

EQUINET INVESTIGATOR

SMALL & MID CAP SCREENING

Hypoport

20 January 2011

Financials
Bloomberg: HYQ GR

Market Cap: EUR 72m
Free Float: 35%

Current Share Price: EUR 11.8
Buy / Target EUR 17

Profile

Hypoport is an internet-based financial services provider for B2B and B2C clients. On the B2C side it sells financial products through a network of 173 franchise branches (505 advisors) and almost 3,000 independent financial advisors. The product universe ranges from insurance products (life insurance, health insurance etc.) to banking products (mortgage loans, deposit accounts etc.). On the B2B side Hypo offers mainly an IT platform (Europace) through which B2B clients can sell mortgage / consumer loans from around 50 providers. Hypo's main competitors are, depending on the specific products, other financial service companies like AWD, DVAG or Interhyp. Shareholders are among others Postbank with a 10% stake (acq. at EUR 15 per share).

Investment Case

Hypo's business is rather scalable due to a high level of fixed costs. We expect Hypo to achieve an average annual sales growth of 11% in the next five years due to an increasing market share and a growing overall mortgage market. Additionally Hypo should benefit from the improving economy in Germany which should lead to a rising consumer spending on financial products. In recent years several distributors (of financial products) have been taken over in Germany (or stakes have been acquired) by product providers (Interhyp by ING, AWD by Swiss Life, Ins. comp. acq. stakes in Aragon, OVB & MLP). These deals clearly show the attractiveness of this market, in our view.

Triggers

- Good Q4 results: We expect mortgage demand to have increased in Q4 due to the rise in mortgage rates (following a phase of decl. rates). This should have led to strong Q4 results at Hypo (see p. 3).
- Consensus upgrades likely: Annualizing Q2-Q4'10 would lead to EPS above EUR 0.90. Hence, we view our 2011e EPS estimate of EUR 0.87 as rather cautious, although being 36% > consensus (EUR 0.65).
- High M&A activity: Hypo's market segment has been characterized by high M&A activity in recent years. Particularly, product providers seem to be interested in acquiring attractive distribution channels.

Key Financials

EUR m	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Revenue		10.9	20.6	26.3	40.7	52.7	50.5	61.1	69.0	77.3
EBIT		1.8	6.2	4.6	6.2	5.0	1.2	5.8	8.4	10.2
EBIT margin		16.5%	30.1%	17.6%	15.1%	9.4%	2.4%	9.5%	12.2%	13.2%
Adjusted EPS		0.11	0.67	0.65	1.05	0.51	-0.06	0.52	0.87	1.10
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Adjusted P/E					14.3	8.5		22.7	13.6	10.8
P / BV					3.8	1.1	2.3	2.7	2.2	1.9
EV / EBIT					16.6	8.2		14.4	9.6	7.4
Dividend yield					0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating FCF Yield					-1%	-8%	3%	0%	4%	7%
Net debt / EBITDA		4.1	1.5	1.8	1.1	1.4	2.5	1.1	0.6	0.2
Gearing		146%	97%	63%	43%	57%	49%	43%	26%	9%
Year End Price					15.0	4.4	8.9	11.8	11.8	11.8

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Fundamental Setup

Market Dynamics: How can Hypoport's main market be described (structure, consolidation, cyclicality, growth, etc.)?

Hypo is selling both insurance and banking products. We see the market for old age provision products as a growth market while the other markets (other insurance and banking products) are rather stable. By offering good advisory services and attractive products at fair prices we expect Hypo to be able to gain market share, mainly from banks and tied agents. The strong increase in advisors in recent years (in the B2C business) should also start to pay off more strongly. In the mortgage market Hypo has a rather small market share of 7% (of which B2C: 1% & B2B: 7%). Latest new business figures show a positive trend for the German market.

Competition: What is the main competitive advantage of Hypoport? Which competitors are the more important ones?

Main competitors (in addition to banks and insurance distribution channels) are AWD, DVAG, MLP, Aragon and Interhyp regarding mortgage loans. Hypo's competitive advantage is in our view its independence (Postbank is the only product provider which holds a stake in Hypo) and its attractive internet websites (vergleich.de, drklein.de) which generate around 4m leads p.a. Additionally, we view Hypo's high product flexibility as a strategic strength as Hypo does not depend on a single product and can push products depending on the market environment.

Strategic Analysis: Where could Hypoport be in five to ten years from now? Strategy, opportunities, threats?

Hypo targets to be among the TOP 5 German financial service providers by 2014 (currently No. 13 measured by annual revenues). According to the CEO this requires Hypo to achieve well above EUR 100m in annual sales. Apart from a rising market share in the B2C business, we see excellent growth potential in Hypo's Europace platform. Through Finmas and Genopace it has managed to get access to the market leaders in the German retail banking market, the savings and cooperative banks. This should open up additional significant revenues potential for Hypo in the medium term. We hope that Hypo is still independent in five years.

Sentiment: What is the current consensus view on the Hypoport and its stocks?

Currently Hypo is covered by two analysts which have both a Buy recommendation on the stock. The average target price amounts to EUR 14.00 and the consensus EPS estimates stand at EUR 0.64 (2011e) and EUR 0.93 (2012e). Hence, we are significantly above consensus with our EPS estimates (2011e: EUR 0.87, 2012e: EUR 1.10). We expect the colleagues to up their forecasts significantly after the release of the Q4 results.

Track Record: How did the company deliver on guidances (initial outlook given) in the past five years, any shortfall?

Hypoport did not meet its guidance for 2008 and 2009 but should have over-delivered for 2010. In our view, it is not possible to derive a track record as firstly the time period is too short and secondly the financial crisis caught many companies on the wrong foot and made forecasts very difficult.

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Financial Setup

Sales: *In the past five years Hypoport achieved sales growth of 25.2% p.a. Is this figure an adequate proxy for the next five years?*

We expect sales growth of 13% and 12% for 2011e and 2012e, respectively. Main drivers should be rising demand for financial products and a further rise in Hypo's market share in both the B2C and the B2B markets. In 9M 2010 Hypo achieved revenues growth of 20% yoy; 61% of group revenues (and 76% of group EBIT) was generated in the B2C business.

EBIT: *In the past five years the EBIT margin amounted to 14.9% on average? Can this be seen as a sustainable margin level or is further improvement possible?*

Mainly due to sales growth and scale effects Hypo should be able to achieve again an EBIT margin of above 15% in the midterm. For 2011e we expect a gradual increase from 9.5% (2010e) to 12.2%. In 2012 the EBIT margin should further increase to 13.2%.

Capex: *In the past Hypoport invested roughly 12.4% of its annual sales. Is this a reasonable assumption for the next couple of years as well?*

During 2005 to 2009 Hypo has massively invested in IT, particularly into its Europace platform. We expect investments to stabilize around the 2010 level (in absolute terms), i.e. Capex as a % of sales should decline in the coming years.

Working Capital: *With regard to net working capital (Inventories + Receivable – Payables – advanced Payments). Is the 30% ratio seen the last five years a sustainable level?*

Working capital has declined since 2008 to around 20% (2010e) as Hypo managed to faster collect its revenue payments from its product providers. We expect this ratio to stabilize around 20%.

Other important Financials: *In the past five years Hypoport paid out roughly 0% of its EPS. How does the target payout ratio compare to that figure? Any other important issues, taxes, minorities, etc.?*

For the time being a dividend is not in the cards as the company prefers to reinvest the cash into the existing business. Total Intangibles amount to around EUR 25m (Q3 2010) which is equivalent to almost 100% of equity. Around 60% of the intangibles stems from the goodwill due to the upstream merger of Dr. Klein (Hypo's B2C business) in 1999 and the remainder is mainly made up by the Europace platform.

Interim Data

EUR m	Q109	Q209	Q309	Q409	2009	Q110	Q210	Q310	Q410e	2010e
Revenue	12.7	12.5	12.3	13.0	50.5	12.1	16.0	16.9	16.1	61.1
% yoy	3.7%	-49.2%	0.3%	-17.9%	-4.2%	-4.5%	27.7%	37.2%	24.0%	21.0%
EBITDA	2.1	0.9	1.2	0.7	4.7	0.0	3.3	3.6	3.2	10.1
% of sales	16.4%	7.3%	9.7%	5.6%	9.4%	-0.2%	20.9%	21.4%	19.8%	16.5%
EBIT	1.2	0.0	0.2	-0.2	1.2	-1.1	2.2	2.4	2.3	5.8
% of sales	9.3%	-0.3%	1.9%	-1.3%	2.4%	-8.9%	13.9%	14.2%	14.3%	9.5%
Pretax Profit	0.9	-0.3	0.0	-0.4	0.3	-1.3	2.0	2.1	2.1	4.9
% of sales	7.3%	-2.2%	0.1%	-3.1%	0.5%	-10.8%	12.3%	12.4%	13.3%	8.0%
Net Profit	0.5	-0.2	-0.2	-0.3	-0.4	-1.2	1.3	1.5	1.6	3.2
% of sales	3.8%	-1.4%	-1.4%	-2.2%	-0.7%	-9.5%	8.3%	8.6%	9.6%	5.2%
EPS	0.08	-0.03	-0.03	-0.05	-0.06	-0.19	0.22	0.24	0.25	0.52
% yoy	-42.9%	-125.0%	-88.9%	-150.0%	39.8%	-337.5%	-833.3%	-900.0%	-600.0%	-1009.2%

Source: Company data, equinet Research

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Intrinsic Values in EUR per Share

	2008	2009	2010e	2011e	2012e
@ 5Y PB Average (Historical)	15	10	11	13	15
@ 5Y adj. PE Average (Historical)	nm	nm	nm	nm	nm
@ 5Y EV/EBITDA Average (Historical)	15	4	14	19	22
@ 5Y Dividend Yield Average (Historical)	nm	nm	nm	nm	nm
@ 14 x 3Y Average FCF (Forward)	nm	4	6	12	18
@ 12.5 x EPS in 3Y (Forward)	8	11	14	17	22
@ 3Y Average ROE/COE x BPS (Forward)	1	4	7	10	13
@ (8 + 3Y growth) x Current EPS (Forward)	14	nm	25	30	37
Intrinsic Range					
Minimum	11	2	9	12	16
Maximum	17	5	15	19	24

DCF Model

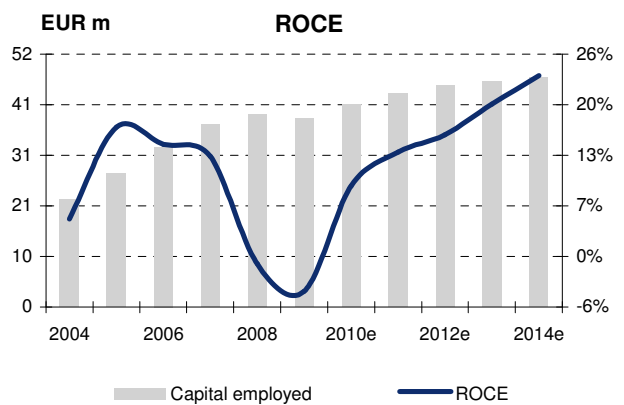
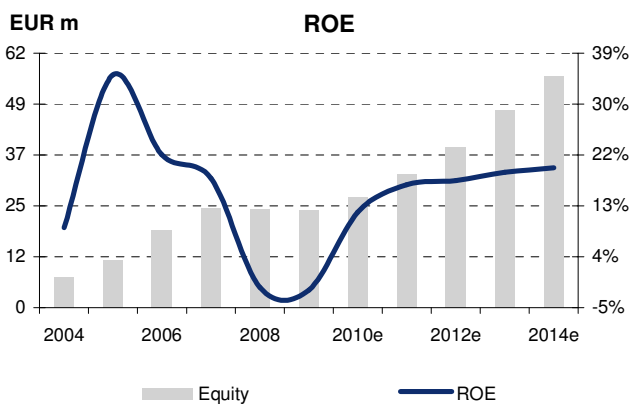
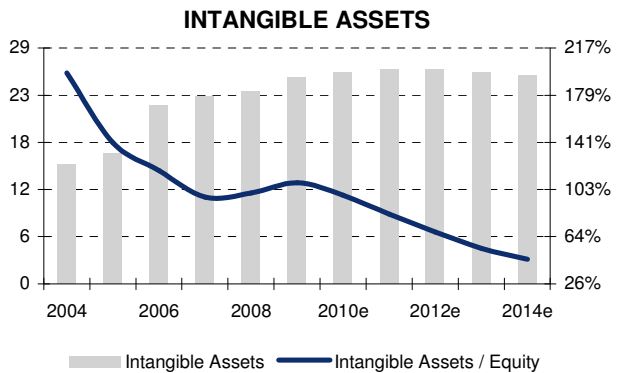
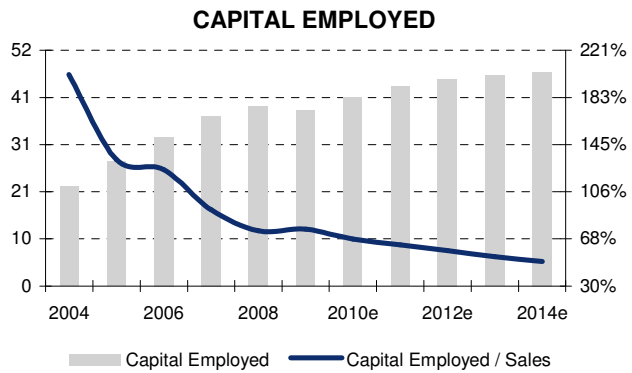
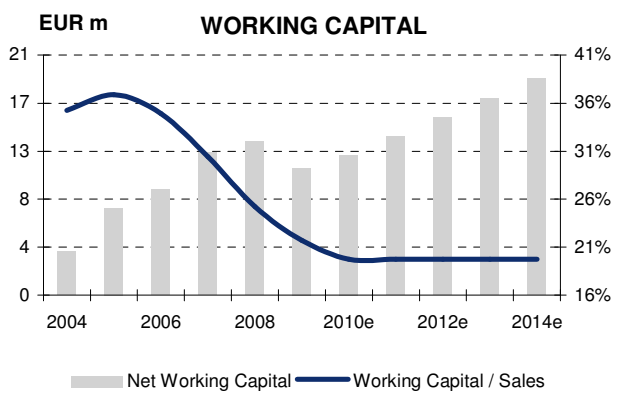
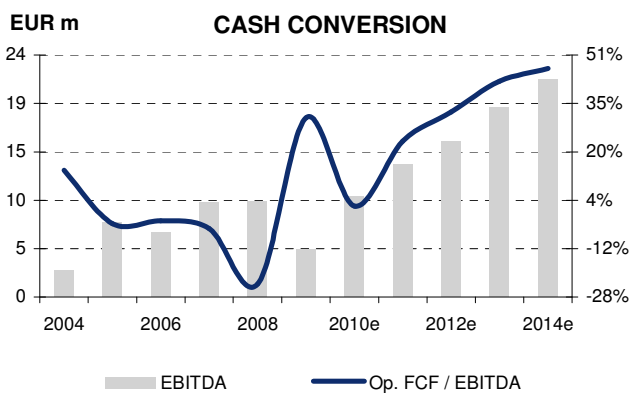
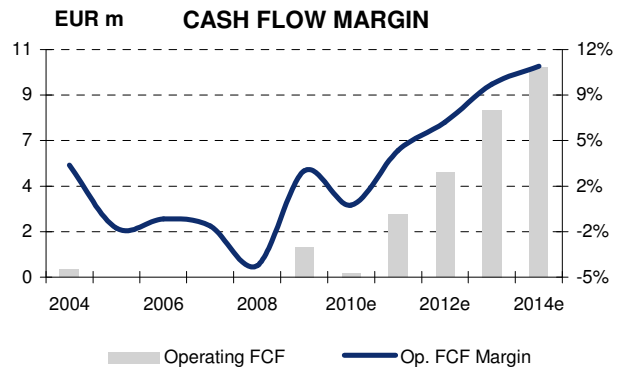
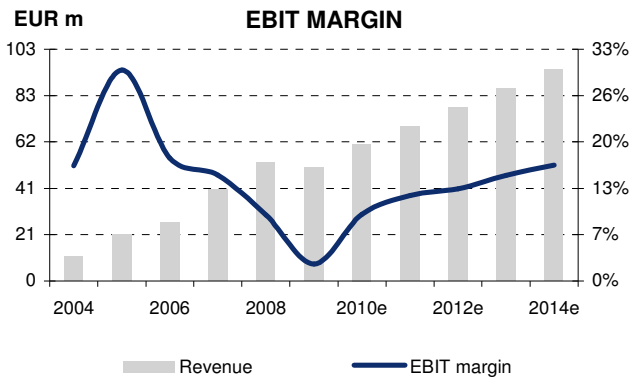
EUR m	Phase I					Phase II					Phase III
	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	
Revenues	61.1	69.0	77.3	85.8	94.4	102.9	111.2	119.3	127.1	134.6	
<i>growth rate</i>		13.0%	12.0%	11.0%	10.0%	9.0%	8.1%	7.3%	6.6%	5.9%	
EBIT	5.8	8.4	10.2	13.0	15.6	17.0	18.4	19.7	21.0	22.3	
<i>EBIT margin</i>	9.5%	12.2%	13.2%	15.1%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	
Tax	-2.0	-2.5	-3.1	-3.9	-4.7	-5.1	-5.5	-5.9	-6.3	-6.7	
<i>Tax rate</i>	35%	30%	30%	30%	30%	30%	30%	30%	30%	30%	
Depr. & Amort.	4.3	4.8	5.4	6.0	6.1	5.9	6.0	6.2	6.5	6.7	
<i>% of sales</i>	7.0%	7.0%	7.0%	7.0%	6.5%	5.8%	5.4%	5.2%	5.1%	5.0%	
Capex	-6.1	-5.5	-5.4	-5.1	-5.2	-5.4	-5.7	-6.0	-6.4	-6.7	
<i>% of sales</i>	10.0%	8.0%	7.0%	6.0%	5.5%	5.3%	5.1%	5.1%	5.0%	5.0%	
Change in WC & P	-1.2	-1.6	-1.7	-1.7	-1.7	-1.9	-2.0	-2.2	-2.3	-2.4	
<i>% of sales</i>	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	
Free Cash Flow	0.8	3.6	5.5	8.2	10.1	10.5	11.1	11.8	12.5	13.1	189.6
<i>growth rate</i>		349%	52%	50%	85%	4%	5%	6%	6%	5%	2.0%
Present Value FCF	0.8	3.3	4.6	6.4	7.2	6.9	6.6	6.4	6.3	6.0	87.2

PV Phase I	22	Risk free rate	4.50%	Targ. equity ratio	95%
PV Phase II	32	Premium Equity	4.00%	Beta	1.2
PV Phase III	87	Premium Debt	2.00%	WACC	9.06%

Enterprise value	142	Sensitivity	Growth in phase III					
- Net Debt	11.7		1.0%	1.5%	2.0%	2.5%	3.0%	
- Pension Provisions	0.0	8.16%	22	24	25	27	29	
- Minorities & Peripherals	0.2	8.61%	21	22	23	24	26	
Equity value	129.9	WACC	9.06%	19	20	21	22	24
Number of shares	6.1	9.52%	18	19	20	21	22	
Value per share (€)	21	9.97%	17	18	18	19	20	

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Profit & Loss	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Revenue		11	21	26	41	53	50	61	69	77
<i>% yoy</i>			89.0%	27.9%	54.9%	29.3%	-4.2%	21.0%	13.0%	12.0%
EBITDA		3	7	7	10	10	5	10	13	16
<i>% of sales</i>		24.4%	36.4%	24.7%	23.3%	18.1%	9.4%	16.5%	19.2%	20.2%
EBIT		2	6	5	6	5	1	6	8	10
<i>% of sales</i>		16.5%	30.1%	17.6%	15.1%	9.4%	2.4%	9.5%	12.2%	13.2%
Pretax Profit		1	6	4	5	4	0	5	8	10
<i>% of sales</i>		10.5%	27.0%	15.1%	13.3%	7.8%	0.5%	8.0%	11.0%	12.4%
Net Profit		1	4	4	4	0	0	3	5	7
<i>% of sales</i>		6.3%	19.8%	15.5%	10.5%	-0.5%	-0.7%	5.2%	7.7%	8.7%
EPS		0.11	0.67	0.65	0.69	-0.04	-0.06	0.52	0.87	1.10
<i>% yoy</i>			491.3%	-2.6%	6.1%	-105.9%	39.8%	#####	67.4%	26.1%
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Payout ratio</i>		0%	0%	0%	0%	0%	0%	0%	0%	0%
Balance Sheet	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Total assets / liabilities		25	33	44	47	56	55	59	65	72
<i>% of sales</i>		232%	160%	168%	116%	106%	109%	96%	94%	94%
Capital employed		22	27	33	37	39	38	41	44	45
<i>% of sales</i>		201%	133%	124%	92%	75%	76%	68%	63%	59%
Net Working Capital		4	8	9	12	13	11	12	14	15
<i>% of sales</i>	#WERT!	35%	37%	35%	31%	25%	22%	20%	20%	20%
Net Debt + Pension Prov.		11	11	12	10	14	12	12	8	3
<i>Gearing</i>		146%	97%	63%	43%	57%	49%	43%	26%	9%
Equity		8	12	19	24	24	24	27	32	39
<i>Equity ratio</i>		30%	35%	43%	51%	43%	43%	46%	50%	54%
No. Shares		6	6	6	6	6	6	6	6	6
<i>% yoy</i>		0%	0%	0%	0%	-2%	-1%	0%	0%	0%
Book Value per Share		1.2	1.9	3.0	3.9	3.9	3.9	4.4	5.3	6.4
<i>% yoy</i>		#WERT!	54%	59%	31%	0%	-1%	13%	20%	21%
Cash Flow	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
Operating Cash Flow		2	3	4	4	3	6	6	9	10
<i>% of sales</i>		18%	13%	15%	10%	7%	13%	10%	12%	14%
Capex		-2	-3	-4	-5	-6	-5	-6	-6	-5
<i>% of sales</i>		15%	14%	15%	12%	11%	10%	10%	8%	7%
Operating FCF		0	0	0	-1	-2	1	0	3	5
<i>% of sales</i>		3%	-1%	-1%	-1%	-4%	3%	0%	4%	7%
Acquisitions and others		0	0	-1	3	-1	-1	0	0	0
<i>% of sales</i>		-1%	0%	-3%	7%	-1%	-1%	0%	0%	0%
FCF		0	0	-1	2	-3	1	0	3	5
<i>% of sales</i>		3%	-1%	-4%	5%	-6%	2%	0%	4%	7%
Multiples and Ratios	2003	2004	2005	2006	2007	2008	2009	2010e	2011e	2012e
EV/Sales					2.5	0.8	1.3	1.4	1.2	1.0
EV / EBITDA					10.8	4.3	14.0	8.3	6.1	4.9
EV / EBIT					16.6	8.2		14.4	9.6	7.4
Adjusted P/E					14.3	8.5		22.7	13.6	10.8
P / BV					3.8	1.1	2.3	2.7	2.2	1.9
ROE		9%	35%	22%	18%	-1%	-1%	12%	17%	17%
ROCE		5%	17%	14%	13%	-1%	-4%	9%	13%	16%
Dividend yield					0%	0%	0%	0%	0%	0%

Source: Company data, equinet Research

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The Idea behind the Investigator

The equinet Investigator is meant as a screening research/coverage. We want to be able to react in a timely manner on interesting ideas or situations. Market and company research is not as "in depth" as with a full equinet coverage. The same is true for the financial modelling, where we focus on the group level. However, we would not expect a significant difference in quality regarding P&L, balance sheet and cash flow forecasts, compared to a regular model.

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Remarks

Recommendation System

Buy - The stock is expected to generate a total return of over 20% during the next 12 months time horizon.

Accumulate - The stock is expected to generate a total return of 10% to 20% during the next 12 months time horizon.

Hold - The stock is expected to generate a total return of 0% to 10% during the next 12 months time horizon

Reduce - The stock is expected to generate a total return of 0 to -10% during the next 12 months time horizon

Sell - The stock is expected to generate a total return below -10% during the next 12 months time horizon

Basis of Valuation

Equinet uses for valuation purposes primarily DCF-Valuations and Sum-Of-The-Parts-Valuations as well as peer group comparisons.

Share prices

Share prices in this analysis are the German closing prices of the last trading day before the publication.

Sources

equinet has made any effort to carefully research all information contained in the analysis. The information on which the analysis is based has been obtained from sources which we believe to be reliable such as, for example, Reuters, Bloomberg and the relevant press as well as the company which is the subject of the analysis. Only that part of the research note is made available to the issuer, who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this result in considerable changes a reference is made in the research note.

Actualizations

Opinions expressed in this analysis are our current opinions as of the issuing date indicated on this document. We do not commit ourselves in advance to whether and in which intervals updates are made.

Recommendation History

None in the past twelve months.

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