



Hypoport AG

Buy → | Target price : 102.00 EUR

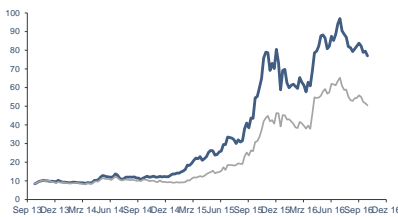
Price (10/28/2016) : 76.99 EUR | Upside : 32 %

Est.chg	2016e	2017e
EPS	-	-

Q3 in line with slightly disappointing prelims; Europace performing very strongly; investment case intact

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—Hypoport AG —Hypoport AG Relative to Property, holdings, other fl (Rebased)

Capital

HYQ GY HYQGn.DE	
Market Cap (EURm)	473
Enterprise value (EURm)	458
Extrema 12 months	53.59 - 97.00
Free Float (%)	56.1

Performance (%)	1m	3m	12m
Absolute	-6.4	-20.2	39.7
Perf. rel. Country Index	-5.9	-20.5	54.1
Perf. rel. Property, holding	-6.3	-21.9	61.0

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)	23.7	20.3	18.1
P/B (x)	6.5	4.9	3.9
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.9	4.2	4.6
EV/Sales (x)	2.95	2.50	2.16
EV/EBITDA (x)	15.0	12.5	10.7
EV/Current EBIT (x)	18.3	15.2	12.9
Gearing (%)	-31	-44	-53
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

31.10.2016 Q3 Results

Q3 figures in line with prelims; Europace performing very strongly

Hypoport (HYQ) reported Q3 figures today (31 October) in line with the prelims published on October 21. Revenues were up 11.8% yoy to € 39.8m (€ 35.6m); EBIT rose +5.3% yoy to € 5.9m (€ 5.6m). EPS was flat yoy at € 0.73.

Viewing 9M 2016, revenues were up 10% yoy to € 113.5m, EBIT was up 15% yoy to € 17.0m and EPS improved 12% yoy to € 2.17.

The segment split shows strong differences in Q3 performances: The Financial Service Providers segment (=Europace) performed strongly with revenues up 30% yoy to € 14.3m and EBIT up 50% yoy to € 3.9m. The Private Clients segment, by contrast, showed revenues growth of 7.3% yoy to € 21.9m and a drop in EBIT of 11.1% yoy to € 2.4m. The weakest-performing segment was Institutional Clients, with revenues down 10% yoy to € 4.0m and EBIT down 26.3% yoy to 1.4m.

Hypoport also issued its first guidance for 2017, namely double-digit revenue and earnings growth. It also specified that while it still projects double-digit revenue and earnings growth for 2016 at the group level, it does not expect double-digit sales and earnings growth in all three business units due to the weaker than expected performance of the Institutional Clients segment.

Hypoport Q3 2016 (in EUR m)

	Q3 2016	Q3 2015	Δ (%)	2016 Oddo
Revenues	39.8	35.6	11.8	155.2
EBITDA	7.1	7.1	1.0%	30.6
EBIT	5.9	5.6	5.3	25.0
EPS	0.73	0.73	0.0%	3.25

Source: Company data; Oddo Seydler

Feedback from conference call

See next page.

Buy; TP € 102.00

As indicated by the preliminary figures, Europace (i.e. Financial Service Providers segment) posted a very strong performance in Q3 (i.e. EBIT +50%yoy) and outperformed the market, while the other two segments disappointed with yoy EBIT declines. Europace is the company's crown jewel and also drives our target price. As such, a weaker quarter in the two advisory business segments does not raise too many concerns for us. We see the investment case intact: Our TP is based on a mortgage market CAGR of 1.5% and an increase in Europace's market share of 1pp per year. If we were to assume growth rates of the past 5 years, i.e. a market CAGR of 6% and c.1.5pp market share growth per year, our fair DCF value per share would rise to € 167.84. Assuming zero growth and zero market share gains, we derive a fair value of € 65.89. We reiterate our Buy recommendation, TP € 102.00.

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Feedback from Conference Call

Hypoport held a conference call today (October 31) at 14:00 CET (in German). Our key takeaways:

- **Impact from potential regulation of German mortgage market:** Sentiment for the stock is currently slightly negative due to a draft law submitted by the German government to further regulate the German mortgage market. Management pointed out that the draft (if it passes) would only be applied if BaFin or the Bundesbank determines that the market is currently in a bubble. Moreover, according to management, the regulation misses the central point of the housing market: Demand is driven by the number of people who are looking for housing. That means that this regulation, if enacted, would probably only effect borderline cases; some households that may have received a specific mortgage before may now no longer be able to obtain it. Such households would then need to rent instead of purchase housing. Many real estate objects in metropolitan locations, however, have several potential buyers, i.e. buyers with higher credit scores would step in to buy the object instead as a financial investment. That implies that, according to management, overall demand for mortgages in Germany would be affected only slightly since demand is driven by a structural housing shortage, i.e. it would only change the ownership structure of the real estate market but not the overall volume.
- **M&A:** The company is working on a new acquisition for its real estate appraisal business. This would be smaller deal with revenues below € 10m. No external financing needed. Over a 3-5 year perspective, the company would also consider doing larger acquisition with revenues around € 50. However, management pointed out such a deal would only be an option if operating leverage from the acquisition is very high.
- **Share repurchase program:** Management stated that currently there is a trade-off between doing acquisitions and buying back its own share. Since the company is now looking also for smaller acquisitions (see above bullet point), the probability for a larger share repurchase program had decreased.
- **Guidance for 2017:** Management was confident that it can grow revenues and earnings in the double-digits. However, it was hesitant to comment on the performance on the individual segments, and specifically whether the outperformance of the Europe segment will continue.
- **Guidance from a 5 year perspective:** While there is no official guidance beyond 2017, management stated that it feels confident that Hypoport can grow 10-15% per year over the next few years.
- **Negative operating leverage in Q3:** Operating leverage in Q3 was negative with revenues up 12% yoy and EBIT up only 4%. Management pointed out that in Q3 (1) two smaller acquisitions (NKK and the new real estate appraisal business) were consolidated for the first time with a negative impact on margins; and (2) the company hired new people for its key account management activities which did not translate into revenues in Q3.
- **Underperformance of the Institutional Clients segment:** Management pointed out that due to the refugee crisis and the need for social housing projects, the demand for social housing is accelerating. However, municipalities are currently hesitant to invest, but in the not too distant future this situation should translate to additional business for Hypoport.
- **Europe segment:** Transaction volume was up +2.6% in Q3; like-for-like, however, like it should be around +12.6-17.6%, i.e. the adjustment in the recording of the transaction volume at the beginning of the year reduces transaction volume by 10-15% this year.

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Financial Services | Germany

Buy
Upside 32.48%

Price 76.99EUR
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		
12m lowest price	6.95	6.95	7.03	8.67	12.16	53.59		
(*) Reference price	9.42	8.94	8.27	11.01	33.28	76.99	76.99	76.99
Capitalization	58.4	55.1	50.7	67.6	201	473	473	473
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	458	432	410
P/E (x)	15.7	ns	16.1	11.4	12.7	23.7	20.3	18.1
P/CF (x)	6.4	58.8	5.2	4.4	5.7	14.8	15.6	14.1
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%	1.9%	4.2%	4.6%
P/B incl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.53	4.94	3.88
P/B excl. GW (x)	1.88	1.86	1.55	1.75	3.84	6.53	4.94	3.88
EV/Sales (x)	0.85	0.76	0.58	0.65	1.36	2.95	2.50	2.16
EV/EBITDA (x)	6.3	8.2	7.0	5.7	7.6	15.0	12.5	10.7
EV/EBIT (x)	10.7	20.9	14.5	9.1	9.8	18.3	15.2	12.9
(*) 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%
Lfi 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	-0.09	-0.14
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

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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).

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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
11.01.16	Neutral	77.00	73.68	Ivo Višić
02.11.15	Buy	64.00	56.00	Ivo Višić
21.10.15	Buy	57.00	49.99	Ivo Višić

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(413)	50%	39%	11%
Liquidity providers coverage	(146)	56%	38%	5%
Research service coverage	(65)	68%	29%	3%
Investment banking services	(30)	73%	23%	3%

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