

EQUITA Group Buy

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Italy | Banks & Asset Managers
Beta Profile:
MCap: EUR202.2m
Target Price: EUR4.60
Current Price: EUR3.95
Up/downside: 16.5%
Market data: 11 May 2023

 Bloomberg: EQUI IM Reuters: EQUI.MI
 Free float 50%
 Avg. daily volume (EURm) 0.1
 YTD abs performance 8.5%
 52-week high/low (EUR) 4.06/3.18

Q1 results as expected

Key points:

- The Q1 results (largely as expected) displayed +3.5% YoY growth mostly from the business in fixed income and certificates, outweighing the decline of the institutional brokerage.
- The cost/income ratio has increased to 71.9% because of the hirings done in the past quarters and because of more intense marketing activity (roadshow, conferences).
- Most of the news in next quarters will come from the Alternative Asset Management. As sector read across we highlight the acquisition of Numis, a UK corporate broking and advisory house, by Deutsche Bank.

Table 1: EQUITA : quarterly results

EURm	Q1 23	Q1 22	YOY	Q1 23E	Act/Est
Revenues	19.2	18.6	3.5%	18.3	4.9%
o/w Global Markets	11.2	10.0	11.5%	10.3	8.6%
o/w Investment Banking	6.2	6.7	-7.5%	6.0	3.3%
o/w Alternative Asset Management	1.8	1.8	-0.7%	2.0	-10.0%
Costs	-13.8	-13.0	6.2%	-13.1	5.4%
Cost/income ratio	71.9%	70.0%		71.5%	
EBIT	5.4	5.6	-2.9%	5.2	3.6%
Pre-tax profit	5.4	5.5	-2.1%	5.2	3.6%
Net profit	3.8	3.8	-1.0%	3.6	5.5%
Shareholder's equity	108.5	103.5	4.8%		

Source: Company data, Kepler Cheuvreux

Q1 results and read across from a recent deal in the investment banking industry

- The increase of revenues in Q1 is driven by the Global Markets division where the business lines of Client Driven (managing the trading book of institutional clients and the market making of bonds and certificates) and of Directional trading (managing the own trading book) outweighed the 10% YoY decline of the Sales&Trading.
- The Investment Banking declined (-7.5% YoY) for lower activity in M&A (the toughest YoY comparison will be in Q2), while the Alternative Management levelled off YoY despite the AUM down 10% YoY. It is thanks to the growing weight of alternative asset management that has higher fee margin that the liquid asset management (we calculate 1.1/1.2% versus 0.6%).
- The cost/income ratio worsened to 71.9% (from 70% of Q1 22) because of: the catch-up effect of the hirings (mostly senior investment bankers) done from Q1 22 to Q1 23 (the total headcount has grown from 176 to 190 people); the increase of marketing activity (roadshows, conferences) and inflation of info-providing services (i.e. Reuters, Bloomberg).
- Most of the news for next quarters will come from the Alternative Asset Management where the ELTIF fund (launched in Q4 21) will close the fundraising in June and where the third private debt fund and a new asset class will be launched by the end of Q2.
- We highlight the M&A involving a potential peer of EQUITA: Numis, a UK corporate broking and advisory house, was taken over by Deutsche Bank (DB) on 28 April for GBP410m (EUR450m). Numis had very volatile revenues and net profit in the past years (2018-22) with the formers ranging from to GBP116m to GBP215m (median of GBP144m) and the latter from GBP9m to GBP58m (median of GBP27m). The volatility of the earnings makes the assessment of the valuation more difficult. When looking at the median of the book value and of net profit from 2018 to 2022 the transaction multiples may be: P/BV of 2.6x (for a median ROE of 20%) and P/E of 15.3x.
- In our Sum-of-the part of EQUITA we value the Investment banking and Global Markets (the two business where Numis is present) at P/E23 of 9x and 8x (8x and 7x for the P/24E).

Appendix 1: Research framework

Last model update: 26 April 2023

Investment case

- The engagement of top management and divisional heads (15 people) which have the majority in the shareholders' agreement that controls EQUITA (32% of capital, 47% of votes). They have phantom shares, which align their interests with those of minorities. They will be awarded a maximum 2m phantom shares, equivalent to EUR10m in cash, if the TSR reaches at least 60% between March 2022 and April 2025, and if the business plan targets are met.
- The industrial plan targets EUR110m of revenues in 2024 and >EUR25m of net profit, with growth from Investment Banking and Alternative Asset Management. We have lower revenues and net profit in 2024, but the same cumulative dividends (EUR52m).

Catalysts

- Launch of the third private debt fund and of new alternative asset class.
- Growth in IPOs (leaner regulation and rates effect).
- New investment banking deals originated by newly hired senior personnel.

Valuation Methodology

- We have a TP of EUR4.6 based on a discounted dividend model (COE of 12.5% and g of 2%) and a sum-of-the-parts model (P/E 2023-24E of peers applied to our net profit estimates for the three divisions). Both valuation methods include part of the excess capital and cash costs of the remuneration plan for top management and divisional heads.

Risk to our rating

- The departure of key individuals, who are instrumental to delivering the 2022-24 plan and are shareholders too.
- The management of potential conflicts of interest between Global Markets and Investment Banking.
- Negative macro and financial markets affecting the group's revenues.

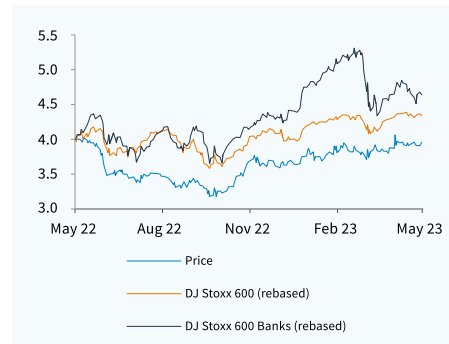
Appendix 2: Company description

EQUITA is an Italian investment banking company established in 1973. It offers Investment Banking services (48% of 2022 revenues), Global Markets (institutional brokerage, 43%), and Alternative Asset Management (public and private markets, 9%). It was listed on the Italian Alternative Market in 2017 and listed on the Star segment in 2018.

Management Andrea Vismara (CEO) | Francesco Perilli (executive director) | Stefania Milanese (CFO/COO)

Key shareholders Free float: 49.50% | Management and employees: 37.60% | Fenera Holding: 4.90%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Long-standing investment firm with solid reputation.
- Independence, as EQUITA is a partnership of managers and employees.
- Alignment of interests of key managers and other shareholders.
- Ranking in Global Markets (stable) and Investment Banking (growth).

Opportunities

- Launch of third private debt fund.
- Launch of new asset class in private market.
- Recovery of IPOs in Italy (leaner regulations and rates effect).
- Investment Banking deals originated by new senior managers.

Weaknesses

- Limited geographical diversification.
- Limited size in Alternative Asset Management and Investment Banking.

Threats

- Departure of key individuals.
- Potential conflicts of interest (Global Markets, Investment Banking).
- Revenue volatility due to negative macro and market effects.
- Possible stock overhang (lock-up from last placement ends in May 2023).

Appendix 5: Key financials

Last model update: 26 April 2023

Market data date: 11 May 2023

FY to 31/12 (EUR)	12/15	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E
Income Statement (EURm)										
Total revenues	0.0	45.5	53.9	59.8	58.3	68.2	90.4	86.9	89.2	100.0
% Change	na	+chg	18.5%	10.9%	-2.4%	16.9%	32.5%	-3.8%	2.6%	12.1%
Total operating costs	0.0	-35.2	-38.4	-42.2	-44.5	-50.4	-61.0	-61.4	-62.5	-68.2
Cost income ratio (%)	na	77.4%	71.3%	70.6%	76.2%	73.9%	67.4%	70.6%	70.1%	68.2%
Gross operating income	0.0	10.3	15.5	17.6	13.9	17.8	29.4	25.5	26.7	31.8
Loan loss provisions	na	na	na	na	na	na	na	na	na	na
Loan loss ratio (% of loans)	na	na	na	na	na	na	na	na	na	na
Associates & asset disposals	na	na	na	na	na	na	na	na	na	na
Goodwill and other except.	na	na	na	na	na	na	na	na	na	na
Income tax	na	-4.5	-4.3	-4.5	-4.2	-4.7	-7.1	-7.1	-7.5	-8.9
Reported net profit	0.0	5.8	11.1	13.0	9.7	13.0	22.3	17.5	19.2	22.9
Reported net profit group share	0.0	5.8	11.1	13.0	9.7	12.4	21.7	15.5	18.5	22.2
Net attributable profit adjusted	0.0	8.9	11.0	11.0	9.5	12.3	21.5	16.2	18.5	22.2
Balance sheet (EURm)										
Loans to customers	na	na	na	na	na	na	na	na	na	na
Loans to banks	na	119.7	117.8	117.1	117.6	117.3	136.1	107.9	107.9	107.9
Derivatives	na	na	na	na	na	na	na	na	na	na
Other trading portfolio	na	na	na	na	na	na	na	na	na	na
Investments	0.0	71.2	107.8	160.2	142.4	130.1	140.7	211.3	217.3	236.4
Fixed assets	0.0	0.6	0.6	0.6	7.3	6.2	5.2	4.1	4.1	4.1
Intangible assets	na	13.5	13.7	15.0	15.1	27.5	27.2	26.9	26.9	26.9
Other assets	na	13.1	7.2	5.6	6.4	4.7	6.3	49.1	37.5	27.5
Total assets	0.0	218.2	247.1	298.4	288.9	285.8	315.6	399.4	393.8	402.9
Deposits from customers	na	na	na	na	na	na	na	na	na	na
Deposits from banks	na	na	na	na	na	na	na	na	na	na
Derivatives	na	na	na	na	na	na	na	na	na	na
Trading liabilities	na	139.1	143.8	193.1	185.2	171.3	175.5	221.3	216.0	225.9
Debt securities & subord. liabilities	na	na	na	na	na	na	na	na	na	na
Other liabilities	na	23.5	21.6	22.7	20.5	26.6	38.3	71.9	67.5	57.5
Total liabilities	0.0	166.7	167.3	218.2	208.2	200.1	216.2	295.2	285.5	285.4
Shareholders' equity after rev. reserves	0.0	28.0	79.0	80.1	80.1	85.6	99.4	104.4	108.3	117.5
Minority interests	na	23.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Total equity	na	51.4	79.0	80.1	80.1	85.7	99.4	104.4	108.3	117.5
Total liabilities + net equity	0.0	218.2	246.3	298.3	288.3	285.8	315.6	399.6	393.8	402.9
Risk weighted assets	na	na	na	na	na	na	na	na	na	na
Tier one capital	na	na	na	na	na	na	na	na	na	na
Total capital	na	na	na	na	na	na	na	na	na	na
Per share										
EPS adj and fully diluted	na	0.36	0.22	0.22	0.19	0.24	0.43	0.32	0.36	0.43
% Change	na	na	-38.1%	0.1%	-13.8%	28.6%	75.2%	-25.2%	13.1%	18.7%
EPS reported	na	0.23	0.22	0.26	0.19	0.25	0.43	0.31	0.36	0.43
Book value per share	na	0.56	1.58	1.60	1.60	1.70	1.98	2.05	2.12	2.26
Tangible BV per share	na	0.29	1.31	1.30	1.30	1.16	1.44	1.52	1.59	1.74
Dividend per share	0.00	0.00	0.22	0.22	0.19	0.20	0.35	0.35	0.35	0.39
Payout ratio	na	0.0%	98.9%	84.4%	98.0%	80.9%	80.9%	113.9%	97.2%	91.3%
Weighted avg number of shares (m)	0.0	25.0	50.0	50.0	50.0	50.1	50.2	50.6	51.1	51.6
Solvency & Asset quality										
CET 1 ratio	na	na	na	na	na	na	na	na	na	na
Tier 1 leverage ratio	na	na	na	na	na	na	na	na	na	na
Loan to deposit ratio	na	na	na	na	na	na	na	na	na	na
Net NPL ratio	na	na	na	na	na	na	na	na	na	na
Valuation										
P/E adj. and fully diluted	na	na	na	14.6	14.9	9.9	7.5	11.3	10.9	9.2
P/BV	na	na	na	2.0	1.8	1.4	1.6	1.8	1.9	1.7
P/TBV	na	na	na	2.5	2.2	2.1	2.2	2.4	2.5	2.3
Dividend yield (ord.)	na	na	na	6.8%	6.7%	8.3%	10.8%	9.7%	8.9%	9.9%
ROE	na	63.7%	20.6%	13.9%	11.9%	14.8%	23.3%	15.9%	17.4%	19.6%
RoTBV	na	na	27.6%	16.9%	14.6%	19.9%	33.0%	21.7%	23.3%	25.8%
RoRWAS	na	na	na	na	na	na	na	na	na	na

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Hold	31%	25%
Reduce	8%	1%
Not Rated/Under Review/Accept Offer	2%	6%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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EQUITA Group (EUR)	28/03/2023 05:35	Equity Research	Buy	4.60	3.82

Credit research does not issue target prices. Left intentionally blank.

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