Release date: 13 September 2024

EQUITA Group Buy

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Italy | Banks & Asset Managers

Beta Profile: GROWTH MOMENTUM QUALITY

MCap: EUR200.1m

Target Price:	EUR4.50
Current Price:	EUR3.87
Up/downside:	16.3%
Market data:	12 September 2024

Bloomberg: EQUI IM	Reuters: EQUI.MI
Free float	50%
Avg. daily volume (EURm)	0.2
YTD abs performance	5.2%
52-week high/low (EUR)	4.18/3.37

Q2 results as expected, positive messages from 2025

Key points:

- Equita's Q2 results were as expected, with stable revenues and higher net profit.
- The best-performing division in Q2 was Global Markets (+17% YOY) thanks to the activity of institutional clients in the equity segment.
- Management stuck to its commitment of at least EUR50m of cumulated dividends over 2022-24 (we have EUR52m). It also confirmed that the targets of the 2022-24 plan of EUR110m of revenues and >EUR25m of net profit, originally planned for 2024, will be shifted forward by 12-18 months.

Table 1: Equita quarterly results

EURm	Q2 24	Q2 23	YOY	Q2 24E	Act/Est	H1 24	H1 23	YOY
Revenues	24	24	0.2%	23	1.3%	41	43	-4.7%
o/w Global Markets	11	10	16.8%	11	5.7%	21	21	2.9%
o/w Investment Banking	11	12	-4.3%	11	0.9%	15	18	-13.5%
o/w Alternative Asset Management	1	3	-46.2%	2	-22.2%	4	4	-6.8%
Costs	-16	-17	-5.5%	-16	0.2%	-29	-31	-6.4%
Cost/income ratio	*69.4%*	*73.7%*		*70.2%*		*71.8%*	*73.1%*	
EBIT	7	6	16.2%	7	3.8%	12	12	-0.1%
Pre-tax profit	7	6	18.9%	7	5.7%	12	11	0.1%
Net profit	5	4	23.0%	5	7.4%	8	8	1.1%

Source: Company data, Kepler Cheuvreux

Q2 results as expected, positive messages from 2025

- Equita reported Q2 results that were largely as expected, with stable revenues at EUR24m and net profit up to EUR5m.
- By division, the +17% YOY growth of Global Markets is driven by the Sales & Trading business line (activity of institutional clients in the equity segment). Instead, the YOY decline in the other two divisions depends on: 1) the low number of ECM deals in small-mid caps in Investment Banking; 2) and the presence of an equalisation fee in Q2 2023 in the Alternative Asset Management business.
- During the conference call, management confirmed the cumulated dividends of at least EUR50m over 2022-24 (we have EUR52m) and the positive expectations for 2024, driven by the recovery of ECM deals in Investment Banking and the increase in the AUM of the alternative investments (which have a higher fee margin than the liquid investments).
- The company stuck to its indication that the targets of the 2022-24 business plan of EUR110m of revenues and >EUR25m originally planned for 2024 will be shifted forward by 12/18 months. In 2025-26E, we have EUR95-98m of revenues and EUR17-20m of net profit.

Appendix 1: Research framework

Last model update: 29 August 2024

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) are pushed back, but the commitment to cumulative dividends (2022-24) of more than EUR50m (we have EUR52m) is 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

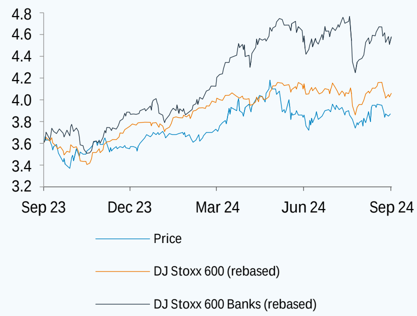
- The departure of key individuals, who are instrumental to delivering the 2022-24 plan and are shareholders too.
- The management of potential conflicts of interest between Global Markets and Investment Banking.
- Negative macro and financial markets affecting the group's revenues.

Appendix 2: Company description

EQUITA is an Italian investment banking company established in 1973. It offers Investment Banking services (42% of 2023 revenues), Global Markets (institutional brokerage, 47%), and Alternative Asset Management (public and private markets, 11%). 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: 29 August 2024

Market data date: 12 September 2024

FY to 31/12 (EUR)	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24E	12/25E	12/26E
Income Statement (EURm)										
Total revenues	53.9	59.8	58.3	68.2	90.4	86.9	87.4	89.0	95.0	98.2
% Change	18.5%	10.9%	-2.4%	16.9%	32.5%	-3.8%	0.6%	1.9%	6.8%	3.3%
Total operating costs	-38.4	-42.2	-44.5	-50.4	-61.0	-61.4	-63.5	-63.7	-67.6	-69.1
Cost income ratio (%)	71.3%	70.6%	76.2%	73.9%	67.4%	70.6%	72.7%	71.6%	71.1%	70.4%
Gross operating income	**15.5**	**17.6**	**13.9**	**17.8**	**29.4**	**25.5**	**23.9**	**25.3**	**27.5**	**29.0**
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	-4.3	-4.5	-4.2	-4.7	-7.1	-7.1	-6.9	-7.3	-7.1	-8.4
Reported net profit	**11.1**	**13.0**	**9.7**	**13.0**	**22.3**	**17.5**	**16.7**	**18.0**	**17.4**	**20.6**
Reported net profit group share	**11.1**	**13.0**	**9.7**	**12.4**	**21.7**	**15.5**	**16.0**	**17.3**	**16.7**	**19.8**
Net attributable profit adjusted	**11.0**	**11.0**	**9.5**	**12.3**	**21.5**	**16.2**	**16.9**	**17.3**	**18.8**	**19.8**
Balance sheet (EURm)										
Loans to customers	na	na	na	na	na	na	na	na	na	na
Loans to banks	117.8	117.1	117.6	117.3	136.1	107.9	130.8	130.8	130.8	130.8
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	107.8	160.2	142.4	130.1	140.7	211.3	178.1	181.6	198.2	210.2
Fixed assets	0.6	0.6	7.3	6.2	5.2	4.1	6.0	6.0	6.0	6.0
Intangible assets	13.7	15.0	15.1	27.5	27.2	26.9	26.6	26.6	26.6	26.6
Other assets	7.2	5.6	6.4	4.7	6.3	49.1	37.3	23.2	13.2	13.2
Total assets	247.1	298.4	288.9	285.8	315.6	399.4	378.8	368.3	374.9	386.9
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	143.8	193.1	185.2	171.3	175.5	221.3	213.9	226.2	233.4	233.4
Debt securities & subord. liabilities	na	na	na	na	na	na	na	na	na	na
Other liabilities	21.6	22.7	20.5	26.6	38.3	71.9	55.4	30.0	32.1	39.8
Total liabilities	167.3	218.2	208.2	200.1	216.2	295.2	271.1	258.1	267.4	275.2
Shareholders' equity after rev. reserves	79.0	80.1	80.1	85.6	99.4	104.4	105.2	106.9	104.3	108.5
Minority interests	0.0	0.0	0.0	0.1	0.0	0.0	3.2	3.2	3.2	3.2
Total equity	**79.0**	**80.1**	**80.1**	**85.7**	**99.4**	**104.4**	**108.4**	**110.1**	**107.5**	**111.7**
Total liabilities + net equity	246.3	298.3	288.3	285.8	315.6	399.6	379.5	368.3	374.9	386.9
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	0.24	0.24	0.21	0.27	0.47	0.35	0.36	0.36	0.38	0.40
% Change	-38.1%	-0.1%	-14.0%	27.9%	74.2%	-25.4%	2.3%	0.1%	7.3%	4.5%
EPS reported	0.25	0.29	0.21	0.27	0.47	0.33	0.34	0.36	0.34	0.40
Book value per share	1.75	1.76	1.76	1.85	2.15	2.22	2.19	2.18	2.11	2.18
Tangible BV per share	1.44	1.43	1.43	1.26	1.56	1.65	1.64	1.64	1.57	1.64
Dividend per share	0.22	0.22	0.19	0.20	0.35	0.35	0.35	0.38	0.38	0.39
Payout ratio	89.5%	76.6%	89.1%	73.9%	74.4%	104.9%	104.2%	107.4%	112.3%	98.6%
Weighted avg number of shares (m)	45.3	45.4	45.5	45.8	46.2	46.6	47.5	48.5	49.2	49.6
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	13.3	13.5	9.0	6.9	10.4	10.4	10.9	10.1	9.7
P/BV	na	1.8	1.6	1.3	1.5	1.6	1.7	1.8	1.8	1.8
P/TBV	na	2.3	2.0	1.9	2.1	2.2	2.3	2.4	2.5	2.4
Dividend yield (ord.)	na	6.8%	6.7%	8.3%	10.8%	9.7%	9.4%	9.9%	9.8%	10.2%
ROE	20.6%	13.9%	11.9%	14.8%	23.3%	15.9%	16.1%	16.3%	17.8%	18.6%
RoTBV	27.6%	16.9%	14.6%	19.9%	33.0%	21.7%	21.7%	21.7%	23.8%	24.8%
RoRWAs	na	na	na	na	na	na	na	na	na	na

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Reduce	8%	5%
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Total	100%	100%

Source: Kepler Cheuvreux
A: % of all research recommendations
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