

WIRECARD ASIA ACCOUNTS – OCAP IS FAMILY BUSINESS 9/12/19

On Thursday the 5th of December, Wirecard Asia Holdings (WDAH) finally submitted its 2018 annual report, 127 days after the deadline. The report is undated and contains no reference to Edo Kurniawan, a director until April of 2019, most likely because he reportedly fled Singapore when police asked to interview him. The report indicates that Wirecard have been misleading investors about a loan of >€100M as well as revealing wildly underwhelming financial results that should be of deep concern to investors.

Key points from the annual report:

1. The report indicates that, contrary to Wirecard's earlier statements, it did loan €115.6M to Ocap/Senjo to fund Ocap's new MCA business. Funded by an increase in bank debt in Germany, such a significant loan should have been disclosed as a related-party transaction. Our information is that the directors of WDAH and Ocap are married, and the director of Ocap, Carlos Haeuser, was, until recently, a senior EVP at Wirecard. Ocap/Senjo is also a significant customer of Wirecard's operations in Dubai, according to internal documents published by the FT.
2. The Wirecard Singapore financials show declining organic growth with deteriorating gross margins and increased cash burn. Goodwill on the Citi portfolio was not yet impaired, unlike in Australia, however management cut their valuation discount rate to 4.57% from 5.5% in 2017, likely in order to prevent an impairment.

LOAN TO OCAP/SENJO

We originally reported on the relationship between Ocap/Senjo and Wirecard, and Ocap's sudden launch of an MCA business in September; [read our earlier piece here](#). Following our report, **Wirecard management told analysts and investors that they had no relationship with Ocap and that there had been no relationship with Carlos Haeuser since January 2018**. The accounts show a different story.

In November 2018, Ocap received an unsecured, euro-denominated €115.6M loan from an undisclosed party, which they managed to lend out entirely by year-end. Wirecard's 2018 annual report states, when referring to merchant cash advance, "a volume of €115.6M was already earmarked for this purpose by powerful financing partners". **The newly filed WDAH reports show that Wirecard Asia borrowed from Wirecard Group in order to make an onward loan of €115.6M**. A euro-denominated loan made in Singapore of the exact same amount as that received by a company with strong ties to Wirecard strongly suggests this is a loan to Ocap, contrary to management's claims.

This report indicates that Wirecard has been untruthful in their communication with investors about a material transaction of >€100M.

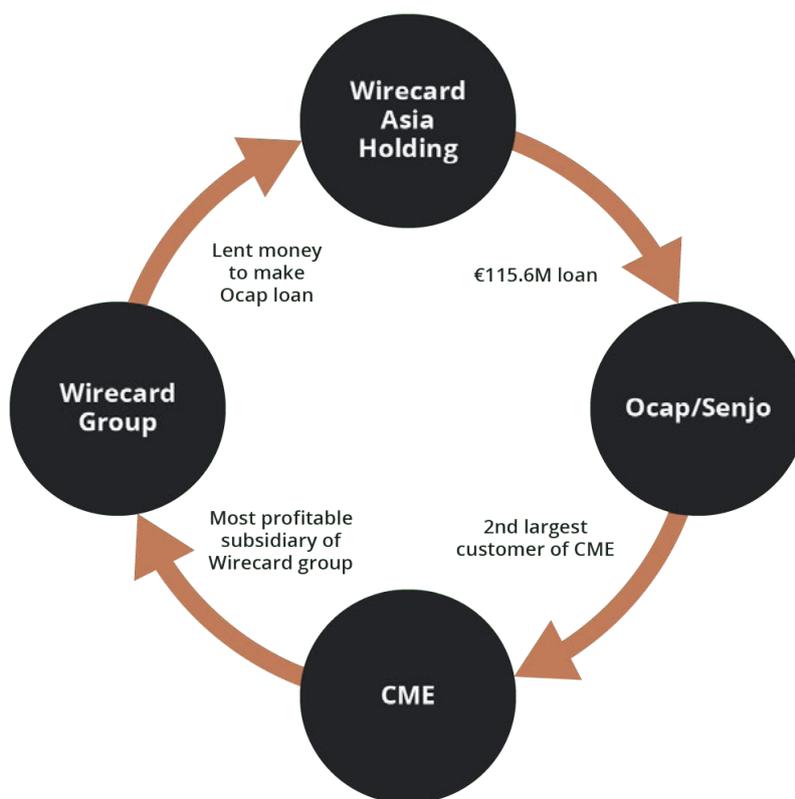
Wirecard has misled investors about who this money was lent to, and they failed to disclose the fact that the loan appears to be a related-party transaction:

The Ocap CEO, Carlos Haeuser, was not only a long-standing executive of Wirecard, but his wife, Brigitte Axtner Haeuser is Head of Digital Sales for Wirecard and a named director of WDAH in Singapore in the 2018 annual report. In addition, Ocap/Senjo is an important client for Wirecard: in the Wirecard internal documents released by the FT, it is shown as the second largest customer of CardSystems Middle East (CME), Wirecard's most profitable subsidiary¹.

It is also concerning that, within six weeks of making the loan, Wirecard made a €5M allowance for a potential loss. This stands out as an unusual allocation, particularly bearing in mind the relationship between Ocap and Wirecard directors. If Brigitte saw Ocap as such a credit risk, should WDAH have sanctioned lending the €115M to Ocap?

¹ We have previously highlighted our concern about the suspicious transaction data at Al Alam, CME's largest customer - <https://www.mca-mathematik.com/fabricated-data>

The loan was extended following the balance sheet date, with partial repayment of the loan extended until 2020. This would suggest the business is not doing as well as hoped. Were these late 4Q transactions an avenue to circulate money to CME and pay down the aged Senjo receivables referred to by the FT?



Sources: Ocap Management, Wirecard Group, FT

UNINSPIRING FINANCIALS

WDAH 2018 gross revenues of SGD\$208M grew 64% YoY from SGD\$127M in 2017. However, interchange, network, and transition service fees grew faster, meaning **net revenues fell 8% YoY**, from SGD\$12.6M to SGD\$11.6M. This substantial margin erosion should be alarming for investors, especially considering the positive commentary from management about the Citi portfolio.

SGD\$	2016	2017	2018
Gross revenue	4,155	127,169	208,080
YoY		2960%	64%
Interchange, network & transition fees	-	(114,568)	(196,481)
YoY			71%
Net revenue	4,155	12,601	11,599
YoY		203%	-8%
Loss from operations	(4,542)	(14,186)	(37,797)

The Citi portfolio in Singapore was acquired in June 2017, which suggests that 2018 organic gross revenues are flat to down YoY. This suggests that Wirecard is experiencing customer losses since the acquisition. Certainly, there's evidence of this such as Adyen's public announcement that they won [Singapore Airlines](#).

Despite the deteriorating financial performance, management took the decision not to impair the SGD\$95M of goodwill. We would note that the 4.57% discount rate used by management when performing the impairment test fell from 5.5% in 2017, a significant red flag as it inflates the DCF value, all else being equal. It would be interesting to see how they justified this fall in the discount rate to their auditors given the declining organic revenue with

deteriorating gross margins, increased cash burn, a police investigation into potential accounting fraud and money laundering, a €115M loan to a firm associated with the director's husband, and a CFO who reportedly fled the country.

ADDITIONAL POINTS TO CONSIDER

- RSM Chio signed the 2018 audit but included an emphasis of matter based on the CAD investigation. This is a different approach to EY Singapore who disclaimed their audit of Wirecard Singapore for 2018 claiming they did not have access to sufficient information due to the police raids.
- Edo Kurniawan was a director of WDAH until April 2019. He signed the 2017 accounts on 31/12/18, and yet is not mentioned in the 2018 report.
- The directors report is specifically undated. This is unusual, but the Wirecard Singapore 2017 accounts were also undated.
- Management took a gain of SGD\$3M for reversing an earn-out, which suggests that the acquisitions are performing worse than anticipated.
- We can see that the top three customers have a higher trade receivables balance than the total trade receivables that the company reports, excluding the OCAP loan. We cannot reconcile this with the reported financials (p35).

Sources:

[WDAH 2018 annual report](#)

[WDAH 2017 annual report](#)

[EK SG directorships](#)

[Ocap Management 2018 Financial Statements](#)

[Ocap Management 2017 Financial Statements](#)

Above we mention Wirecard's specific denials to analysts and investors about their relationship with Ocap. We are happy to share more details with regulators if requested.