

Wirecard

Price EUR37.22

2020 financial targets are ambitious (above our expectations), but realistic

Fair Value EUR52 (+40%)

BUY-Top Picks

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 31.2
Market Cap (EUR)	4,599
Ev (BG Estimates) (EUR)	3,902
Avg. 6m daily volume (000)	887.7
3y EPS CAGR	28.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.7%	-16.3%	-19.2%	-20.0%
Softw. & Comp.	-2.6%	0.0%	-4.1%	-6.1%
DJ Stoxx 600	-0.8%	0.9%	-12.7%	-9.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	771.3	1,016	1,259	1,504
% change		31.7%	23.9%	19.5%
EBITDA	227	306	385	466
EBIT	197.4	270.7	341.1	413.7
% change		37.1%	26.0%	21.3%
Net income	163.8	225.9	287.2	350.1
% change		37.9%	27.1%	21.9%

	2015	2016e	2017e	2018e
Operating margin	25.6	26.6	27.1	27.5
Net margin	18.5	26.4	20.3	20.8
ROE	11.1	18.3	15.0	15.7
ROCE	29.5	31.6	33.7	36.2
Gearing	-54.1	-47.6	-48.3	-50.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.33	1.83	2.33	2.84
% change	-	37.9%	27.1%	21.9%
P/E	28.1x	20.4x	16.0x	13.1x
FCF yield (%)	2.8%	4.0%	4.0%	5.2%
Dividends (EUR)	0.13	0.14	0.15	0.16
Div yield (%)	0.3%	0.4%	0.4%	0.4%
EV/Sales	5.1x	3.8x	3.0x	2.4x
EV/EBITDA	17.2x	12.7x	9.8x	7.7x
EV/EBIT	19.8x	14.4x	11.1x	8.7x



During its Capital Market Day in London, Wirecard provided 2020 financial targets that it qualified as "lower bounds": revenues >EUR2.1bn, EBITDA margin of 30-35%, and FCF /EBITDA >65%. They are ambitious, but realistic. Thanks to its positioning and model, Wirecard has generated organic sales growth of 20%+ in recent years, with a steady margin improvement (gross margin +530p and EBITDA margin +350bp over 2011-15). We expect the good business trend to continue, in particular on rising momentum in e-commerce and mobile payments. Wirecard is a strong growth story and one of margin improvement. Note that if we put the upper end of Wirecard's 2020 targets into our model, our EPS sequence would increase by +6.7% on average over 2016/20e. We maintain our Buy rating and FV of EUR52 – the stock is on our Q2 Top Pick list.

ANALYSIS

- During its Capital Market Day, yesterday in London, Wirecard announced its strategic plan (2020 financial targets):** **1/** transaction volume would increase from EUR45.2bn to over EUR160bn i.e. CAGR >+28.8% (vs. BG est.: EUR140bn, +25.4%), breaking down into +25% in Europe and +40% outside Europe (notably India); **2/** revenues of over EUR2.1bn only in organic terms, i.e. CAGR 2015/20 of over +22.2%, (vs. BG est.: EUR2.08bn and +21.9% respectively); **3/** EBITDA margin to reach 30-35% (vs. BG est.: 31.9%); **4/** EBITDA to FCF conversion rate of over 65%, limiting Capex to 7-8% of revenue over the period (vs. BG est.: EUR57.6% and 8% respectively) with neutral to negative WCR in the near term. **The key elements supporting its strategy are:** **1/** driving convergence between online, mobile and POS front ends using Internet (omnichannel offer); **2/** constant extension of value chain and innovative Internet-driven value added services (+20% by 2020); **3/** globalisation of payment technology, licensing framework, risk management, provision VAS and big data, but also extension of the IP platform and hubs in all relevant geographies. Management added that these targets are based on conservative organic assumptions (lower bounds). Regarding M&A, the group is targeting the Americas (notably the US within 6-16 months: it would pay a maximum of USD200m) and Asia (notably China). The group totally excludes large deals, so there is no risk of capital increases. **Note that if we put the upper end of Wirecard's 2020 targets into our model, our EPS sequence would increase by +6.7% on average over 2016/20e** (0% in 2016e, +5.2% in 2017e, +6.4% in 2018, +9.4% in 2019e and +12.4% in 2020e).
- Good positioning and leverage on top-line and profitability.** Wirecard boasts the best fundamentals in the sector thanks to its positioning in e-commerce (pure player with leading Internet and mobile payment technology) and emerging markets (~30%e in South East Asia). As a reminder, Wirecard has a fixed-cost structure (~55% of its sales). So, the profitability improvement we expect will continue to be mainly driven by the growing proportion of large merchants in its revenue mix (they generate a lot of volumes, they are looking for complex solutions, and they are more sticky). Indeed, the transaction volumes processed per merchant (from EUR0.96m in 2009 to EUR2.05m in 2015) more than offset the decline in the fee per transaction (from 2.2% to 1.6%) and Wirecard's standardised and mutualised platform generates economies of scale.
- Potential in mobile payment solutions.** We believe Wirecard is best positioned to succeed in mobile payments thanks to its focus on virtual prepaid cards (physical or virtual). Indeed, its prepaid cards (under white label or co-branded solutions, or own brand) are already dematerialised i.e. easy to put on an NFC- smartphone, and there is a much lower stake in the event of theft or loss (prepaid cards are not linked to a bank account, so the user only loses the amount loaded onto the virtual card). The group has already signed various partnerships and we believe it will continue to expand its position as a partner in the new mobile payment business (EBITDA 2015 of EUR3.8m and EUR5m targeted in 2016). It handles the processing service, money loading and P2P payments etc, and also offers TSM/TSH software services (downloading platforms for banks, retailers, telecoms companies etc.) for electronic management of client loyalty programmes. Its first fully digitized mobile payment solution "boon" (with the value added services associated) is promising.
- FY16 guidance:** Management recently confirmed its expectation to reach FY16 EBITDA of EUR290-310m. The mid-point of this range is based on organic growth of 23% (seen as conservative by management), an expected EBITDA contribution from mobile payment of EUR5.0m (vs. BG est. 5.5m), EUR16.0m EBITDA contribution from the payment business of GI Retail (BG est.: EUR16.5m), and EUR4.0m combined EBITDA contribution from Provus Group and MoIP (BG est.: EUR5.2m). We have FY16e revenue of EUR1,016.3m (+20.3% lfl), EBITDA of EUR306.4m (margin of

30.1%, +60bp) and net income of EUR200.8m.

VALUATION

- **Buy rating and FV of EUR52 maintained.** The stock is in our Q2 Top Pick List.
- **Over FY16e:** P/E of 20.4x vs. rest. EPS growth of +37.9%. **Our estimates remained unchanged** but note that **if we put the upper end of Wirecard's 2020 targets into our model, our EPS sequence would increase by +6.7% on average over 2016/20e** (0% in 2016e, +5.2% in 2017e, +6.4% in 2018, +9.4% in 2019e and +12.4% in 2020e).

NEXT CATALYSTS

- **Q1 financial statements:** 19th May (before trading).

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