

# EQUITA Group Buy

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Italy | Banks &amp; Asset Managers

**Beta Profile:**   
**MCap: EUR192.8m**

**Target Price:** EUR4.50  
**Current Price:** EUR3.73  
**Up/downside:** 20.6%  
**Market data:** 14 March 2024

Bloomberg: EQUI IM	Reuters: EQUI.MI
Free float	50%
Avg. daily volume (EURm)	0.1
YTD abs performance	1.4%
52-week high/low (EUR)	4.06/3.37

## DPS of EUR0.35 (9.3% yield) sustainable also for 2024

### Key points:

- Q4 2023 revenues and net profit exceeded our estimates, although referred from small figures. The main surprise was in Alternative Asset Management.
- The proposed DPS (EUR0.35) is in line with our estimates and returns a 9.3% of dividend yield. They confirm cumulated dividends above EUR50m over 2022-24, leaving the same DPS for 2024.
- The outlook for 2024 is positive for Investment banking and Alternative asset management. The year has started with 25% YOY for the equity in Sales & Trading.

### Sustainable DPS, positive business outlook for 2024

- **Q4 2023 results:** Q4 2023 revenues and net profit slightly exceeded our estimates by 14% and 9% (although referred to small figures). Most of the beat resulted from a larger-than-expected capital gain on the buyback of part of the EPD fund. The proposed DPS of EUR0.35 (to be paid EUR0.2 in May and EUR0.15 in November) returns a yield of 9.3%. It is paid taking 100% of the net profit plus EUR1m of distributable reserves (generated by the retained net profits from the past). They confirm cumulated dividends above EUR50m over 2022-24, leaving the same DPS also for 2024.
- **Global Markets (Q4-FY 2023):** The growth in revenues in Q4 2023 (+12% YOY) is from the Directional Trading, which encompasses the financial result of the own portfolio invested in financial securities. The positive market effects in Q4 generated EUR2.5m of revenues (EUR1m in Q4 2022). During the year, the turnover of EQUITA (as institutional broker) exceeded EUR50bn (EUR47bn in 2022) with growth supported by the volumes on the fixed income and on the options and certificates. The turnover on the equity market is down 1% YOY largely for the drop of the volumes on the Euronext Growth Milan where EQUITA has a market share of 11%.
- **Global Markets (outlook):** The year started with more volumes (than in 2023) on the equity in the Sales&Trading (+25% YOY).
- **Investment banking (Q4-FY 2023):** The YOY comparison in Q4 was more manageable and a rich pipeline (mostly in debt capital market) has helped. Throughout the year, the trend was impacted by the drop in M&A deals and the challenging comparison based (mostly in H1 2023) generated by a jumbo deal in 2022.
- **Investment banking (outlook):** They have a very good pipeline in M&A (the weak spot of 2023), good in debt capital market, while it is not yet fully satisfactory in the equity capital market.
- **Alternative asset management (Q4-FY 2023):** The size of the capital gain on the buyback of part of the EPD fund (the first private debt fund) was the main difference versus our estimates (EQUITA's investment has upped its co-investment in EPD fund from EUR6m to EUR11m since the company had acquired this stake at a discount versus the NAV). At end-2023, AUM reached EUR891m, down versus EUR921m at end-2022 because of the reimbursement (to investors) of a second tranche of the EPD fund.
- **Alternative asset management (outlook):** The closing of the Energy Fund and of the EPD III (over 2024-25) may bring EUR500m of new AUM with a recurring management fee above 1%.
- **Forecasts for 2024-25:** We fine-tune our estimates (-1% on net profit over 2024-25). For 2024, we see revenue growth from the Investment banking supported by a positive pipeline and in Alternative Asset management (thanks to the execution of the fund raising of the Energy fund and EPD III). We do not see any massive new wave of recruiting in 2024 and therefore the cost/income ratio is set to decline from 72.7% in 2023 (the all-time high) to 71.3% in 2024.
- **Target price:** We confirm our TP of EUR4.5, which is based on the dividend discounted model (COE of 12.5%). A sum-of-the-part applying the peers' multiples to the net profit of the three divisions is returning an average value (over 2024-25) of EUR4.80.

**Table 1: EQUITA - quarterly results**

EURm	Q4 23	Q4 22	YOY	Q4 23E	Act/Est	2023	2022	YOY
Revenues	28	16	73.8%	25	14.1%	88	87	0.7%
o/w Global Markets	12	11	13.1%	11	13.8%	41	38	8.5%
o/w Investment Banking	12	10	26.1%	11	11.8%	36	41	-12.1%
o/w Alternative Asset Management	4	2	98.1%	3	26.6%	10	8	31.6%
Costs	-19	-11	71.5%	-16	16.7%	-63	-61	3.3%
Cost/income ratio	68.2%	69.1%		66.7%		72.5%	70.6%	
EBIT	9	5	79.2%	8	9.0%	24	26	-5.6%
Pre-tax profit	9	5	94.4%	8	12.4%	24	25	-4.7%
Net profit	6	3	106.1%	6	9.0%	16	15	5.2%

Source: Company data, Kepler Cheuvreux

**Appendix 1: Research framework**

Last model update: 14 March 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) 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**

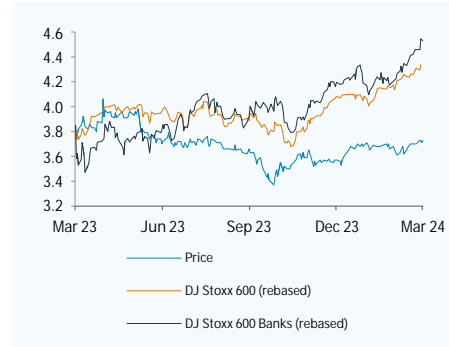
- The departure of key individuals, who are instrumental to delivering the 2022-24 plan and are shareholders too.
- The management of potential conflicts of interest between Global Markets and Investment Banking.
- Negative macro and financial markets affecting the group's revenues.

**Appendix 2: Company description**

EQUITA is an Italian investment banking company established in 1973. It offers Investment Banking services (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.

<b>Mgmt</b>	Andrea Vismara (CEO)   Stefania Milanese (Executive director/CFO/COO)   Stefano Lustig (Executive Director)
<b>Ownership</b>	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).

**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.

**Weaknesses**

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

**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: 14 March 2024

Market data date: 14 March 2024

<b>FY to 31/12 (EUR)</b>	<b>12/16</b>	<b>12/17</b>	<b>12/18</b>	<b>12/19</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23</b>	<b>12/24E</b>	<b>12/25E</b>
<b>Income Statement (EURm)</b>										
Total revenues	45.5	53.9	59.8	58.3	68.2	90.4	86.9	87.4	91.0	97.0
% Change	+chg	18.5%	10.9%	-2.4%	16.9%	32.5%	-3.8%	0.6%	4.2%	6.6%
Total operating costs	-35.2	-38.4	-42.2	-44.5	-50.4	-61.0	-61.4	-63.5	-64.9	-68.6
Cost income ratio (%)	77.4%	71.3%	70.6%	76.2%	73.9%	67.4%	70.6%	72.7%	71.3%	70.7%
<b>Gross operating income</b>	<b>10.3</b>	<b>15.5</b>	<b>17.6</b>	<b>13.9</b>	<b>17.8</b>	<b>29.4</b>	<b>25.5</b>	<b>23.9</b>	<b>26.1</b>	<b>28.4</b>
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	-6.9	-7.6	-7.2
<b>Reported net profit</b>	<b>5.8</b>	<b>11.1</b>	<b>13.0</b>	<b>9.7</b>	<b>13.0</b>	<b>22.3</b>	<b>17.5</b>	<b>16.7</b>	<b>18.6</b>	<b>17.7</b>
<b>Reported net profit group share</b>	<b>5.8</b>	<b>11.1</b>	<b>13.0</b>	<b>9.7</b>	<b>12.4</b>	<b>21.7</b>	<b>15.5</b>	<b>16.0</b>	<b>17.9</b>	<b>17.0</b>
<b>Net attributable profit adjusted</b>	<b>8.9</b>	<b>11.0</b>	<b>11.0</b>	<b>9.5</b>	<b>12.3</b>	<b>21.5</b>	<b>16.2</b>	<b>16.9</b>	<b>17.9</b>	<b>19.5</b>
<b>Balance sheet (EURm)</b>										
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	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	71.2	107.8	160.2	142.4	130.1	140.7	211.3	178.1	183.9	200.5
Fixed assets	0.6	0.6	0.6	7.3	6.2	5.2	4.1	6.0	6.0	6.0
Intangible assets	13.5	13.7	15.0	15.1	27.5	27.2	26.9	26.6	26.6	26.6
Other assets	13.1	7.2	5.6	6.4	4.7	6.3	49.1	37.3	23.2	13.2
Total assets	218.2	247.1	298.4	288.9	285.8	315.6	399.4	378.8	370.6	377.2
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	213.9	226.2	233.4
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	55.4	31.1	33.1
Total liabilities	166.7	167.3	218.2	208.2	200.1	216.2	295.2	271.1	259.2	268.4
Shareholders' equity after rev. reserves	28.0	79.0	80.1	80.1	85.6	99.4	104.4	105.2	108.2	105.6
Minority interests	23.5	0.0	0.0	0.0	0.1	0.0	0.0	3.2	3.2	3.2
<b>Total equity</b>	<b>51.4</b>	<b>79.0</b>	<b>80.1</b>	<b>80.1</b>	<b>85.7</b>	<b>99.4</b>	<b>104.4</b>	<b>108.4</b>	<b>111.4</b>	<b>108.8</b>
Total liabilities + net equity	218.2	246.3	298.3	288.3	285.8	315.6	399.6	379.5	370.6	377.2
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
<b>Per share</b>										
EPS adj and fully diluted	0.36	0.22	0.22	0.19	0.24	0.43	0.32	0.33	0.35	0.38
% Change	na	-38.1%	0.1%	-13.8%	28.6%	75.2%	-25.2%	3.2%	5.0%	8.1%
EPS reported	0.23	0.22	0.26	0.19	0.25	0.43	0.31	0.31	0.35	0.33
Book value per share	0.56	1.58	1.60	1.60	1.70	1.98	2.05	2.05	2.09	2.03
Tangible BV per share	0.29	1.31	1.30	1.30	1.16	1.44	1.52	1.53	1.58	1.52
Dividend per share	0.00	0.22	0.22	0.19	0.20	0.35	0.35	0.35	0.38	0.39
Payout ratio	0.0%	98.9%	84.4%	98.0%	80.9%	80.9%	113.9%	112.1%	110.8%	120.4%
Weighted avg number of shares (m)	25.0	50.0	50.0	50.0	50.1	50.2	50.6	51.1	51.5	51.9
<b>Solvency &amp; Asset quality</b>										
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
<b>Valuation</b>										
P/E adj. and fully diluted	na	na	14.6	14.9	9.9	7.5	11.3	11.2	10.7	9.9
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	2.4	2.4	2.5
Dividend yield (ord.)	na	na	6.8%	6.7%	8.3%	10.8%	9.7%	9.4%	10.3%	10.6%
ROE	63.7%	20.6%	13.9%	11.9%	14.8%	23.3%	15.9%	16.1%	16.8%	18.2%
RoTBV	na	27.6%	16.9%	14.6%	19.9%	33.0%	21.7%	21.7%	22.3%	24.3%
RoRWAS	na	na	na	na	na	na	na	na	na	na

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Buy	55%	60%
Hold	33%	29%
Reduce	9%	7%
Not Rated/Under Review/Accept Offer	3%	4%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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

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