



Swissquote

Internet banking/Fintech / Switzerland

Leveraging high quality financial services

Initiation cov. - 09/10/2019

Swissquote Group Holding is Switzerland's leading online bank and one of the most renowned banks there. It has also managed to develop at the international level through either partnerships or white-labels. While it is regulated as a bank (with all its constraints), we consider it more of a Fintech with up-to-date financial services. The company has indeed a long history of innovation and acquisition, which are made easier by a solid balance sheet (CET1 at 22.5% versus requirements at 11.2%).

We initiate coverage of Swissquote with a Buy recommendation and 29.7% upside. Swissquote is a Swiss bank mainly specialised in the offering of trading solutions for private clients as well as institutional clients. The company has also been leveraging its high quality multi-asset class trading platform either via partnerships or white-labels (for instance the white-label agreement between Swissquote and Postfinance in 2016, adding about 60,000 clients). These partnerships (or white-labels) also facilitate the Fintech's development at the international level (the company shares fees with its partners but limits operational expenses).

With the exponential development of digital infrastructure (online or app-based solutions), competition has strongly intensified for trading platforms, putting pressure on trading fees. Low-cost players have emerged in Switzerland and at the international level while incumbent Swiss banks still own an important market share. However, Swissquote has managed to maintain a strong position via the offering of a high quality service at a reasonable price. Contrary to low-cost brokers, it offers indeed quite a wide range of asset classes (hence, an average client balance of CHF100,000 well above that of its low-cost competitors). It also offers lower tariffs versus other Swiss banks (such as UBS or Credit Suisse).

In order to remain competitive, the Swiss online bank has had a strong culture of organic growth (via R&D) as well as acquisitions. It has indeed launched, for instance, a FX platform (in 2008) that makes 30% of the total revenues today. More recently, it was the first Swiss bank to propose to its clients trading in cryptocurrencies (in 2017), whereas, since March 2019, it has been offering to its clients a secured custodian solution to hoard cryptocurrencies (which should attract ever more institutional investors). In March 2019, it finalised the acquisition of InternaxX that will allow it to get unrestricted access to the European market (increase the range of investment solutions it can offer to its European investors). With a common equity tier 1 ratio (CET1 ratio) at 22.5%, Swissquote has a lot of flexibility for growing (especially external growth). We estimate its current excess capital at about CHF100m (its CET1 ratio requirements stand at 11.2% but we estimate 15% as a more comfortable threshold).

Swissquote's current AuCs amounted to CHF30.5bn at the end of July 2019. Management targets AuCs of CHF36bn in 2022, which is well within reach, in our opinion. It also targets a 90bp margin on assets, equivalent to CHF325m of revenues in 2022. We find this rather ambitious as the AuCs growth was exceptionally high in that half year (CHF23bn in December 2019) and we find it difficult to extrapolate this to 2022. In addition, decreasing rates throughout global currencies will weigh on net interest income, whereas fees/commissions or trading



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 34.6%
Target Price (6 months)	CHF 54.3
Share Price	CHF 40.3
Market Cap. CHFM	618
Price Momentum	STRONG
Extremes 12Months	34.4 ▶ 66.3
Bloomberg	SQN SW Equity
Reuters	SQN.S

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PERF	1w	1m	3m	12m
Swissquote Group Holding	-0.15%	-2.70%	-3.08%	-39.2%
Other financials	-2.15%	-1.82%	1.38%	14.6%
STOXX 600	-2.39%	-2.18%	-2.87%	1.75%

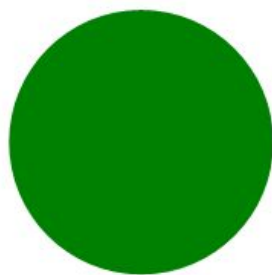
Last updated: 09/10/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	13.1	14.8	13.2	11.9
Dividend yield (%)	2.48	2.48	2.48	2.52
EV/EBITDA(R) (x)	5.47	6.21	5.58	4.98
Adjusted EPS (CHF)	3.07	2.72	3.05	3.39
Growth in EPS (%)	-14.5	-11.2	12.0	10.9
Dividend (CHF)	1.00	1.00	1.00	1.02
Sales (CHFm)	223	227	250	274
Pretax Results margin (%)	24.1	21.5	21.5	21.5
Attributable net profit (CHFm)	44.7	40.5	45.4	50.4
ROE (after tax) (%)	13.8	11.9	13.6	14.6
Gearing (%)	-36.5	-41.4	-37.0	-37.7

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income remain volatile. We do not disclose the 2022 revenues forecasts but we guess a CHF300m target is more appropriate.

Given its history of innovation and growth, we believe Swissquote is well positioned to sail through the headwinds that the sector has to face. Indeed, offering quality enables it to limit the impact of margin compression on trading, while R&D enables it grow in tomorrow's financial services (such as cryptocurrencies trading and custody or multi-currency credit cards).

Sales by Geography



Other (100.0%)

Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	CHFM	223	227	250
Change in sales	%	18.9	1.67	10.0
Change in staff costs	%	13.3	9.40	10.0
EBITDA	CHFM	83.4	77.8	85.6
EBITDA(R) margin	%	37.8	34.7	34.7
Depreciation	CHFM	-21.0	-24.7	-27.2
Underlying operating profit	CHFM	62.4	53.1	58.4
Operating profit (EBIT)	CHFM	53.9	47.7	53.4
Net financial expense	CHFM	0.00	0.00	0.00
of which related to pensions	CHFM		-0.86	-0.75
Exceptional items & other	CHFM			
Corporate tax	CHFM	-9.20	-7.16	-8.01
Equity associates	CHFM			
Minority interests	CHFM			
Adjusted attributable net profit	CHFM	44.7	40.5	45.4
NOPAT	CHFM	37.7	34.0	37.9

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	CHFM	83.4	77.8	85.6
Change in WCR	CHFM	0.00	0.00	0.00
Actual div. received from equity holdi...	CHFM	0.00	0.00	0.00
Paid taxes	CHFM	-10.3	-7.16	-8.01
Exceptional items	CHFM			
Other operating cash flows	CHFM	19.0	-25.0	-25.9
Total operating cash flows	CHFM	92.1	45.6	51.7
Capital expenditure	CHFM	-26.0	-28.4	-31.3
Total investment flows	CHFM	-26.0	-59.8	-31.3
Net interest expense	CHFM	0.00	0.00	0.00
Dividends (parent company)	CHFM	-13.0	-14.6	-14.9
Dividends to minorities interests	CHFM	0.00	0.00	0.00
New shareholders' equity	CHFM	28.7	0.00	0.00
Total financial flows	CHFM	15.7	-13.7	-14.1
Change in cash position	CHFM	81.8	-27.9	6.30
Free cash flow (pre div.)	CHFM	66.1	17.2	20.4

Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Mio	14.9	14.9	14.9
Number of diluted shares (average)	Mio	14.6	14.9	14.9
Benchmark EPS	CHF	3.07	2.72	3.05
Restated NAV per share	CHF			
Net dividend per share	CHF	1.00	1.00	1.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	CHF 60.2	35%	■ Euronext NV
NAV/SOTP per share	CHF 52.8	20%	■ London Stock Exch...
EV/Ebitda	CHF 59.5	20%	■ Deutsche Boerse
P/E	CHF 37.5	10%	■ Amundi
Dividend Yield	CHF 50.0	10%	■ DWS
P/Book	CHF 39.6	5%	■ VIEL & Cie
TARGET PRICE	CHF 54.3	100%	■ UBS
			■ Julius Baer

NAV/SOTP Calculation

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	CHFM	40.1	40.9	41.7
Total intangible	CHFM	91.5	93.3	95.2
Tangible fixed assets	CHFM	59.0	60.2	61.4
Financial fixed assets	CHFM			
WCR	CHFM	0.00	0.00	0.00
Other assets	CHFM	33.6	34.3	35.0
Total assets (net of short term liab.)	CHFM	5,298	5,404	5,512
Ordinary shareholders' equity	CHFM	352	327	338
Quasi Equity & Preferred	CHFM			
Minority interests	CHFM			
Provisions for pensions	CHFM	4.60	4.03	4.07
Other provisions for risks and liabilities	CHFM			
Total provisions for risks and liabilities	CHFM	4.60	4.03	4.07
Tax liabilities	CHFM	5.74	5.85	5.97
Other liabilities	CHFM	5,087	5,189	5,293
Net debt (cash)	CHFM	-150	-122	-128
Total liab. and shareholders' equity	CHFM	5,300	5,404	5,512

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	CHFM	215	219	223

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	%	13.8	11.9	13.6
ROCE	%	17.9	15.8	17.3
Gearing (at book value)	%	-36.5	-41.4	-37.0
Adj. Net debt/EBITDA(R)	x	-1.69	-1.46	-1.40
Interest cover (x)	x	209	-95.0	-130

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	x	13.1	14.8	13.2
Free cash flow yield	%	11.0	2.87	3.41
P/Book	x	1.70	1.83	1.78
Dividend yield	%	2.48	2.48	2.48

EV Calculation

		12/18A	12/19E	12/20E
Market cap	CHFM	600	600	600
+ Provisions	CHFM	4.60	4.03	4.07
+ Unrecognised actuarial losses/(gains)	CHFM	0.00	0.00	0.00
+ Net debt at year end	CHFM	-150	-122	-128
+ Leases debt equivalent	CHFM	7.00	7.00	7.00
- Financial fixed assets (fair value)	CHFM			
+ Minority interests (fair value)	CHFM			
= EV	CHFM	462	489	483
EV/EBITDA(R)	x	5.47	6.21	5.58
EV/Sales	x	2.07	2.16	1.94

Analyst : Farhad Moshiri, Changes to Forecasts : 09/10/2019.