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Anne Stevenson-Yang
anne@jcapitalresearch.com

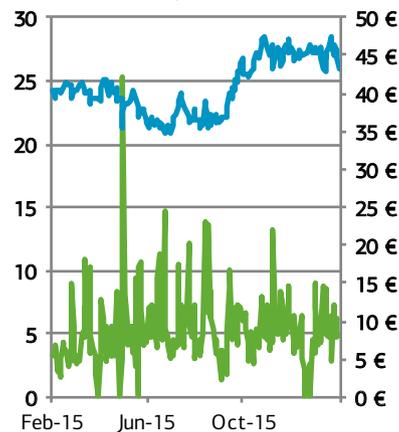
+852 2534 7405

Wirecard (WDI GR)

Price	EUR 39.67
Rating	SELL
Price Target	EUR 17.2
Difference	57%
Market Cap	EUR 4.9 bln
P/E	36.75
Float	91.9%

Source: Bloomberg, February 9

Wirecard (WDI GR) last share price in EUR (blue) and volume (green, in 100,000 shares)



Source: Yahoo! Finance, February 7

Wirecard (WDI GR) Out of Africa

- ▶ **In 2014**, Wirecard acquired a South African company that had been written down to zero by its owner the previous year because of its inability to obtain proper licensing.
- ▶ **We believe** that Amara Technology, now operating as Wirecard South Africa, remains a tiny and struggling payments processor that was not worth the EUR 36 mln paid. We would be very surprised if the company were able to generate the promised EUR 3 mln of EBITDA.
- ▶ **Visa Processing Services India**, which Wirecard acquired in November 2014 for USD 16 mln, was also an extremely small and failed experiment for Visa and was almost certainly losing money. We are skeptical of that USD 16 mln acquisition.
- ▶ **Neither acquisition** is especially material, but both fit into a pattern for Wirecard of pushing money into low-value acquisitions. Both South Africa and India are full of payments companies that could genuinely be promising, but Wirecard has not looked at those businesses for acquisition. We can only conclude that Wirecard wants to acquire small, obscure companies.
- ▶ **We maintain** our SELL rating on Wirecard, with a price target of EUR 17.2, a 57% downside to the current price of EUR 39.67 based on our DCF valuation.

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Wirecard has made two recent acquisitions.

New Acquisitions

In our continuing efforts to find value in Wirecard’s acquisitions, we visited South Africa, where Wirecard acquired a small payments processor called Amara Technology Africa Pte Ltd. We also interviewed someone familiar with the business of Visa Processing Services India, from which Wirecard acquired assets associated with payments. Both deals were done in late 2014.

Both acquisitions are small, low-value businesses. We remain convinced that Wirecard is overstating the amount of money that was paid for the companies and that it is making the acquisitions to create the illusion of a bigger balance sheet than it really has.



Offices of Wirecard South Africa, formerly Amara Technology Proprietary Ltd. The receptionist said that about 20 people work at the company. | Photo by J Capital February 4

In 2013, Amara Tech was owned by a failing investment holding company traded on the Mauritius stock exchange called Dale Capital Group. Dale wrote the asset off in 2013 and apparently gave the company to private investors, who sold to Wirecard a few months later. We were unable to determine who those investors were.

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The Wirecard office is on the third floor of this building. | Photo by J Capital February 4

In its 2013 annual report, Dale Capital reported:

“The entire investment of the Group in the Amara companies has been fully impaired during the year by the directors based on the fact that the South African Reserve Bank unexpectedly [sic] would not support the Group’s application for the issuance of a MasterCard Issuers license and thus allow the Amara Group to participate in the South African National Payment System (NPS) payment platform, despite legal opinion supporting the application.”

Dale Group further reported:

"The valuation of investment in the Amara Group of Companies required total impairment. Illiquidity of all of the shareholders in Amara has resulted in a rights offer being taken up by a new group of investors. . . . [T]he required entry into MasterCard Issuers Space appears to have been retained for registered banks only. This controversial decision has cost Dale Group and all of the Amara shareholders dearly and shareholders have found it unfortunate to the extent that they have had to abort the investment and hand the company over to new shareholders who have

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Mercantile has no significant retail operations in South Africa.

the banking relationships to pursue a new longer term strategy."

The new Amara has a business, albeit a small one, in South African payments processing. The company is qualified to offer "card management solutions," which may include outsourcing the printing of debit or credit cards for a small bank and managing billing. The former Amara Tech is a certified Visa and MasterCard third-party processor, status that requires a fairly troublesome degree of compliance. From comments of others in the industry in Cape Town, where the company is headquartered, there is not much volume in the business and certainly not much margin.

The Wirecard press release about the acquisition, issued on December 4, 2014, states that Amara provides "acquiring and issuing processing, acquiring reselling, and prepaid program management" services to Mercantile Bank, Nedbank, CitiBank and AfrAsia Bank as well as point-of-sale and e-commerce payment processing and card issuance for local retailers, airlines, resorts and governmental organizations.

- ▶ Mercantile Bank is a small business bank that may help the Wirecard subsidiary access a banking license. However, Mercantile has no significant retail operations in South Africa. Mercantile also has its own transaction processing systems, as advertised on [its website](#), and would be unlikely to use Wirecard.
- ▶ Sources familiar with the business said that Nedbank does not use Wirecard payment services. Nedbank announced in 2014 its selection of Inetco Insight for its payments services. It has also [announced](#) partnerships with app developer Ovations and with SSA Information Technology (Pte) Ltd. for mobile payments and acquiring services. There is no evidence of a Nedbank relationship with Amara or Wirecard other than from Wirecard press releases.
- ▶ AfrAsia Bank is a very small commercial bank with little transaction processing footprint.
- ▶ Citibank has no significant card or retail operations in southern Africa.

The old Amara website in addition claimed Kingdom Bank Botswana as a key customer. This bank was "put under judicial management: in March 2015 and closed in June due to insolvency.

As far as we could determine, businesses with much greater scale and

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payments turnover in Cape Town were all losing money in processing and prepaid-card management. We assume that “acquiring reselling” means renting out the Visa and MasterCard certification. If the processing companies were making money, it was from the sale of software platforms to manage fraud detection, loyalty programs, or other features. For example, one company offering similar payments services, much larger than Wirecard, with 100 employees to the 20 or so at Wirecard, offers tokenization (in order to avoid storing and transmitting credit card data) and sends an authorization request to the merchant describing the value of a basket of items for purchase and any coupon data. The company does not charge for this service, saying that banks simply will not pay for outsourced payment management. Instead, the company gets its margin from designing custom software for retailers and from value-added services, such as loyalty program management.

Wirecard did not accept our calls and emails or requests to meet with the South Africa business for more detailed information.

The African Market

There is ferment in the African payments market perhaps in excess of the value it offers. After all, Africa represents only about 6% of the world’s transactions, and the payments companies for the most part are looking at the retail portion of those payments, smaller yet and generally unprofitable as a business.

Despite the challenges, dozens of companies are competing in the African payments space, which has attracted significant investment, and the payments companies in South Africa do not know Wirecard and have not been approached by its acquisition team. For example, the investment firm Investec recently purchased a significant stake in WIGroup, which does mobile payments processing. Naspers, the South African media group that is the biggest owner of Tencent, has invested heavily in the space, funding a joint venture in mobile payments with WeChat and investing heavily in SnapChat, whose SnapCash service enables P2P payments at low cost.

Visa Processing Services India

In 2014, Wirecard announced the acquisition of some assets of Visa Processing Service, headquartered in Singapore, including all shares in Visa Processing Services (India) Private Limited, based in Mumbai. The acquisition was finalized in February 2015, for a total price of EUR 14.2 mln.

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People we spoke with about VIPS painted a more modest picture.

Wirecard made the following disclosure in the 2014 annual report:

"Visa Processing Service has business relationships with 14 financial institutions in seven countries and more than three million customer accounts distributed across over 70 card programmes. VPS provides card issuing banks with a comprehensive range of solutions for gift cards, general purpose reloadable (GPR) cards, single or multi-currency travel cards and international money remittance. Wirecard will support the increasing global demand for prepaid cards with a wide-range of products, including innovative mobile and contactless payment solutions, card-based solutions for the distribution of government benefits and for consumers without access or with only limited access to financial institutions."

The people we spoke with about VPS painted a much more modest picture.

India VPS was an attempt to offer outsourcing to small banks that lack an in-house processing capability. In India, where gaining access to many small financial institutions is laborious for a foreign company such as Visa, setting up a unit to access those banks could be a sound marketing strategy. But the processing business has especially low margins, and a processing business requires high volumes that people in the business told us were simply too great a challenge for VPS. We believe the unit was very small and money-losing.

In 2015, Visa reported USD 10 mln in total proceeds from the sale of property, equipment, and technology. Given that acquisitions may include assumption of debt and future payouts, Wirecard could have accurately reported the purchase from Visa as USD 16 mln. But Visa's entry could also include sales unrelated to Wirecard. We continue to believe that Wirecard overstates its acquisition prices.

The Payments Business

In general, we have found that Wirecard focuses on acquiring payments processors whose business is fundamentally unattractive. Basically, Wirecard is providing technology to small banks that issue credit or debit cards. When the customer swipes the issuing bank's card at another bank, the issuer receives as much as a 1% commission on the transaction. A piece of that commission goes to the network, a piece to the acquiring bank, and Wirecard would receive around 10-30 bps. Commissions can be higher for

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online payments, but overall, the remittance business attracts very low margins.

Valuation

Our valuation of the company relies on our estimate that true margins may be around 15%. On that basis, a DCF valuation puts Wirecard's current share value at EUR 17.2, 57% lower than the current share price.

Risks

- ▶ We may not have identified many of the high-yield payments businesses that Wirecard has successfully penetrated.
- ▶ Payments can be a complicated business and we may misunderstand the part of the value chain in which Wirecard is playing.
- ▶ With a potential IPO of Alipay, the online payments space could get bid up to high valuations.

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