OVB

THOMSON REUTERS ANALYST AWARDS 2017 WINNER

SRC Der Spezialist für Finanzaktien

Hold (unchanged) **Target: Euro 20.00** (unchanged)

26 | March | 2018

Price (Euro)	**20.20**
52 weeks range	23.50 / 17.11

Key Data

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)	287.9
Number of shares (million)	14.3
Free Float	3.0%
Free Float MarketCap (Euro million)	8.6
CAGR pre-tax profit '17 -'20e	2.6%

Multiples	**2017**	**2018e**	**2019e**	**2020e**
P/E-Ratio	**23.7**	**27.5**	**25.3**	**22.2**
P/S-Ratio	**1.4**	**1.5**	**1.5**	**1.5**
Dividend Yield	3.7%	3.7%	3.7%	4.0%

Key Data per Share (Euro)	**2017**	**2018e**	**2019e**	**2020e**
Earnings per Share (EPS)	**0.85**	**0.74**	**0.80**	**0.91**
Dividends per Share (DPS)	0.75	0.75	0.75	0.80
Book Value per Share (BVpS)	6.22	6.28	6.40	6.75

Financial Data (Euro '000)	**2017**	**2018e**	**2019e**	**2020e**
Brokerage Income	**221,629**	**217,196**	**220,454**	**226,076**
Total income	231,309	225,758	229,774	235,928
EBIT	**15,966**	**13,856**	**15,124**	**17,249**
EBIT-margin	*7.2%*	*6.4%*	*6.9%*	*7.6%*
Pre-tax profit (EBT)	16,384	14,236	15,559	17,716
Net profit after minorities	**12,142**	**10,477**	**11,399**	**12,945**
Shareholders' Equity	88,664	89,551	91,163	96,240
RoE after tax	**13.8%**	**11.8%**	**12.6%**	**13.8%**

Main Shareholders

Basler Beteiligungsholding GmbH	32.6%
Iduna Vereinigte Lebensversicherung AG	31.7%
Deutscher Ring Krankenversicherungsverein	21.3%
Generali Lebensversicherung AG	11.5%

Financial Calendar

1Q 2018	8 May 2018
AGM	5 June 2018
2Q 2018	7 August 2018

Analyst **Dipl.-Kfm. Stefan Scharff, CREA**

☎ 49 (0)69 400 313-80

✉ scharff@src-research.de

Internet

www.src-research.de
www.aktienmarkt-deutschland.de
www.aktienmarkt-intenational.de
www.aktienmarkt-international.at

A good fourth quarter leads to a satisfying full year result- The Evolution 2022 investments will bring down the 2018 profits but help for much better midterm efficiency

Last Friday, on 23 March, independent financial advisor OVB Holding published its 2017 annual report and invited for an analysts' conference. After a good first quarter and a much more difficult second and particularly third quarter, the numbers of the final quarter have been much better again, with rising EBITs in all three regional units, not only on a q-o-q level compared to the weak 3Q result but also improving from a good 4Q in 2016.

Sales revenues of the group were at Euro 225m, only 2.8% below the 2016 level of Euro 232m, which we regard as success in the challenging zero interest environment and with some regulatory changes underway in some markets. Looking at 4Q 2017 EBIT on group's level, it was at Euro 5.5m, +34% compared to 4Q 2016 and double of the low 3Q 2017 level (Euro 2.7m). **Overall, the 2017 EBIT of Euro 16.0m was just slightly under the Euro 16.5m in 2016 – according to guidance.** Our forecast was at only 15.4m as we did not expect such a surge in the fourth quarter.

The best and most important jump was in CEE region, an 11% q-o-q jump from Euro 25.5m revenues in 3Q 2017 to Euro 28.3m in 4Q 2017, almost back at the 2016 level of Euro 28.7m, despite a weak Czech market which was impaired by regulatory changes, but even CZ showed some stabilization in the final quarter. With regards to EBIT, the 4Q 2017 margin in CEE was at high 11.0%, much higher than in 4Q 2016 at 7.3%.

Germany also did well in 4Q with a q-o-q revenues jump from disappointing Euro 13.8m to Euro 16.2m and a margin improvement from 10% in 4Q 2016 to 14% in 4Q 2017.

The third market SWE stabilized on the high level of 2016. While Italy, Spain and Switzerland came a little below the high 2016 level, Austria delivered rising numbers. All in all, the 2017 revenues just slightly came down by 2% to Euro 57m. Looking at 4Q stand-alone, it was encouraging, giving a small rise in SWE revenues and an improving EBIT margin from 14.7% to 15.3%.

The firm gave a 2018 guidance which is coined by investments for the Evolution 2022 programme and some regulatory change. **The Evolution 2022 program means to better prepare OVB for the future by 1) Realisation of full potential 2) Digitisation 3) Modernisation 4) Expansion** (at least 2 more countries until 2022).

With group's revenues slightly below the 2017, the EBIT should come in between Euro 13.0m and 13.5m, a Minus of Euro 2.5m to Euro 3.0m compared to 2017, thereof Euro 1.5m comes from CEE market and about Euro 1.0m to Euro 1.5m from the Corporate Centre. In our view, this guidance might be a bit too cautious. We expect the EBIT to come near to Euro 14m and – as OVB – a stable 75 Cents dividend payment. **The Evolution 2022 program addresses the right topics but brings down the short term profitability. All in all, we keep our Hold rating unchanged and also maintain our Euro 20.00 target price.**

Investment Case

OVB Holding AG

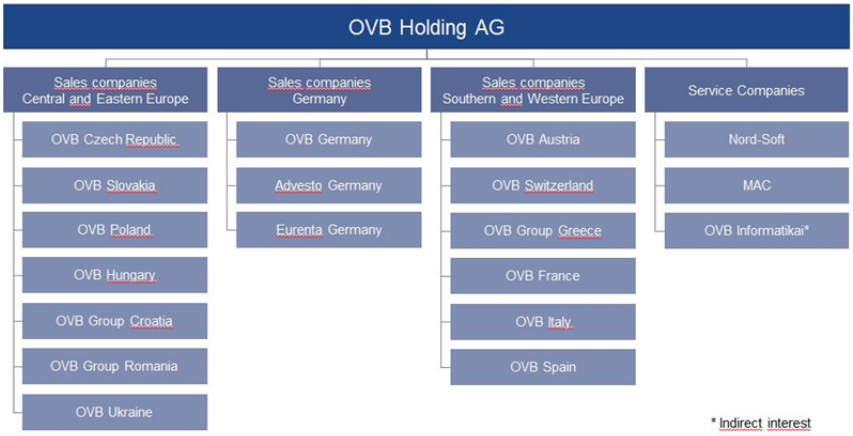
Industry:	Financial Advisory
Sub-segment:	Private households
Country:	Germany
Headquarter:	Cologne
Foundation:	1970
Employees:	474
(Holding, IT and services)	

IR Contact:
Brigitte Bonifer (Mail: bbonifer@ovb.de)

Management Board of OVB Holding AG:
CEO Mario Freis
CFO Oskar Heitz COO Thomas Hücker

Supervisory Board of OVB Holding AG:
Michael Johnigk (Chairman) Markus Jost
Dr. Thomas A. Lange Wilfried Kempchen
Dr. Alexander Tourneau 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. Almost two Thirds of all new business is from unit-linked provision products. 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 Euopean countries. OVB's major target groups are the middle class households with an average to affluent incomes.
The company has a broad customer base of more than 3.3m clients across Europe. About 4,700 independent financial advisers provide a superor independent financial advice. At present, OVB is represented in 14 countries. To simplify reporting, countries are being classified in three regions: France, Italy, Spain, Switzerland, Austria and Greece belong to South and Western Europe (SWE). SWE stands for 25% of group's revenues at present. The lion's share of revenues (over 48%) 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 4,700 advisers) and usually generate the largest contribution to group's operating profit (about 40%). However, the fourteen national markets of OVB count a population of more than 400 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 continously screens further national markets to expand its reach in Europe (the Baltics might be a topic for later years, also Serbia, Bosnia and Benelux). Regarding to the Evolution 2022 program the firm wants to enter at least 2 new countries until 2022. With regards to the dividend, OVB is a steady and reliable payer, the 2017 dividend remains stable at 75 Cents, after it climbed before three years in a row. The dividend yield is high at the current share price, almost 4%. The 2017 RoE after tax is at very high 13.8%, near to last year's level of 14.5%. We expect somewhat lower RoEs and net profits for the next two years 2018 and 2019 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 over 45 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. At the moment, 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 although there was no growth in 2017. For 2017 the CEE guidance is careful with slightly declining sales but a significantly lower EBIT contribution, only about Euro 8m, after Euro 9.5m in 2017.
- Sound geographical diversification leads to less dependence on single markets and high potential to offset some declining single markets. Good business in 2017 again in SWE region (in particular Austria) after an increasing trend in former years 2014, 2015 and 2016, which balanced a weaker growth in Germany. The group's 2017 net profit remained almost stable at Euro 12.1m, while it rocketed 34% in 2016. The SWE EBIT almost doubled in only 2 years from Euro 4.5m (2014) to Euro 8.3m (2016) and now remained relatively stable at Euro 7.6m in 2017.

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. Benelux and the Baltics might be an option).

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)	2013	2014	2015	2016	2017	2018e	2019e	2020e	CAGR '17 - '20e
Brokerage Income*	**187,581**	**197,398**	**210,108**	**218,693**	**221,629**	**217,196**	**220,454**	**226,076**	**0.7%**
Other operating income	8,658	7,520	9,379	8,845	9,680	8,562	9,320	9,852	
Total income	**196,239**	**204,918**	**219,487**	**227,538**	**231,309**	**225,758**	**229,774**	**235,928**	**0.7%**
Brokerage expenses	-121,826	-128,503	-139,739	-144,509	-148,040	-141,515	-143,145	-147,302	
Gross profit	**65,755**	**68,895**	**70,369**	**74,184**	**73,589**	**75,681**	**77,309**	**78,774**	
Gross margin	*35.1%*	*34.9%*	*33.5%*	*33.9%*	*33.2%*	*34.8%*	*35.1%*	*34.8%*	
Personnel expenses	-25,549	-26,830	-26,678	-26,128	-27,966	-28,655	-29,245	-29,544	
Other operating expenses	-35,786	-34,197	-35,352	-36,775	-35,224	-37,502	-37,955	-37,245	
EBITDA	**13,078**	**15,388**	**17,718**	**20,126**	**20,079**	**18,086**	**19,429**	**21,837**	
EBITDA-margin	*7.0%*	*7.8%*	*8.4%*	*9.2%*	*9.1%*	*8.3%*	*8.8%*	*9.7%*	
Depreciation and amortisation	-2,870	-3,133	-3,683	-3,610	-4,113	-4,230	-4,305	-4,588	
Operating profit (EBIT)	**10,208**	**12,255**	**14,035**	**16,516**	**15,966**	**13,856**	**15,124**	**17,249**	**2.6%**
EBIT margin	*5.4%*	*6.2%*	*6.7%*	*7.6%*	*7.2%*	*6.4%*	*6.9%*	*7.6%*	
Financial result	937	636	339	738	418	380	435	467	
Earnings before taxes (EBT)	**11,145**	**12,891**	**14,374**	**17,254**	**16,384**	**14,236**	**15,559**	**17,716**	**2.6%**
EBT margin	*5.9%*	*6.5%*	*6.8%*	*7.9%*	*7.4%*	*6.6%*	*7.1%*		
Taxes on income	-3,122	-4,169	-4,779	-4,564	-4,048	-3,614	-3,995	-4,556	
Tax rate	*28.0%*	*32.3%*	*33.2%*	*26.5%*	*24.7%*	*25.4%*	*25.7%*	*25.7%*	
Consolidated net income for the year	**8,023**	**8,722**	**9,595**	**12,690**	**12,336**	**10,622**	**11,564**	**13,160**	
Minority interests	-2	-1	-217	-154	-194	-145	-165	-215	
Net profit after minorities	**8,021**	**8,721**	**9,378**	**12,536**	**12,142**	**10,477**	**11,399**	**12,945**	**2.2%**
Return on sales	*4.3%*	*4.4%*	*4.5%*	*5.7%*	*5.5%*	*4.8%*	*5.2%*	*5.7%*	
Number of shares ('000)	14,251	14,251	14,251	14,251	14,251	14,251	14,251	14,251	
Earnings per Share (EPS)	**0.56**	**0.61**	**0.66**	**0.88**	**0.85**	**0.74**	**0.80**	**0.91**	
Dividends per Share (DPS)	0.55	0.60	0.65	0.75	0.75	0.75	0.75	0.80	
Book Value per Share (BVPS)	5.82	5.86	5.94	6.16	6.22	6.28	6.40	6.75	
Total assets	146,730	151,887	159,260	167,768	173,020	171,463	175,064	180,666	
Shareholders' Equity	**82,890**	**83,460**	**84,632**	**87,746**	**88,664**	**89,551**	**91,163**	**96,240**	**2.8%**

** without secondary contracts*

Key data

Group	**2015**	**1Q 2016**	**2Q 2016**	**3Q 2016**	**4Q 2016**	**2016**	**1Q 2017**	**2Q 2017**	**3Q 2017**	**4Q 2017**	**2017**
Clients	3,240,835	3,260,000	3,260,000	3,260,000	3,270,000	3,270,000	3,280,000	3,300,000	3,330,000	3,350,000	3,350,000
Advisers	5,062	5,179	5,107	5,089	4,972	4,972	4,916	4,872	4,774	4,702	4,702
Total sales revenues	224,700,000	57,068,000	58,732,000	55,300,000	60,700,000	231,800,000	58,400,000	56,100,000	51,800,000	59,000,000	225,300,000
EBIT	14,035,000	2,952,000	5,094,000	4,387,000	4,083,000	16,516,000	3,300,000	4,500,000	2,700,000	5,500,000	16,000,000
EBIT Margin	6.2%	5.2%	8.7%	7.9%	6.7%	7.1%	5.7%	8.0%	5.2%	9.3%	7.1%
Net profit (after minorities)	9,378,000	2,033,000	4,115,000	3,517,000	2,871,000	12,536,000	2,463,000	3,079,000	2,219,000	4,381,000	12,142,000

Regions

CEE	**2015**	**1Q 2016**	**2Q 2016**	**3Q 2016**	**4Q 2016**	**2016**	**1Q 2017**	**2Q 2017**	**3Q 2017**	**4Q 2017**	**2017**
Clients	2,210,000	2,210,000	2,200,000	2,200,000	2,200,000	2,200,000	2,220,000	2,230,000	2,260,000	2,270,000	2,270,000
Advisers	3,087	3,132	3,044	3,028	2,944	2,944	2,875	2,831	2,755	2,753	2,753
Total sales revenues	108,200,000	26,000,000	28,800,000	26,200,000	28,700,000	109,700,000	27,900,000	27,300,000	25,500,000	28,300,000	109,000,000
EBIT	9,400,000	1,700,000	3,000,000	2,700,000	2,100,000	9,500,000	2,200,000	2,700,000	1,500,000	3,100,000	9,500,000
EBIT Margin	8.7%	6.5%	10.4%	10.3%	7.3%	8.7%	7.9%	9.9%	5.9%	11.0%	8.7%

Germany	**2015**	**1Q 2016**	**2Q 2016**	**3Q 2016**	**4Q 2016**	**2016**	**1Q 2017**	**2Q 2017**	**3Q 2017**	**4Q 2017**	**2017**
Clients	642,107	639,288	636,894	635,471	633,025	633,025	628,474	623,149	623,171	623,138	623,138
Advisers	1,309	1,327	1,347	1,357	1,300	1,300	1,309	1,325	1,345	1,296	1,296
Gesamtprovision	64,900,000	16,400,000	14,300,000	15,600,000	17,600,000	63,900,000	15,300,000	13,800,000	13,800,000	16,200,000	59,100,000
EBIT	6,500,000	1,500,000	1,400,000	2,000,000	1,800,000	6,700,000	1,400,000	1,600,000	1,400,000	2,300,000	6,700,000
EBIT Margin	10.0%	9.1%	9.8%	12.8%	10.2%	10.5%	9.2%	11.6%	10.1%	14.2%	11.3%

South-Western Europe	**2015**	**1Q 2016**	**2Q 2016**	**3Q 2016**	**4Q 2016**	**2016**	**1Q 2017**	**2Q 2017**	**3Q 2017**	**4Q 2017**	**2017**
Clients	388,728	408,994	419,593	426,649	432,712	432,712	436,741	442,271	447,652	453,044	453,044
Advisers	666	720	716	704	728	728	732	716	674	653	653
Total sales revenues	51,600,000	14,600,000	15,800,000	13,500,000	14,300,000	58,200,000	15,100,000	15,200,000	12,500,000	14,400,000	57,200,000
EBIT	6,700,000	1,800,000	2,500,000	1,900,000	2,100,000	8,300,000	2,000,000	2,000,000	1,400,000	2,200,000	7,600,000
EBIT Margin	13.0%	12.3%	15.8%	14.1%	14.7%	14.3%	13.2%	13.2%	11.2%	15.3%	13.3%

SRC Research
– The Specialist for Financial and Real Estate Stocks –

SRC-Scharff Research und Consulting GmbH
Klingerstrasse 23
D-60313 Frankfurt
Germany
Fon: +49 (0) 69 / 400 313 - 80
E-Mail: scharff@src-research.de
Internet: www.src-research.de

Rating Chronicle	Date	rating	former share price	former target
OVB Holding AG	13-Nov-17	Hold	18.88 €	20.00 €
OVB Holding AG	14-Aug-17	Accumulate	18.91 €	21.00 €
OVB Holding AG	10-May-17	Buy	17.93 €	23.00 €
OVB Holding AG	29-Mar-17	Buy	18.70 €	23.00 €
OVB Holding AG	10-Nov-16	Buy	15.80 €	22.00 €
OVB Holding AG	10-Aug-16	Buy	17.00 €	22.00 €
OVB Holding AG	12-May-16	Buy	17.20 €	21.00 €
OVB Holding AG	21-Mar-16	Buy	13.85 €	21.00 €
OVB Holding AG	8-Feb-16	Buy	14.00 €	23.00 €

Please note:
The OVB share price mentioned in this report is from closing of 23 March 2018. OVB mandated SRC Research for covering the OVB share.

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