	n.a.	19.9	n.a.	20.1	n.a.	20.0	n.a.	20.5	n.a.	21.0	n.a.
Net income (neg. = loss)	18	13.9	18	1.9	22	21.9	27	18.2	36	35.9	47	29.8
Minority interests	0	450.0	0	-100.0	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	18	13.7	18	2.1	22	21.9	27	18.2	36	35.9	47	29.8
Adj. net income after minorities	18	13.7	18	2.1	22	21.9	27	18.2	36	35.9	47	29.8
Number of shares outstanding (m)	6	-1.6	6	0.1	6	5.0	6	0.0	6	0.4	6	0.0
EPS adj. (EUR)	3.00	14.9	3.10	3.4	3.66	18.0	4.25	16.1	5.77	35.7	7.47	29.6
DPS (EUR)	0.00	n.a.	0.00	n.a.	0.00	n.a.	0.00	n.a.	0.00	n.a.	1.00	n.a.
Dividend yield (%)	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.3	n.a.
Ratios (in %)	2016	%	2017	%	2018	%	2019e	%	2020e	%	2021e	%
Cost / income ratio	31.2	n.a.	31.7	n.a.	32.7	n.a.	35.5	n.a.	34.6	n.a.	33.6	n.a.
Pre-tax margin (EBT to TRR)	13.8	n.a.	11.1	n.a.	10.1	n.a.	9.4	n.a.	11.1	n.a.	13.0	n.a.
ROE	31.0	n.a.	25.2	n.a.	19.1	n.a.	16.0	n.a.	17.8	n.a.	18.9	n.a.
Pay-out ratio	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	0.0	n.a.	13.4	n.a.
Balance sheet (in EUR m)	2016	%	2017	%	2018	%	2019e	%	2020e	%	2021e	%
Assets	112	16.7	141	25.8	306	116.8	391	27.9	409	4.6	417	2.1
Cash reserve	22	-9.5	14	-36.1	32	121.6	35	10.2	44	25.7	44	0.0
Goodwill	19	25.4	25	33.2	140	465.3	173	23.6	173	0.0	173	0.0
Shareholders' equity	64	21.8	83	29.4	153	85.4	180	17.3	225	25.1	272	20.8
Securitized liabilities	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.

Structure

Revenues by segment (in EUR m) 2018



EBIT by segments (in EUR m) 2018



Sources: Refinitiv, Metzler Research

company note

Disclosures

Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Hypoport (DE0005493365)					
17.12.2019	Hold	Hold	308.50 EUR	290.00 EUR	Schmitt, Jochen
09.10.2019	Sell	Hold	244.00 EUR	233.00 EUR	Schmitt, Jochen
31.07.2019	Hold	Sell	244.50 EUR	214.00 EUR	Schmitt, Jochen
19.06.2019	Hold	Hold	235.00 EUR	220.00 EUR	Schmitt, Jochen
14.05.2019	Hold	Hold	208.00 EUR	197.00 EUR	Schmitt, Jochen
12.04.2019	Hold	Hold	180.40 EUR	187.00 EUR	Schmitt, Jochen
29.03.2019	Hold	Hold	178.60 EUR	187.00 EUR	Schmitt, Jochen
05.03.2019	Hold	Hold	177.00 EUR	178.00 EUR	Schmitt, Jochen
Issuer/Financial Instrument (ISIN): Nemetschek (DE0006452907)					
22.01.2020	Buy	Hold	68.20 EUR	66.00 EUR	Schmidt, Holger
31.10.2019	Buy	Buy	46.64 EUR	59.00 EUR	Schmidt, Holger
18.10.2019	Buy	Buy	48.62 EUR	59.00 EUR	Schmidt, Holger
02.07.2019	Buy	Buy	56.05 EUR	63.00 EUR	Schmidt, Holger
28.06.2019	Buy	Buy	49.27 EUR	56.00 EUR	Schmidt, Holger
30.04.2019	Buy	Buy	51.90 EUR	169.00 EUR	Schmidt, Holger
04.04.2019	Buy	Buy	51.33 EUR	169.00 EUR	Schmidt, Holger
29.03.2019	Buy	Buy	45.83 EUR	146.00 EUR	Schmidt, Holger
Issuer/Financial Instrument (ISIN): Sartorius (DE0007165631)					
17.01.2020	Buy	Buy	213.20 EUR	245.00 EUR	Neuberger, Alexander
23.10.2019	Buy	Buy	177.10 EUR	210.00 EUR	Neuberger, Alexander
15.08.2019	Buy	Buy	169.90 EUR	190.00 EUR	Neuberger, Alexander
29.05.2019	Hold	Buy	172.30 EUR	190.00 EUR	Neuberger, Alexander
10.04.2019	Hold	Hold	160.20 EUR	150.00 EUR	Neuberger, Alexander
18.03.2019	Hold	Hold	149.90 EUR	150.00 EUR	Neuberger, Alexander

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

** XETRA trading price at the close of the previous day unless stated otherwise herein: ABO Wind AG: Hamburg Stock Exchange

*** All authors are financial analysts

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company note

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Definition of categories for investment recommendations

The categories for investment recommendations in research publications by Metzler have the following meanings:

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HOLD	The price of the analysed financial instrument is expected to largely remain stable in the next 12 months.
SELL	The price of the analysed financial instrument is expected to fall in the next 12 months.

Bonds:

BUY	The analysed financial instrument is expected to perform better than similar financial instruments.
HOLD	The analysed financial instrument is not expected to perform significantly better or worse than similar financial instruments.
SELL	The analysed financial instrument is expected to perform worse than similar financial instruments.

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Scope of application

This document was prepared in the Federal Republic of Germany in line with the legal provisions valid there. It may therefore be possible that this document does not comply with all provisions relating to the preparation of such documents in other countries.

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