



Hypoport AG

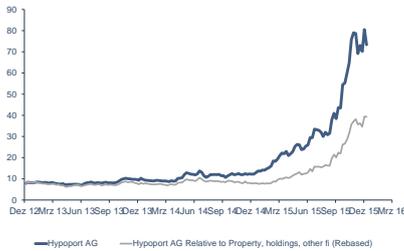
Neutral ↘ | Target 77.00 EUR vs 64.00 EUR ↗

Price : 73.32 EUR | Upside : 5 %

Est.chg	2015e	2016e
EPS	0.0%	6.0%

Market share growth, overall mortgage market growth, highly scalable business model; TP raised to € 77, short-term upside exploited, Neutral

Monday 11 January 2016



Capital			
HYQ GY HYQGn.DE			
Market Cap (EURm)			450
Enterprise value (EURm)			199
Extrema 12 months	12.23		80.50
Free Float (%)			51.0
Performance (%)			
	1m	3m	12m
Absolute	2.8	71.3	499.3
Perf. rel. "sector"	10.2	81.5	501.1
Perf. rel. Property, holding	11.8	80.2	450.3
P&L			
	12/15e	12/16e	12/17e
Sales (EURm)	138	160	183
EBITDA (EURm)	25.7	32.2	37.7
Current EBIT (EURm)	20.5	26.0	30.6
Attr. net profit (EURm)	16.3	20.6	24.3
Adjusted EPS (EUR)	2.65	3.35	3.96
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	12.6	21.9	18.5
P/B (x)	3.7	6.0	4.5
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	5.0	3.2	4.4
EV/Sales (x)	1.44	2.68	2.24
EV/EBITDA (x)	7.7	13.4	10.9
EV/Current EBIT (x)	9.7	16.6	13.4
Gearing (%)	-12	-28	-41
Net Debt/EBITDA(x)	ns	ns	ns

Next Events	
29.03.2016	Q4 Results
02.05.2016	Q1 Results
01.08.2016	Q2 Results
31.10.2016	Q3 Results

Hypoport AG has a fast-growing and highly scalable FinTech-based business model offering investors a multi-layered exposure to the German mortgage market, which expanded by 24% in 2015 in terms of new business volume. We are convinced that its highly scalable business model will enable Hypoport to sustainably elevate its consolidated EBIT margin (EBIT/revenue) from the single digits in 2014 to c.16% and above. However, we believe the short-term upside of the stock to be exploited.

Margin improvement has driven the share price in 2015

Hypoport's share price performance of >500% in 2015 was clearly driven by strong operating margin improvement across all three of its business segments – **private clients** (9M: from 3.3% in 2014 to 10.3% in 2015), **financial service providers** (18.9% to 24.4%), and **institutional clients** (30.4% to 38.4%). In previous years, despite a top-line CAGR of 16.5% (2007-14) the share price had stayed in the range € 5-15.

Increased attention ahead from joining SDAX sample in December '15

Hypoport AG joined the German small-cap index SDAX on 21 December 2015, which should draw more attention to the shares in the medium to long term; especially from institutional investors.

Promising outlook for all three segments

Overall, we see the **private clients** segment poised to benefit from its good position in the online and off-line markets and to further exploit the tailwinds from the German mortgage market, i.e. the huge undersupply of new dwellings in German metropolitan areas combined with historically low mortgage rates. In the **financial service providers** segment, Hypoport's transaction platforms already have a combined market share in mortgage financing of ~15% and should continue to grow thanks to a constantly rising number of affiliated partners in an overall expanding market. We estimate segment revenue growth of at least 15% p.a. for the next 3-5 years. And given the high scalability of its business model, we see the financial service providers segment well positioned for even stronger earnings growth in 2015e and beyond. The **institutional clients** segment has a well-filled project pipeline, according to management.

Consolidated EBIT margin of c.16% and above in 2016e or 2017e

Backed by ongoing market share gains in individual business segments and an overall growing mortgage market in Germany, we are confident that Hypoport AG can deliver double-digit revenue growth in 2015-17e (average 17.8% growth). In addition, we are convinced that its highly scalable business model will enable Hypoport to sustainably elevate its consolidated EBIT margin (EBIT/revenue) from the single digits in 2014 to c.16% and above in 2016e or 2017e (2015-17e average 15.9%).

Lifting our TP to € 77, ST upside exploited, downgrade to Neutral

Our blended valuation approach renders a FVpS of € 76.85 (peer group: € 73.22/share, DCF: € 80.47/share). Accordingly, we lift our TP to € 77.00, however, downgrading the stock to Neutral. From our current perspective, we believe the shares have realised their short-term upside potential given our underlying margin assumptions. If however the company sustains its recent margin growth trend in Q4 2015 and especially Q1 2016, this would necessitate adjustments to our rather conservative margin development assumptions. Based on our forward P/Es for 2015-17e of 29.1x, 23.0x and 19.5x, Hypoport is currently valued somewhat above the corresponding peer medians of 25.9x, 22.4x and 17.6x respectively.

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Conflict of interests:


Recommendation history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)
11.01.16	Neutral	77.00	73.32
02.11.15	Buy	64.00	56.00
21.10.15	Buy	57.00	49.99
22.07.15	Buy	41.00	32.09
04.05.15	Buy	26.00	21.32

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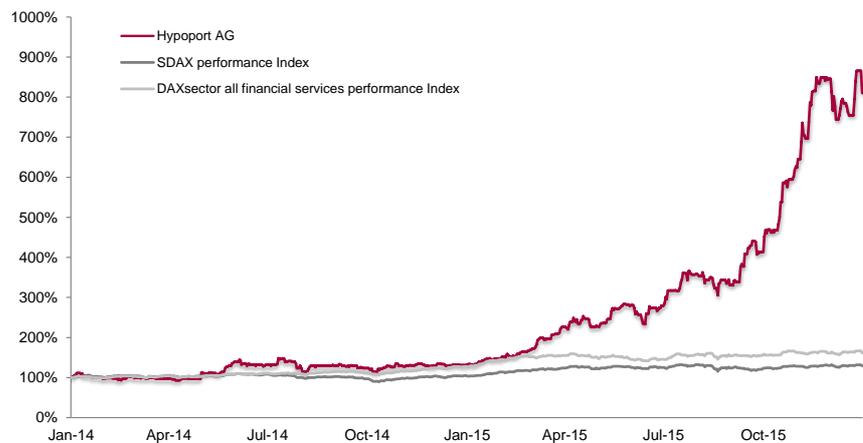
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SHARE PERFORMANCE & SHAREHOLDER STRUCTURE

Recording an all-time high on 30 December Hypoport AG's shares closed 2015 at € 80.50. In 2015, driven in particular by the company's solid improvement in its underlying profitability, the shares appreciated (+555%), massively outperforming the SDAX (+528%) and the DAXsector Financial Services index (+524%).

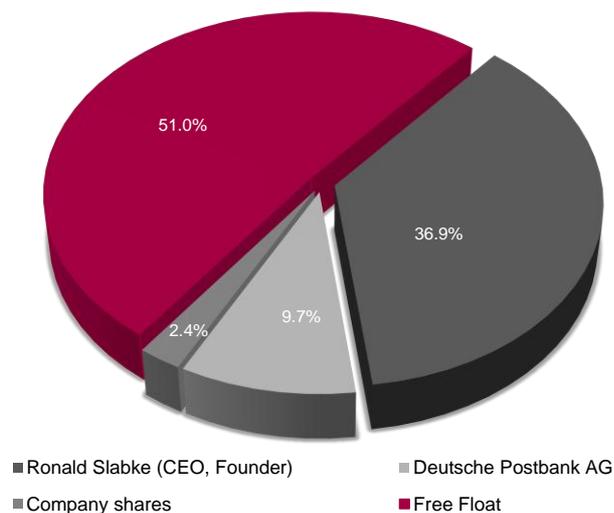
Hypoport AG relative share price performance since January 2014, in %



Source: Bloomberg, Oddo Seydler Bank AG

Hypoport's CEO and founder Ronald Slabke is by far the company's largest individual shareholder with a stake of 36.9%. Postbank AG holds 9.7% (at 30 September 2015). Hypoport AG itself holds 2.4% in treasury shares. The remaining 51.0% of the share capital is free float.

Hypoport AG – shareholder structure as of 30 September 2015



Source: Company data, Oddo Seydler Bank AG

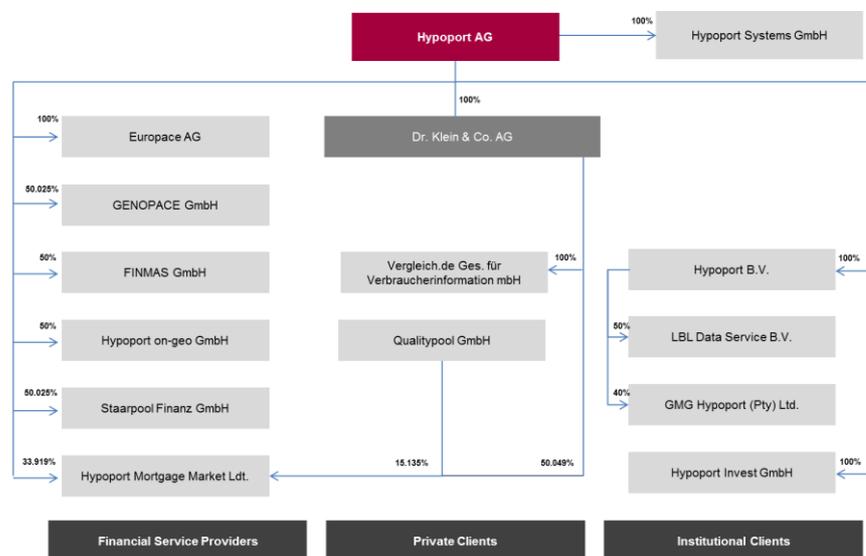
BUSINESS MODEL & SEGMENTAL OVERVIEW

Business model and strategy

The Hypoport group is a technology-based financial service provider. Parent company Hypoport AG is headquartered in Berlin, Germany. The group's business model is based on its three mutually supportive business units: **private clients**, **financial service providers**, and **institutional clients**. All three units are engaged in the distribution of financial services, facilitated or supported by financial technology.

Within the Hypoport Group, Hypoport AG assumes the role of a strategic and management holding company with corresponding central functions and also includes the information technology unit Hypoport Systems GmbH, which does software development for all group companies and their clients.

Hypoport Group: group structure



Source: Company data, Oddo Seydler Bank AG

▶ Hypoport on the fast track

Hypoport is growing strongly in each of its three business units – **private clients**, **financial service providers**, and **institutional clients**. In 9M 2015 each segment achieved its best revenue and EBIT results for any 9M period ever. Consequently, the group as a whole also generated its best-ever results in 9M 2015, with consolidated revenues up c.27% yoy to € 103.1m (9M 2014: € 81.3m) and consolidated EBIT more than doubling yoy to € 14.7m (9M 2014: € 6.0m). EPS grew an even stronger 152% yoy to € 1.94 (9M 2014: € 0.77).

Private clients segment

As a provider of financial services for private clients, the Hypoport Group is represented by three subsidiaries: i/ Dr. Klein & Co. AG ii/ Vergleich.de Gesellschaft für Verbraucherinformation mbH and iii/ Qualitypool GmbH (see chart on p. 6). The private clients segment offers clients various financial products in the areas of basic banking products (e.g. instant-access accounts), loan brokerage (e.g. mortgages), and insurance products.

Private clients segment at a glance



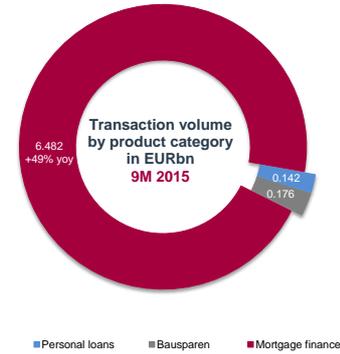
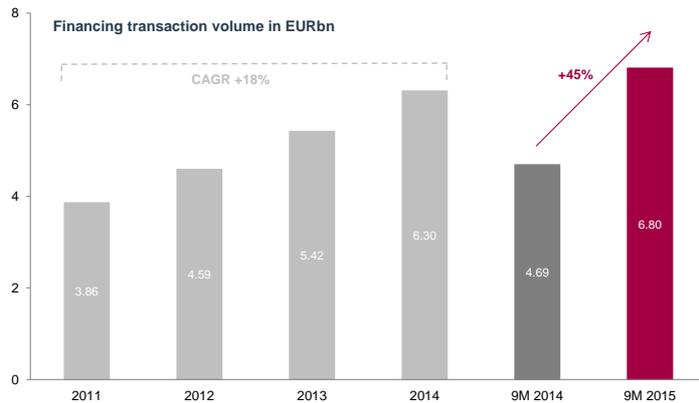
Source: Company data, Oddo Seydler Bank AG

Customer leads are generated on the internet and advice is provided in the form of online comparisons or by financial advisors on the telephone or in face-to-face meetings. In each case, the private clients unit selects the best products for the respective client from a broad selection of products offered by 250 leading banks and insurance companies. The cost benefits generated by using the EUROPACE B2B financial marketplace (financial service providers segment) are passed on directly to private clients. This means in many cases that Dr. Klein offers better terms and lower prices than local banks and insurance agencies.

Private clients segment: 9M 2015 performance overview

The private clients segment significantly expanded its market share as its total volume of loans arranged in 9M 2015 increased 45% yoy vs c.24% new business volume growth in the German mortgage market. Fuelled by favourable market conditions, mortgage finance, the largest product category, grew by 49% yoy to € 6.5bn (9M 2014: € 4.3bn) and thus already exceeded the full-year 2014 figure of € 5.9bn. While the volume of personal loans brokered decreased by 21% yoy to € 142m (9M 2014: € 178m), the volume of building society savings plans increased by 9% to € 176m (9M 2014: € 163m), bucking the market trend for savings in general, after distributors started to focus more consistently on brokering building society savings products for hedging interest-rate risk.

Private clients segment: Financing transaction volume & Financing transaction vol. by product category

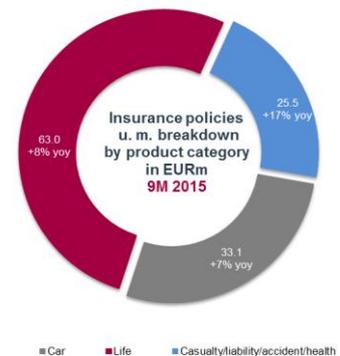
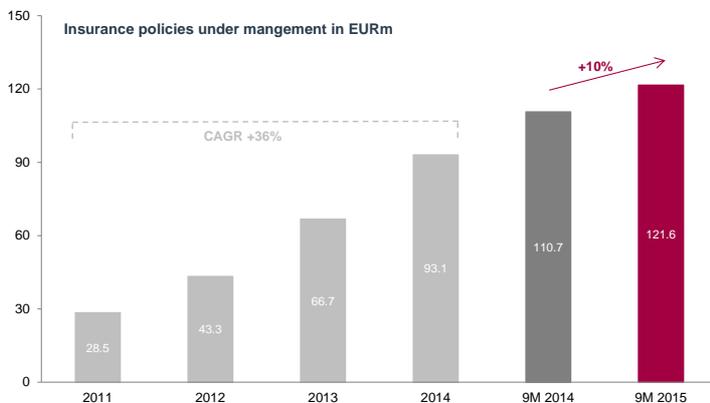


Source: Company data, Oddo Seydler Bank AG

* Bausparen = Building society savings plans

The insurance portfolio managed by Dr. Klein also continued to expand across all product groups in 9M 2015. While the health insurance and life insurance businesses grew at similar rates in 9M 2015 (up 7% yoy to € 33.1m and 8% yoy to € 63.0m respectively), the general insurance business increased by 17% to € 25.5m, and the total insurance portfolio continued to grow in the double-digits, expanding 10% yoy in 9M 2015 to € 121.6m.

Private clients segment: Insurance policies under management & Insurance policies split by product category



Source: Company data, Oddo Seydler Bank AG

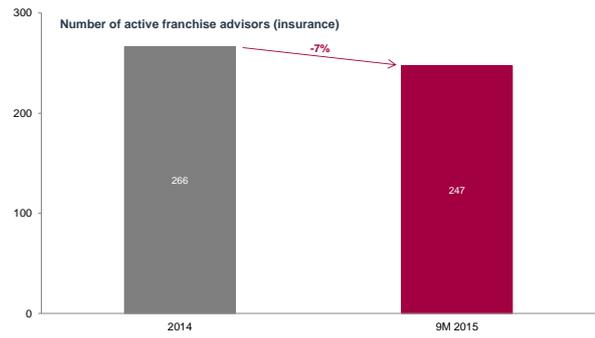
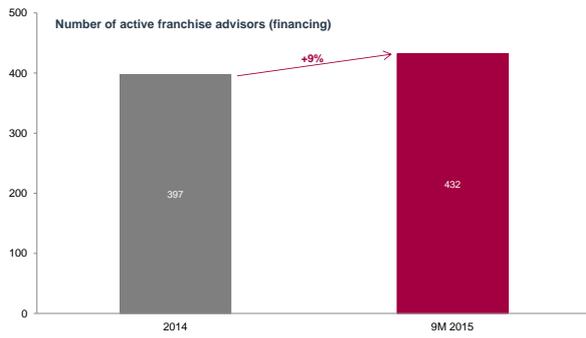
* u.m. = under management

Financial advisors

In 9M 2015, the number of branch-based financial advisors in Hypoport's private clients segment rose by 9% to 432, while the number of insurance advisors decreased by 7% to 247 (see charts on p. 9). These figures reflect Hypoport's massive investment in process automation in recent years, especially in the insurance business, enabling Hypoport to process the continuous increase in the insurance portfolio with a smaller workforce. As we expect the degree of automation to increase further, we believe Hypoport will be able to cope with a further substantial increase of the insurance portfolio without the need for additional staff, which makes its processes very efficient and low-cost, thus improving margins.



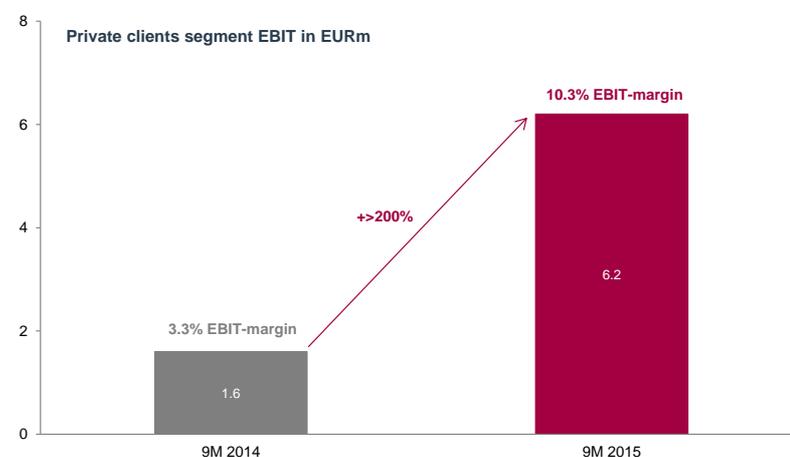
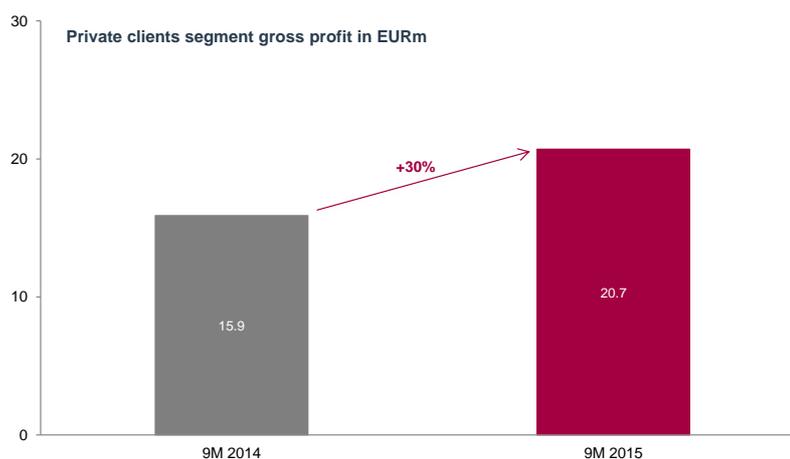
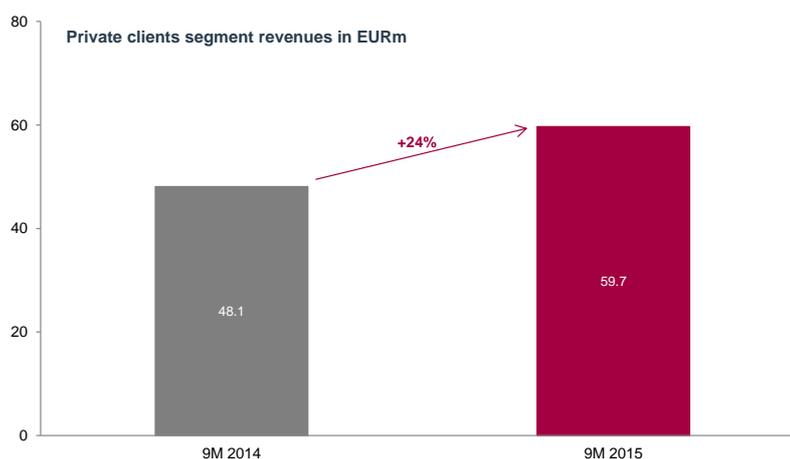
Number of active franchise advisors by business: Financing 2014 vs 9M 2015 & Insurance 2014 vs 9M 2015



Source: Company data, Oddo Seydler Bank AG

All in all, EBIT in the private clients segment almost quadrupled to € 6.2m in 9M 2015 from € 1.6m in 9M 2014 compared with revenue growth of c.24% (€ 48.1m in 9M 2014, € 59.7m in 9M 2015). On a per advisor basis, segment sales and EBIT grew at an even faster rate as advisor productivity improved following the introduction of the refined EUROPACE 2 financial marketplace and the successive automation of the insurance business.

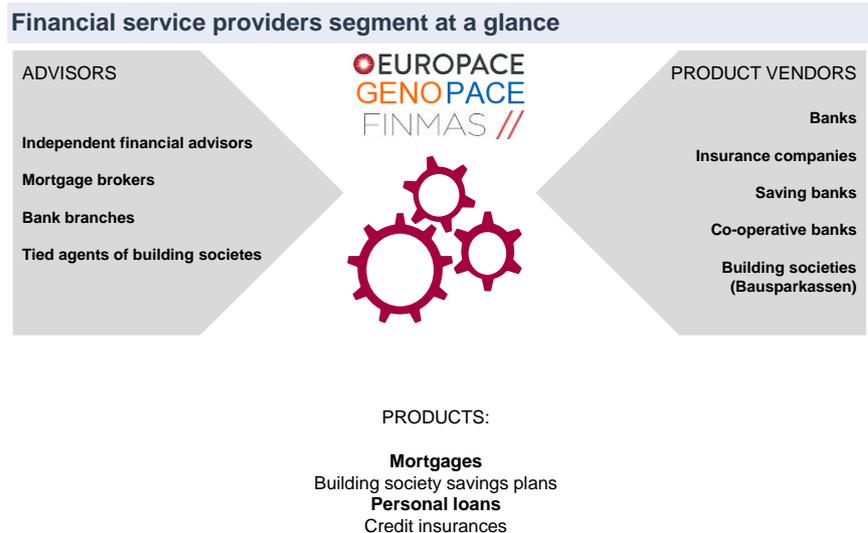
Private clients segment: key financial metrics, 9M 2014 vs 9M 2015



Source: Company data, Oddo Seydler Bank AG

Financial service providers segment

The financial service providers segment incorporates several online transaction platforms or financial marketplaces, in particular EUROPACE B2B, GENOPACE, and FINMAS, each used by different customer groups. EUROPACE generally serves large financial services distributors. GENOPACE is an internal marketplace for Germany's cooperative banks (Volksbanken and Raiffeisenbanken), while FINMAS is the financial marketplace for savings banks.



Source: Company data, Oddo Seydler Bank AG

The Hypoport Group uses its EUROPACE B2B financial marketplace – Germany's largest online transaction platform – to sell financial products through subsidiaries Hypoport Mortgage Market Ltd. (mortgage loans, building finance) and EUROPACE AG (personal loans, credit insurance). A fully integrated system links roughly 300 partners – commercial banks, insurers and financial product distributors. Several thousand users execute around 30,000 transactions per month via EUROPACE.

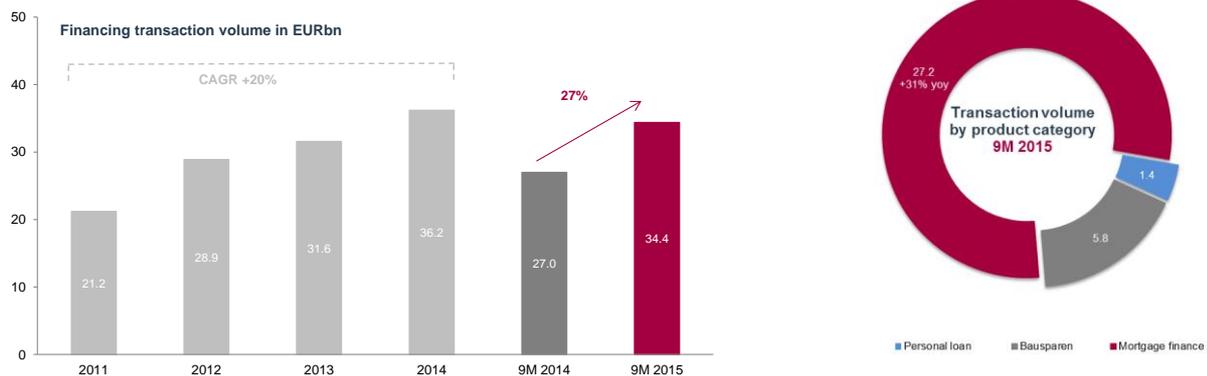
GENOPACE GmbH was launched in 2008 as an internal marketplace and central coordinating intermediary for Germany's cooperative banking sector. In addition to its founders, the two cooperative banks Volksbanken Düsseldorf Neuss and Volksbank Münster, GENOPACE's shareholders now include all of Germany's main central cooperative banking institutions: Münchener Hypothekenbank eG, R+V Versicherung AG (insurance subsidiary of the cooperative banks), WL BANK AG Westfälische Landschaft Bodenkreditbank (bank for Pfandbriefe), and Bausparkasse Schwäbisch Hall AG (building society of the DZ Bank Group).

FINMAS GmbH is a subsidiary set up in 2009 in collaboration with Ostdeutscher Sparkassenverband (OSV), the association of eastern German savings banks, and serves as the financial marketplace for the members of the Savings Banks Finance Group (Finanzgruppe Deutscher Sparkassen- und Giroverband).

Financial service providers segment: 9M 2015 performance overview

Driven in particular by new construction activity and rising property prices, transaction volume processed on EUROPACE rose 27% yoy to € 34.4bn in 9M 2015. In Q3 2015, transaction volume processed on EUROPACE increased 20% yoy to € 11.5bn). The mortgage finance business, the highest-volume and fastest-growing of the three product categories brokered on EUROPACE, generated yoy growth of 31% in 9M 2015; building finance (13%) and personal loans (18%) also achieved double-digit growth again.

Financial service providers segment: Financing transaction volume & Volume by product category 9M 2015



Source: Company data, Oddo Seydler Bank AG

In 9M 2015, EUROPACE, FINMAS and GENOPACE financial marketplaces gained a net total of 42 new contractual partners in the first nine months of 2015. At the end of September 2015, 15 of Germany's top 25 savings banks were using FINMAS and 17 of the top 25 cooperative institutions (Volksbanken and Raiffeisenbanken) were using GENOPACE.

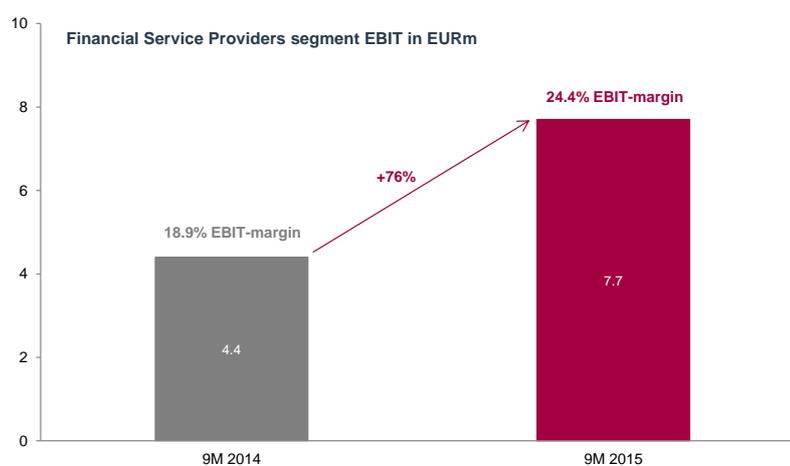
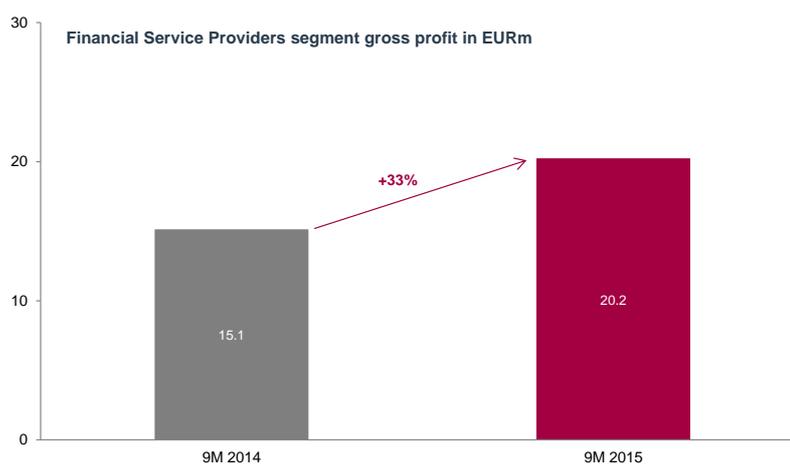
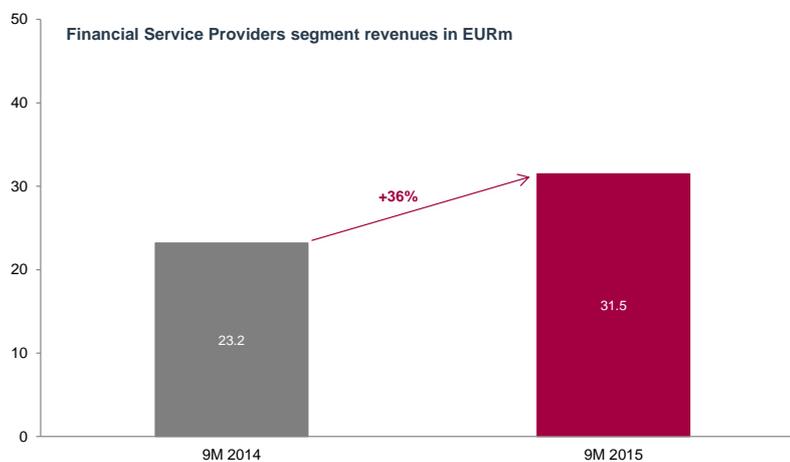
Financial service providers segment: number of contractual partners



Source: Company data, Oddo Seydler Bank AG

All in all, Hypoport's financial services providers segment achieved revenue growth of c.36% in 9M 2015, from € 23.2m in 9M 2014 to € 31.5m, while segment EBIT rose c.75% to € 7.7m (9M 2014: € 4.4m).

Financial services providers: key financial metrics, 9M 2014 vs 9M 2015



Source: Company data, Oddo Seydler Bank AG

Institutional clients segment

The institutional clients segment, operating under the Dr. Klein & Co. AG brand, has been a major financial services partner to housing companies, local authorities and commercial property investors since 1954. This business unit provides institutional clients in Germany with a fully integrated service comprising expert advice and customised solutions in the areas of financial management, portfolio management, and insurance for business customers. Hypoport B.V., based in The Netherlands, supports money lenders in its role as issuer in the securitisation of loan portfolios. In addition, Hypoport B.V. offers services for data management, portfolio assessment, and the creation of investor reports for the securitisation of assets.

Institutional clients segment at a glance



PRODUCTS:

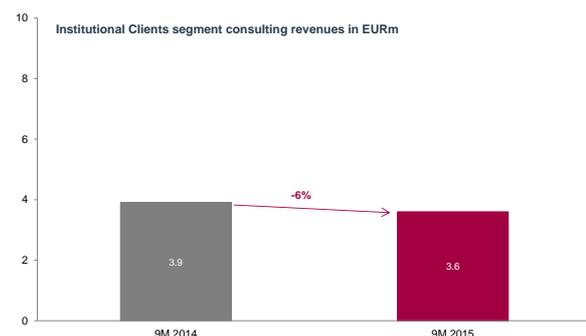
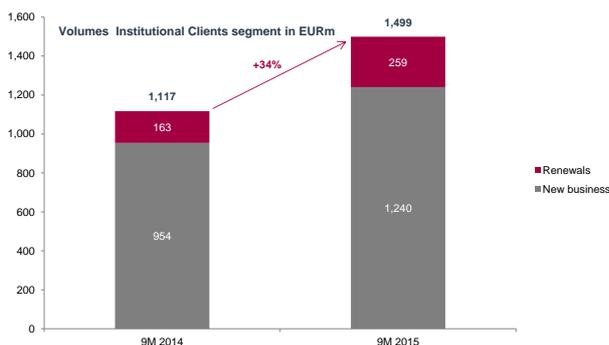
Mortgages,
Insurances, Consulting
Real estate brokerage,
Equity capital

Source: Company data, Oddo Seydler Bank AG

Institutional clients segment: 9M 2015 performance overview

The volume of loans processed in the institutional clients segment for German housing companies and commercial property investors rose sharply in 9M 2015, by 34% yoy to € 1.5bn, driven by double-digit growth in both new business and renewals. In addition to this robust growth in the underlying business, a small number of high-volume, high-margin loans were brokered. Consulting revenue declined 6% yoy to € 3.6m (9M 2014: € 3.9m) due to fewer property transactions. The potential for Q4 2015 and beyond remains very high thanks to a well-filled pipeline and increasing prospects for success in business areas that the unit has recently entered.

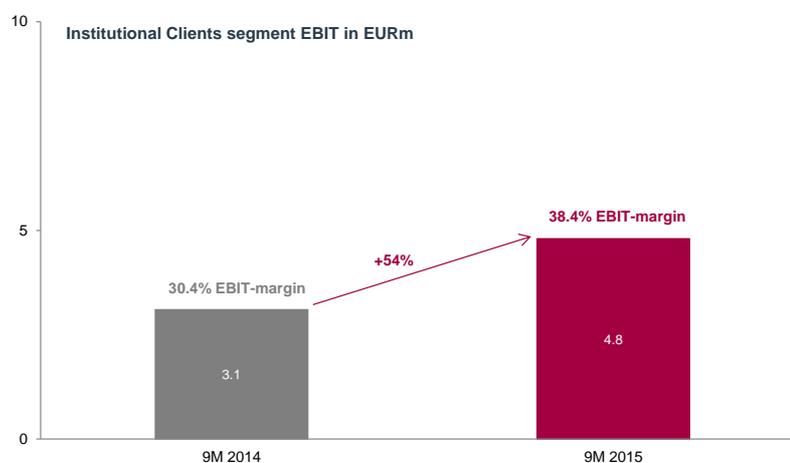
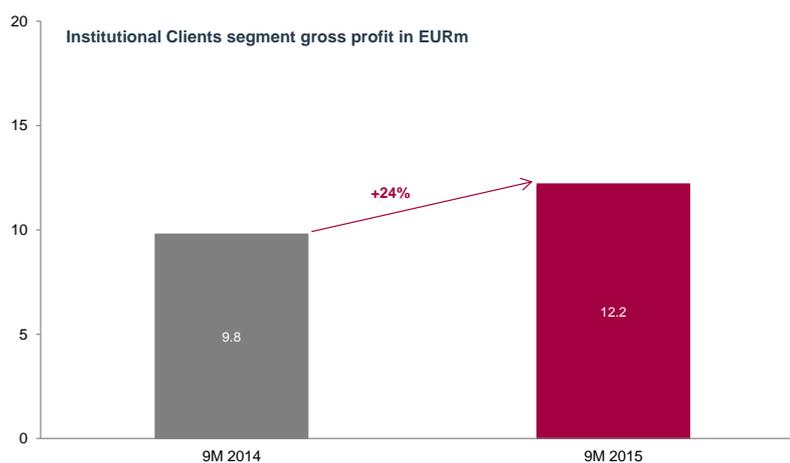
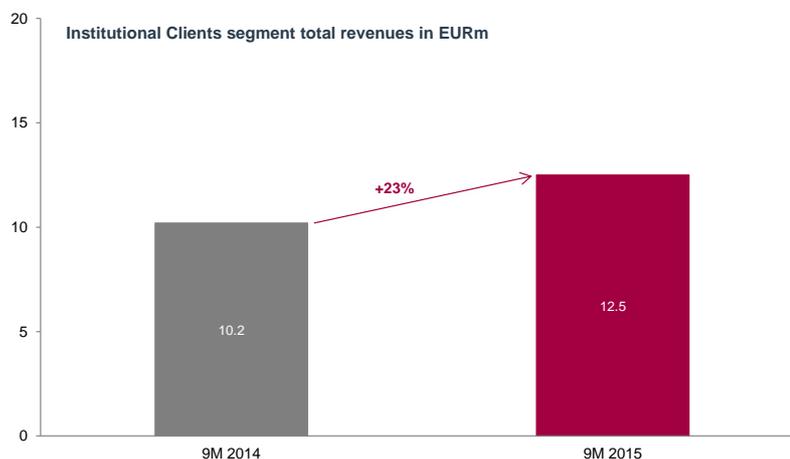
Institutional clients segment: Loan volumes & Consulting revenues, 9M 2015 vs 9M 2014 in EURm



Source: Company data, Oddo Seydler Bank AG

All in all, Hypoport's institutional clients segment achieved significant revenue growth in 9M 2015 of c.23% yoy, up from € 10.2m in 9M 2014 to € 12.5m, while segment EBIT improved 54% yoy, from € 3.1m in 9M 2014 to € 4.8m in 9M 2015.

Institutional clients segment: key financial metrics, 9M 2015 vs 9M 2014

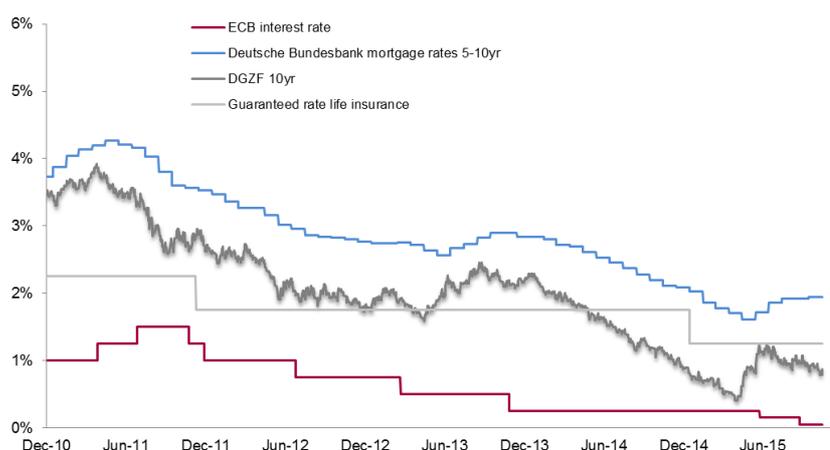


Source: Company data, Oddo Seydler Bank AG

MARKET ENVIRONMENT

Should mortgage rates in Germany rise sustainably in the wake of the Fed's increase in December 2015, we would expect this to revitalize Hypoport's business, as interest rate directional changes have historically led to positive volume impulses. In the medium and long term, however, interest rate levels are not key to the success of Hypoport's business models, as mortgage volumes in Germany are less sensitive to rate levels than it would appear at first glance.

Historical interest rate trends, 2011-15



Source: Bloomberg, Oddo Seydler Bank AG

We attribute the significant ytd rise in new mortgage lending volumes in Germany (Jan-Nov: € 224.5bn, +24% yoy) vs the flattish trend of recent years, to overall rising real estate prices and an expanding total stock of housing property. As increasing numbers of new residential housing projects are completed, the need for funding to buy the housing has increased significantly as well. Previously, the total stock of housing property had remained fairly constant overall, resulting in almost stagnant new mortgage lending.

New mortgage lending volumes in Germany, January 2014 to December 2015

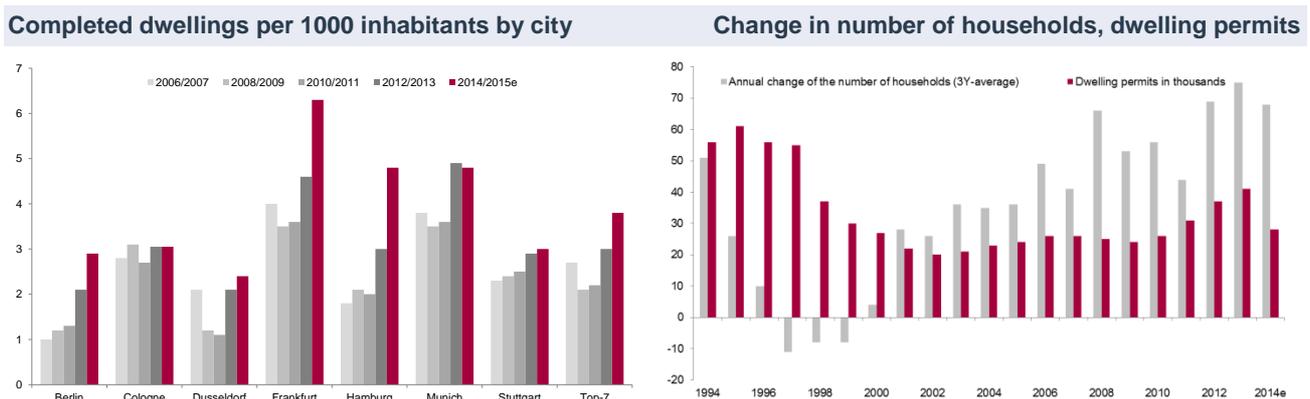
Month	up to 1 year	1-5 years	5-10 years	over 10 years	Total	Total p.q.	Total p.a.	Change yoy quarter	year
Jan-14	3,235	2,395	6,530	4,316	16,476				
Feb-14	2,728	1,967	5,390	4,534	14,619				
Mar-14	2,579	2,158	6,224	5,143	16,104	47,199		1%	
Apr-14	2,813	2,459	7,011	5,318	17,601				
May-14	2,361	2,128	6,252	5,002	15,743				
Jun-14	2,572	1,980	6,219	4,803	15,574	48,918		-2%	
Jul-14	3,029	2,488	7,704	5,800	19,021				
Aug-14	2,427	1,907	6,205	5,319	15,858				
Sep-14	2,214	1,945	6,630	5,669	16,458	51,337		-2%	
Oct-14	2,681	2,077	7,208	5,972	17,938				
Nov-14	2,253	1,979	6,201	5,687	16,120				
Dec-14	2,762	2,015	7,445	6,278	18,500	52,558	200,012	15%	3%
Jan-15	2,606	2,006	6,927	8,230	19,769				
Feb-15	2,199	1,753	6,492	6,604	17,048				
Mar-15	2,760	2,118	7,693	8,563	21,134	57,951		23%	
Apr-15	2,640	1,935	7,330	8,581	20,486				
May-15	2,315	1,754	7,123	8,357	19,549				
Jun-15	2,798	2,197	9,297	9,723	24,015	64,050		31%	
Jul-15	2,915	2,500	10,095	9,798	25,308				
Aug-15	2,290	1,939	7,573	7,950	19,752		25%		
Sep-15	2,344	1,851	7,276	7,690	19,161	64,221		25%	
Oct-15	2,577	2,125	7,230	7,942	19,874				
Nov-15	2,190	1,874	7,319	7,043	18,426				
Dec-15						38,300	224,522		24%

Source: Deutsche Bundesbank, Oddo Seydler Bank AG

A decade ago, virtually no-one would have anticipated the current tightness of the housing market in Germany's major cities. Although housing construction has picked up sharply, the amount of housing units being completed is still far from sufficient to meet the high demand for housing in rapidly-growing large cities (see charts below). There are several reasons why more construction is not taking place.

- **Shortage of building land.** To fill the current housing gap – there is currently a five-digit shortage of housing units – large amounts of land are needed, and virtually none is available. Moreover, in areas where space is becoming available or where 'housing density is to be increased', there are often vigorous protests by existing residents who are anxious to preserve both the value of their homes and keep green space in their cities.
- **Miscalculation of trends in the past.** The current imbalance in the housing market is also probably due in part to miscalculation of trends in the past: housing construction was not a high-priority issue.

After the housing construction boom of the 1990s, Germany's major metropolitan housing markets were more or less in equilibrium. The number of private households stagnated or fell, and an ample supply of housing permitted virtually no rent increases until 2005. After the turn of the millennium, however, the number of private households began to increase and demand for housing grew with it. Due to a demographic shift – increasing numbers of single-person households – demand for housing increased faster than population growth. This gradually led to a shortage of housing. As a result, both rents and housing prices have increased significantly since the middle of the last decade. Besides massive construction actions we expect the shortage of housing in German metropolitan areas to persist in the short and mid-term. The successive completion of projects will cause further funding needs fuelling new business volumes with regard to the German mortgage market, however, at a smaller degree than we have seen in 2015.



Source: "Real Estate Market Germany 2014/15" a research publication by DG HYP, Oddo Seydler Bank AG

The market for private insurance products will continue to be affected by strong regulatory pressures and the low interest rate environment

With regard to private insurance products, we expect the market to be further affected by strong regulatory pressures, including a reduction of guaranteed interest rates, introduction of a provision cap concerning life insurances, as well as the required implementation of the Solvency II directive by 1 January 2016. Furthermore, the low interest rate environment will continue to constrain demand for endowment products as well as health insurance products.

OUTLOOK

Private Clients

Overall, we expect the private clients business to benefit from its good position in the online and off-line markets and continue to exploit the tailwinds from the mortgage market (i.e. a huge undersupply of new dwellings in German metropolitan areas combined with historically low mortgage rates), which we expect to persist in the short and medium term. With the implementation of EUROPACE 2, advisor productivity should continue to gradually improve. Furthermore, the successful reorganisation of the insurance business (Hypoport's problem child) should also contribute to a gradual improvement of margins in the private clients segment. The strict focus on advisors with sustainably successful portfolio management as well as the progressively rising degree of automation in transaction processing are certainly the core drivers in this respect. Dr. Klein is equipped to handle a constant expansion of the insurance portfolio without staff additions. We expect the insurance business to reach break-even in the course of 2016e. However, the market for private insurance products will be constrained by regulatory changes, e.g the reduction of guaranteed interest rates and commission caps for life insurances. Furthermore, the low interest rate environment will continue to limit demand for endowment as well as health insurance products.

Financial Service Providers

We expect the dynamic market penetration of the internet-based transaction platforms (EUROPACE, GENOPACE, FINMAS) to continue. These platforms have achieved a strong market position with a current combined market share in mortgage financing of ~15%. As the number of affiliated partners constantly rises, we expect these platforms to continue to grow in an overall expanding market. We estimate that this will lead to top-line growth in the financial service providers segment of at least 15% CAGR in the next 3-5 years. Considering the high scalability of the business model, we believe this segment is well placed for even stronger earnings growth. While development expenses will certainly be necessary to secure technological leadership and expand the range of services, we understand that such expenses will grow at a rate well below sales growth.

Institutional Clients

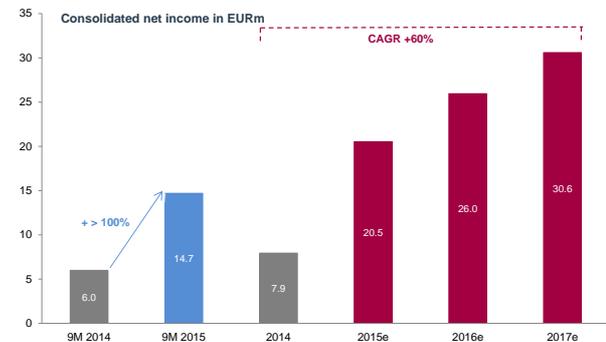
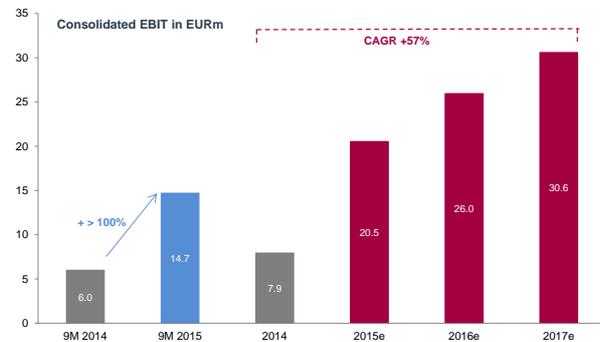
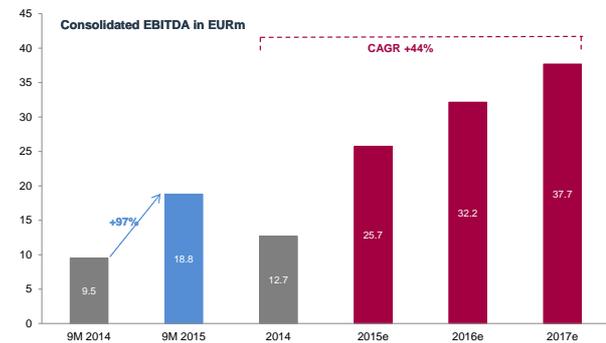
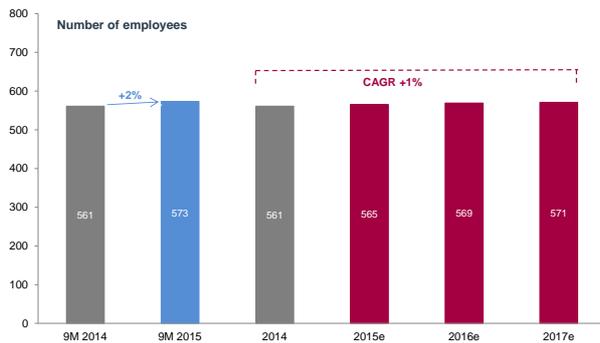
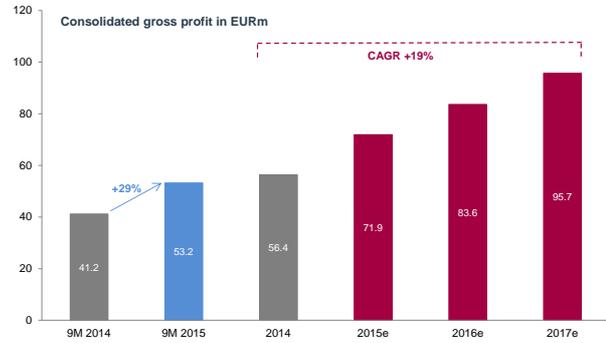
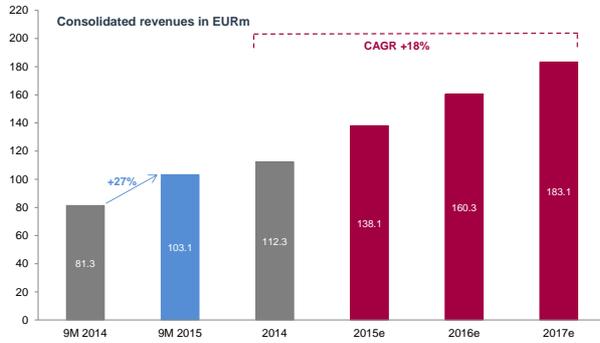
Massive demand for living space, particularly in congested urban areas, should result in increased funding needs this segment's clients in the medium-term. According to management, the institutional clients segment has a well-filled project pipeline. The company is also striving to stabilise its current growth trajectory through innovation and expanding its range of solutions for institutional clients. For the medium term we expect sales to grow at an average rate of ~10%. As the institutional clients business model provides the highest margins in the group, our expectation of growth in this segment also has positive implications for the overall margin level.

Hypoport AG

Given the ongoing market share expansion of the individual business segments and the overall growth of the German mortgage market, we are confident that Hypoport AG can deliver double-digit top-line growth rates in 2015-17e. In addition, we are convinced that, due to its highly scalable business model, Hypoport can sustainably elevate its consolidated EBIT margin (EBIT/revenue) from the single digits to ~16% and above in 2016e or 2017e. Implementation of Germany's Housing Real Estate Credit Guideline (WIKR) in 2016 will necessitate additional spending to comply with the new requirements, but the additional regulatory and cost pressures associated with the guideline will also force many participants out of the market, ultimately strengthening the positions of Hypoport.

Group Key Financial Metrics

Hypoport AG: consolidated key financial metrics



Source: Company data, Oddo Seydler Bank AG

VALUATION

Valuation summary: TP € 77.00

We base our target price on an equally weighted blended valuation approach, incorporating a **peer group multiple** and a **discounted cash flow (DCF)** approach. While the peer group multiples serve as an appropriate indicator regarding current market valuation levels, our discounted cash flow model better captures the company's long-term growth potential. Our peer group valuation renders a fair value of € 73.22/share, whereas the DCF valuation indicates a fair value of € 80.47/share. The average of the two values is a FVpS of € 76.85. Hence, we lift our target price to € 77.00 per Hypoport share.

Overview of valuation methods

	Weighting factor	Fair value per share (EUR)
Peer group valuation	50.0%	73.22
DCF valuation	50.0%	80.47
Fair value per share (EUR)		76.85

Source: Oddo Seydler Bank AG

Peer comparison

As it is difficult to compile a suitable peer group for Hypoport consisting solely of listed companies with similar business models, our peer group consists of a broad range of German and international FinTech companies of various profiles and sizes. Hypoport's main competitor, ING Groep subsidiary Interhyp AG, is not listed. We show but have excluded financial service providers like MLP AG and OVB Holding AG from the peer group. These companies broke products similar to those of Dr. Klein, however, they i/ partially focus on different sales channels, ii/ their business is much less technology based and iii/ their retail business provides considerably less top-line growth.

Applying the median multiples of the ten stocks in our peer group to our estimates for Hypoport AG, we derive a FVpS of € 73.22 which is in line with the current market price (€ 73.32). Based on our forward P/Es for 2015-17e of 29.1x, 23.0x and 19.5x, Hypoport is currently valued somewhat above the corresponding peer medians of 25.9x, 22.4x and 17.6x respectively.

Valuation based on peer group multiples

Company name	Market cap.	EV	Sales			EBITDA			EBIT			EPS (EUR)		
			2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e
WIRECARD AG	5,614.8	4,822.9	762.7	974.2	1,178.4	228.2	291.5	360.5	181.2	238.3	301.4	1.24	1.63	2.04
COMDIRECT BANK AG	1,513.9	643.8	376.0	380.8	391.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.48	0.49	0.52
FINTECH GROUP AG	327.8	-353.4	94.5	107.6	125.5	12.6	32.3	41.7	6.3	28.7	40.9	0.64	1.44	1.78
FERRATUM OYJ	664.9	667.1	111.5	172.0	255.0	16.7	29.4	52.5	15.9	28.3	51.1	0.51	0.99	1.91
MONEYSUPERMARKET.COM	2,715.1	2,660.5	385.4	416.1	445.8	154.4	168.2	181.7	136.8	146.4	159.2	0.20	0.21	0.23
PARAGON GROUP COMPANIES PLC	1,406.8	14,612.4	347.8	387.7	387.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.57	0.64	0.72
PAYPAL HOLDINGS INC	39,528.6	35,399.0	8,495.1	9,883.0	9,883.0	2,307.5	2,696.1	3,125.2	1,809.8	2,158.2	2,603.5	1.17	1.39	1.64
E*TRADE FINANCIAL CORP	7,850.7	7,779.8	1,654.5	1,856.7	1,856.7	620.8	795.5	923.2	587.0	674.8	728.8	1.08	1.47	1.78
AVANZA BANK HOLDING AB	1,152.5	1,149.2	98.7	108.2	108.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.47	1.62	1.94
NORDNET AB- B SHARES	763.2	751.5	134.6	145.4	145.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.22	0.25	0.30
MLP AG	401.0	340.8	556.7	606.7	606.7	49.4	54.9	58.4	40.6	47.4	51.7	0.24	0.31	0.31
OVB HOLDING AG	219.6	195.0	212.5	214.5	214.5	17.0	17.1	18.0	13.5	13.6	14.5	0.67	0.67	0.71
Average	6,153.8	6,813.3	1,246.1	1,443.2	1,477.7	556.7	668.8	780.8	456.2	545.8	647.5	0.76	1.01	1.28
Median	1,460.4	1,904.9	361.9	384.2	389.6	191.3	229.8	271.1	159.0	192.3	230.3	0.60	1.19	1.71

Peer Group: Multiples

Company name	EV / Sales			EV / EBITDA			EV / EBIT			P / E		
	2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e	2015e	2016e	2017e
WIRECARD AG	6.3	5.0	4.1	21.1	16.5	13.4	26.6	20.2	16.0	36.6	27.8	22.2
COMDIRECT BANK AG	1.7	1.7	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.2	21.6	20.6
FINTECH GROUP AG	-3.7	-3.3	-2.8	-28.2	-11.0	-8.5	-56.1	-12.3	-8.6	31.2	13.9	11.2
FERRATUM OYJ	6.0	3.9	2.6	40.1	22.7	12.7	42.1	23.6	13.1	58.3	30.2	15.6
MONEYSUPERMARKET.COM	6.9	6.4	6.0	17.2	15.8	14.6	19.4	18.2	16.7	25.2	23.4	21.6
PARAGON GROUP COMPANIES PLC	42.0	37.7	37.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.3	7.3	6.6
PAYPAL HOLDINGS INC	4.2	3.6	3.6	15.3	13.1	11.3	19.6	16.4	13.6	27.4	23.1	19.6
E*TRADE FINANCIAL CORP	4.7	4.2	4.2	12.5	9.8	8.4	13.3	11.5	10.7	24.6	18.1	14.9
AVANZA BANK HOLDING AB	11.6	10.6	10.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	26.7	24.1	20.2
NORDNET AB- B SHARES	5.6	5.2	5.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.4	17.1	14.1
MLP AG	0.6	0.6	0.6	6.9	6.2	5.8	8.4	7.2	6.6	15.0	12.0	11.7
OVB HOLDING AG	0.9	0.9	0.9	11.5	11.4	10.9	14.4	14.3	13.5	25.0	24.8	23.5
Average	8.5	7.5	7.3	13.0	11.2	8.7	10.8	12.9	10.2	28.0	20.7	16.7
Median	5.8	4.6	4.1	16.3	14.5	12.0	19.5	17.3	13.3	25.9	22.4	17.6

EURm, except EPS (EUR)	Sales			EBITDA			EBIT			EPS		
	2015e	2016e	2017e									
Hypoport AG: Financial estimates Oddo Seydler Bank AG	138.1	160.3	183.1	25.7	32.2	37.7	20.5	26.0	30.6	2.65	3.35	3.96
Applied multiples: Peer group median	5.8	4.6	4.1	16.3	14.5	12.0	19.5	17.3	13.3	25.9	22.4	17.6
Enterprise value (derived)	798.5	732.8	758.4	419.1	465.4	452.9	400.6	448.7	407.7	-	-	-
+ Excess cash and marketable securities	11.1											
- Financial debt	-12.5											
- Minority interest (estimated market value)	-0.2											
Market capitalization (derived)	797.2	731.4	757.0	417.7	464.1	451.5	399.2	447.3	406.3	422.1	460.6	428.2
Median	449.4											
Premium (discount) vs. Peer Group	0%											
Fair market capitalization (after discount)	449.4											
Number of shares (m)	6.1											
Fair value per share (EUR)	73.22											

Source: Bloomberg, Oddo Seydler Bank AG

Discounted cash flow (DCF) model

Based on the assumptions listed below, our **DCF yields a FvPs of € 80.47.**

- **Risk-free rate:** Based on current long-term yields of German federal bonds, we set a risk-free rate of 2.5%.
- **Equity risk premium:** 6.0%
- **Debt risk premium:** 2.50%.
- **Beta:** 1.3, calculated as Hypoport AG's historical (two-year) adjusted beta relative to the SDAX index (weekly basis).
- **Long-term target equity ratio:** 65% which is above the company's current equity ratio.
- **WACC:** The above assumptions lead to a WACC of 7.9%.

Phase 1 free cash flows (2015-17e): To calculate our Phase 1 free cash flows (FCF), we assume an average top-line growth rate of 17.8% which is backed by overall rising new business mortgage volumes in Germany. On the back of its highly scalable business model, we also assume that Hypoport will raise its operating margin to 16% and above in the medium term (average 15.9%).

Phase 2 free cash flows (2018-24e): For Phase 2 cash flows, we make more general assumptions based on overall market growth expectations and Hypoport's market position. This leads us to assume average top-line growth of 9.5% for this period. In addition, we assume the EBIT margin to improve by 1pp p.a., starting from 17% in 2018e which implies an average margin of 17.5%.

Phase 3 free cash flows (2025 to infinity): To derive Phase 3 (terminal) cash flows we apply a long-term FCF growth rate assumption of 2.00%. We consider this assumption reasonable considering the growth prospects of the company's underlying businesses and the long-term global economic outlook. We assume constant margins in Phase 3.

Discounted cash flow model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	∞
Sales	138.1	160.3	183.1	207.8	232.5	256.9	280.5	303.2	324.8	345.2	
YoY growth	22.9%	16.1%	14.2%	13.5%	11.9%	10.5%	9.2%	8.1%	7.1%	6.3%	
EBIT	20.5	26.0	30.6	35.3	39.9	44.5	49.1	53.6	58.0	62.3	
EBIT margin	14.9%	16.2%	16.7%	17.0%	17.2%	17.3%	17.5%	17.7%	17.9%	18.0%	
Income tax on EBIT (cash tax rate)	-6.2	-7.8	-9.2	-10.6	-12.0	-13.4	-14.7	-16.1	-17.4	-18.7	
Depreciation and amortisation	5.2	6.2	7.1	6.3	7.2	5.2	5.7	6.0	6.6	6.8	
Change in net working capital	-4.8	-7.8	-7.4	-4.9	-4.9	-4.8	-4.7	-4.5	-4.3	-4.0	
Net capital expenditure	-6.5	-4.5	-4.1	-4.9	-5.4	-5.9	-6.5	-7.2	-7.5	-6.8	
Free cash flow	8.3	12.1	17.1	21.2	24.9	25.6	28.9	31.9	35.4	39.6	
Present values	8.3	11.2	14.6	16.8	18.1	17.3	18.0	18.4	18.8	19.4	334.7
Present value Phase 1	34.1										
Present value Phase 2	126.7										
Present value Phase 3	334.7										
Total present value	495.5										
+ Excess cash	11.1										
- Financial debt	-12.5										
- Minority interest (estimated market value)	-0.2										
Fair value of equity	494.0										
Number of shares (m)	6.138										
Fair value per share (EUR)	80.47										

Risk free rate	2.50%	Target equity ratio	65.0%
Equity risk premium	6.00%	Beta (fundamental)	1.30
Debt risk premium	2.50%	WACC	7.92%
Tax shield	30.0%	Terminal growth	2.0%

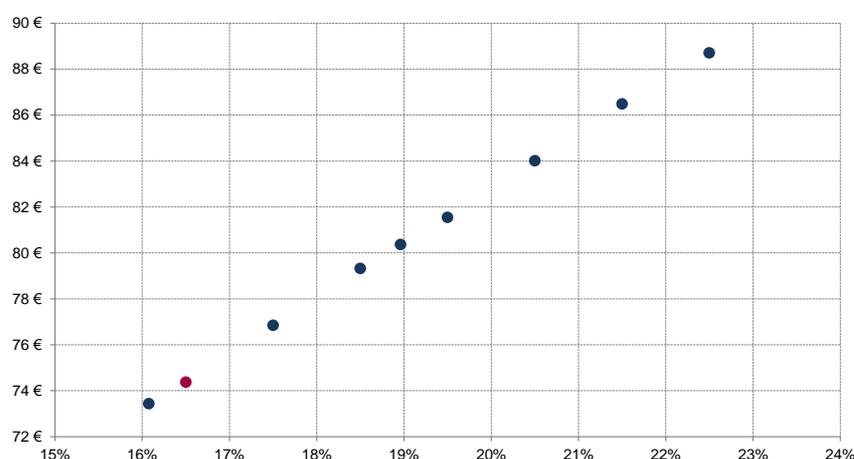
Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.9%	86.38	92.15	99.09	107.60	118.28
	7.4%	78.69	83.37	88.91	95.58	103.75
	7.9%	72.14	75.98	80.47	85.80	92.20
	8.4%	66.48	69.68	73.37	77.69	82.80
	8.9%	61.56	64.24	67.31	70.86	75.00

Source: Bloomberg, Oddo Seydler Bank AG

Sensitivity analysis

Considering the outstanding performance of Hypoport's shares in 2015 and its current valuation metrics, the shares' performance going forward will clearly be determined by whether the company will meet or beat the market's expectations in terms of operating margin, respectively. (Sales growth did not drive the share price in previous years: in 2007 to 2014 the share price stayed in a range of € 5-15 despite a top-line CAGR of 16.5%.) Due to a lack of historical values, however, it is very difficult – even for management – to properly estimate how much margin improvement potential the scalability Hypoport's business model as a whole still offers. In view of this uncertainty, we assumed in our previously described valuation rather moderate margin growth in Phase 1 (2015-17e) and Phase 2 (2018-24e) of our DCF model (and Phase 1 of the peer group multiple valuation). The chart below shows the impact that different implied EBIT margins in Phase 2 of our DCF (EBIT/revenue) would have on Hypoport's fair value per share.

Sensitivity of FVpS at different average EBIT margins for 2018-24e



Average EBIT margin 2018-24e	DCF Value in EUR/share	Total Fair Value	Comment
16.1%	73.65	73.44	Current MCap level
16.5%	75.53	74.38	
17.5%	80.47	76.85	Oddo Assumption
18.5%	85.42	79.32	
19.0%	87.51	80.36	Peak Mcap level
19.5%	89.86	81.54	
20.5%	94.80	84.01	
21.5%	99.74	86.48	
22.5%	104.19	88.71	
23.5%	109.13	91.18	Blue Sky Scenario

Source: Oddo Seydler Bank AG

► Pure margin play

From our current perspective, we believe the shares have fully realised their short-term upside potential given our underlying margin assumptions. If however the company sustains its recent margin growth trend in Q4 2015 and especially Q1 2016, this would necessitate adjustments to our rather conservative margin development assumptions.

MANAGEMENT BOARD

Ronald Slabke (CEO)

Ronald Slabke was born in 1973. Following studies in business administration, he worked at Westdeutsche Immobilien Bank as a client relationship manager in the domestic investment banking business from 1995-96. In mid-1996, he moved to Dr. Klein & Co. GmbH & Co. KG as assistant to the managing director and was granted full commercial power of representation (Prokura) in 1998. In this role, he established the new private clients business unit at the end of 1998. In January 2000, he was appointed to the management board of Dr. Klein & Co. AG (formerly Dr. Klein & Co. GmbH & Co. KG), where he was responsible for private clients, information technology and finance. With the integration of Dr. Klein & Co. AG into the Hypoport Group, Ronald Slabke joined the management board of Hypoport AG on 1 January 2002; from 2007 to May 2010 he was Co-CEO. In June 2010 he became sole chairman of the management board.

Thilo Wiegand

Thilo Wiegand was born in 1959. He gained his business training in banking and finance at both commercial and savings banks. He held various executive posts at Deutsche Bank between 1991-2003, before finally becoming product manager for mortgage finance at Deutsche Bank's subsidiary moneyshelf.com AG and assuming responsibility not only for all sales of Deutsche Bank mortgages through other banks via the internet but also for partner management and back office. From 2003-08 Thilo Wiegand was managing director of Qualitypool GmbH, a subsidiary of Hypoport AG, where he was responsible for designing and successfully implementing quality services for providers of financial services. He was appointed to the management board effective 1 June 2008

Stephan Gawarecki

Stephan Gawarecki was born in 1969. From 1994-98, he studied business admin. with a specialisation in insurance. He then assumed a management position at Deutscher Ring, where he worked in building finance on product management until 2000. In 2000, he joined FinanceScout24, an internet portal, where he developed the insurance business unit and as Director Products & Sales was responsible for the product areas insurance, lending and investments. Since 2004, Mr Gawarecki has been a member of the management board of Dr. Klein & Co. AG, where he is responsible for private clients insurance and investments. His remit includes the private clients business for these business areas as well as commercial insurance business across all distribution channels. He joined the management board in June 2010.

Hans Peter Trampe

Hans Peter Trampe was born in 1963. After obtaining a diploma in banking with Deutsche Bank (1985-87 in Hannover), he studied business administration (1997-2003 in Göttingen) and at the same time worked in an administrative capacity in the family business in accounting, finance and marketing functions. At Weberbank, Berlin, (1993-96) he qualified as a corporate client relationship manager; at Deutsche Kreditbank, Berlin, (1996-2001) he then developed the entire property business covering the territory of the former West Germany. He joined Dr. Klein & Co. AG in July 2001, specialising in corporate real estate clients, and took over as head of this unit in March 2002. In 2004, Mr Trampe was appointed to the management board of Dr. Klein & Co. AG. In June 2010 he joined the management board of Hypoport AG.

HYQGn.DE | HYQ GY
Financial Services | Germany

Neutral

Price 73.32EUR

Upside 5.02%

TP 77.00EUR

	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
PER SHARE DATA (EUR)								
Adjusted EPS	0.53	0.60	-0.13	0.51	0.96	2.65	3.35	3.96
Reported EPS	0.53	0.60	-0.13	0.51	0.96	2.65	3.35	3.96
Growth in EPS(%)	ns	13.2%	ns	ns	88.0%	ns	26.6%	17.9%
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	0.39	-0.10	0.20	0.67	0.37	1.67	2.36	3.25
Book value per share	4.43	5.01	4.81	5.34	6.29	8.94	12.29	16.25
Number of shares market cap	6.15	6.19	6.16	6.14	6.14	6.14	6.14	6.14
Number of diluted shares	6.18	6.19	6.16	6.14	6.14	6.14	6.14	6.14
VALUATION	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
12m highest price	9.90	11.95	12.15	10.46	13.78	80.50	78.35	
12m lowest price	5.90	6.95	6.95	7.03	8.67	12.16	71.05	
(*) Reference price	7.88	9.42	8.94	8.27	11.01	33.28	73.32	73.32
Capitalization	48	58	55	51	68	204	450	450
Restated Net debt	9.4	11	9.7	5.9	3.9	-6.3	-20.8	-40.8
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	2.6	2.5	1.9	0.5	1.0	1.0	1.0	1.0
Enterprise Value	60	72	67	57	72	199	430	410
P/E (x)	15	16	ns	16	11	13	22	19
P/CF (x)	6.1	6.4	59	5.2	4.4	6.0	14	14
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	5.0%	ns	2.3%	8.1%	3.3%	5.0%	3.2%	4.4%
P/B incl. GW (x)	1.78	1.88	1.86	1.55	1.75	3.72	5.97	4.51
P/B excl. GW (x)	1.78	1.88	1.86	1.55	1.75	3.72	5.97	4.51
EV/Sales (x)	0.90	0.85	0.76	0.58	0.65	1.44	2.68	2.24
EV/EBITDA (x)	5.4	6.3	8.2	7.0	5.7	7.7	13	11
EV/EBIT (x)	9.4	11	21	14	9.1	9.7	17	13
(*) historical average price								
PROFIT AND LOSS (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales	67	84	88	98	112	138	160	183
EBITDA	11.1	11.5	8.1	8.1	12.7	25.7	32.2	37.7
Depreciations	-4.7	-4.7	-4.9	-4.2	-4.8	-5.2	-6.2	-7.1
Current EBIT	6.4	6.8	3.2	3.9	7.9	20.5	26.0	30.6
Published EBIT	6.4	6.8	3.2	3.9	7.9	20.5	26.0	30.6
Net financial income	-1.6	-0.7	-0.9	-0.9	-0.7	-0.5	-0.5	-0.6
Corporate Tax	-1.6	-1.6	-0.4	0.1	-1.3	-3.8	-4.8	-5.7
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)	0.0	-0.7	-2.8	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	3.3	3.7	-0.8	3.1	5.9	16.3	20.6	24.3
Adjusted attributable net profit	3.3	3.7	-0.8	3.1	5.9	16.3	20.6	24.3
BALANCE SHEET (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	28	28	28	30	31	32	30	28
Tangible fixed assets	2.4	2.5	2.6	2.2	2.2	2.6	2.5	2.3
WCR	7.4	12	11	6.9	9.0	14	21	29
Financial assets	1.8	2.2	0.5	0.8	1.6	1.6	1.6	1.6
Ordinary shareholders equity	27	31	30	33	39	55	75	100
Minority interests	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Shareholders equity	27	31	30	33	39	55	76	100
Non-current provisions	2.6	2.5	1.9	0.5	1.0	1.0	1.0	1.0
Net debt	9.4	11	9.7	5.9	3.9	-6.3	-20.8	-40.8
CASH FLOW STATEMENT (EURm)	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
EBITDA	11.1	11.5	8.1	8.1	12.7	25.7	32.2	37.7
Change in WCR	2.0	-4.4	1.2	3.7	-3.0	-4.8	-7.8	-7.4
Interests & taxes	-1.6	-1.4	-1.5	-1.5	-1.3	-4.3	-5.4	-6.3
Others	-1.5	-1.0	-0.1	-0.5	0.0	0.0	0.0	0.0
Operating Cash flow	10.0	4.7	7.8	9.9	8.4	16.7	19.0	24.0
CAPEX	-7.6	-5.3	-6.5	-5.7	-6.2	-6.5	-4.5	-4.1
Free cash-flow	2.4	-0.6	1.2	4.1	2.2	10.2	14.5	19.9
Acquisitions / disposals	-0.1	-0.5	0.1	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	0.0	-0.6	0.0	0.0	0.0	0.0	0.0
Others	1.7	-2.6	0.4	-1.4	-1.2	-1.1	-1.1	-1.1
Change in net debt	2.5	-1.1	0.7	4.2	1.9	10.2	14.5	19.9
GROWTH MARGINS PRODUCTIVITY	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Sales growth	32.6%	26.1%	4.0%	11.8%	14.5%	22.9%	16.1%	14.2%
Lfi sales growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Current EBIT growth	ns	5.1%	-52.7%	23.5%	ns	ns	26.4%	17.9%
Growth in EPS(%)	ns	13.2%	ns	ns	88.0%	ns	26.6%	17.9%
Net margin	4.9%	4.4%	-0.9%	3.2%	5.3%	11.8%	12.8%	13.3%
EBITDA margin	16.7%	13.6%	9.3%	8.3%	11.3%	18.6%	20.1%	20.6%
Current EBIT margin	9.6%	8.0%	3.6%	4.0%	7.1%	14.9%	16.2%	16.7%
CAPEX / Sales	-11.3%	-6.2%	-7.4%	-5.8%	-5.5%	-4.7%	-2.8%	-2.2%
WCR / Sales	11.1%	14.7%	12.2%	7.0%	8.0%	9.9%	13.4%	15.7%
Tax Rate	32.4%	25.8%	16.9%	-3.3%	18.2%	19.0%	19.0%	19.0%
Normative tax rate	-32.4%	-23.8%	-53.2%	-31.1%	-20.1%	-28.3%	-30.3%	-25.8%
Asset Turnover	1.8	2.1	2.1	2.5	2.8	3.1	3.1	3.2
ROCE post-tax (normative tax rate)	23.5%	20.8%	11.7%	13.0%	23.6%	58.4%	66.0%	68.2%
ROCE post-tax hors GW (normative tax rate)	23.5%	20.8%	11.7%	13.0%	23.6%	58.4%	66.0%	68.2%
ROE	12.9%	12.8%	-2.7%	10.1%	16.6%	34.8%	31.6%	27.7%
DEBT RATIOS	12/10	12/11	12/12	12/13	12/14	12/15e	12/16e	12/17e
Gearing	34%	36%	33%	18%	10%	-12%	-28%	-41%
Net Debt / Market Cap	0.19	0.19	0.18	0.12	0.06	-0.03	-0.05	-0.09
Net debt / EBITDA	0.84	0.97	1.20	0.72	0.31	ns	ns	ns
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns