

Wirecard

Price EUR48.68

Integration of Citi APAC in our model

Fair Value EUR62 vs. EUR58 (+27%)

BUY-Top Picks

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	48.7 / 31.2
Market Cap (EUR)	6,015
Ev (BG Estimates) (EUR)	5,497
Avg. 6m daily volume (000)	471.1
3y EPS CAGR	30.7%

	1 M	3 M	6 M	31/12/16
Absolute perf.	6.5%	18.7%	7.7%	19.1%
Softw. & Comp.	2.5%	10.1%	7.9%	6.9%
DJ Stoxx 600	1.2%	4.8%	10.6%	3.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	771.3	1,028	1,359	1,710
% change		33.3%	32.2%	25.8%
EBITDA	227	307	406	503
EBIT	197.4	271.4	358.9	442.9
% change		37.5%	32.3%	23.4%
Net income	163.8	226.4	296.0	366.1
% change		38.2%	30.7%	23.7%

	2015	2016e	2017e	2018e
Operating margin	25.6	26.4	26.4	25.9
Net margin	18.5	26.5	19.3	19.0
ROE	11.1	18.6	15.3	16.0
ROCE	29.5	25.6	28.4	26.6
Gearing	-54.1	-35.2	-36.3	-28.9

(EUR)	2015	2016e	2017e	2018e
EPS	1.33	1.83	2.40	2.96
% change	-	38.2%	30.7%	23.7%
P/E	36.7x	26.5x	20.3x	16.4x
FCF yield (%)	2.2%	3.1%	2.7%	3.7%
Dividends (EUR)	0.13	0.14	0.15	0.16
Div yield (%)	0.3%	0.3%	0.3%	0.3%
EV/Sales	6.9x	5.3x	4.0x	3.2x
EV/EBITDA	23.4x	17.9x	13.3x	10.8x
EV/EBIT	27.0x	20.3x	15.0x	12.3x



Yesterday, Wirecard signed an agreement to purchase the customer portfolio of Citi's merchant acquiring business in 11 markets in APAC. We believe this positive new announcement (just after the closing of Citi Prepaid Card Services) will force short sellers to cover their short positions. It offers more visibility and positive momentum for the coming months. As we expected, the group has updated its 2020 vision to take into account Citi APAC. We have upgraded our EPS by 1.0% for 2018e (6-month consolidation) and 3.7% for 2019e (first full-year consolidation). We maintain our Buy recommendation and upgrade our FV from EUR58 to EUR62. The stock is on our Q1 Top Pick list.

ANALYSIS

- Yesterday just before trading, Wirecard announced it had signed an agreement with Citigroup subsidiaries CITIBANK, N.A. and CITIBANK Overseas Investment Corporation to purchase the customer portfolio of Citi's merchant acquiring business in 11 markets in APAC. This includes the entire customer portfolio for merchant acquiring services (>20,000 merchants incl. segment leading corporate clients) in Singapore, Hong Kong, Macau, Malaysia, Taiwan, Indonesia, Philippines, Thailand, India, Australia and New Zealand. **Wirecard will immediately become one of the leading merchant acquirers throughout APAC** (it will increase its footprint across many major markets in Asia, online and at the POS) and **complete its licencing framework in this region** (its own acquiring licences in the majority of jurisdictions combined with Bank Identification Number sponsorship agreements). **The three steps of the deal are:** 1) the signing (yesterday), 2) the closing in stages (by June 2018), and 3) the migration to Wirecard's platform (by end-2019). **The parties agreed not to disclose the value of the transaction but we estimate it at 10x EBITDA** (i.e. same multiple as that paid for Citi Prepaid Card Services) **whereas usually the multiple paid for this kind of business is 12-15x EBITDA.**
- Estimated figures for the first 12 months after closing (i.e. as of June 2018):** 1) transaction volume of over USD15bn; 2) projected revenue of over USD200m; and 3) EBITDA-contribution of over USD20m. **Estimated trend after closing and migration (i.e. as of end-2019):** 1) transaction volume annual growth of over 28%; 2) revenue annual growth of over 20% (strong cross- and -up-selling opportunities both for Wirecard's existing merchants in new markets and new merchants); 3) EBITDA annual growth of over 23% plus over USD7m synergies (full synergy potential to be realised during migration phase); and 4) increasing EBITDA margin (technical migration towards Wirecard's leading online platform, economies of scale lowering overall transaction expenses across Wirecard's business in Asia). **As a result, the first full year after migration will be 2020.**
- Wirecard has upgraded its strategic plan (2020 targets) including Citi APAC. The group now expects:** 1) transaction volumes to increase from EUR45.2bn in 2015 to over EUR190bn in 2020 i.e. CAGR >+33.3% (vs. over EUR170bn before i.e. CAGR >+30.3%), breaking down into +25% in Europe, +25% in the US, and +40% outside Europe; 2) revenues of over EUR2.5bn i.e. CAGR 2015-20 of over +26.5% (vs. over EUR2.3bn before, i.e. CAGR 2015-20 of over +24.4%; BG now at EUR2.45bn); 3) EBITDA margin maintained between 30-35% (BG now at 30.3%); 4) EBITDA to FCF conversion rate maintained to over 65%, limiting Capex to 7-8% of revenue over the period with neutral to negative WCR in the near term. All in all, **we have upgraded our EPS by 1.0% in 2018e** (6-month consolidation), **3.7% in 2019e** (first full-year consolidation) and **4.5% in 2020e.**

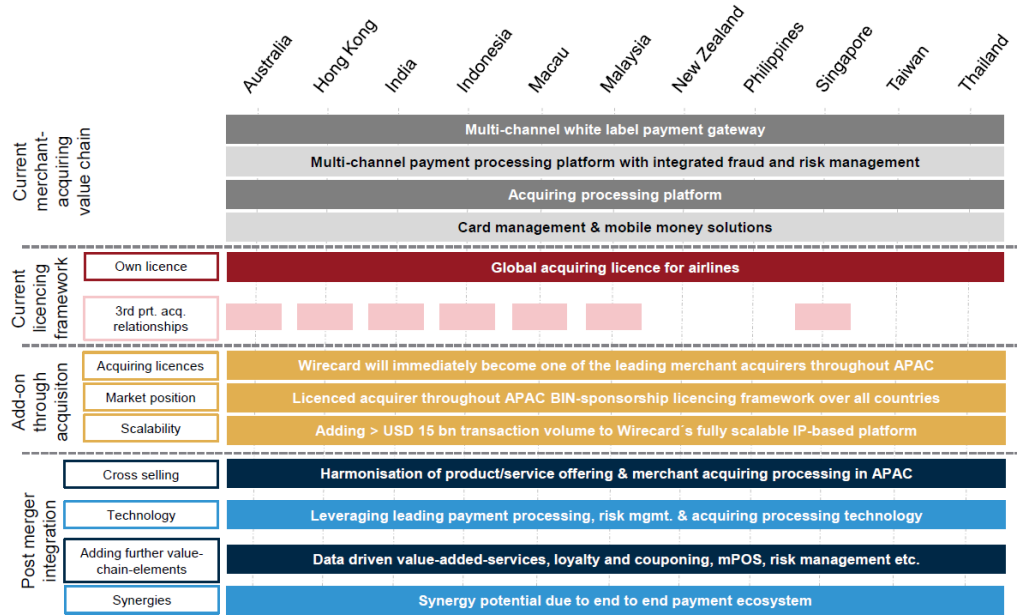
VALUATION

- The announcement of this new agreement with Citigroup subsidiaries in 11 markets in APAC **offers strong visibility and good momentum.** We believe **this should more than ever accelerate the covering of still-sizeable short positions** (15-17% of the share capital).
- We maintain our **Buy recommendation** and raise our **FV from EUR58 to EUR62** (DCF of EUR64.5 and peer comparison of EUR58.9). The stock is **on our Q1 Top pick list.** Its **valuation is very appealing with 2017e EV/EBITDA of only 13.3x** (whereas it is a pure online player...), and a **P/E of 20.3x vs. EPS growth of 31%.** At our new FV of EUR62, the share would be valued at EV/EBITDA of 17.3x and P/E of 25.9x.

NEXT CATALYSTS

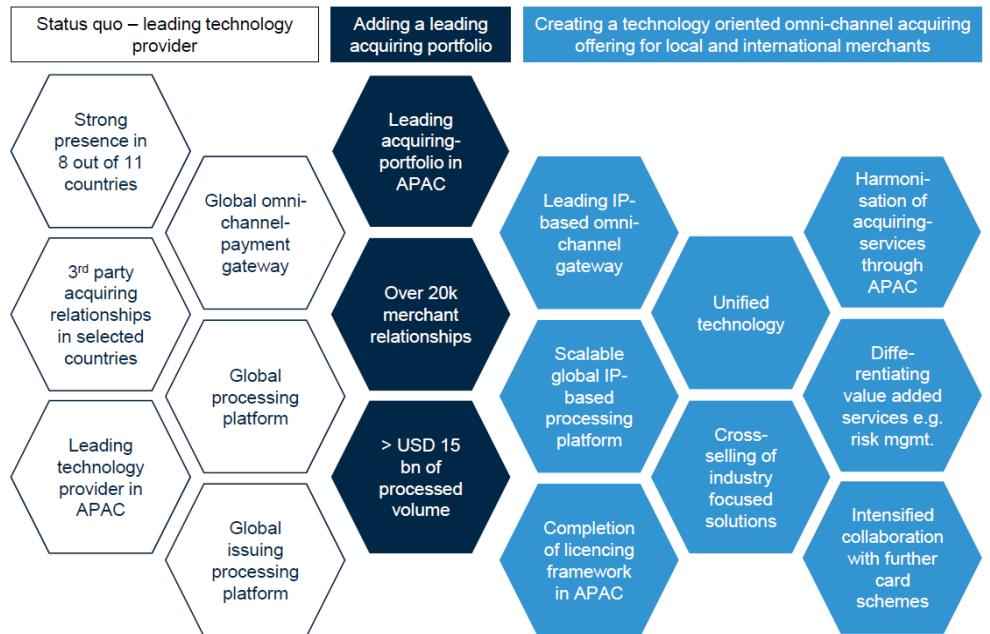
- Audited 2016 financial statements:** on 6th April.

Extended value chain in APAC



Source: Wirecard.

What's next?



Source: Wirecard.

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Analyst :
 Richard-Maxime Beaudoux
 33(0) 1.56.68.75.61
 rmbeaudoux@bryangarnier.com

Sector Team :
 Thomas Coudry
 Gregory Ramirez
 Dorian Terral

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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