

## Loan volumes at risk

The Ministry of Justice of Finland has informed that it will start preparing a bill proposal to limit maximum consumer loan interest to 10%. According to Fellow Finance the proposal in its current form would – ceteris paribus – reduce current intermediated loan volumes by approx. 50% compared to March 2020 volumes. We keep our estimates largely intact for now but derive valuation scenarios based on which we adjust our TP to EUR 2.5 (3.0), HOLD-rating intact.

### Proposal to cap consumer loan interest at 10% (20%)

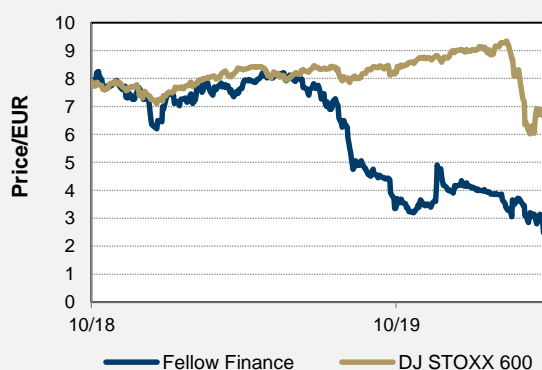
The Ministry of Justice of Finland has informed that it will in the upcoming weeks start preparing a bill proposal to limit maximum consumer loan interest to 10% from the current 20% due to the Coronavirus pandemic. The changes are planned to be in effect until the end of 2020. According to Fellow Finance the proposal in its current form would cut current intermediated loan volumes by 50% compared with March 2020 volumes. Furthermore, if investors in a 12% interest risk class would lower interest requirements to the proposed 10% cap, around 80% of current loan volumes could be intermediated.

### Proposal would affect near-term profitability

We keep our estimates largely intact for now as the outcome and content of the bill proposal is not yet certain. Given the economic impact of the Coronavirus pandemic and an ease of making drastic decisions we see a high likelihood of the proposed bill passing. We derive scenarios for the possible effects of the proposal and expect a 10% cap to put EBIT in the coming years at near zero or negative.

### HOLD with a target price of EUR 2.5 (3.0)

We derive three scenarios based on the planned bill proposal, described more in detail on page two. Based on a weighted approach, assuming an 80% likelihood of the bill passing, we derive a target price of EUR 2.5 (3.0) and keep our HOLD-rating intact.

 Rating 🟡 HOLD


Share price, EUR (Last trading day's closing price)	2.48
Target price, EUR	2.5
Latest change in recommendation	19-Aug-19
Latest report on company	27-Mar-20
Research paid by issuer:	YES
No. of shares outstanding, '000's	7,129
No. of shares fully diluted, '000's	7,129
Market cap, EURm	18
Free float, %	-
Exchange rate	0.000
Reuters code	FELLOW.HE
Bloomberg code	FELLOW HE
Average daily volume, EURm	0.07
Next interim report	28-Aug-20
Web site	www.fellowfinance.com

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+ BUY 🟡 HOLD - SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	12.0	3.4	28.3%	0.6	0.12	55.1	4.6	16.1	1.2	0.04
2019	14.2	1.6	11.6%	-0.8	-0.01	-349.3	3.2	28.0	-2.9	0.00
2020E	13.1	0.7	5.6%	-1.4	-0.10	-25.5	2.7	48.5	-7.9	0.00
2021E	16.0	1.8	11.0%	-1.4	0.01	262.2	2.3	21.0	-8.1	0.00
2022E	19.6	3.7	19.0%	-0.2	0.22	11.4	1.9	10.0	-1.2	0.07
Market cap, EURm			18	Gearing 2020E, %		129.6	CAGR EPS 2019-22, %			0.0
Net debt 2020E, EURm			18	Price/book 2020E		1.3	CAGR sales 2019-22, %			11.4
Enterprise value, EURm			36	Dividend yield 2020E, %		0.0	ROE 2020E, %			-4.9
Total assets 2020E, EURm			35	Tax rate 2020E, %		20.0	ROCE 2020E, %			2.1
Goodwill 2020E, EURm			0	Equity ratio 2020E, %		39.1	PEG, P/E 20/CAGR			0.0

All the important disclosures can be found on the last pages of this report.

Figure 1: Scenario approaches

Scenario 1	2019	2020E	2021E	2022E
Facilitated loans	201	157	215	285
Revenue	14.2	13.1	16.0	19.6
EBIT	1.6	0.7	1.8	3.7
Scenario 2	2019	2020E	2021E	2022E
Facilitated loans	201	135	180	240
Revenue	14.2	12.0	13.4	16.8
EBIT	1.6	0.1	0.4	2.2
Scenario 2	2019	2020E	2021E	2022E
Facilitated loans	201	108	160	220
Revenue	14.2	10.6	12.2	15.8
EBIT	1.6	-0.8	-0.4	1.8

Source: Evli Research

We have derived three different scenarios mainly for valuation purposes. In scenario 1 we assume our current base estimates in a situation where the maximum consumer loan interest remains at 20%, in other words the bill does not pass. In scenario 2 we assume that the interest cap is set at 10% and volumes decline 25% from March 2020 levels, with investors more willing to adapt to the new interest levels. In scenario 3 we assume a 10% cap and volumes declining 50% compared to March 2020. The expectation is for the bill to be in affect until the end of 2020. We make assumptions for the following years based on the severity of the situation in 2020, expecting a tougher situation to more heavily affect international expansion and as such growth in the upcoming years.

Figure 2: Scenario valuation

EURm	Loan intermediation		Equity value		Weight
	Lainaamo	business	Total	per share	
Scenario 1	12.2	9.7	22.0	3.1	20%
Scenario 2	10.8	7.0	17.8	2.5	50%
Scenario 3	9.3	5.2	14.6	2.0	30%

Source: Evli Research

In valuation of the scenarios we have split valuation of Lainaamo and the loan intermediation business. We assign a value for Lainaamo based on the loan receivables adjusted by net debt. In scenarios 2 and 3 we further assign a five and ten percent downward adjustment to receivables as a discount to account for a possible increase in loan defaults. We value the loan intermediation business based on average 2020-2022 fee income, assuming P/sales multiples of 0.65-0.85x, in accordance with current multiples for the selected consumer finance and lending platform peers. Based on the selected weights we derive a fair value of EUR 2.5 per share and adjust our target price accordingly (prev. EUR 3.0) and retain our HOLD-rating.

Figure 3: Peer multiples

	MCAP MEUR	P/Sales			EV/EBIT			P/E		
		20	21	22	20	21	22	20	21	22
<b>CONSUMER FINANCE CO's</b>										
Santander Consumer USA	3729	0.5x	0.5x	0.7x	11.4x	10.9x	34.3x	5.5x	4.4x	3.8x
Synchrony Finl	7527	0.6x	0.6x	0.6x	2.1x	1.9x	5.3x	4.2x	3.3x	3.1x
Discover Fn Svc	8091	0.7x	0.7x	0.7x	4.0x	3.8x		4.2x	3.5x	3.4x
American Express	54920	1.3x	1.3x	1.1x	9.1x	8.5x		10.0x	8.5x	7.6x
Capital One Financial	17905	0.7x	0.6x	0.6x	5.1x	5.2x	10.1x	4.2x	3.6x	3.3x
<b>LENDING PLATFORMS</b>										
On Deck Capital	18	0.1x	0.1x	0.1x	32.5x	26.7x	18.7x	2.2x	1.7x	1.2x
LendingClub	585	0.8x	0.7x	0.6x	7.3x	6.3x	6.3x	23.7x	12.2x	7.3x
Funding Circle Holdings	210	1.0x	0.9x							
<b>Peer Group Average</b>	<b>47362</b>	<b>0.7x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>10.2x</b>	<b>9.0x</b>	<b>14.9x</b>	<b>7.7x</b>	<b>5.3x</b>	<b>4.2x</b>
<b>Peer Group Median</b>	<b>5647</b>	<b>0.7x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>7.3x</b>	<b>6.3x</b>	<b>10.1x</b>	<b>4.2x</b>	<b>3.6x</b>	<b>3.4x</b>

Source: Factset

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1E	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	0.0	7.2	0.0	7.0	14.2	0.0	6.3	0.0	6.8	13.1	16.0	19.6
EBITDA	0.0	1.6	0.0	0.5	2.1	0.0	0.5	0.0	0.6	1.2	2.2	4.3
EBITDA margin (%)	0.0	21.7	0.0	6.9	14.5	0.0	8.8	0.0	9.3	9.5	14.0	21.9
EBIT	0.0	1.4	0.0	0.3	1.6	0.0	0.3	0.0	0.4	0.7	1.8	3.7
EBIT margin (%)	0.0	19.0	0.0	3.9	11.6	0.0	5.2	0.0	6.0	5.6	11.0	19.0
Net financial items	0.0	-0.7	0.0	-0.8	-1.5	0.0	-0.8	0.0	-0.8	-1.6	-1.7	-1.8
Pre-tax profit	0.0	0.6	0.0	-0.5	0.1	0.0	-0.5	0.0	-0.4	-0.9	0.1	1.9
Tax	0.0	-0.2	0.0	0.0	-0.2	0.0	0.1	0.0	0.1	0.2	0.0	-0.4
Tax rate (%)	0.0	34.3	0.0	4.6	176.3	0.0	20.0	0.0	20.0	20.0	20.0	20.0
Net profit	0.0	0.4	0.0	-0.5	-0.1	0.0	-0.4	0.0	-0.3	-0.7	0.1	1.6
EPS	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.05	0.00	-0.04	-0.10	0.01	0.22
EPS adjusted (diluted no. of shares)	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.05	0.00	-0.04	-0.10	0.01	0.22
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07
<b>SALES, EURm</b>												
Fellow Finance	0.0	7.2	0.0	7.0	14.2	0.0	6.3	0.0	6.8	13.1	16.0	19.6
Total	0.0	7.2	0.0	7.0	14.2	0.0	6.3	0.0	6.8	13.1	16.0	19.6
<b>SALES GROWTH, Y/Y %</b>												
Fellow Finance	0.0	29.6	0.0	8.4	18.3	0.0	-13.5	0.0	-2.0	-7.8	22.2	22.8
Total	0.0	29.6	0.0	8.4	18.3	0.0	-13.5	0.0	-2.0	-7.8	22.2	22.8
<b>EBIT, EURm</b>												
Fellow Finance	0.0	1.4	0.0	0.3	1.6	0.0	0.3	0.0	0.4	0.7	1.8	3.7
Total	0.0	1.4	0.0	0.3	1.6	0.0	0.3	0.0	0.4	0.7	1.8	3.7
<b>EBIT margin, %</b>												
Fellow Finance	0.0	19.0	0.0	3.9	11.6	0.0	5.2	0.0	6.0	5.6	11.0	19.0
Total	0.0	19.0	0.0	3.9	11.6	0.0	5.2	0.0	6.0	5.6	11.0	19.0

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	4.0	5.6	8.7	12.0	14.2	13.1	16.0	19.6
<i>Sales growth (%)</i>	<i>0.0</i>	<i>39.6</i>	<i>55.0</i>	<i>38.5</i>	<i>18.3</i>	<i>-7.8</i>	<i>22.2</i>	<i>22.8</i>
EBITDA	1.6	1.3	2.9	3.8	2.1	1.2	2.2	4.3
<i>EBITDA margin (%)</i>	<i>40.7</i>	<i>22.5</i>	<i>33.1</i>	<i>31.9</i>	<i>14.5</i>	<i>9.5</i>	<i>14.0</i>	<i>21.9</i>
Depreciation	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.6
EBITA	1.3	0.9	2.5	3.4	1.6	0.7	1.8	3.7
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.3	0.9	2.5	3.4	1.6	0.7	1.8	3.7
<i>EBIT margin (%)</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>5.6</i>	<i>11.0</i>	<i>19.0</i>
Reported EBIT	1.3	0.9	2.5	3.4	1.6	0.7	1.8	3.7
<i>EBIT margin (reported) (%)</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>11.6</i>	<i>5.6</i>	<i>11.0</i>	<i>19.0</i>
Net financials	-1.3	-0.8	-1.3	-2.3	-1.5	-1.6	-1.7	-1.8
Pre-tax profit	0.0	0.1	1.2	1.1	0.1	-0.9	0.1	1.9
Taxes	-0.1	-0.1	-0.1	-0.3	-0.2	0.2	0.0	-0.4
Minority shares	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-0.3	0.1	1.1	0.8	-0.1	-0.7	0.1	1.6
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	11	10	14	17	24	24	24	24
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	3	5	6	7	8	9	10	12
Liquid funds	2	2	2	9	4	3	3	4
Total assets	16	17	22	32	36	35	38	40
<b>Liabilities</b>								
Shareholder's equity	3	3	4	15	14	14	14	15
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	11	13	17	17	20	21	23	23
Non-interest bearing current liabilities	2	1	1	1	1	1	1	2
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	16	17	22	32	36	35	38	40
<b>CASH FLOW, EURm</b>								
+ EBITDA	2	1	3	4	2	1	2	4
- Net financial items	-1	-1	-1	-2	-2	-2	-2	-2
- Taxes	0	0	0	0	0	0	0	0
- Increase in Net Working Capital	-2	-1	1	0	0	-1	-1	-1
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	-2	-1	2	1	0	-1	-1	1
- Capex	-11	0	0	-1	-1	0	-1	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-13	-1	2	1	-1	-1	-1	0
+/- New issues/buybacks	3	0	0	10	0	0	0	0
- Paid dividend	0	0	0	-1	0	0	0	0
+/- Other	11	2	-2	-3	-4	0	2	1
Change in cash	2	1	0	7	-5	-1	1	1

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	0	0	46	30	18	18	18
Net debt (excl. convertibles)	11	15	8	17	18	19	20
Enterprise value	11	15	55	46	36	37	37
Sales	6	9	12	14	13	16	20
EBITDA	1	3	4	2	1	2	4
EBIT	1	2	3	2	1	2	4
Pre-tax	0	1	1	0	-1	0	2
Earnings	0	1	1	0	-1	0	2
Equity book value (excl. minorities)	3	4	15	14	14	14	15
<b>Valuation multiples</b>							
EV/sales	2.0	1.7	4.6	3.2	2.7	2.3	1.9
EV/EBITDA	8.8	5.2	14.3	22.4	28.7	16.6	8.6
EV/EBITA	12.1	5.9	16.1	28.0	48.5	21.0	10.0
EV/EBIT	12.1	5.9	16.1	28.0	48.5	21.0	10.0
EV/OCF	-13.8	7.0	41.5	-228.4	-36.8	-49.7	59.8
EV/FCFF	-34.5	-5.0	-65.4	-6.6	-320.7	-449.0	30.5
P/FCFE	0.0	0.0	81.8	-34.9	-12.7	-12.4	-81.1
P/E	0.0	0.0	55.1	-349.3	-25.5	262.2	11.4
P/B	0.0	0.0	3.2	2.0	1.3	1.3	1.1
Target EV/EBITDA	0.0	0.0	0.0	0.0	28.8	16.6	8.7
Target EV/EBIT	0.0	0.0	0.0	0.0	48.7	21.0	10.0
Target EV/FCF	0.0	0.0	0.0	0.0	-25.7	-26.0	-171.4
Target P/B	0.0	0.0	0.0	0.0	1.3	1.3	1.2
Target P/E	0.0	0.0	0.0	0.0	-25.7	264.3	11.5
<b>Per share measures</b>							
Number of shares	5,818	5,818	7,129	7,129	7,129	7,129	7,129
Number of shares (diluted)	5,818	5,818	7,129	7,129	7,129	7,129	7,129
EPS	0.01	0.19	0.12	-0.01	-0.10	0.01	0.22
Operating cash flow per share	-0.14	0.36	0.18	-0.03	-0.14	-0.10	0.09
Free cash flow per share	-0.17	0.34	0.08	-0.12	-0.20	-0.20	-0.03
Book value per share	0.53	0.72	2.04	2.03	1.94	1.95	2.16
Dividend per share	0.00	0.09	0.04	0.00	0.00	0.00	0.07
Dividend payout ratio, %	0.0	47.2	33.9	0.0	0.0	0.0	30.0
Dividend yield, %	0.0	0.0	0.6	0.0	0.0	0.0	2.6
FCF yield, %	0.0	0.0	1.2	-2.9	-7.9	-8.1	-1.2
<b>Efficiency measures</b>							
ROE	2.4	29.8	9.0	-0.6	-4.9	0.5	10.6
ROCE	6.0	13.4	13.0	5.0	2.1	5.0	9.9
<b>Financial ratios</b>							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	93.6	71.3	58.4	58.3	68.6	65.5	62.5
Non-interest bearing liabilities as % of sales	12.1	13.5	6.9	7.7	7.7	7.7	7.7
NWC/sales, %	81.5	57.8	51.5	50.6	60.8	57.8	54.7
Operative CAPEX/sales, %	3.0	1.9	6.3	4.6	3.2	4.3	4.3
CAPEX/sales (incl. acquisitions), %	3.0	1.9	6.3	4.6	3.2	4.3	4.3
FCFF/EBITDA	-0.3	-1.0	-0.2	-3.4	-0.1	0.0	0.3
Net debt/EBITDA, book-weighted	8.8	5.2	2.2	8.0	14.4	8.7	4.5
Debt/equity, market-weighted	0.0	0.0	0.4	0.7	1.2	1.3	1.3
Equity ratio, book-weighted	18.1	19.1	44.8	40.2	39.1	36.9	38.2
Gearing, %	358.8	354.2	57.4	114.0	129.6	139.3	126.7

**COMPANY DESCRIPTION:** Fellow Finance operates a lending platform for debt-based consumer and business financing. The company operates in Finland, Sweden, Germany, Poland, and Denmark. The company began its operations in 2014 and listed on the Nasdaq First North Finland -marketplace in 2018. Over EUR 600m worth of loans have been intermediated through the company's platform since inception.

**INVESTMENT CASE:** The alternative finance markets in Europe have been growing rapidly and Fellow Finance should seek to capitalize on the growth. A key for success in our view lies in expansion abroad given the limited size and competition in the domestic market, with the international operations still in ramp-up. The scalability of its technology offers solid margin potential although growth investments will have a significant impact on margins in the coming years.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	4.581	25.9%
Margin Investments Oy	836,721	2.075	11.7%
TN Ventures Oy	830,843	2.060	11.7%
Oy T&T Nordcap Ab	656,436	1.628	9.2%
OP-Finland Small Cap	266,642	0.661	3.7%
OP-Finland Micro Cap	265,000	0.657	3.7%
Avensis Capital Oy	263,090	0.652	3.7%
Fennia Life Insurance Company	156,512	0.388	2.2%
Säästöpankki Small Cap mutual fund	128,841	0.320	1.8%
Swiss Life (Luxembourg) S.A.	77,392	0.192	1.1%
Ten largest	5,328,640	13.215	75%
Residual	1,799,985	4.464	25%
Total	7,128,625	17.679	100%

EARNINGS CALENDAR	
August 28, 2020	Q2 report
OTHER EVENTS	
April 03, 2020	AGM

COMPANY MISCELLANEOUS	
CEO: Jouni Hintikka	Pursimiehenkatu 4 A, FIN-00150 Helsinki
CFO: Niko Stark	Tel: 0203, 80,101
IR:	

## DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

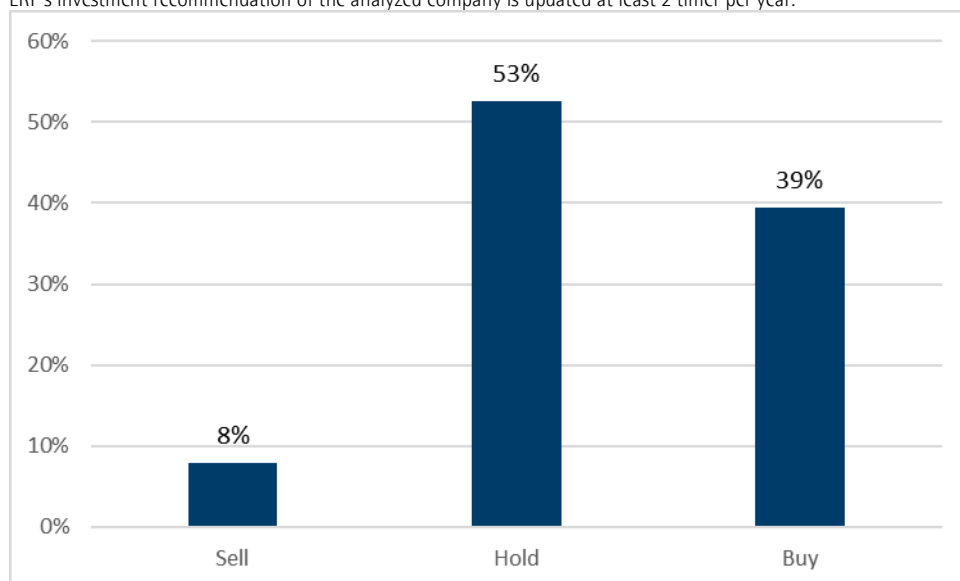
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Salokivi

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