

Rating **SELL**
Price (05 Aug 20, €) 1.90
Price Target (€) 0.81
Market Cap (€ m) 234.775
Enterprise value (€ B) -1.75

Target price is an estimate based on past data

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Wirecard (WDI.DE)

COMMENT

‘Elaborate and sophisticated fraud’ says EY auditing department

After the scandal hit, the German payments provider filed for insolvency and its CEO was arrested. EY discovered the €1.9 billion gap during the audit of their 2019 financial statements. The missing money was supposed to be help by two banks in the Philippine’s, but this was later confirmed to be false. The value of Wirecard shares has fallen over **98%** since EY has refused to sign off on the firm financial statement. "It is frightening how long Wirecard AG was able to operate without being objected to by the auditors," partner Wolfgang Schirp said.

Share Price Performance



Financial and valuation metrics

Year	05/08/20	09/30/19	06/30/19
Market Cap (£m)	229.83	11,130	18,290
EV (£B)	-1.75	16.36	16.57
EV/Rev	-0.69	22.36	25.77
EV/EBITDA	-2.40	73.25	87.76
Trailing P/E	0.48	42.41	47.76
Forward P/E	16.53	25.38	36.63
Price/Sales	0.09	7.75	8.46
Price/Book	0.10	8.45	8.93

Performance	WDI.DE	DAX	PYPL	Year	05/08/20
TTM (%)	-0.53	+0.70	+2.83	Trailing annual dividend rate	0.20
1W (%)	-9.57	-1.13	+9.92	Trailing annual dividend yield	10.39%
2W (%)	+5.11	-1.64	+13.73	5 Year average dividend yield	0.44
1M (%)	-31.62	+5.43	+11.75	Debt/Equity	80.10
3M (%)	-97.74	+24.38	+39.98	BV/Share	18.73
6M (%)	-98.63	+0.43	+70.68	Free float (%)	49.33

Performance comparisons:

- Paypal (PYPL) is the main US competitor of Wirecard. This company has performed outstandingly over the recent Covid-19 crisis (this is due to an increase in need for online payments). Due to the size of this company it has entered global markets and therefore during the downfall of Wirecard, consumers may have switched to this as a substitute. Although Paypal is a slightly different concept it is mainly included to show the difference between a same-industry competitor and the research subject.
- WDI.DE used to gain a large proportion of their revenue through fairFX foreign currency cards. However, after the ‘scandal’ fairFX customers were unable to use their cards for purchases abroad. This may be a reason for the negative performance and relatively low bounce-back recovery levels (lost brand loyalty). This 98% fall was directly after the crisis and the company filed for insolvency as they were unsure of whether the money lost could be recovered (sourced from multiple interview articles from partners and directors).
- DAX is the top 30 German companies on a market cap basis. The Frankfurt stock exchange floats these and this is included to show the WDI.DE fall isn’t a market norm. This fall was largely a result of the ‘scandal’ and had little to do with Covid-19 hence the increase in competitors such as Paypal. The other companies in the index are performing well as shown using the figures above. As shown WDI.DE is a large outlier and in the rest of this report we will analyse if the current valuation is fair, if the price may bounce back to previous levels, why the price fell so dramatically, the effect Covid actually had on this drop and what Wirecard are doing currently to rectify this situation.

Wirecard (WDL.DE)

Price (05 Aug 2020): **€1.89**; Rating: **SELL**; Target Price: **€0.81**; Analyst: **Joshua Bissell**

Overview

Wirecard is a German payment processor and financial services provider. They also provide electronic payment and risk management services. This traditionally comprises the integration of payment methods, payment transactions via e-commerce as well as payment transactions at the stationary checkout (POS). Wirecard currently works in cooperation with 280,000 companies (as of December 2018), including Allianz, KLM, Qatar Airways, Rakuten.com and Transport for London, among others.

Revenue Streams

Mobile Payments: Since 2015 Wirecard offers a fully digitalized payment app. This is called Boon and it is in partnership with Mastercard. It is supported by both Google pay and Apple pay.

E-Commerce: Wirecard are heavily involved in travel and acquired a sector of TUI and KLM (credit control). In this way international payments can be made via electronic transfer of virtual credit card numbers. Since 2014, Wirecard has offered its Checkout Portal which is a fully automated application that allows the user to easily connect different payment methods when shopping online.

Retail Digitalisation: Wirecard introduced T-systems which allowed customers to use an app for store sales.

Alipay collaboration: Wirecard partnered with Alipay which is a Chinese fintech company. It offered Chinese tourists a simple payment method when they visited Europe. Although this market may sound niche it is the equivalent of European holidays to USA.

Card issuing: Many companies worked with Wirecard to set up their own digital card. Some of these include Revolut, Curve and Atom. They also gained much of their annual revenue from payment management apps such as Loot which have now been surpassed by the European market leader, Monzo.

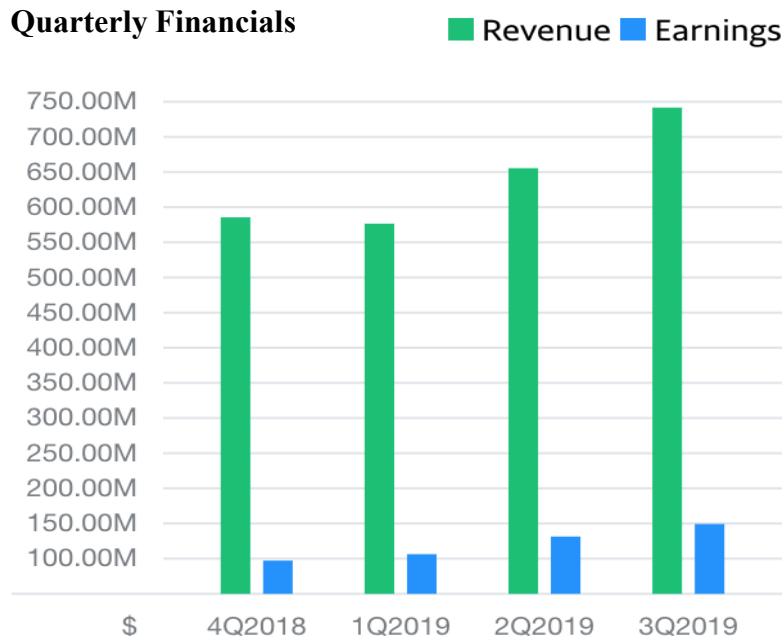
FairFX: Wirecard paired up with FairFX which offers European tourists payment methods abroad. When launched it was one of the most used apps due to the ease. However, with more substitutes and better exchange rates being offered elsewhere – FairFX slowly declined due to the ease of entry into the market. After Wirecard's scandal, however, FairFX cards no longer worked for consumers and this harmed their customer loyalty.

Income Statement (€ ,000)	29/09/19 A	29/06/19 A
Revenue	731,500	643,000
Cost of Revenue	377,300	338,800
Gross Profit	354,200	304,300
Operating Expenses	163,200	153,500
Operating profit	191,000	150,800
Pretax profit	168,400	143,400
Tax provision	19,200	12,000
Net Income	149,200	131,400

Balance Sheet (€ ,000)	29/09/19 A	29/06/19 A
Current Assets	5,043,800	4,774,900
Non-current Assets	1,957,700	1,922,700
Total Assets	7,001,500	6,697,600
Current Liabilities	2,805,400	2,722,500
Non-current Liabilities	1,881,300	1,830,000
Total Liabilities	4,686,700	4,552,500
Total Equity	2,314,800	2,145,100
Total Equity + Liabilities	7,001,500	6,697,600

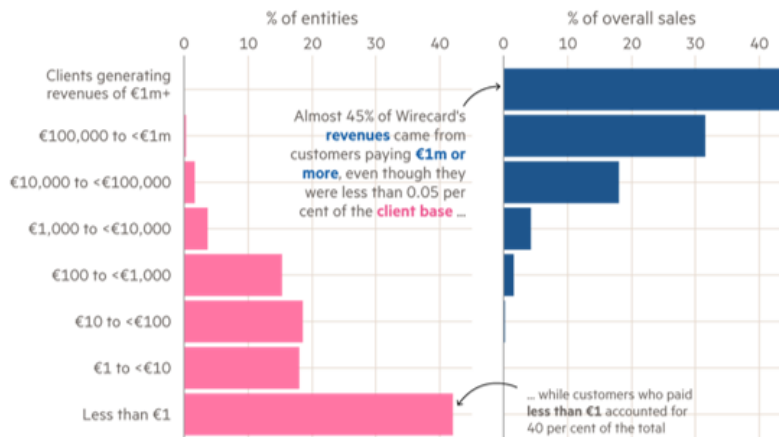
Cash Flow	29/09/19 A	29/06/19 A
Operating Cash Flow	211,400	178,900
Investing Cash Flow	(30,500)	(25,700)
Financing Cash Flow	50,300	58,800
End Cash Position	3,260,000	3,026,100
Capital Expenditure	(30,600)	(25,600)
Issuance of Debt	800,000	103,900
Repayment of debt	(730,400)	(6,300)
Free Cash Flow	180,800	153,300

Quarterly Financials

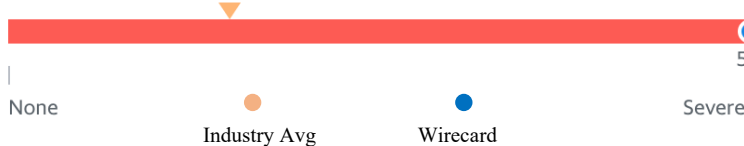


SELL RATIONALE

As seen in the image below, WDI reports proved 0.05% of client made up half of their sales. This means Wirecard is highly dependent on these high net worth individuals in order to maintain levels. After this 'scandal' the loyalty of these customers is likely to be harmed and therefore this may cause uncertainty for the future.



This data was collected from FinancialTimes.com



ESG RISK TOTAL: 27 (Medium – 44th percentile)

Environmental risk score: 0.1

This is likely low due to nature of the service being provided by Wirecard. As its all online there is little environmental damage or risk associated risk with the product.

Social risk score: 11.6

As this product is in the fintech market trust and loyalty are the largest factors when clients choose to use a payment service. Therefore, the social risk of negative reviews could adversely affect Wirecard – hence, the higher rating.

Governance risk score: 14.8

We weighted this section as 50% with social risk and environmental score lagging behind. Within this accounting practices are a large weighting, and this pulls Wirecard down due to the internal audits not picking up on recent 'scandal'.

Controversy Rating: 5/5 severe

This should come as no surprise. The industry average is 1.5 to put this in perspective. The diagram to the left shows this.

DEVILS ADVOCATE

Wirecard have hired Alvarez & Marsal

Wirecard are looking for advice with developing a sustainable approach for funding and they also hired a forensic team to help approach the problem. This could help keep ties with the investors, currently attributing for half the businesses revenue, strong.

Financials

Financials for the stock look promising and show it as an undervalued security based on previous year's performance and current price – however, until the most recent reports are released it is impossible to know the true valuation of the company. In particular the EPS and revenue figures look strong (even for recent months) and could provide a reasonable rationale for investment.

PR Releases

Wirecard stated they have “the full support from the German Federal Financial Supervisory Authority as well as Visa and Mastercard. The result of this process will be released in the coming weeks. We, therefore, apologize for not being able to provide a more detailed statement.”

This backing of influential players could cause a price increase as customers are more likely to remain loyal to Wirecard if recognisable brands such as Visa and Mastercard are associating themselves.

MARKET OVERVIEW

Industry: Financial services, mobile payments
Location: Germany
Market Size: €1.25 Billion (mobile payments)
Predicted CAGR: 26.93% per annum (until 2024)

Worldline

Price: €72.84
EV: €113.96 Billion
EV / EBITDA: 32.10
P/E: 60.50
Debt / equity: 72.27
Float: 145.06M
Beta: 1.03



Key Competitors

Ingenico Group
Price: €137.95
EV: €10.04 Billion
EV / EBITDA: 18.37
P/E: 41.07
Debt / equity: 108.86
Float: 58.82M
Beta: 0.96



Pageseguro Digital A

Price: €42.44
EV: €13.99 Billion
P/E: 60.98
Float: 178.32M
Beta: 1.45

