

Wirecard

Price EUR39.22

Wirecard is in strategic talks with various partners about entry into its share capital

Fair Value EUR52 (+33%)

BUY

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 31.2
Market Cap (EUR)	4,846
Ev (BG Estimates) (EUR)	4,149
Avg. 6m daily volume (000)	901.3
3y EPS CAGR	28.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.6%	20.5%	-13.2%	-15.7%
Softw. & Comp.	-5.9%	-4.3%	-6.7%	-7.5%
DJ Stoxx 600	-6.4%	-3.9%	-12.1%	-12.0%

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	29.6x	21.4x	16.9x	13.8x
FCF yield (%)	2.7%	3.8%	3.8%	5.0%
Dividends (EUR)	0.13	0.14	0.15	0.16
Div yield (%)	0.3%	0.4%	0.4%	0.4%
EV/Sales	5.4x	4.1x	3.2x	2.6x
EV/EBITDA	18.3x	13.5x	10.4x	8.2x
EV/EBIT	21.0x	15.3x	11.8x	9.3x



The Bild am Sonntag weekly newspaper reported on Sunday that Wirecard was in confidential talks with Alipay about it taking a stake of up to 25%, and possibly more later. A Wirecard spokeswoman declined to comment on the specifics but confirmed that the company was in strategic talks with various partners. This partially confirms the rumour from betaville123.blogspot.fr a couple of weeks ago saying that a Chinese telecoms company had been talking to Wirecard about taking a significant stake (a 25% stake or even a move on the whole company). We maintain our Buy rating and FV of EUR52.

ANALYSIS

- According to Bild am Sonntag (BamS is the largest-selling German national Sunday newspaper published in Berlin), Wirecard is in confidential talks with representatives of Alipay for the acquisition of a stake of up to 25% in the German FinTech company and possibly more later. As a reminder, Alipay is China's leading internet payment solution with 400m active users (over 50% of the market share in online payment and 80% in mobile payment) and is an affiliate company of the Chinese group Alibaba. Interestingly, a Wirecard spokeswoman declined to comment on the specifics of the report but confirmed to the newspaper that the company was in strategic talks with various partners. A source familiar with the matter said Ant Financial, which operates the Alipay platform, was not talking to Wirecard about an investment. The newspaper said that the Chinese group would like access to German expertise, while Wirecard would like to have a large shareholder, because its share price has come under pressure from short-sellers (~22-23% of short interest on the stock, according to 3 different lending desks).
- As a reminder, Wirecard and Alipay recently signed two deals: 1/ mid-December 2015, they agreed to provide mobile phone payment services for Chinese tourists visiting Europe; 2/ mid-June 2016, Wirecard announced that from mid-July 2016, Chinese tourists will be able to pay for any shopping at participating retailers in Munich Airport via their mobile Alipay App. As a result, Wirecard is one of Alipay's first partners for POS acceptance in Europe.
- This partially confirms the rumour from betaville123.blogspot.fr a couple of weeks ago. On 8th June, this blog reported that a Chinese company was in relatively advanced talks with Wirecard about a deal to buy a significant stake in the business or even purchase the group. It said that, according to well-placed sources, a Chinese telecoms company has been talking to Wirecard, for quite some time about a partnership and a potential deal. One potential transaction could see the Chinese company (thought to be China Mobile) take a significant stake in the business, possibly as much as 25%. There have also been conversations with Wirecard about the Chinese group buying a stake of more than 30%, meaning it would have to make an offer for the whole company. According to well-placed sources, the Chinese company has indicated it would be willing to pay between EUR53 and EUR55 per Wirecard share.
- In our initiation report of 1st September 2015, we underlined that Wirecard boasted clear speculative appeal. Its value lies above all in its positioning, since it is active in the entire online payment value chain. Wirecard has a capital structure that makes it a takeover target since its free float stood at 93% (management only owns 7%). This combination of factors makes it an unusual player and consequently an ideal prey. We cited the following potential buyers incl. Alipay:

Potential acquirers of a group like Wirecard

Who?	Direct competitors, or from in-store physical payment	Card network or issuing banks	Ad platforms/Social networks	e-wallet providers	Private equity firms
Why?		Increase digital mix (offense) and defend turf (defense)	Improve conversion	Add scale and global acceptance	
Examples	Worldpay, Worldline, Ingenico Group...	Global banks, Visa, MasterCard, Discover...	Facebook, Google, Microsoft...	PayPal, Alipay, Apple, Amazon, Google, Microsoft, Samsung...	Bain Capital, Advent, Blackstone...

Source: Bryan, Garnier & Co.

VALUATION

- With our 2016 estimates that we consider conservative (yet 8.5% above the consensus on the EPS level), **the stock is trading on P/E of 21.4x vs. a rest. EPS growth of +37.9%**.
- **We maintain our Buy rating and FV of EUR52.** Note that amount of EUR53-55 per Wirecard share that sources indicated the Chinese telecoms company could be willing to pay is just above our FV.

NEXT CATALYSTS

- **H1 earnings results:** 11st August (before trading).

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