

Equita Group

In Line 1Q Results in a Still Soft Market

No significant surprises came from Equita's 1Q24 results, which confirmed a still general soft market activity (i.e. ECM) albeit with some first visible signs of recovery (M&A). We confirm our 2024E-26E estimates. We maintain our positive view, which relies on: 1) a sound growth profile (high single-digit CAGR over 2020-23 period, despite tough market conditions); and 2) a solid balance sheet (IFR at 3.6x at end-March), allowing both a rewarding dividend policy (a 9.8% average 2024-25E yield at the current share price, 8.8% 2024E) and the option of accelerating the growth trajectory by deploying the excess capital through potential acquisitions as just announced with K-Finance minorities' buy-out.

1Q24 results in line with our estimates

1Q24 Equita Group's net profit was EUR 3.1M, broadly in line with EUR 3.2M estimate. Net revenues at EUR 17.1M were slightly lower than our EUR 18.1M forecast, with Global Markets at EUR 10.1M (broadly in line with our projections) down 10% yoy (o.w. Sales & Trading only down -3% yoy), Investment Banking at EUR 4.3M (slightly weaker than forecast) down 30.9% yoy due to weakness in ECM e DCM activities, and AAM at EUR 2.7M (stronger than our forecast) up +46% yoy, also thanks to capital gain relating to the purchase of an additional share of the EPD fund at a discount compared to the NAV.

1H outlook: Global Markets driven by Trading, IB penalised by ECM low market activity, AAM benefitting from first closing of new products' launch

As regards the outlook for 1H24: 1) on Global Markets, the Sales & Trading activity is growing yoy, while Client Driven Trading and Directional Trading are still affected by tough comparables of last year; 2) on Investment Banking, initial visible signs of recovery on M&A deals have been flagged with the first corporate activity in DCM, while ECM still suffers from low level of market activity; 3) on AAM, the growth trend seen in 1Q24 is confirmed, primarily thanks to the contribution from the Investment Portfolio and the first closing of new products EGIF and PDF III.

Equita K-Finance minorities' buy-out

The company announced to have signed an agreement to buy out K-Finance 30% minorities for EUR 5.65M (1/3 cash, 2/3 stock with issuance of 0.99M new Equita shares at an ex-dividend price of EUR 3.63/sh, for a total of approx. EUR 3.6M). Implied transaction multiple on 2023 earnings is 8.1x, reflecting the good earnings' power that the company has had since acquisition in 2020. The company will be rebranded as Equita Mid-Cap Advisory.

Equita Group – Key data

Y/E Dec (EUR)	2022A	2023A	2024E	2025E	2026E
Adj EPS	0.34	0.34	0.37	0.45	0.49
EPS	0.33	0.34	0.37	0.45	0.49
DPS	0.35	0.35	0.36	0.44	0.49
TBV PS	1.7	1.6	1.6	1.7	1.8
PPS PS	0	0	0	0	1.0
Adj. ROTE (%)	21.8	21.4	22.4	26.8	28.2
Adj P/E (x)	10.5	10.8	11.1	9.0	8.2
P/TBV (x)	2.2	2.3	2.5	2.4	2.3
Div yield (%)	9.7	9.4	8.9	10.9	12.1
P/PPPP (x)	NM	NM	NM	NM	4.1

Source: Company data and Intesa Sanpaolo Research estimates. Priced at 14/05/2024

16 May 2024: 11:56 CET

Date and time of production

BUY

Target Price: EUR 4.6

Italy/Brokerage & Investment
Banking
Company Results

EXM-STAR

Equita Group - Key Data

Price date (market close)	14/05/2024
Target price (€)	4.6
Target upside (%)	13.58
Market price (€)	4.05
Market cap (EUR M)	207.86
52Wk range (€)	4.18/3.37

EPS – DPS changes

(€)	2024E	2025E	2024	2025
	EPS =	EPS =	chg%	chg%
Curr.	0.365	0.449	0	0
Prev.	0.365	0.449	-	-
	DPS =	DPS =	chg%	chg%
Curr.	0.360	0.440	0	0
Prev.	0.360	0.440	-	-

Price Perf.(RIC: EQUI.MI, BB: EQUI IM)



Source: FactSet and Intesa Sanpaolo Research estimates

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2024E-26E estimates unchanged

After the release of 1Q24 results, we left our 2024-26E estimates unchanged. Our 2024E revenue estimates (EUR 92.6M total from EUR 87.6M in FY23) incorporate: EUR 39.8M Global Markets (-2.7% yoy), EUR 40.7M Investment Banking (+12% yoy, considering a good contribution from M&A market activity, which looks on the verge of recovery after three years of severe contraction), partially offset by a less favorable momentum for ECM) and EUR 12.2M AAM (from EUR 10.4M in FY23). Our 2024E projections (based on organic growth only) are in line with BP targets as regards cumulated dividends of more than EUR 50M.

Valuation: BUY rating and EUR 4.6 TP unchanged

We confirm our target price of EUR 4.6. Given an upside potential of approx. 13%, we confirm our BUY rating. Our positive view relies on: 1) a sound growth profile; and 2) a solid balance sheet, allowing both a rewarding dividend policy (a 9.8% average 2024-25E yield at the current share price, 8.8% 2024E) and the option of accelerating the growth trajectory by deploying the excess capital through potential acquisitions. We highlight that on 20 May Equita will pay the first tranche (EUR 0.20/sh., implying a 4.9% yield at the current share price) of the 2023 dividend, with the second tranche (EUR 0.15/sh.) payable in November.

Equita Group - 1Q24 results

EUR M	1Q23A	2Q23A	3Q23A	4Q23A	1Q24A	1Q24E	A/E (%)	1Q qoq %	1Q yoy %	FY24E
Global Markets	11.2	9.5	8.3	11.9	10.1	10.4	-3.2	-14.9	-10.1	39.8
Inv Banking	6.2	11.5	6.2	12.3	4.3	5.5	-21.8	-65.0	-30.9	40.7
AAM	1.8	2.5	2.1	3.9	2.7	2.2	24.6	-30.6	46.0	12.2
Net revenues	19.3	23.5	16.6	28.0	17.1	18.1	-5.5	-39.0	-11.4	92.6
Personnel Costs	8.9	11.2	8.0	13.8	8	8.5	-5.9	-42.1	-9.8	45.5
Administrative expenses	5.0	6.2	5.2	5.3	4.9	5.0	-2.0	-6.7	-1.7	21.0
Total operating costs	13.9	17.3	13.2	19.1	12.9	13.5	-4.5	-32.4	-6.9	66.5
Profit before taxes	5.4	6.2	3.4	9.0	4.2	4.6	-8.5	-53.5	-22.9	26.1
Group net profit*	3.9	4.3	1.8	6.9	3.1	3.2	-4.2	-55.1	-19.9	17.8

*Including the impact (net of taxes) of LTIP provision A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Valuation and Key Risks

Valuation Basis

We value Equita through a three-stage dividend discount model (DDM), based on our explicit 2023A-26E estimates, followed by a 7-year transitional period with adj. net profit and tangible net equity gradually developing consistently with our terminal pay-out ratio assumption of around 100%. Our valuation model incorporates a 10.5% cost of equity (4.0% RFR, 6.5% ERP). We also add the proposed dividend (EUR 0.35/sh.) of 2023 dividend.

Key Risks

Company specific risks:

- Extremely focused on a single geography (Italy)
- Its end-markets are volatile in nature
- Limited stock liquidity

Sector generic risks:

- Regulatory risks
- Technology risks
- Geopolitical risk

Company Snapshot

Company Description

Equita is an Italian boutique active in the investment banking market. Listed on the Euronext STAR segment and founded 50 years ago, Equita, which currently has 195 employees, operates 3 divisions: Global Markets, Investment Banking and Alternative Asset Management, all supported by a high-quality Research team.

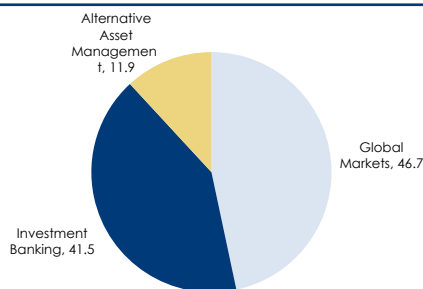
Key data

Mkt price (€)	4.05	Free float (%)	34.0
No. of shares	51.32	Major shr	Mgmt Pact
52Wk range (€)	4.18/3.37	(%)	33.0
Reuters	EQUI.MI	Bloomberg	EQUI IM
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	2.8	-1M	-1.2
-3M	11.3	-3M	-0.4
-12M	2.3	-12M	-19.3

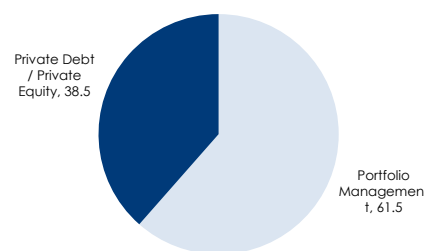
Estimates vs. consensus

EUR M (Y/E Dec)	2023A	2024E	2024C	2025E	2025C	2026E	2026C
Total income	87.55	92.59	NM	105.0	NM	110.6	NM
Operating costs	63.42	66.46	NM	73.23	NM	78.26	NM
Gross op. inc.	24.14	26.14	NM	31.75	NM	32.38	NM
LLP	0.00	0.00	NM	0.00	NM	0.00	NM
Net income	16.54	17.76	NM	21.85	NM	24.02	NM
Adj. EPS (€)	0.34	0.37	NM	0.45	NM	0.49	NM

Revenues breakdown by division (%)



AAM AuM breakdown (%)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 14/05/2024)

Equita Group – Key Data

Rating	Target price (€/sh)		Mkt price (€/sh)			Sector
BUY	Ord 4.6		Ord 4.05			Brokerage & Investment
Values per share (EUR)	2021A	2022A	2023A	2024E	2025E	2026E
No. of outstanding shares (M)	46.16	46.77	48.64	48.64	48.64	48.64
Adj. EPS	0.47	0.345	0.344	0.365	0.45	0.49
TBV PS	1.6	1.7	1.6	1.6	1.7	1.8
PPP PS	0	0	0	0	0	1.0
Dividend ord	0.35	0.35	0.35	0.36	0.44	0.49
Income statement (EUR M)	2021A	2022A	2023A	2024E	2025E	2026E
Total income	90	86	88	93	105	111
Total operating expenses	61	61	63	66	73	78
Gross operating income	29	25	24	26	32	32
Provisions for loan losses	0	0	0	0	0	0
Pre-tax income	29	25	24	26	32	33
Net income	22	15	17	18	22	24
Shareholders' earnings	0.00	0.00	0.00	0.00	0.00	0.00
Adj. shareholders' earnings	22	16	17	18	22	24
Composition of total income (%)	2021A	2022A	2023A	2024E	2025E	2026E
Global Markets	45.1	43.2	46.7	42.9	39.5	39.0
Alternative asset management	12.1	9.0	11.9	13.2	12.9	13.5
Investment banking	42.8	47.8	41.5	43.9	47.6	47.5
Balance sheet (EUR M)	2021A	2022A	2023A	2024E	2025E	2026E
Total assets	315.6	399.5	379.1	386.9	401.4	414.7
Customer loans	91.4	99.6	101.2	115.3	126.3	136.2
Total customer deposits	166.5	205.7	193.8	203.5	213.6	224.3
Shareholders' equity	99.4	104.5	105.3	106.1	110.4	113.0
Tangible equity	72.2	77.6	78.7	79.5	83.8	86.4
Risk weighted assets	193.1	242.2	216.2	226.5	249.2	262.9
Stock market ratios (X)	2021A	2022A	2023A	2024E	2025E	2026E
Adj. P/E	6.9	10.5	10.8	11.1	9.0	8.2
P/TBV	2.07	2.18	2.30	2.48	2.35	2.28
P/PPP	NA	NA	NA	NA	NA	4.1
Dividend yield (% ord)	10.8	9.7	9.4	8.9	10.9	12.1
Profitability & financial ratios (%)	2021A	2022A	2023A	2024E	2025E	2026E
ROE	23	15	16	17	20	21
Adj. ROTE	33	22	21	22	27	28
RoRWA	12	7	7	8	9	9
Leverage	25	21	22	22	22	22
Cost income ratio	68	70	72	72	70	71
Tax rate	24	28	29	29	28	29
Dividend payout	76	101	103	100	100	101
Other (%)	2021A	2022A	2023A	2024E	2025E	2026E
CET1 ratio	26	24	29	27	25	24
CET1 ratio fully loaded	26	24	29	27	25	24
Growth (%)	2021A	2022A	2023A	2024E	2025E	2026E
Total income	32.6	-4.5	1.4	5.8	13.4	5.4
Gross operating income	66.0	-12.9	-5.3	8.3	21.5	2.0
Net income	74.9	-28.5	7.4	7.4	23.0	9.9
Adj. net income	74.9	-24.1	2.4	6.1	23.0	9.9
BS growth (%)	2021A	2022A	2023A	2024E	2025E	2026E
Customers' loans	6.2	8.9	1.7	13.8	9.6	7.8
Customers' deposits	6.0	23.6	-5.8	5.0	5.0	5.0
Shareholders' funds	16.0	5.1	0.8	0.7	4.1	2.4
Structure (no. of)	2021A	2022A	2023A	2024E	2025E	2026E
Employees	170	188	195	195	200	201

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies eligible for listing have revenues below EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation of around EUR 1Bn.

Equity Research Publications in Last 12M

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We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

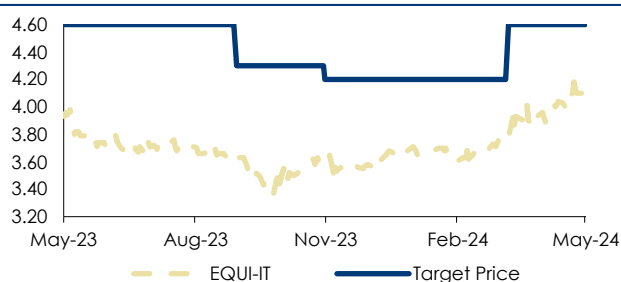
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Equity Rating Key (long-term horizon: 12M)

Long-term rating	Definition
BUY	If the target price is 10% higher than the market price.
HOLD	If the target price is in a range 10% below or 10% above the market price.
SELL	If the target price is 10% lower than the market price.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis to determine an investment rating or target price. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TENDER SHARES	We advise investors to tender the shares to the offer.
TARGET PRICE	The market price that the analyst believes the share may reach within a 12M time horizon.
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated.
Note	Intesa Sanpaolo assigns ratings to stocks on a 12M horizon based on a number of fundamental drivers including, among others, updates to earnings and/or valuation models; short-term price movements alone do not imply a reassessment of the rating by the analyst.

Historical recommendations and target price trends (long-term horizon: 12M)

The 12M rating and target price history chart(s) for the companies currently under our coverage can also be found at Intesa Sanpaolo's website/Research/Regulatory disclosures: <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/tp-and-rating-history-12-months->. Intesa Sanpaolo changed its long-term 12M horizon rating key on 3 April 2023; please refer to the ISP Equity Rating Reconciliation Table for further details at the following link: <https://group.intesasanpaolo.com/it/research/equity-credit-research>.

Equita Group:**Target price and market price trend (-1Y)****Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
22-Mar-24	BUY	4.6	3.8
14-Nov-23	BUY	4.2	3.6
13-Sep-23	BUY	4.3	3.7

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at April 2024)**

Number of companies considered: 150	BUY	HOLD	SELL
Total Equity Research Coverage relating to last rating (%)*	71	29	1
of which Intesa Sanpaolo's Clients (%)**	68	42	0

* Last rating refers to rating as at end of the previous quarter; ** Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

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Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Equita Group in the next three months
- One or more of the companies of the Intesa Sanpaolo Banking Group have granted significant financing to Equita Group and its parent and group companies
- One or more of the companies of the Intesa Sanpaolo Banking Group are one of the main financial lenders to Equita Group and its parent and group companies
- Intesa Sanpaolo acts as Specialist relative to securities issued by Equita Group

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