

## European Investing Summit 2018 Preview: Norwegian Finans Holding

*This article previews an idea presentation at European Investing Summit 2018. It is authored by MOI Global instructor Gokul Ponnuraj, portfolio manager of public equities at Bavaria Industries Group, based in Munich, Germany.*

I fully understand the risks associated with investing in an unsecured consumer lender in a late stage economic cycle. Despite that, I think that the current price provides an attractive entry point into a well-run fintech company with structural growth opportunities from market share gains and new product launches. It is currently trading at 10.5x trailing earnings and 2.9x trailing Price/ Book for a business that generates ROAs of 4%+ and ROEs of 30%. The key risk is the weak financial position of the parent airline. Though there is no direct contingent liability and the contract terms with the airline were extended for 10 years last month, the strength of the brand and origination platform is dependent on the dominance of the airline. While you can't avoid this risk, it can be managed through position sizing.

Bank Norwegian started its operations in November 2007 and offers consumer loans, credit cards and deposit accounts to retail customer distributed through the Internet in the Nordic market. It's credit cards are linked to the rewards scheme of the parent Norwegian airline. Bank entered Sweden in May 2013, Denmark and Finland in December 2015. The bank currently has 1 million+ credit card customers, 190K of Installment loans and 190K deposit customers. It has built up a loan and deposit book of 37 billion BOK from scratch in a decade with their pioneering online distribution model. Its an extremely efficient operation with Cost: Income (excluding marketing) at less than 10%, enabling it to gain market share from incumbents. The business model with an app based distribution is highly scalable as can be seen from their NII growth CAGR of 30% over the last 5 years with an employee base of under 70 people in total.

NOFI's balance sheet is very strong and liquid with debt/equity at 6.3x and liquid assets at 24% of BS assets. Also, the liability franchise is strong with Deposits: Loans ratio at 1.06 and the company has fully funded its loan growth over the years through its retail deposit base and not with wholesale funded liabilities. The spreads have been sticky and the core differentiator is around origination strength. Management has executed in a disciplined manner in terms of managing credit risks through better risk selection, strong provisioning and bad loan sales.

My variant perception of this idea is centered around the market's concerns on higher competitive intensity, growth tapering off, increased credit costs, regulatory scrutiny etc. I believe that market is overlooking the segmental profit mix, recurring revenue base, scale advantages of NOFI, provision cover, inherent creditor powers in Nordics, high engagement distribution platform, credit card stickiness, seasoning of the portfolio, cross-selling opportunities and embedded growth optionalities. All in all, I believe that at the current price we are able to enter into a long-term compounder at undemanding valuations. The risk-reward is in favor of the investor.

*Disclaimer: We are investors in Norwegian Finans Holdings (NOFI) and hence my views are*



biased. Our average buying price was 10% below the current market price.

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