

Hypoport AG

BUY (BUY) | Target EUR 41.00 (EUR 41.00)

 Price (last closing price) : **EUR 33.20** | Upside: 26%

Est. change	2015e	2016e
EPS	0%	0%

Market still does not fully reward Hypoport's earnings potential; BUY €41.00

Monday, 03 August 2015


Capital	
HYQ GY HYQGn.DE	
Market Cap (EURm)	203.6
Enterprise value (EURm)	203.9
Extrema 12 months	34.41 - 10.50
Free Float (%)	42.5

Performance (%)	1m	3m	12m
Absolute	24.9	54.7	182.6
Perf. rel. "sector"	19.5	46.4	108.2
Perf. rel. CDAX	22.3	56.2	129.0

P&L	12/15e	12/16e	12/17e
Revenues (EURm)	139.8	155.2	172.1
EBIT (EURm)	15.8	17.9	20.6
Net attr. profit (EURm)	12.1	13.8	15.8
EPS (EUR)	1.98	2.24	2.58
DPS (EUR)	0.00	0.00	0.00

P/E (x)	16.8	14.8	12.9
P/B (x)	2.1	1.9	1.7
ROE (%)	27.2	23.8	21.8
Dividend yield (%)	0.0	0.0	0.0
EBIT margin (%)	11.3	11.6	12.0
EV/EBITDA (x)	9.7	8.4	7.4

Next Events	
9M15 figures	02 November 2015

Q2 2015: Record earnings and adjusted full-year guidance

Hypoport AG released its Q2 2015 results: Consolidated revenues of € 34.2m were up 34.6% and 2.7% qoq. Given the impressive KOIs posted by EUROPACE and Dr. Klein, we expected an even stronger top-line. However, the gap was more than offset as personnel and other expenses grew distinctly slower than revenues, enabling EBIT to rise by 37.8% qoq (yoy +361.2%) to € 5.3m. Accordingly, the EBIT margin improved by 1090bps yoy to 15.4%. EPS, at € 0.70, (Q2 2014: € 0.13; Q1 2015: € 0.50) was 4.5% above our estimate of € 0.67 and represented the strongest quarterly result in company history. Backed by the strong ytd performance and positive H2 2015 business prospects, Hypoport raised its full-year guidance (2-digit revenue growth + margin improvement leading to disproportionately strong EPS growth).

All business segments contributed to Q2 2015 margin growth

All business segments showed positive yoy **top-line growth** in Q2 2015: Private Clients "PC" +29.2% to € 19.9m, Financial Services Providers "FSP" +10.1% to € 10.1m, Institutional Clients "IC" +62.5% to € 4.2m). **Segment EBIT** contributions were as follows: PC € 2.4m (+45.0% yoy), FSP € 2.6m (+49.7% yoy) and IC € 1.5m (+29.0% yoy), matched by **EBIT margins** of 11.9% (PY: 4.6%), 25.9% (PY: 16.5%) and 36.6% (PY: 8.1%), respectively. The successful reorganisation of the insurance business (Hypoport's problem child) should lead to gradually improving margins in the PC segment. The progressively rising degree of automation in terms of transaction processing is certainly the core driver in this respect. Furthermore, the strong scalability of the FSP business will support the overall margin. Nonetheless, we expect the market for private insurance products to be further affected by high regulatory pressure, i.e. a reduction of guaranteed interest rates 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.

We expect sustainable EBIT-margin improvement to 11-12% mid-term

Backed by the ongoing market share expansion of the individual business segments, we are confident that Hypoport can deliver double digit top-line growth rates 2015-17e. In addition, we believe the company can sustainably improve its consolidated mid-term EBIT margin from the single-digits to a range of 11-12%. However, we do not consider Q2 2015 EBIT margin of 15.4% a valid run rate assumption for the periods ahead. PC earnings were spurred by a prosperous mortgage lending business (largest product segment at Dr. Klein), which largely benefited from i) mortgage rate increases in May and ii) an overall revitalised mortgage market. Therefore, we stick to our estimates for the time being.

Reiterate BUY recommendation and confirm PT of € 41.00

We reiterate our Buy recommendation on the stock with a € 41.00 PT, which implies an upside of +26%. Despite the shares' impressive performance ytd, we still believe the company's earnings potential as well as the scalability of its business model provide sufficient headroom for further upward movement. The forward P/Es of 20.7x 2015e and 18.3x 2016e based on our PT are still below the peer median of 24.6x and 22.5x, respectively.

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APPENDIX

Profit and loss account

	IFRS	EURm	2012	2013	2014	2015e	2016e	2017e
Revenues			87.8	98.1	112.3	139.8	155.2	172.1
YoY growth			4.0%	11.8%	14.5%	24.4%	11.0%	10.9%
Selling expenses			-43.0	-49.1	-55.9	-69.4	-76.0	-83.4
% of total revenue			-39.9%	-50.1%	-49.8%	-49.6%	-48.9%	-48.4%
Gross Profit			44.7	49.0	56.4	70.4	79.2	88.7
Gross Profit margin in %			51.0%	49.9%	50.2%	50.4%	51.1%	51.6%
Own work capitalised			4.2	4.2	4.2	6.0	6.4	6.9
% of total revenue			4.8%	4.3%	3.7%	4.3%	4.1%	4.0%
Other operating income			2.4	2.8	1.8	1.8	2.0	2.4
% of total revenue			2.7%	2.8%	1.6%	1.3%	1.3%	1.4%
Cost of materials			0.0	0.0	0.0	0.0	0.0	0.0
% of total revenue			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Personnel expenses			-29.9	-32.7	-35.3	-41.2	-45.7	-50.7
% of total revenue			-34.1%	-33.3%	-31.5%	-29.5%	-29.5%	-29.5%
Other operating expenses			-13.2	-15.2	-14.5	-16.1	-17.9	-19.9
% of total revenue			-15.1%	-15.5%	-12.9%	-11.6%	-11.6%	-11.6%
Income from investments valued at equity			0.0	0.0	0.1	0.2	0.2	0.2
% of total revenue			0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
EBITDA			8.1	8.1	12.6	20.8	23.9	27.5
EBITDA margin in %			9.3%	8.2%	11.2%	14.9%	15.4%	16.0%
Depreciation, amortisation exp. & impairment loss			-4.9	-4.2	-4.8	-5.2	-6.2	-7.1
EBIT			3.2	3.9	7.9	15.8	17.9	20.6
EBIT margin in %			3.6%	4.0%	7.1%	11.3%	11.6%	12.0%
Financial result			-0.9	-0.9	-0.7	-0.9	-0.9	-1.0
EBT			2.3	3.1	7.3	15.0	17.0	19.5
EBT margin in %			2.7%	3.1%	6.5%	10.7%	11.0%	11.4%
Taxes on income & def.			-0.4	0.1	-1.3	-2.8	-3.2	-3.7
% of EBT			-16.9%	3.3%	-18.2%	-19.0%	-19.0%	-19.0%
Profit/loss from continuing operations, net of tax			1.9	3.2	5.9	12.1	13.8	15.8
as % of total revenue			2.2%	3.2%	5.3%	8.7%	8.9%	9.2%
Profit/loss from discontinued operations			-2.8	0.0	0.0	0.0	0.0	0.0
Net profit/loss for the year			-0.8	3.2	5.9	12.1	13.8	15.8
Net profit margin in %			-0.9%	3.2%	5.3%	8.7%	8.9%	9.2%
Attributable to non-controlling/minority interest			0.0	0.0	0.0	0.0	0.0	0.0
Attributable to Hypoport AG shareholders			-0.8	3.2	5.9	12.1	13.8	15.8
Weighted number of shares , basic in million shares			6.16	6.14	6.14	6.14	6.14	6.14
Weighted number of shares , diluted in million shares			6.16	6.14	6.14	6.14	6.14	6.14
EPS Basic			-0.13	0.51	0.96	1.98	2.24	2.58
EPS Diluted			-0.13	0.51	0.96	1.98	2.24	2.58

Source: Hypoport AG, Oddo Seydler Bank AG

Balance Sheet

	IFRS	EURm	2012	2013	2014	2015e	2016e	2017e
Assets								
Total non-current assets			35.5	37.6	39.4	43.5	42.6	40.5
<i>as % of total assets</i>			50.1%	51.1%	49.0%	44.7%	39.6%	33.4%
Intangible assets			27.7	29.6	31.0	31.9	30.3	27.5
Tangible Assets; PPE			2.6	2.2	2.2	2.6	2.5	2.3
Investments valued at equity			0.0	0.3	0.4	0.4	0.4	0.4
Financial assets			0.1	0.1	0.1	0.1	0.1	0.1
Trade receivables			4.6	4.3	4.2	7.4	8.2	9.1
Deferred tax assets			0.4	0.4	1.1	1.1	1.1	1.1
Other assets			0.0	0.7	0.4	0.0	0.0	0.0
Current assets			35.3	36.0	41.0	53.8	65.2	80.8
<i>as % of total assets</i>			49.9%	48.9%	51.0%	55.3%	60.4%	66.6%
Trade receivables			21.1	20.3	25.5	33.6	37.3	41.4
Other assets			4.7	4.8	3.3	3.3	3.3	3.3
Current income tax assets			1.0	0.0	0.2	0.2	0.2	0.2
Cash & cash equivalents			8.6	11.0	12.0	16.8	24.4	36.0
Total assets			70.7	73.6	80.4	97.3	107.8	121.3
Total Shareholder's Equity & Liabilities								
Total equity			29.8	33.1	38.9	51.0	64.7	80.6
<i>as % of total equity and liabilities</i>			42.2%	44.9%	48.3%	52.4%	60.1%	66.4%
Subscribed capital			6.2	6.2	6.2	6.2	6.2	6.2
Reserves			23.5	26.7	32.5	44.6	58.4	74.2
Treasury shares			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Minority interests			0.2	0.3	0.3	0.3	0.3	0.3
Non-current liabilities			14.8	12.6	12.3	11.2	10.1	9.0
<i>as % of total equity and liabilities</i>			21.0%	17.1%	15.3%	11.5%	9.4%	7.4%
Financial liabilities			12.9	12.1	11.3	10.2	9.1	8.0
Provisions			0.2	0.1	0.1	0.1	0.1	0.1
Other liabilities			0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax liabilities			1.6	0.4	0.9	0.9	0.9	0.9
Current liabilities			26.1	28.0	29.3	35.1	33.0	31.7
<i>as % of total equity and liabilities</i>			36.9%	38.0%	36.4%	36.1%	30.6%	26.2%
Provisions			0.1	0.1	0.1	0.1	0.1	0.1
Financial liabilities			5.4	4.8	4.6	4.6	4.6	4.6
Trade payables			14.1	15.2	16.5	22.4	20.2	19.0
Current income tax liabilities			0.1	0.3	0.3	0.3	0.3	0.3
Other liabilities			6.4	7.7	7.7	7.7	7.7	7.7
Total liabilities			40.9	40.6	41.6	46.3	43.1	40.7
<i>as % of total equity and liabilities</i>			57.8%	55.1%	51.7%	47.6%	39.9%	33.6%
Total Liabilities and Equity			70.7	73.6	80.4	97.3	107.8	121.3

Source: Hypoport AG, Oddo Seydler Bank AG

Cash flow statement

	IFRS	EURm	2012	2013	2014	2015e	2016e	2017e
Earnings before interest and tax (EBIT)			1.2	3.9	7.9	15.8	17.9	20.6
from continuing operations			3.2	3.9	7.9	15.8	17.9	20.6
from discontinued operations			-2.0	0.0	0.0	0.0	0.0	0.0
Non-cash income (+) / expense (-) from income tax			0.3	-0.5	0.0	0.0	0.0	0.0
Net Interest received (+) / paid (-)			-0.8	-0.6	-0.5	-0.9	-0.9	-1.0
Net income taxes receipts (+) / payments (-)			-0.7	-0.8	-0.8	-2.8	-3.2	-3.7
Depreciation and amortisation expense, impairment losses (+) / reversals of impairm			6.5	4.2	4.8	5.2	6.2	7.1
Gains (-) / losses (+) on the disposal of non-current assets			0.0	0.0	0.0	0.0	0.0	0.0
Cash flow			6.5	6.2	11.4	17.3	20.0	22.9
Increase (+) / decrease (-) in current provisions			-0.2	0.0	0.0	0.0	0.0	0.0
Increase (-) and decrease (+) in inventories, trade receivables and other assets not attributable to investing or financing activities			1.6	1.0	-4.3	-10.9	-4.5	-5.0
Increase (+) and decrease (-) in trade payables and other liabilities not attributable to investing or financing activities			-0.1	2.8	1.2	5.9	-2.2	-1.2
Cash flows from operating activities			7.8	9.9	8.4	12.3	13.3	16.7
from discontinued operations			0.1	0.0	0.0	0.0	0.0	0.0
Proceeds from the disposal of property, plant and equipment / intangible assets (+)			0.0	0.0	0.0	0.0	0.0	0.0
Payments to acquire property, plant and equipment / intangible assets (-)			-6.5	-5.7	-6.2	-6.5	-4.5	-4.1
Payments for acquisitions to be consolidated			0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from the disposal of financial assets (+)			0.1	0.0	0.0	0.0	0.0	0.0
Purchase of financial assets (-)			0.0	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities			-6.5	-5.7	-6.2	-6.5	-4.5	-4.1
from discontinued operations			-0.3	0.0	0.0	0.0	0.0	1.0
Proceeds from additions to equity (+)			0.0	0.0	-0.3	0.0	0.0	0.0
Payments to shareholders, minority interest, treasury shares (-)			-0.6	0.0	0.0	0.0	0.0	0.0
Net issue (+) / redemption of bonds and loans			0.4	-1.4	-0.9	-1.1	-1.1	-1.1
Cash flows from financing activities			-0.3	-1.4	-1.2	-1.1	-1.1	-1.1
from discontinued operations			0.0	0.0	0.0	0.0	0.0	0.0
Net change in cash and cash equivalents			1.0	2.8	1.1	4.8	7.6	11.6
Cash and cash equivalents at the beginning of the period			7.5	8.2	11.0	12.0	16.8	24.4
Cash and cash equivalents at the end of the period			8.6	11.0	12.0	16.8	24.4	36.0
from discontinued operations			0.0	0.0	0.0	0.0	0.0	0.0

Source: Hypoport AG, Oddo Seydler Bank AG

Key figures and ratios

	2012	2013	2014	2015e	2016e	2017e
Growth analysis						
Revenue growth in %	4.0%	11.8%	14.5%	24.4%	11.0%	10.9%
EBITDA growth in %	-29.1%	-0.1%	56.3%	65.5%	14.9%	14.7%
EBIT growth in %	-52.7%	23.5%	100.9%	99.4%	13.4%	14.7%
EPS growth in %	-122.3%	-483.3%	88.0%	104.8%	13.6%	14.9%
Profitability ratios						
Gross profit margin in %	51.0%	49.9%	50.2%	50.4%	51.1%	51.6%
EBITDA margin in %	9.3%	8.3%	11.3%	15.0%	15.6%	16.1%
EBIT margin in %	3.6%	4.0%	7.1%	11.3%	11.6%	12.0%
Net profit margin in %	-0.9%	3.2%	5.3%	8.7%	8.9%	9.2%
Return on equity (ROE) in %	-2.6%	9.8%	16.2%	27.2%	23.8%	21.8%
Return on assets (ROA) in %	-1.2%	4.5%	8.1%	14.4%	13.4%	13.8%
Return on net assets (RONA) in %	-1.8%	7.0%	11.6%	19.5%	18.4%	17.7%
Basic Earnings Power Ratio in %	4.5%	5.4%	9.9%	16.3%	16.6%	17.0%
Efficiency ratios						
Operating costs / revenues in %	49.2%	48.8%	44.4%	41.0%	41.0%	41.0%
Revenues per employee in EUR	192,864	215,582	246,868	307,190	341,096	378,295
EBITDA per employee in EUR	17,870	17,855	27,908	46,188	53,065	60,864
Personnel expenses per employee in EUR	65,796	71,833	77,651	90,480	100,467	111,424
Liquidity ratios						
Current Ratio	1.4	1.3	1.4	1.5	2.0	2.5
Acid Ratio	1.4	1.3	1.4	1.5	2.0	2.5
Cash Ratio	0.3	0.4	0.4	0.5	0.7	1.1
Operating Cash Flow Ratio	0.4	0.6	0.5	0.8	1.0	1.3
Activity ratios						
Asset turnover	1.2	1.3	1.4	1.4	1.4	1.4
Assets / Revenues	0.8	0.8	0.7	0.7	0.7	0.7
Solvency ratios						
Debt Ratio in %	57.8%	55.1%	51.7%	47.6%	39.9%	33.6%
Net debt to equity ratio (Gearing) in %	32.7%	17.8%	10.0%	-3.9%	-16.5%	-29.0%
Long-term debt to equity Ratio in %	18.3%	16.4%	14.0%	10.4%	8.4%	6.6%
Total debt to EBITDA Ratio	2.3	2.1	1.3	0.7	0.6	0.5
Net debt to EBITDA Ratio	1.2	0.7	0.3	-0.1	-0.4	-0.8
Cash flow analysis						
Free cash flow / revenues in %	2.5%	5.3%	1.8%	4.7%	6.1%	7.8%
FCF / net income in %	-267.8%	164.0%	33.6%	54.0%	69.0%	85.3%
FCF yield in %	1.1%	2.6%	1.0%	3.2%	4.7%	6.6%
CAPEX / revenues in %	7.4%	5.8%	5.5%	4.6%	2.9%	2.4%
CAPEX / deprn in %	99.8%	137.4%	129.5%	124.7%	73.1%	57.5%
Per share data						
EPS Basic	-0.13	0.51	0.96	1.98	2.24	2.58
Operating cash flow per share	1.26	1.61	1.37	2.01	2.16	2.73
Book value per share	4.84	5.39	6.33	8.31	10.55	13.13
Dividends per share	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation Ratios						
P/E-Ratio	n.a.	64.7	34.4	16.8	14.8	12.9
EV/EBIT	63.8	51.6	25.7	12.9	11.4	9.9
EV/EBITDA	25.1	25.1	16.1	9.7	8.4	7.4
EV/Sales	2.3	2.1	1.8	1.5	1.3	1.2
P/B	2.9	2.8	2.5	2.1	1.9	1.7
Dividend Yield in %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Hypoport AG, Oddo Seydler Bank AG

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Oddo Seydler uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

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

Date	Recommendation	Price at change date	Price target
03 August 2015	BUY (Update)	EUR 33.20	EUR 41.00
22 July 2015	BUY (Update)	EUR 31.40	EUR 41.00
04 May 2015	BUY (Update)	EUR 21.00	EUR 26.00
17 March 2015	BUY (Update)	EUR 18.49	EUR 21.00
30 January 2015	BUY (Update)	EUR 13.50	EUR 17.00

03 November 2014	BUY (Update)	EUR 12.50	EUR 17.00
04 August 2014	BUY (Update)	EUR 11.50	EUR 17.00

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The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks. These may change at any time without prior notice.

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