EQUITA Group Buy

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Italy | Banks & Asset Managers **Beta Profile:** MOMENTUM QUALITY **MCap: EUR183.8m**

Target Price:	EUR4.50
Current Price:	EUR3.59
Up/downside:	25.3%
Market data:	10 November 2023

Bloomberg: EQUI IM	Reuters: EQUI.MI
Free float	50%
Avg. daily volume (EURm)	0.2
YTD abs performance	-1.4%
52-week high/low (EUR)	4.06/3.37

Strong indication on 2023 DPS

Key points:

- Equita's operating result was in line with expectations, driven by Global Markets and Alternative Asset Management. Net profit was impacted by the last part of the long-term initiative plan (LTIP) for top management (EUR0.3m).
- The CEO indicated DPS of EUR0.35 in 2023 (matching the figure in 2022), which is slightly better than the indication provided during the H1 results conference call (not less than EUR0.30).
- We believe this is the short-term catalyst to focus on. It implies a 10% yield in a period when the business divisions are not fully supportive.

Q3 operating result as expected, DPS confirmed at same level as in 2022 (10% yield)

- Equita's Q3 operating result was in line with our estimates, whereas net profit was impacted by the last part of the LTIP for top management (EUR0.3m).
- Global Markets posted revenues up by 18% YOY, split as follows: Sales & Trading down 6% YOY, due to subdued activity among institutional clients in equity (mostly SMEs); Clients Driven down by 17% YOY after two quarters of growth; and Directional Trading from zero to EUR1.8m, also thanks to EUR0.6m from an HTC portfolio of EUR38m purchased last year.
- Investment Banking suffered from the YOY comparison (revenues -12% YOY in Q3) and from the postponement of some deals from Q3 to Q4. In October, execution was solid in the debt capital market (EUR320m of bond issuance), the equity capital market (buyback and buyout for EUR400m), and in M&A (three deals). Currently, Equita is advisor for a rights issue (EUR300m) on the Euronext Milan and for an IPO on Euronext Growth Milan.
- Alternative Asset Management posted revenues slightly up YOY (EUR2.1m vs. the EUR1.9m of Q3 2022). The decline versus Q2 2023 (EUR2.6m) was due to the presence of an equalization fee. When a fund, such as the ELTIF fund in June 2023, closes the fundraising, the subscribers who joined at a later stage also pay the management fees for period of fund raising, even though they were not invested during that time. AUM are slightly below last quarter (EUR917m vs. EUR937m) but come entirely from assets in the public market. The assets in the alternative market (EUR384m) are split between private debt (two funds, of which one is in the process of being divested) and an ELTIF fund. Note that we expect two additional funds to be come to the market: a fund to invest in renewable energy infrastructure (we assume EUR200m of fund raising) and a third private debt fund (we assume EUR350m of fund raising).
- Total costs grew by 9% YOY to EUR13m. These costs were split between slightly rising labour costs (+5% YOY) for recruiting in the investment banking division (although the compensation to revenues ratio remains around 49%) and G&A, which was up 16% YOY, driven by inflation and more intense marketing spending.
- Management has indicated DPS of EUR0.35 for 2023, thus unchanged from 2022. This looks better than the indication given with H1 results (not less than EUR0.3) The payment of the DPS will be split into two tranches, one in May and the other in November 2024. It is the same process as for the 2022 DPS, which was paid in May 2023 (EUR0.2) and will be paid in November 2023 (EUR0.15).
- In April 2022, management presented an industrial plan targeting revenue of EUR110m and net profit of EUR25m in 2024. In our view, these targets should be reached later than management expects (i.e. Investment Banking and Alternative Asset Management). The target that was fully confirmed was for cumulated dividends (2022-24) above EUR50m. The EUR0.35 of 2022 and of 2023 are equal to EUR34m. These dividend outflows exceed the net profit in 2022-23 (EUR30m). Therefore, EUR4m of the retained earnings reserve of the past will be used (based on our estimates).
- We believe the DPS is the short-term catalyst to watch for Equita. It implies a 10% yield in a period in which the business divisions are not fully supportive. We would also note the announcement of a share buyback (for the incentive plan) equal to 0.6% of the capital (EUR0.3m of shares or EUR1m). This represents five days of average daily turnover.

Table 1: Equita: quarterly results

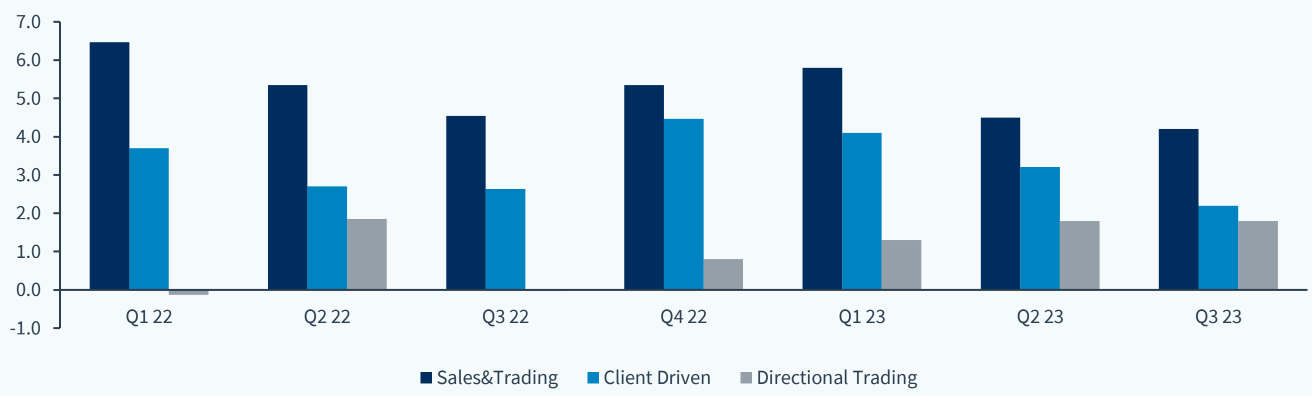
EURm	Q3 2023	Q3 2022	YOY	Q3 2023E	Act/Est	9M 2023	9M 2022	YOY
Revenues	17	16	3.3%	17	-2.3%	60	65	-7.9%
o/w Global Markets	8	7	18.1%	8	3.7%	29	27	7.0%
o/w Investment Banking	6	7	-12.2%	7	-11.4%	24	32	-23.9%
o/w Alternative Asset Management	2	2	10.7%	2	0.0%	7	6	9.6%
Costs	-13	-12	8.8%	-14	-2.9%	-44	-44	0.9%
Cost/income ratio	*78.5%*	*74.5%*		*79.0%*		*74.6%*	*68.2%*	
EBIT	4	4	-12.8%	4	-0.1%	15	21	-26.5%
Pre-tax profit	4	4	-12.2%	4	-0.1%	15	20	-26.2%
Net profit	2	3	-41.1%	2	-30.1%	10	13	-26.0%

Source: Company data, Kepler Cheuvreux

Global markets

- Equita's global markets division has three business lines:
  - Sales & trading, which is the business line of the historical institutional client brokerage activity. Revenues here are originated from sales and trading on the equity, fixed income, and derivatives markets and from commission sharing agreements (CSAs).
  - Client-driven, which is proprietary trading on behalf of clients, is the activity for specialist and liquidity providers (for listed companies with which EQUITA has contracts for specialist and corporate broking), and the activity of market making in bonds and certificates.
  - Directional trading, which is the management of the proprietary trading portfolio (also employing a part of EQUITA's capital), which has an average net (long minus short positions) size of EUR40m.

Chart 1: Equita: business lines revenues of Global Markets division (EURm)

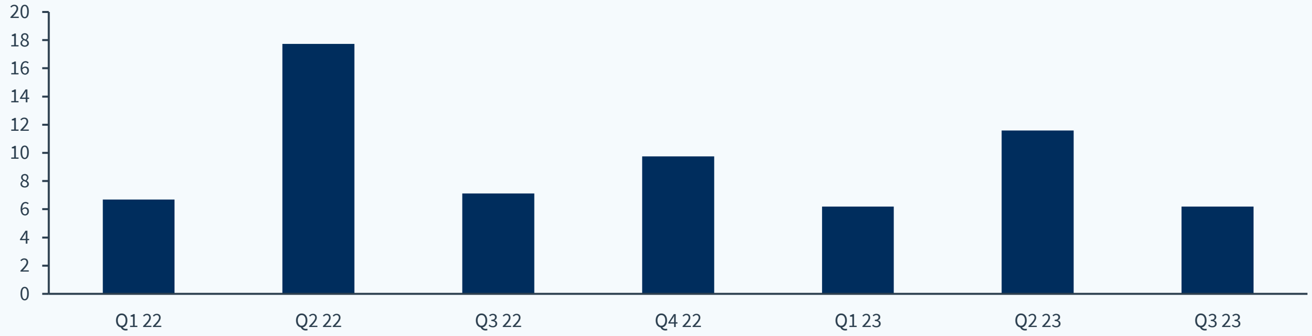


Source: Company data, Kepler Cheuvreux

Investment banking

- The investment banking division is split into three main areas:
  - Global financing, which comprises the equity capital market (ECM); debt capital market (DCM); debt advisory and restructuring; and corporate broking (sponsored research, buyback mandates). Marco Clerici, who is the head of this area and is also co-head of the investment banking division, joined EQUITA in 2012 after 20 years spent in Schroders, Citi, Credit Agricole CIB, Banca Aletti, and Eidos Partners.
  - Advisory, which can rely on teams dedicated to M&A in different verticals (industrials, financial institution groups, consumer, infrastructure, and utilities). The head of the area is Carlo Andrea Volpe, who is also the co-head of the division. He joined EQUITA in 2008 after more than ten years at companies such as EY Corporate Finance, Schroders Corporate Finance, and Citi Corporate & Investment Banking.
  - Mid-Market M&A, which follows the acquisition of Equita K Finance and offers M&A advisory to mid-sized corporates and entrepreneurs. The area is headed by two co-CEOs (Giuseppe Renato Grasso and Filippo Guiccardi, co-founders of Equita K Finance) that report to the CEO of EQUITA.

Chart 2: Equita: revenues in investment banking division (EURm)

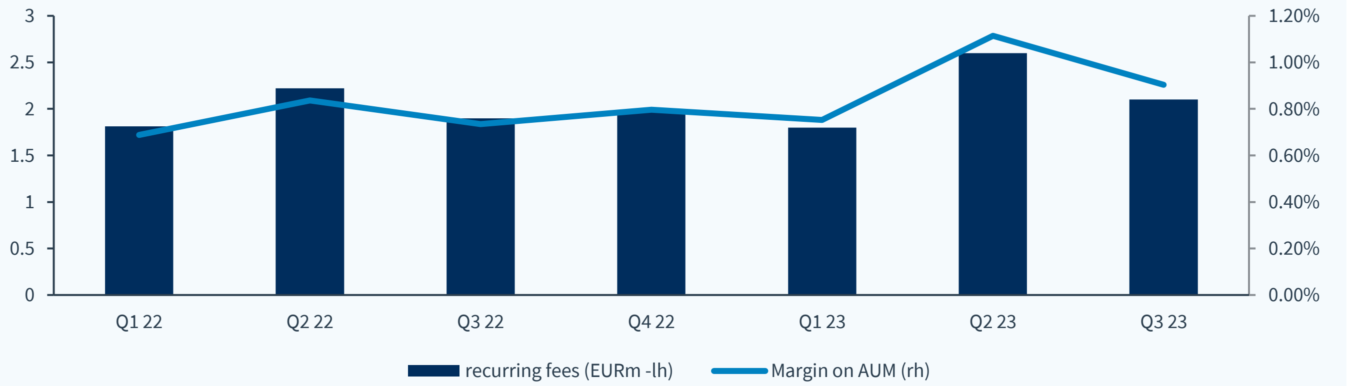


Source: Kepler Cheuvreux

Alternative asset management

- The alternative asset management business division relies on Equita Capital SGR (fully owned by EQUITA Group), which was set up in 2019, creating a platform for traditional public market investments and brand-new alternative products.
- We believe private markets is the most important part. Equita Capital SGR currently has three products:
  - EPD is a closed-end Luxembourgish fund launched in 2016 that raised EUR100m of capital. It has completed the investment process (11 deals) and has already started the divestment period (three exits completed).
  - EPD II is a closed-end Italian fund launched in 2019 that raised EUR237m. Its investment philosophy is consistent with that of the EDP I, and it can also invest abroad (in the DACH area – Germany, Austria, and Switzerland). It has already carried out eight investments.
  - The ELTIF is a closed-end fund in private equity launched in 2021 and that raised EUR98.5m (two investments have already been made).
- We expect two more funds to come to the market: the third private debt fund EDP III (we assume a fundraising of EUR350m, also financed by the divestment of EDP) and another closed-end fund investing in renewable energy infrastructure (we expect EUR200m of fund raising). The timetable for the fund-raising process is expected to commence at the start of next year.
- We understand investor concerns about the exposure to private and alternative markets. Nevertheless, for Equita, the young vintage of the portfolio (they stared fundraising for the first fund in 2016) and its still limited size give it more possibilities to deliver positive returns (we have a cash-on-cash multiple of 1.3x, equal to a 10% blended IRR).

Chart 3: Equita: recurring fees and margin on average AUM of Alternative Market division



Source: Company data, Kepler Cheuvreux

Appendix 1: Research framework

Last model update: 13 November 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) may be pushed back, but the commitment to cumulative dividends (2022-24) of more than EUR50m (we have EUR52m) is fully confirmed.

Catalysts

- Start of fundraising for the third private debt fund and for new EGIF fund (renewable energy infrastructure).
- Growth in IPOs.
- New investment banking deals originated by newly hired senior personnel.

Valuation Methodology

- We have a TP of EUR4.5 based on a discounted dividend model (COE of 12.5% and g of 2%) and a sum-of-the-parts model (P/E 2024-25E 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

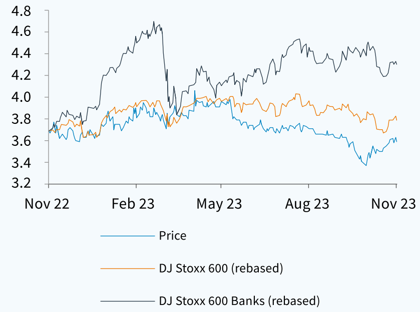
- The departure of key individuals, who are instrumental to delivering the 2022-24 plan and are shareholders too.
- The management of potential conflicts of interest between Global Markets and Investment Banking.
- Negative macro and financial markets affecting the group's revenues.

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.

Mgmt	Andrea Vismara (CEO) | Stefania Milanesi (Executive director/CFO/COO) | Stefano Lustig (Executive Director)
Ownership	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 interest of key managers and other shareholders.
- Ranking in Global Markets (stable) and Investment Banking (growth).

Weaknesses

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

Opportunities

- Fundraising for third private debt and EGIF fund.
- Recovery of IPOs in Italy (leaner regulations and rates effect).
- Investment banking deals originated by new senior managers.

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 ended in May).

Appendix 5: Key financials

Last model update: 13 November 2023

Market data date: 10 November 2023

FY to 31/12 (EUR)	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23E	12/24E	12/25E
Income Statement (EURm)										
Total revenues	45.5	53.9	59.8	58.3	68.2	90.4	86.9	81.5	91.7	98.5
% Change	+chg	18.5%	10.9%	-2.4%	16.9%	32.5%	-3.8%	-6.2%	12.4%	7.5%
Total operating costs	-35.2	-38.4	-42.2	-44.5	-50.4	-61.0	-61.4	-59.6	-65.1	-69.3
Cost income ratio (%)	77.4%	71.3%	70.6%	76.2%	73.9%	67.4%	70.6%	73.1%	71.0%	70.3%
Gross operating income	**10.3**	**15.5**	**17.6**	**13.9**	**17.8**	**29.4**	**25.5**	**21.9**	**26.6**	**29.2**
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	-4.5	-4.3	-4.5	-4.2	-4.7	-7.1	-7.1	-6.3	-7.7	-7.5
Reported net profit	**5.8**	**11.1**	**13.0**	**9.7**	**13.0**	**22.3**	**17.5**	**15.3**	**18.9**	**18.3**
Reported net profit group share	**5.8**	**11.1**	**13.0**	**9.7**	**12.4**	**21.7**	**15.5**	**14.8**	**18.2**	**17.6**
Net attributable profit adjusted	**8.9**	**11.0**	**11.0**	**9.5**	**12.3**	**21.5**	**16.2**	**15.9**	**18.2**	**20.0**
Balance sheet (EURm)										
Loans to customers	na	na	na	na	na	na	na	na	na	na
Loans to banks	119.7	117.8	117.1	117.6	117.3	136.1	107.9	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	71.2	107.8	160.2	142.4	130.1	140.7	211.3	203.9	219.9	231.5
Fixed assets	0.6	0.6	0.6	7.3	6.2	5.2	4.1	4.1	4.1	4.1
Intangible assets	13.5	13.7	15.0	15.1	27.5	27.2	26.9	26.9	26.9	26.9
Other assets	13.1	7.2	5.6	6.4	4.7	6.3	49.1	37.5	27.5	17.5
Total assets	218.2	247.1	298.4	288.9	285.8	315.6	399.4	380.4	386.4	388.1
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	139.1	143.8	193.1	185.2	171.3	175.5	221.3	212.6	221.7	228.9
Debt securities & subord. liabilities	na	na	na	na	na	na	na	na	na	na
Other liabilities	23.5	21.6	22.7	20.5	26.6	38.3	71.9	65.0	55.7	52.6
Total liabilities	166.7	167.3	218.2	208.2	200.1	216.2	295.2	279.6	279.5	283.6
Shareholders' equity after rev. reserves	28.0	79.0	80.1	80.1	85.6	99.4	104.4	100.8	105.9	103.9
Minority interests	23.5	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total equity	**51.4**	**79.0**	**80.1**	**80.1**	**85.7**	**99.4**	**104.4**	**100.8**	**105.9**	**103.9**
Total liabilities + net equity	218.2	246.3	298.3	288.3	285.8	315.6	399.6	380.4	385.4	387.5
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	0.36	0.22	0.22	0.19	0.24	0.43	0.32	0.31	0.35	0.38
% Change	na	-38.1%	0.1%	-13.8%	28.6%	75.2%	-25.2%	-2.5%	12.9%	8.5%
EPS reported	0.23	0.22	0.26	0.19	0.25	0.43	0.31	0.29	0.35	0.34
Book value per share	0.56	1.58	1.60	1.60	1.70	1.98	2.05	1.97	2.04	1.97
Tangible BV per share	0.29	1.31	1.30	1.30	1.16	1.44	1.52	1.44	1.52	1.46
Dividend per share	0.00	0.22	0.22	0.19	0.20	0.35	0.35	0.35	0.39	0.40
Payout ratio	0.0%	98.9%	84.4%	98.0%	80.9%	80.9%	113.9%	119.1%	109.6%	120.1%
Weighted avg number of shares (m)	25.0	50.0	50.0	50.0	50.1	50.2	50.6	51.1	51.6	52.4
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	14.6	14.9	9.9	7.5	11.3	11.5	10.2	9.4
P/BV	na	na	2.0	1.8	1.4	1.6	1.8	1.8	1.8	1.8
P/TBV	na	na	2.5	2.2	2.1	2.2	2.4	2.5	2.4	2.5
Dividend yield (ord.)	na	na	6.8%	6.7%	8.3%	10.8%	9.7%	9.6%	10.8%	11.2%
ROE	63.7%	20.6%	13.9%	11.9%	14.8%	23.3%	15.9%	15.5%	17.6%	19.1%
RoTBV	na	27.6%	16.9%	14.6%	19.9%	33.0%	21.7%	21.1%	23.8%	25.7%
RoRWAs	na	na	na	na	na	na	na	na	na	na

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Unless otherwise stated, all prices are aligned with the “Market Data date” on the front page of this report.

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Name of the Research Analyst(s): Filippo Prini, CFA

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Rating Breakdown	A	B
Buy	58%	57%
Hold	32%	33%
Reduce	8%	6%
Not Rated/Under Review/Accept Offer	2%	4%
Total	100%	100%

Source: Kepler Cheuvreux
A: % of all research recommendations
B: % of issuers to which material services of investment firms are supplied

12 months rating history

The below table shows the history of recommendations and target prices changes issued by KEPLER CHEUVREUX research department (Equity and Credit) over a 12 months period.

Company Name	Date	Business Line	Rating	Target Price	Closing Price
EQUITA Group (EUR)	28/03/2023 05:35	Equity Research	Buy	4.60	3.82
	13/09/2023 05:43	Equity Research	Buy	4.50	3.61

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

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Reduce: There is an expected downside.

Accept offer: In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offer price is considered to be fairly valuing the shares.

Reject offer: In the context of a total or partial take-over bid, squeeze-out or similar share purchase proposals, the offered price is considered to be undervaluing the shares.

Under review: An event occurred with an expected significant impact on our target price and we cannot issue a recommendation before having processed that new information and/or without a new share price reference.

Not rated: The stock is not covered.

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