

## Equities

14 February 2012 | 10 pages

# FXCM Inc (FXCM)

## January Metrics Mixed; Lowering Estimates As Volatility Fades And Institutional Ramp Flattens

- Company Update
- Estimate Change

<b>Neutral</b>	<b>2</b>
Price (14 Feb 12)	US\$10.83
Target price	US\$10.00
Expected share price return	-7.7%
Expected dividend yield	2.2%
<b>Expected total return</b>	<b>-5.4%</b>
Market Cap	US\$832M

### Price Performance (RIC: FXCM.N, BB: FXCM US)



- **January metrics mixed** — Post 2/14 market close, FXCM announced mixed operating metrics given: 1) solid account growth reflecting Japanese FX broker Foreland acquisition; 2) but offset by uneven volume metrics, mostly centered in institutional, though to be fair, trends held up better than sequential change in CVIX.
- **Solid account growth** — Active accounts totaled 167,868 at 1/31, up 2.9% MTM and versus our estimate of 163,502. The strong MTM growth is a factor of the Foreland acquisition as acquired tradable accounts become increasingly active, and while encouraging, the acquisition driven growth will likely normalize over time. Tradable accounts in January totaled 196,710, up 1% MTM and in-line with our estimate.
- **Soft retail trading volume** — Retail traded volume totaled \$298B, and though up 3.5% MTM, less than our \$310B forecast, and lackluster for a seasonally strong month. Retail DARTs totaled 346K, down 3.1% sequentially, and likely a function of lower volatility as the CVIX averaged 10.97 in January versus 12.76 in December. That said, average volume per trade per day totaled \$39K, up 6.8%, and versus our \$36K.
- **Institutional volume less than forecast** — Institutional volume totaled \$109B, and though up 4.8% MTM, fell 19% short of our \$135B forecast. Management noted that an increase in institutional volume is likely to occur gradually as it may take three quarters to fully migrate accounts.
- **Lowering 2012-13 EPS estimates** — New 2012-13 EPS estimates (including SBC) are \$0.64 and \$0.73 versus \$0.80 and \$0.91, prior. Negative revisions reflect lower retail volume given a lower CVIX and a slower ramp in institutional volume, before considering adverse seasonality into the summer months. With the CVIX remaining low into February, we expect flattish DARTs for the month of February, further tempering earnings power.
- **Maintain Neutral and \$10 12-month price target** — We see mixed fundamentals with easing FX volatility and lackluster growth, but active FCF deployment. With consensus expectations still elevated, we remain on the sidelines and prefer AMTD.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
<b>2010A</b>	na	na	0.22A	0.23A	0.93A	0.92A
<b>2011E</b>	<b>0.16A</b>	<b>0.19A</b>	<b>0.21A</b>	<b>0.17E</b>	<b>0.73E</b>	<b>0.77E</b>
Previous	0.16A	0.19A	0.21A	0.17E	0.73E	na
<b>2012E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>0.64E</b>	<b>0.95E</b>
Previous	na	na	na	na	0.80E	na
<b>2013E</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>0.73E</b>	<b>1.20E</b>
Previous	na	na	na	na	0.91E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2009	2010	2011E	2012E	2013E
<b>Valuation Ratios</b>					
P/E adjusted (x)	12.5	11.6	14.8	16.8	14.9
P/E reported (x)	12.5	11.6	14.8	16.8	14.9
P/BV (x)	5.9	3.0	3.3	2.8	2.4
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	0.0	0.0	2.2	2.2	2.2
<b>Per Share Data (US\$)</b>					
EPS adjusted	0.87	0.93	0.73	0.64	0.73
EPS reported	0.87	0.93	0.73	0.64	0.73
BVPS	1.83	3.57	3.32	3.86	4.47
Tangible BVPS	1.80	2.70	2.47	3.00	3.62
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.00	0.00	0.24	0.24	0.24
<b>Profit &amp; Loss (US\$m)</b>					
Net interest income	1,289	2,373	3,852	4,361	7,607
Fees and commissions	0	0	0	0	0
Other operating Income	321,910	357,907	403,527	391,267	408,705
<b>Total operating income</b>	<b>323,199</b>	<b>360,280</b>	<b>407,379</b>	<b>395,628</b>	<b>416,313</b>
Total operating expenses	-225,608	-255,853	-339,785	-322,704	-332,196
<b>Oper. profit bef. provisions</b>	<b>97,591</b>	<b>104,427</b>	<b>67,594</b>	<b>72,925</b>	<b>84,117</b>
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	-125	-116	-296	-300	-300
<b>Pre-tax profit</b>	<b>97,466</b>	<b>104,311</b>	<b>67,298</b>	<b>72,625</b>	<b>83,817</b>
Tax	-35,574	-40,669	-32,000	-27,816	-32,311
Extraord./Min. Int./Pref. Div.	0	6,368	19,231	2,760	2,975
<b>Attributable profit</b>	<b>61,892</b>	<b>70,010</b>	<b>54,530</b>	<b>47,569</b>	<b>54,481</b>
Adjusted earnings	61,892	70,010	54,530	47,569	54,481
<b>Growth Rates (%)</b>					
EPS adjusted	-24.5	7.4	-21.3	-11.9	13.0
Oper. profit bef. prov.	-25.6	7.0	-35.3	7.9	15.3
<b>Balance Sheet (US\$m)</b>					
<b>Total assets</b>	<b>517,171</b>	<b>1,048,317</b>	<b>1,232,724</b>	<b>1,377,681</b>	<b>1,571,117</b>
Avg interest earning assets	0	0	0	0	0
Customer loans	0	0	0	0	0
Gross NPLs	0	0	0	0	0
<b>Liab. &amp; shar. funds</b>	<b>517,171</b>	<b>1,048,317</b>	<b>1,232,724</b>	<b>1,377,681</b>	<b>1,571,117</b>
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	<b>130,787</b>	<b>268,475</b>	<b>241,256</b>	<b>278,103</b>	<b>326,118</b>
<b>Profitability/Solvency Ratios (%)</b>					
ROE adjusted	45.6	35.1	21.4	18.3	18.0
Net interest margin	na	na	na	na	na
Cost/income ratio	69.8	71.0	83.4	81.6	79.8
Cash cost/average assets	46.7	32.7	29.8	24.7	22.5
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIRA Data Services Americas at CIRADataServicesAmericas@citi.com or +1-212-816-5336



Figure 1. FXCM Summary Model

FXCM  
Earnings Results and Forecasts  
(\$ Thousands, Except As Noted)

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					Forecast		Forecast			% Change				
Income Statement	4Q10	1Q11	2Q11	3Q11	Forecast 4Q11E	2010	2011E	2012E	2013E	4QE/3Q	4QE/4Q	11E/10	12E/11E	13E/12E
Revenues:														
Retail trading revenue	\$83,865	\$77,735	\$93,482	\$97,017	\$88,452	\$318,473	\$356,686	\$351,443	\$364,448	-8.8	5.5	12.0	-1.5	3.7
Institutional trading revenue	7,054	7,379	6,721	7,720	7,293	27,833	29,113	25,824	29,138	-5.5	3.4	4.6	-11.3	12.8
Interest income	880	941	933	963	1,015	2,373	3,852	4,361	7,607	5.4	15.3	62.3	13.2	74.4
Other income	4,328	8,597	2,263	3,368	3,500	11,601	17,728	14,000	15,120	3.9	-19.1	52.8	-21.0	8.0
Total revenues	96,127	94,652	103,399	109,068	100,260	360,280	407,379	395,628	416,313	-8.1	4.3	13.1	-2.9	5.2
Referring broker fees	19,685	21,601	24,932	25,720	21,228	81,365	93,481	84,346	88,379	-17.5	7.8	14.9	-9.8	4.8
Referring broker fee (% of retail trading rev)	23.5%	27.8%	26.7%	26.5%	24.0%	25.5%	26.2%	24.0%	24.3%					
Compensation and benefits	\$23,872	\$22,586	\$23,121	\$22,955	\$22,954	\$76,197	\$91,616	\$89,227	\$89,176	0.0	-3.8	20.2	-2.6	-0.1
Advertising & marketing	6,873	7,018	7,487	9,870	9,500	23,789	33,875	29,500	32,500	-3.7	38.2	42.4	-12.9	10.2
Communications & technology	7,948	7,359	8,010	8,190	8,250	27,119	31,809	33,000	33,825	0.7	3.8	17.3	3.7	2.5
General & administrative	12,285	12,915	29,244	13,197	13,329	38,077	68,685	54,662	56,029	1.0	8.5	80.4	-20.4	2.5
Depreciation and amortization	4,014	4,094	4,740	5,367	6,117	9,306	20,318	31,968	32,288	14.0	52.4	118.3	57.3	1.0
Total Expenses	74,716	75,646	97,594	85,392	81,449	255,969	340,081	323,004	332,496	-4.6	9.0	32.9	-5.0	2.9
Total Operating Income	21,411	19,006	5,805	23,676	18,811	104,311	67,298	72,625	83,817	-20.5	-12.1	-35.5	7.9	15.4
Non Operating Income/(Expense)	39	73	60	93	70	116	296	300	300	-24.7	79.5	155.2	1.4	0.0
Income Before Tax	21,411	19,006	5,805	23,676	18,811	104,311	67,298	72,625	83,817	-20.5	-12.1	-35.5	7.9	15.4
Income Taxes	632	549	2,070	8,136	6,490	31,184	17,245	25,056	29,336	-20.2	926.9	-44.7	45.3	17.1
Tax Rate	3.0%	2.9%	35.7%	34.4%	34.5%	29.9%	25.6%	34.5%	35.0%					
Net Income	20,779	18,457	3,735	15,540	12,321	73,127	50,053	47,569	54,481	-20.7	-40.7	-31.6	-5.0	14.5
Adjusted Net Income	18,140	13,691	15,632	17,126	13,631	70,488	60,080	52,809	60,006	-20.4	-24.9	-14.8	-12.1	13.6
Average Diluted Shares	75.3	75.3	75.2	74.4	73.3	75.3	74.5485	73.84	74.84	-1.6	-2.7	-1.0	-1.0	1.4
GAAP EPS (class A)	\$0.01	\$0.16	\$0.19	\$0.21	\$0.17	N/A	\$0.73	\$0.64	\$0.73	-18.5	1895.3	N/A	-11.8	13.2
Adjusted EPS (diluted)	\$0.24	\$0.18	\$0.21	\$0.23	\$0.19	\$0.94	\$0.81	\$0.72	\$0.80	-19.1	-22.8	-13.9	-11.3	12.1
Operating EPS (diluted, including sbc)	\$0.23	\$0.16	\$0.19	\$0.21	\$0.17	\$0.93	\$0.73	\$0.64	\$0.73	-20.4	-28.3	-21.3	-11.9	13.0
Margins (%):														
Operating Income	28.6%	20.1%	21.1%	21.9%	18.8%	30.6%	20.5%	18.4%	20.1%					
EBITDA	34.2%	35.0%	36.3%	37.7%	34.1%	41.0%	35.8%	36.2%	38.0%					
Net Income	21.6%	19.5%	3.6%	14.2%	12.3%	20.3%	12.3%	12.0%	13.1%					
Compensation/Revenue(%)	24.8%	23.9%	22.4%	21.0%	22.9%	21.1%	22.5%	22.6%	21.4%					
Revenue Drivers/Metrics:														
Total Tradeable Accounts	175,240	141,713	171,138	171,319	N/A	175,240	N/A	N/A	N/A					
Total Active Accounts	136,427	139,900	154,786	156,053	163,094	136,427	163,094	171,683	183,701					
Net New Active Accounts	1,949	3,473	14,886	1,267	7,041	19,508	26,667	8,589	12,018	455.7	261.3	36.7	-67.8	39.9
Y/Y Account Growth	16.7%	14.5%	17.5%	16.0%	19.5%	16.7%	19.5%	5.3%	7.0%					
Annualized Organic Growth ("core")	17.4%	30.5%	-24.4%	9.8%	54.1%	16.7%	6.5%	5.3%	7.0%					
Retail:														
Customer trading volume (\$B)	836.0	822.0	938.0	1,042.0	972.0	3,172.0	3,774.0	3,862.0	4,141.4	-6.7	16.3	19.0	2.3	7.2
Daily Average Trades	317,658	309,777	350,349	438,599	424,011	316,060	380,047	406,343	455,104	-3.3	33.5	20.2	6.9	12.0
Customer equity (\$M)	641.2	775.1	839.0	828.2	861.4	641.2	861.4	969.5	1,114.9	4.0	34.3	34.3	12.6	15.0
Retail Revenue (\$) per million traded	100.0	95.0	100.0	93.0	91.0	100.4	94.5	91.0	88.0	-2.2	-9.0	-5.9	-3.7	-3.3
Institutional														
Customer trading volume (\$B)	191.0	219.0	214.0	309.0	429.0	752.0	1,171.0	1,699.0	2,081.3					
Revenue (\$) per million traded	37.0	34.0	31.0	25.0	17.0	37.0	24.9	15.2	14.0					
EBITDA	\$25,425	\$23,100	\$10,545	\$29,043	\$24,928	\$113,617	\$87,616	\$104,593	\$116,105	-14.2	-2.0	-22.9	19.4	11.0
Free Cash Flow	\$19,620	\$13,205	\$9,282	\$18,237	\$14,748	\$71,244	\$55,472	\$64,777	\$72,294	-19.1	-24.8	-22.1	16.8	11.6
Dividends per share	\$0.00	\$0.06	\$0.06	\$0.06	\$0.06	\$0.00	\$0.24	\$0.24	\$0.24					

Source: Company Reports and Citi Investment Research and Analysis

## **FXCM Inc**

### **Company description**

Established in 1999, FXCM Inc (FXCM) is the largest online FX broker in North America and 2nd largest globally with a 100% agency-based model and approximately 180k retail and institutional accounts. FXCM's platform provides price quotations on 56 currency pairs from 25 global financial institutions and market makers. The company has 657 full time employees and 60 full-time contractors at of 9/30.

### **Investment strategy**

We rate FXCM Neutral as we see a balanced fundamental risk/reward. On the one hand, 2012-13 consensus EPS expectations appear at risk and residual regulatory risk remains. On the other hand, FXCM is likely an industry consolidator while also positively leveraged to macro-economic uncertainty.

### **Valuation**

We value FXCM using the target P/E method. Our \$10 12-month price target is derived by applying a 10x target P/E multiple (approximate 25% discount to AMTD) to FTM EPS plus ~\$2 in projected net cash per share at 12/31/2012 discounted. Our 10x target P/E is below more diversified online broker peers.

### **Risks**

Risks include: 1) narrow product line, 2) low float, 3) FX volatility, 4) industry regulation, and, 5) account churn.

Trading volatility — FXCM's trading volume, and in turn, revenues, are influenced by the level of FX activity. Periods of lower volatility tend to correspond with lower trading volume, and vice-versa.

Industry regulation — Given the evolving nature of the retail FX business, regulations have not been established in all markets. While FXCM is regulated by a number of authorities (CTFC and NFA in the U.S.; FSA in the U.K.; Securities and Futures Commission in Hong Kong, etc), a sizable amount of trading volume is generated by jurisdictions where FXCM is either not licensed or authorized by governmental bodies or self regulatory organizations. In 2009, these customers account for approximately 55% of total volume.

## **TD Ameritrade Holding Corp**

(AMTD.O; US\$17.30; 1)

### **Valuation**

We value the shares of TD Ameritrade using the Target P/E method. Our \$18.25 12-month target factors a target P/E multiple of 14x our estimate of "normalized" EPS discounted by a 10% cost of capital over two years. Over the past five years, AMTD has traded in a range of 11.0x-22.2x.

## Risks

If the negative impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If conditions improve faster than anticipated, the stock may materially outperform our target price.

Trading volatility — AMTD is more exposed to volume risk vs. its peers as trading revenues comprised 43% of F2011 fiscal year revenue. According to management estimates, every 3,000 DARTs translates into \$0.01/share.

Equity markets — Market changes have a direct impact on client assets and investment product fees.

Interest rates — Net interest revenue increases when rates rise and decreases when rates fall as interest-earning assets re-price more quickly than liabilities. Management estimates every 25bps increase in Fed Funds impacts EPS by \$0.07/share.

## Appendix A-1

### Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

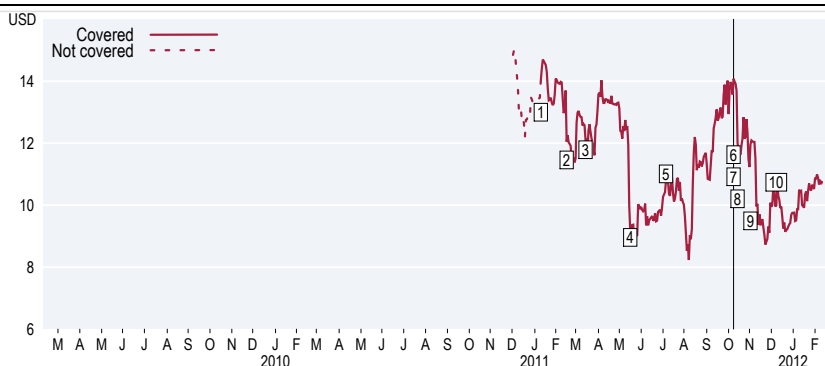
### IMPORTANT DISCLOSURES

#### FXCM Inc (FXCM)

#### Ratings and Target Price History Fundamental Research

Analyst: William R Katz

Covered since January 11 2011



	Date	Rating	Target Price	Closing Price
1	11-Jan-11	*1H	*18.00	14.02
2	16-Feb-11	*2H	*14.00	12.05
3	15-Mar-11	2H	*12.50	12.10
4	17-May-11	*3H	*7.00	9.17

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	6-Jul-11	*2H	*11.00	10.80
6	8-Oct-11	Stock rating system changed		
7	8-Oct-11	*2	-	13.57
8	14-Oct-11	*3	*11.25	12.01

	Date	Rating	Target Price	Closing Price
9	2-Nov-11	*2	11.25	11.96
10	8-Dec-11	2	*10.00	9.99

Rating/target price changes above reflect Eastern Standard Time

## FXCM Inc (FXCM)

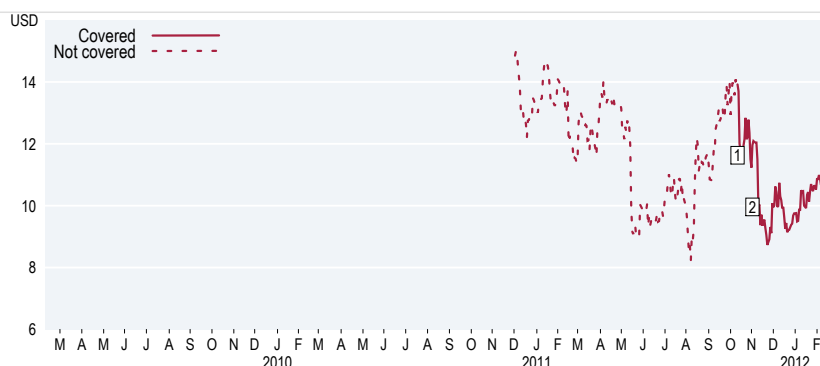
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since January 11 2011



	Date	Rating	Target Price	Closing Price
1	12-Oct-11	*ADD LP	-	13.92

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-Nov-11	*REM LP	-	11.96

Rating/target price changes above reflect Eastern Standard Time

## TD Ameritrade Holding Corp (AMTD)

### Ratings and Target Price History

#### Fundamental Research

Analyst: William R Katz

Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	11-Mar-09	*2H	*13.00	12.15
2	18-May-09	2H	*17.00	16.82
3	14-Jul-09	2H	*18.00	17.52
4	21-Jul-09	2H	*20.00	18.69
5	15-Oct-09	2H	*21.00	20.76

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	14-Jul-10	2H	*18.00	15.60
7	13-Apr-11	2H	*22.00	21.40
8	14-Apr-11	Coverage terminated		
9	6-Jul-11	*2M	*21.00	19.19
10	8-Aug-11	2M	*18.50	15.00

	Date	Rating	Target Price	Closing Price
11	16-Sep-11	*1M	18.50	14.98
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	18.50	15.35
14	8-Nov-11	1	*19.50	17.32
15	18-Jan-12	1	*18.25	16.09

Rating/target price changes above reflect Eastern Standard Time

## TD Ameritrade Holding Corp (AMTD)

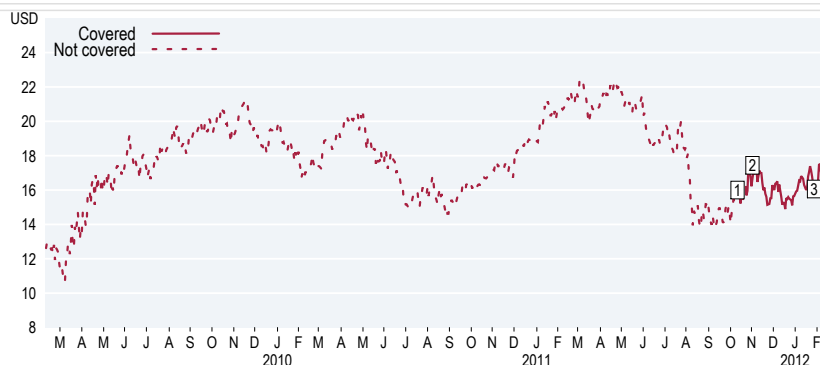
### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: William R Katz

Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	12-Oct-11	*ADD MP	-	15.97

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-Nov-11	*REM MP	-	16.66

	Date	Rating	Target Price	Closing Price
3	27-Jan-12	*ADD MP	-	16.33

Rating/target price changes above reflect Eastern Standard Time

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### Citi Investment Research & Analysis Ratings Distribution

**Data current as of 31 Dec 2011**

	<b>12 Month Rating</b>			<b>Relative Rating</b>		
	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Buy</b>	<b>Hold</b>	<b>Sell</b>
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	41%	40%	49%	43%	41%

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**Risk rating** takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.

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