

# OVB

## Buy (unchanged) Target: Euro 23.00 (old: Euro 22.00)

14 | August | 2019



### Double digit growth in 1H numbers, supported by all regions, target price up to 23 Euros, Buy clearly affirmed

Today OVB Holding AG published the 1H 2019 report and invited for a conference call. The 1H results were very positive and all in all above our expectations. Group's total sales revenues rocketed and unveiled a double digit growth of 10.2%, from Euro 115.3m to Euro 127.1m. This growth was driven by both organic and M&A driven growth, regarding the takeover of Willemot in Belgium. This well-known financial advisor was acquired end of last year in December and the transaction was closed mid of March. Willemot contributed Euro 9.2m to the group's top-line but even without Willemot the OVB group was able to lift the top-line by 2.3% on a like-for-like basis. The double digit growth from the revenues side was also reflected in the net profit, which jumped from Euro 3.8m to Euro 4.7m, by 24%. Another good point is the 7.8% rise in clients base, from 3.4 million one year ago to now almost 3.7million in 1H 2019. The clients' growth would have been at +4.6% even without the Belgian entity.

**The Eastern European market (CEE) was strong in terms of growth of clients, advisers, revenues and even more in terms of EBIT.** Clients hiked +6%, advisers +2% and revenues +3% in one year. The CEE 2Q 2019 revenues were at Euro 30.0m, a steep 8% growth compared to 2Q 2018 of Euro 27.9m, and this on an organic basis, only. The 1H CEE EBIT even increased 13% to Euro 4.2m. Looking at 2Q stand-alone the CEE EBIT even picked up by more than 50%, from Euro 1.7m to Euro 2.7m. All CEE countries except for Czech Republic and Slovakia contributed to these impressive results, in particular Poland and Romania delivered a strong growth momentum. Czech (-1.1%) and Slovakia (-2.5%) were only slightly below the 2018 level and keep in mind that 2018 numbers have been flattered in these countries by a change of IFRS 15 regulations. The management of OVB is quite confident to see a pick-up also in Czech and Slovakia in 2H 2019.

**The home market Germany also performed well with a 4% hike in sales revenues to Euro 30.1m and even an EBIT hike of 9% to Euro 4.1m.** The second quarter again was significantly stronger than the initial quarter of the year, in terms of revenues and EBIT. That's a success story keeping in mind a slow-down in economic growth for Germany. For the hike in the EBIT OVB managed to bring down some admin and marketing expenses here.

**The South and Western European market (SWE) profited from the new country Belgium as sales increased from Euro 29m to Euro 38m.** Without Belgium SWE sales would have been pretty much unchanged. The number of advisers was flattered by 194 new Belgian advisers at now 837, after 659 advisers (+27%). All in all, the numbers have been very satisfying. OVB keeps its guidance for a higher top-line but an EBIT of Euro 13.5m to Euro 14.0m, which is a bit conservative in our view. **We still feel comfortable with our somewhat higher forecast and leave that unchanged, after 1H release. Target up to € 23.00. Buy clearly confirmed.**

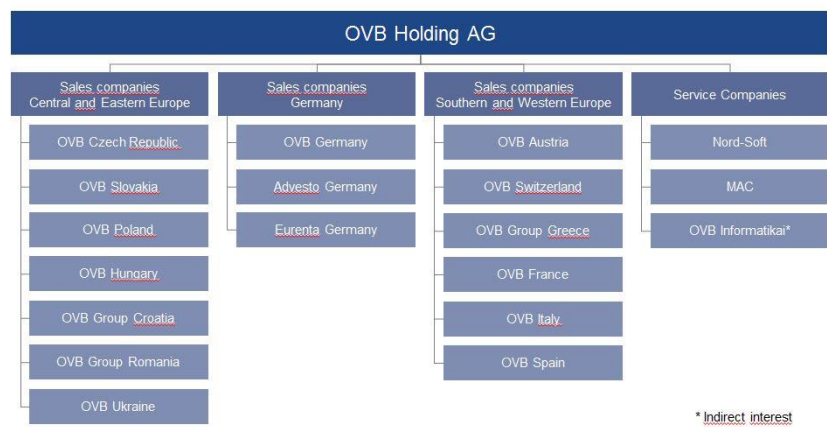
<b>Price (Euro)</b>	<b>16.80</b>			
52 weeks range	18.40 / 14.70			
<b>Key Data</b>				
Country	Germany			
Industry	Financial Services			
Transparency	Prime Standard			
Internet	www.ovb.ag			
Symbol	O4B			
ISIN	DE0006286560			
Securities ID-No.	628656			
Reuters	O4BG.DE			
Bloomberg	O4B			
Reporting Standard	IAS/ IFRS			
Fiscal Year	31/12			
Market Cap (EUR million)	239.4			
Number of shares (million)	14.3			
Free Float	3.0%			
Free Float MarketCap (Euro million)	7.2			
CAGR pre-tax profit '18 -'21e	9.2%			
<b>Multiples</b>				
	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
P/E-Ratio	24.9	23.0	21.0	18.7
P/S-Ratio	1.2	1.2	1.3	1.2
Dividend Yield	4.5%	4.5%	4.8%	4.8%
<b>Key Data per Share (Euro)</b>				
	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
Earnings per Share (EPS)	0.67	0.73	0.80	0.90
Dividends per Share (DPS)	0.75	0.75	0.80	0.80
Book Value per Share (BVPs)	6.35	6.46	6.59	6.75
<b>Financial Data (Euro '000)</b>				
	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
Brokerage Income	231,337	246,600	253,998	263,015
Total income	242,744	256,550	264,019	273,402
EBIT	13,163	14,172	15,328	16,613
EBIT-margin	5.7%	5.7%	6.0%	6.3%
Pre-tax profit (EBT)	12,840	13,968	15,274	16,698
Net profit after minorities	9,616	10,419	11,389	12,836
Shareholders' Equity	90,444	92,072	93,913	96,167
RoE after tax	10.7%	11.4%	12.2%	0.0%
<b>Main Shareholders</b>				
Basler Beteiligungsholding GmbH		32.6%		
Iduna Vereinigte Lebensversicherung AG		31.7%		
Deutscher Ring Krankenversicherungsverein		21.3%		
Generali CEE Holding B.V.		11.5%		
<b>Financial Calendar</b>				
3Q 2019	14 November 2019			
Annual report 2019	March 2020			
<b>Analyst</b>				
	<b>Dipl.-Kfm. Stefan Scharff, CREA</b>			
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OVB Holding AG			
<b>Industry:</b>	Financial Advisory	<b>Management Board of OVB Holding AG:</b>	
<b>Sub-segment:</b>	Private households	CEO Mario Freis	
<b>Country:</b>	Germany	CFO Oskar Heitz	COO Thomas Hücker
<b>Headquarter:</b>	Cologne		
<b>Foundation:</b>	1970		
<b>Employees:</b>	505	<b>Supervisory Board of OVB Holding AG:</b>	
(Holding, IT and services)		Michael Johnigk (Chairman)	Markus Jost
<b>IR Contact:</b>		Dr. Thomas A. Lange	Wilfried Kempchen
Brigitte Bonifer (Mail: bbonifer@ovb.de)		Maximilian Beck	Winfried Spies

Cologne-based OVB was founded in 1970 and is therefore one of the first independent financial advisors being active in Germany. Today the company is among the leading European companies distributing the complete range of financial products like for instance property-, health- and accident-insurances as well as mutual funds, provision products and corporate pension products to private households. About two Thirds of all new business is from unit-linked provision products and other old-age provision solutions. The demography of today's society (lots of old retired people and a shrinking number of young families) demands for additional private old-age provision besides the public pension, in particular in aging Western European countries. OVB's major target groups are the middle class households with an average to affluent incomes.

OVB has a broad customer base of about 3.7m clients across Europe. Almost 5,000 independent financial advisers provide a superior independent financial advice. At present, after the market entry in Belgium in December 2018, OVB is represented in 15 countries. To simplify reporting, countries are being classified in three regions: France, Italy, Spain, Switzerland, Austria, Greece and Belgium belong to South and Western Europe (SWE). SWE stands for 24% of group's revenues at present. The lion's share of revenues (50 %) comes from Central- Eastern Europe (namely Poland, Hungary, Romania, Slovakia, Czech Republic, Croatia and Ukraine). Germany as domestic market stands for its own and has a share on total revenues of about 26%.



Due to an early engagement as outrider in CEE already in early Nineties, OVB has a very sound and in some countries even a leading market position. Therefore, the majority of advisers are active in the CEE-region (about 2,800 of approx. 5,000 advisers) and usually generate the largest contribution to group's operating profit (about 40%). However, the fifteen national markets of OVB count a population of more than 410 million people. The company generates more than 70% of its total revenues outside Germany and has therefore by far the most significant foreign business compared to other German competitors within the IFA industry. With its diversified revenues from old-age solutions and a growing business in real estate finance OVB is not very dependent on the economic development or a changing regulation of one single country, which helps in an economic downturn and during the continued very low interest environment. Anyhow, the management continuously screens further national markets to expand its reach in Europe (the Baltics might be a topic for later years, also Serbia, Bosnia and Lux).

Regarding to the Evolution 2022 program the firm wants to enter at least 1 more new country until 2022. With regards to the dividend, OVB is a steady and reliable payer, the 2018 dividend remains stable at 75 Cents. The dividend yield is high at the current share price, above 4%. The 2018 RoE after tax is at high 10.7%, but below last year's level of 13.8%. We expect similar or slightly rising RoEs and profits for the next two years 2019 and 2020 but below the 2017 level, due to some significant investments with the Evolution 2022 program to strengthen education and efficiency of the group as well as to drive the regional expansion.

Source: Company Data, SRC Research

## SWOT-Analysis

### Strengths

- ▶ OVB is a well-known brand in Germany and also in most of its foreign markets. In particular in Germany OVB is almost 50 years in the market and belongs to the first independent financial advisers in the industry.
- ▶ Retirement provisions are an important future market. The unfavourable demographic constellation in Germany and other European countries (decreasing birth-rates and increasing old-agers) forces the households to more private precaution. In the last years, the very low interest rate level and the shaky economic situation in most European countries with low growth rates is a challenging overall situation for financial advisors.
- ▶ The pension systems of CEE-countries are strongly based on the responsibility of each individual for its old-age pension and, thus, offer huge earnings potential for IFA companies. The good strategic positioning in Eastern Europe is a very crucial point of OVB's equity story. OVB proved a successful track record for many years with a steep hike in CEE sales revenues of 7% in 2018, another +3% in 1H 2019.
- ▶ Sound geographical diversification leads to less dependence on single markets and high potential to offset some declining single markets. A weaker business in Spain and Italy in SWE region was balanced by a better performance in Austria and Switzerland and the performance of CEE. The group's 2018 net profit came down to Euro 9.6m, after Euro 12.1m in 2017. The SWE EBIT which was at Euro 8.3m in 2016 came down to Euro 6.2m in 2018 with the lower contribution from Spain and Italy. We expect a gradual recovery here in 2019, supported by the new Belgian market, at latest from 2020 on.

### Weaknesses

- ▶ Free Float is only at 3.0%, meaning lower trading in OVB-stocks at the stock-markets and a relatively low Free Float market cap of some Euro 8m. Therefore liquidity of the share is low.

### Opportunities

- ▶ The IFA industry has to deal with basic changes. The regulations aim on a better consumer protection and a higher quality standard. Smaller companies or semi-professionals will not survive with changed regulations along with higher costs. Winner of this IFA-consolidation are the large, sophisticated and established companies like OVB but regulation is also one part of the needed investments which bring down the bottom line of OVB in the next two years.
- ▶ The expansion in some more European countries might help to accelerate the group's growth (e.g. the Baltics, Luxembourg or Portugal might offer interesting opportunities). With Belgium the 2019 top-line will grow about Euro 14m to Euro 15m (Euro 9.2m in 1H 2019 was a good start).

### Threats

- ▶ Increasing challenge to find qualified financial consultants. Due to new regulations that restrict activity of financial consulting to qualified and well-trained staff, hiring of new manpower became more challenging and more cost-intensive.

## P&L Account for OVB Holding AG

31/12 IFRS ('000 Euro)	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR '18 - '21e
<b>Brokerage Income*</b>	<b>197,398</b>	<b>210,108</b>	<b>218,693</b>	<b>221,629</b>	<b>231,337</b>	<b>246,600</b>	<b>253,998</b>	<b>263,015</b>	<b>4.4%</b>
Other operating income	7,520	9,379	8,845	9,680	11,407	9,950	10,021	10,387	
<b>Total income</b>	<b>204,918</b>	<b>219,487</b>	<b>227,538</b>	<b>231,309</b>	<b>242,744</b>	<b>256,550</b>	<b>264,019</b>	<b>273,402</b>	<b>4.0%</b>
Brokerage expenses	-128,503	-139,739	-144,509	-148,040	-155,079	-167,002	-174,344	-180,114	
<b>Gross profit</b>	<b>68,895</b>	<b>70,369</b>	<b>74,184</b>	<b>73,589</b>	<b>76,258</b>	<b>79,598</b>	<b>79,654</b>	<b>82,901</b>	
<i>Gross margin</i>	<i>34.9%</i>	<i>33.5%</i>	<i>33.9%</i>	<i>33.2%</i>	<i>33.0%</i>	<i>32.3%</i>	<i>31.4%</i>	<i>31.5%</i>	
Personnel expenses	-26,830	-26,678	-26,128	-27,966	-29,778	-30,410	-30,877	-31,610	
Other operating expenses	-34,197	-35,352	-36,775	-35,224	-40,461	-40,554	-38,850	-40,145	
<b>EBITDA</b>	<b>15,388</b>	<b>17,718</b>	<b>20,126</b>	<b>20,079</b>	<b>17,426</b>	<b>18,584</b>	<b>19,948</b>	<b>21,533</b>	
<i>EBITDA-margin</i>	<i>7.8%</i>	<i>8.4%</i>	<i>9.2%</i>	<i>9.1%</i>	<i>7.5%</i>	<i>7.5%</i>	<i>7.9%</i>	<i>8.2%</i>	
Depreciation and amortisation	-3,133	-3,683	-3,610	-4,113	-4,263	-4,412	-4,620	-4,920	
<b>Operating profit (EBIT)</b>	<b>12,255</b>	<b>14,035</b>	<b>16,516</b>	<b>15,966</b>	<b>13,163</b>	<b>14,172</b>	<b>15,328</b>	<b>16,613</b>	<b>8.1%</b>
<i>EBIT margin</i>	<i>6.2%</i>	<i>6.7%</i>	<i>7.6%</i>	<i>7.2%</i>	<i>5.7%</i>	<i>5.7%</i>	<i>6.0%</i>	<i>6.3%</i>	
Financial result	636	339	738	418	-323	-204	-54	85	
<b>Earnings before taxes (EBT)</b>	<b>12,891</b>	<b>14,374</b>	<b>17,254</b>	<b>16,384</b>	<b>12,840</b>	<b>13,968</b>	<b>15,274</b>	<b>16,698</b>	<b>9.2%</b>
<i>EBT margin</i>	<i>6.5%</i>	<i>6.8%</i>	<i>7.9%</i>	<i>7.4%</i>	<i>5.6%</i>	<i>5.7%</i>	<i>6.0%</i>	<i>6.3%</i>	
Taxes on income	-4,169	-4,779	-4,564	-4,048	-3,115	-3,398	-3,705	-4,054	
<i>Tax rate</i>	<i>32.3%</i>	<i>33.2%</i>	<i>26.5%</i>	<i>24.7%</i>	<i>24.3%</i>	<i>24.3%</i>	<i>24.3%</i>	<i>24.3%</i>	
Consolidated net income for the year	<b>8,722</b>	<b>9,595</b>	<b>12,690</b>	<b>12,336</b>	<b>9,725</b>	<b>10,570</b>	<b>11,569</b>	<b>12,644</b>	
Minority interests	-1	-217	-154	-194	-109	-151	-180	192	
<b>Net profit after minorities</b>	<b>8,721</b>	<b>9,378</b>	<b>12,536</b>	<b>12,142</b>	<b>9,616</b>	<b>10,419</b>	<b>11,389</b>	<b>12,836</b>	<b>10.1%</b>
<i>Return on sales</i>	<i>4.4%</i>	<i>4.5%</i>	<i>5.7%</i>	<i>5.5%</i>	<i>4.2%</i>	<i>4.2%</i>	<i>4.5%</i>	<i>4.9%</i>	
Number of shares ('000)	14,251	14,251	14,251	14,251	14,251	14,251	14,251	14,251	
<b>Earnings per Share (EPS)</b>	<b>0.61</b>	<b>0.66</b>	<b>0.88</b>	<b>0.85</b>	<b>0.67</b>	<b>0.73</b>	<b>0.80</b>	<b>0.90</b>	
Dividends per Share (DPS)	0.60	0.65	0.75	0.75	0.75	0.75	0.80	0.80	
Book Value per Share (BVPS)	5.86	5.94	6.16	6.22	6.35	6.46	6.59	6.75	
Total assets	151,887	159,260	167,768	173,020	186,327	190,240	194,806	198,897	
<b>Shareholders' Equity</b>	<b>83,460</b>	<b>84,632</b>	<b>87,746</b>	<b>88,664</b>	<b>90,444</b>	<b>92,072</b>	<b>93,913</b>	<b>96,167</b>	<b>2.1%</b>

\* without secondary contracts

Key data	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	2018	1Q 2019	2Q 2019
Clients	3,280,000	3,300,000	3,330,000	3,350,000	3,350,000	3,370,000	3,410,000	3,440,000	3,480,000	3,480,000	3,630,000	3,670,000
Advisers	4,916	4,872	4,774	4,702	4,702	4,709	4,732	4,747	4,715	4,715	4,911	4,954
Total sales revenues	58,400,000	56,100,000	51,800,000	59,000,000	225,300,000	58,600,000	56,700,000	53,800,000	62,200,000	231,300,000	63,100,000	64,000,000
EBIT	3,300,000	4,500,000	2,700,000	5,500,000	16,000,000	2,900,000	2,700,000	2,700,000	4,900,000	13,200,000	2,600,000	3,100,000
EBIT Margin	5.7%	8.0%	5.2%	9.3%	7.1%	4.9%	4.8%	5.0%	7.9%	5.7%	4.1%	4.8%
Net profit (after minorities)	2,463,000	3,079,000	2,219,000	4,381,000	12,142,000	1,900,000	1,900,000	1,800,000	4,016,000	9,616,000	2,436,000	2,225,000
<b>Regions</b>												
<b>CEE</b>	<b>1Q 2017</b>	<b>2Q 2017</b>	<b>3Q 2017</b>	<b>4Q 2017</b>	<b>2017</b>	<b>1Q 2018</b>	<b>2Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2018</b>	<b>2018</b>	<b>1Q 2019</b>	<b>2Q 2019</b>
Clients	2,220,000	2,230,000	2,260,000	2,270,000	2,270,000	2,290,000	2,320,000	2,340,000	2,390,000	2,390,000	2,420,000	2,450,000
Advisers	2,875	2,831	2,755	2,753	2,753	2,748	2,760	2,786	2,752	2,752	2,779	2,824
Total sales revenues	27,900,000	27,300,000	25,500,000	28,300,000	109,000,000	29,400,000	27,900,000	26,300,000	32,700,000	116,300,000	29,000,000	30,000,000
EBIT	2,200,000	2,700,000	1,500,000	3,100,000	9,500,000	2,000,000	1,700,000	2,600,000	3,600,000	9,900,000	1,500,000	2,700,000
EBIT Margin	7.9%	9.9%	5.9%	11.0%	8.7%	6.8%	6.1%	9.9%	11.0%	8.5%	5.2%	9.0%
<b>Germany</b>	<b>1Q 2017</b>	<b>2Q 2017</b>	<b>3Q 2017</b>	<b>4Q 2017</b>	<b>2017</b>	<b>1Q 2018</b>	<b>2Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2018</b>	<b>2018</b>	<b>1Q 2019</b>	<b>2Q 2019</b>
Clients	628,474	623,149	623,171	623,138	623,138	618,793	619,386	619,431	616,775	616,775	616,307	614,423
Advisers	1,309	1,325	1,345	1,296	1,296	1,306	1,313	1,319	1,333	1,333	1,299	1,293
Total sales revenues	15,300,000	13,800,000	13,800,000	16,200,000	59,100,000	14,500,000	14,500,000	14,100,000	16,300,000	59,400,000	14,900,000	15,200,000
EBIT	1,400,000	1,600,000	1,400,000	2,300,000	6,700,000	1,700,000	2,100,000	1,100,000	2,200,000	7,100,000	1,900,000	2,200,000
EBIT Margin	9.2%	11.6%	10.1%	14.2%	11.3%	11.7%	14.5%	7.8%	13.5%	12.0%	12.8%	14.5%
<b>South-Western Europe</b>	<b>1Q 2017</b>	<b>2Q 2017</b>	<b>3Q 2017</b>	<b>4Q 2017</b>	<b>2017</b>	<b>1Q 2018</b>	<b>2Q 2018</b>	<b>3Q 2018</b>	<b>4Q 2018</b>	<b>2018</b>	<b>1Q 2019</b>	<b>2Q 2019</b>
Clients	436,741	442,271	447,652	453,044	453,044	461,152	464,937	474,313	481,283	481,283	600,534	606,370
Advisers	732	716	674	653	653	655	659	642	630	630	833	837
Total sales revenues	15,100,000	15,200,000	12,500,000	14,400,000	57,200,000	14,700,000	14,300,000	13,300,000	13,300,000	55,600,000	19,200,000	18,800,000
EBIT	2,000,000	2,000,000	1,400,000	2,200,000	7,600,000	1,500,000	1,400,000	1,600,000	1,700,000	6,200,000	1,300,000	1,100,000
EBIT Margin	13.2%	13.2%	11.2%	15.3%	13.3%	10.2%	9.8%	12.0%	12.8%	11.2%	6.8%	5.9%

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Rating Chronicle	Date	rating	former share price	former target
OVV Holding AG	8-May-19	Buy	17.00 €	22.00 €
OVV Holding AG	22-Mar-19	Buy	17.00 €	22.00 €
OVV Holding AG	9-Nov-18	Buy	16.20 €	22.00 €
OVV Holding AG	8-Aug-18	Hold	19.10 €	21.00 €
OVV Holding AG	8-May-18	Hold	18.30 €	20.00 €
OVV Holding AG	26-Mar-18	Hold	20.20 €	20.00 €
OVV Holding AG	13-Nov-17	Hold	18.88 €	20.00 €
OVV Holding AG	14-Aug-17	Accumulate	18.91 €	21.00 €

**Please note:**

The OVV share price mentioned in this report is from closing of 13 August 2019. OVV mandated SRC Research for covering the OVV share.

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