

Company report

Buy (maintained)

10 July 2020 – 5:30 PM

MARKET PRICE: EUR2.49

TARGET PRICE: EUR2.89 (from EUR2.71)

## Investment Banking

### Data

Shares Outstanding (m):	45.5
Market Cap. (EURm):	113.2
Enterprise Value (EURm):	NA
Free Float (%):	37.0%
Av. Daily Trad. Vol. ('000):	52.7
Main Shareholder:	Management 53.9%
Reuters/Bloomberg:	EQUI.MI EQUI IM
52-Week Range (EUR)	1.9 3.0

Source: FactSet, UBI Banca estimates

### Performance

	1m	3m	12m
Absolute	-7.8%	11.7%	-8.8%
Rel. to FTSE IT	-5.8%	0.8%	3.9%

Source: FactSet

### Graph area Absolute/Relative 12 M



Source: FactSet

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## Executing along the Business Plan lines

Equita announced yesterday to have signed a binding agreement to acquire 70% of K Finance, an Italy-based corporate finance boutique specialized in M&A and active since 20 years primarily in the SME segment. The deal allows Equita to strengthen its IB division by enlarging its size and diversify into the small, non-listed, industrial companies. In one shot the acquisition increases Equita's IB division by one third. The multiples paid are below Equita's own (6.7x P/E vs. Equita's 14x) and, according to our estimates, the deal is accretive also at EPS level (9% for 2021-22). Therefore, we are raising our 2020-22 estimates by 6.1% on average and our TP to EUR2.89 (from EUR2.71), reiterating our Buy rating.

- > **The deal structure and governance: maintaining the entrepreneurial approach.** Equita is acquiring 70% of K Finance for EUR7 million (EUR6.5 million at closing and an earn out on 2020 earnings) through a mix of cash and equity (treasury shares). The company, in financing the deal, will use also its newly signed credit lines. On the remaining 30% there is a put & call agreement four years from now, to be paid 1/3 in cash and 2/3 with treasury shares. The company will be re-named Equita K Finance and the two co-founders of K Finance will have place on the board. They would also own Equita shares and be part of the first shareholder pact (which foresees voting and lock-up commitments). With these agreements the entrepreneurial approach of K Finance should be maintained while preserving the returns for Equita.
- > **The deal rationale: reaching the 2022 BP targets also through external growth.** Equita IB division, due to the DNA of the group, is typically operating with medium size companies linked in some way to the listed capital markets. With K finance, Equita grows into the smaller companies' segment, non-listed and typically operating in the industrial sectors. On a Pro-forma basis, LTM IQ20, the IB division would have revenues of around EUR25 million compared to a 2022 BP target of EUR30/34 million, thus accelerating the path towards the BP execution.
- > **Immediately accretive to EPS. BUY, TP to EUR2.89.** K Finance, on average in the past 4 years, had revenues of EUR6 million and a Net income of EUR1.5 million. With an implied valuation for 100% of the Equity of EUR10 million, Equita paid a 6.7x P/E, an accretive multiple vs. its own 14.0x. Assuming that the deal will be financed for 4/5 with credit lines (estimating a cost of debt of 2%) and the rest with treasury shares, the deal is EPS accretive by 7.3% on 2021 and 7.9% on 2022. We didn't incorporate any cost or revenues synergies on the AAM (PD, Eltif, AuM) nor an acceleration in the IB revenues growth trajectory thanks to a wider product offer. Our target price is based on the average of a P/BV valuation criteria and a DDM.

### Financials EURm (ex. treasury shares)

	2019A	2020E	2021E	2022E
Revenues	58.3	54.5	64.3	69.3
Profit Before Taxes	13.7	11.9	16.5	17.8
Net Income	9.5	8.1	11.1	12.0
Net Income Adjusted	9.5	8.1	11.1	12.0
BVPS (EUR)	1.76	1.74	1.80	1.88
EPS (EUR)	0.21	0.18	0.24	0.26
DPS (EUR)	0.19	0.18	0.19	0.20

Source: Combanv data. UBI Banca estimates

### Ratios (ex treasury shs), priced on 09-07-20

	2019A*	2020E	2021E	2022E
P/E (x)	13.4	14.0	10.3	9.5
P/BV (x)	1.6	1.4	1.4	1.3
TCR (%)	25.8%	26.3%	25.7%	25.8%
CET1 ratio (%)	25.8%	26.3%	25.7%	25.8%
Dividend yield (%)	6.7%	7.0%	7.6%	8.0%
Payout ratio (%)	90.5%	98.7%	78.5%	76.3%
Net Inc./Sales (%)	16.4%	14.9%	17.3%	17.4%

Source: Combanv data. UBI Banca est. \*Based on 2019 avr price

**Key Financials**

(EURm)	2019A	2020E	2021E	2022E
Revenues	58.3	54.5	64.3	69.3
Profit Before Taxes	13.7	11.9	16.5	17.8
Net profit	9.5	8.1	11.1	12.0
Net Profit - Adjusted	9.5	8.1	11.1	12.0
Shareholders' Equity	80.1	79.6	82.7	86.0
RWA	220.3	221.0	240.4	254.2

Source: Company data, UBI Banca estimates

**Key Profitability Drivers**

(%)	2019A	2020E	2021E	2022E
RoE	11.9%	10.2%	13.4%	14.0%
RoTE	17.2%	14.4%	19.6%	20.4%
Cost/Income	76.4%	78.2%	74.3%	74.3%
Comp/Revenues	46.5%	46.5%	45.4%	46.2%

Source: Company data, UBI Banca estimates

**Key Valuation Ratios**

(x)	2019A*	2020E	2021E	2022E
P/E (x)	13.4	14.0	10.3	9.5
P/E Adjusted (x)	13.4	14.0	10.3	9.5
P/BV (x)	1.6	1.4	1.4	1.3
P/TBV (x)	2.0	1.7	1.8	1.7
Dividend Yield (%)	6.7%	7.0%	7.6%	8.0%
RoE/CoE (x)	1.59	1.36	1.79	1.86

Source: Company data, UBI Banca estimates

\* Based on 2019 average price

**Growth Rates**

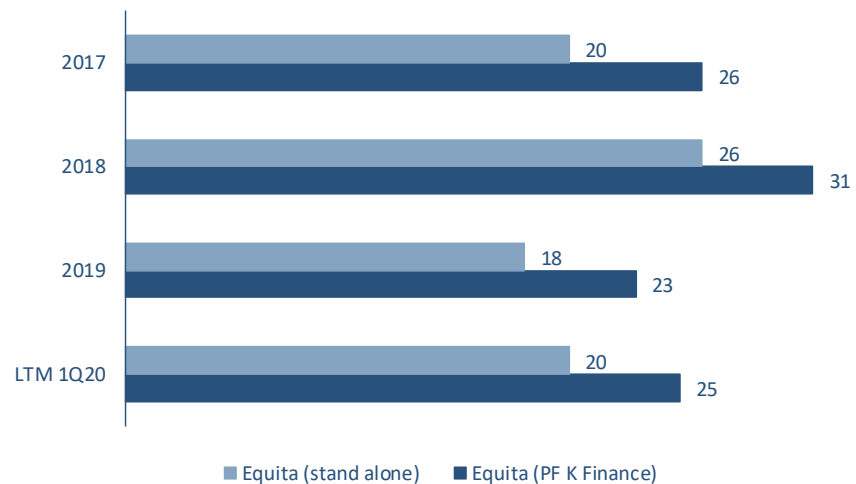
(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-6.6%	18.0%	7.8%
Profit Before Taxes	-11.9%	-13.7%	39.0%	8.0%
Net Income	-13.5%	-14.8%	36.5%	8.4%
Net Income Adjusted	-20.1%	-14.8%	36.5%	8.4%

Source: Company data, UBI Banca estimates

**Recent developments**

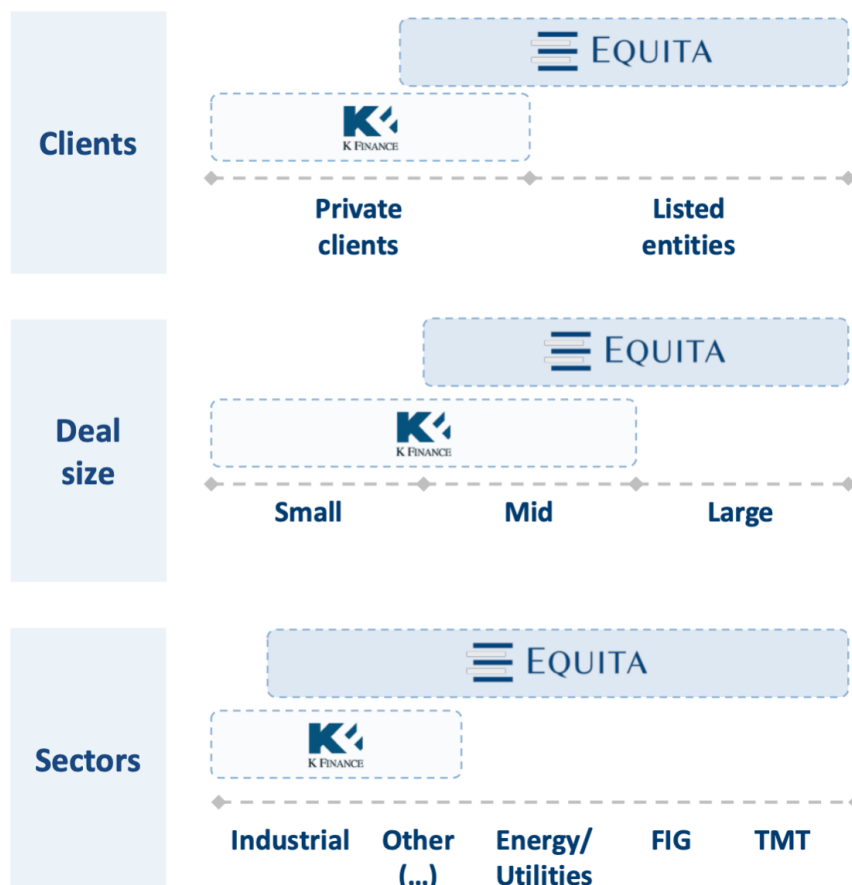
- **K Finance at a glance.** The target company is a independent M&A and corporate finance boutique with 18 employees (including external advisors) based in Milan. K Finance can leverage also on an international network called Clairfield International, of which it was co-founder. On average, in the last four years (2016-19), K Finance closed 10 deals on every single year and had revenues of EUR6 million (see figure 1 for a comparison between Equita’s IB revenues standalone and pro-forma including K finance).
- **Deal rationale.** Despite some similarities (independent boutiques, targeting small and mid-size companies) Equita and K Finance product offer has a high level of complementarity as can be seen in figure 2: K Finance clients are smaller companies which usually don’t attract the interest of mid-large investment banking houses. In our estimates we are not considering revenues synergies that could come from an enlarged product offer (i.e. K Finance may now offer ECM products) nor cross selling of products like Private Debt funds, Eltif and AAM in general.

Figure 1 – Pro-forma net revenues of the IB division compared with Equita’s standalone



Source: Company presentation

Figure 2 – Complementary M&A and corporate finance activities

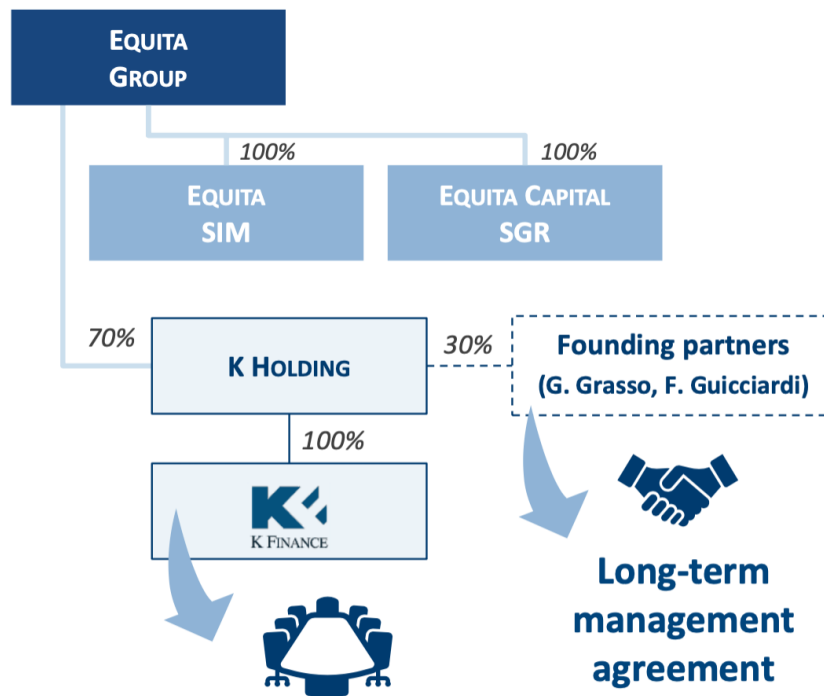


Source: Company presentation

**Financial Projections**

- **Raising estimates by 9% on 2021-22.** Equita would acquire a 70% stake and the new group structure would look like the one depicted in figure 3. We are raising our 2021-22 estimates (see figure 4) while 2020 is broadly unchanged for the combined effect of 1) a smaller impact from K Finance; 2) a more conservative view on 2H20, above all in terms of ECM (IPOs), proprietary trading and, in general, a wait and see attitude that could end-up in a very strong 2021. Our estimates revision is based on the following assumptions: a) 85% of the EUR6.5 million upfront payment to be in cash (funded with the newly signed credit lines where we assume a 2% cost of debt); b) the earn out to be paid entirely in cash; c) the remaining part of the EUR7 million consideration is to be paid with treasury shares at the average price of the last 3 months (EUR2.43). This results in around 400K shares.
- **Trading volumes overall solid in the past few months.** We took this occasion to update our graphs on the trading volumes on equities (MTA) and fixed income. As can be seen in figure 5 and 6, and despite some volatility from month to month, overall market traded volumes have been solid. We note the spike in fixed income in May and the rebound of the equities in June. Having both desk operational gives some hedge to Equita in terms of managing the typical volatility.

Figure 3 – New group structure and governance



**New Board of Directors**

- ≡ Board’s majority expression of the **Equita control**
- ≡ **Founding partners appointed Co-CEOs**, reporting to the CEO of Equita Group

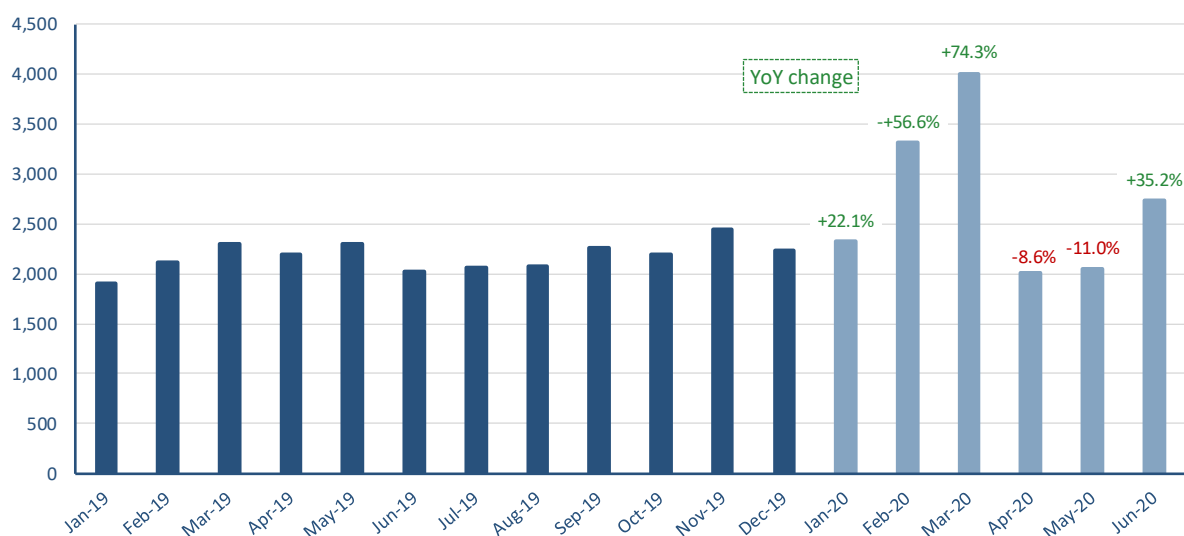
Source: Company presentation

Figure 4 - Old vs. new estimates

(EURm)	2020E			2021E			2022E		
	Old	New	% diff.	Old	New	% diff.	Old	New	% diff.
Revenues	53.8	54.5	1.2%	58.6	64.3	9.7%	62.1	69.3	11.5%
Profit before taxes	11.6	11.9	2.5%	14.4	16.5	14.6%	15.6	17.8	14.1%
Net profit	8.1	8.1	0.4%	10.1	11.1	10.1%	10.9	12.0	10.0%
Net profit adjusted	8.1	8.1	0.4%	10.1	11.1	10.1%	10.9	12.0	10.0%

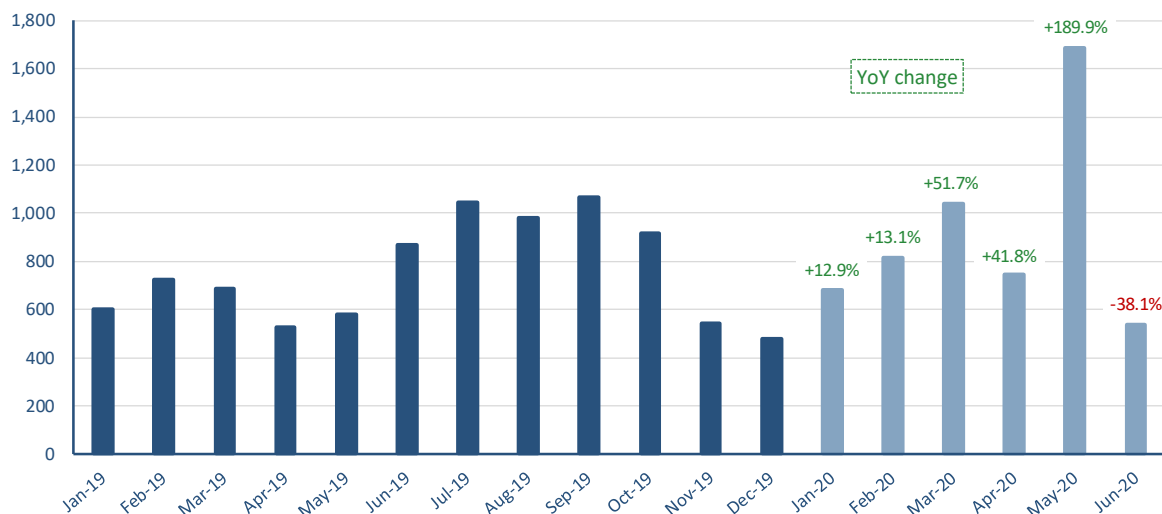
Source: UBI Banca estimates

Figure 5 - Average daily trading volumes on MTA (EURm)



Source: Borsa Italiana

Figure 6 - Average daily trading volumes for fixed income (EURm)



Source: Borsa Italiana

**Valuation**

- > **Revising the target price to EUR2.89 (from EUR2.71).** The TP increase is mostly driven by the increase in estimates as our valuation methods are primarily absolute. The stock recently had a good run and paid also a hefty EUR0.18 dividend in June. A summary of our valuation methods can be seen in figure 7.
- > **Executing along the business plan lines.** At the end of 2019 Equita disclosed an ambitious business plan that was contemplating external growth options as a way to accelerate the achievement of its targets. This acquisition goes exactly in that direction and management seems to be executing along the plan lines (although market volatility hasn't helped and the general market conditions may be described as adverse). The 2022 BP targets are calling for EUR75 million revenues at Group level and, pro-forma, Equita is now (1Q20 LTM) at EUR64 million. Reaching the target would require additional EUR5-9 million revenues in the IB division (from the EUR25 million pro-forma) and another EUR1-4 million revenues increase in AAM (which seems achievable considering the activities already announced and the new PD fund in raising phase and the Eltif). GM is already in line with the target and the aim is to maintain the position achieved. The BP calls also for a 20% Net Income/revenues which returns EUR15 million net income vs. the EUR8.1 million we expect for 2020. While this target seems challenging and needs an improvement in market conditions, it would represent a growth not reflected in the share price.

*Figure 7 - Valuation summary*

(EUR)	New	Old	% difference
P/BV	3.07	2.79	10%
DDM (new) or Peers (old)	2.70	2.63	3%
<b>Average</b>	<b>2.89</b>	<b>2.71</b>	<b>7%</b>

*Source: Company data, UBI Banca estimates*
*Figure 8 - Peer Group multiples (priced on 9 July 2020)*

Name	TIER	Price	Currency	Mkt Cap million	P/Sales			P/E			P/BV			Div Yield		
					2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Piper Jaffray	I	49.0	USD	880	1.1 x	1.0 x	0.9 x	12.7	10.1	7.8	0.9 x	0.9 x	NA	2.9%	3.2%	NA
Numis Corp	I	3.4	GBP	358	2.4 x	NA	NA	17.3	NA	NA	2.2 x	NA	NA	4.0%	NA	NA
Evli Pankki Oyj	I	8.9	EUR	211	3.0 x	2.7 x	2.5 x	16.8	11.7	11.3	2.8 x	2.5 x	2.4 x	4.5%	6.7%	7.9%
Moelis	II	25.6	USD	1,702	3.2 x	2.4 x	2.2 x	30.8	15.1	13.4	4.9 x	4.8 x	5.0 x	4.4%	4.3%	8.1%
Evercore	II	47.5	USD	1,927	1.4 x	1.2 x	1.2 x	15.6	9.7	8.7	2.4 x	2.1 x	1.8 x	4.3%	4.4%	4.7%
Houlihan Lokey	II	49.0	USD	3,329	3.6 x	2.8 x	2.7 x	21.2	15.1	15.1	3.4 x	2.8 x	2.4 x	2.3%	2.4%	3.0%
DeA Capital	II	1.2	EUR	327	4.4 x	4.5 x	NA	30.7	30.7	NA	0.8 x	NA	NA	8.6%	8.2%	NA
Tikehau Capital	II	22.5	EUR	3,078	10.7 x	5.8 x	4.8 x	131.4	14.1	10.9	1.0 x	1.0 x	0.9 x	1.8%	2.9%	3.5%
Azimut	II	15.3	EUR	2,227	2.6 x	2.4 x	2.3 x	11.8	10.7	10.0	2.7 x	2.4 x	2.1 x	6.5%	6.9%	7.4%
<b>Average</b>					<b>3.0 x</b>	<b>2.6 x</b>	<b>2.3 x</b>	<b>17.3 x</b>	<b>12.9 x</b>	<b>10.9 x</b>	<b>2.4 x</b>	<b>2.4 x</b>	<b>2.2 x</b>	<b>4.4%</b>	<b>4.9%</b>	<b>5.8%</b>
<b>Equita Group</b>		<b>2.5</b>	<b>EUR</b>	<b>128</b>	<b>2.1 x</b>	<b>1.8 x</b>	<b>1.6 x</b>	<b>14.0 x</b>	<b>10.3 x</b>	<b>9.5 x</b>	<b>1.4 x</b>	<b>1.4 x</b>	<b>1.3 x</b>	<b>7.0%</b>	<b>7.6%</b>	<b>8.0%</b>
Tier I					2.2 x	1.8 x	1.7 x	15.6 x	10.9 x	9.5 x	2.0 x	1.7 x	2.4 x	3.8%	5.0%	7.9%
Tier II					4.3 x	3.2 x	2.6 x	40.2 x	15.9 x	11.6 x	2.5 x	2.6 x	2.4 x	4.6%	4.9%	5.3%

*Source: FactSet*

## ESG Picture

### Corporate Governance

Does the company have a combined Chair/CEO?	No
Percentage of independent directors	42.86% (3 out of 7)
Does the company have loyalty shares?	Yes
Does major shareholders (if any) have a "shareholders pact" in place?	Yes
Has the company adopted a "poison pill" or "change of control" clauses?	No
Potential dilution from stock options outstanding + not yet granted?	Yes
CEO remuneration detail (fixed salary)	EUR 651,457
Chairman remuneration detail (fixed salary)	EUR 253,000
Is the share price included in the MBO criteria?	No
Percentage of treasury shares	9.1%

### Climate related risk

Has the company defined GHG-emissions targets?	No
How does the company assess climate-related risk?	No

### Social Responsibilities

Does the company publish a separated Sustainability report? No, but focus on CSR in Annual Report	
Does the company have a Chief SRI/CSR officer (or a committee)?	Yes
Does the Chief SRI/CSR officer votes in any of the company's committee?	Yes
Is the Investor Relation officer a different person from CFO (or other officers)?	Yes
Is the ESG strategy integrated in the Business Plan (or in the group strategy)?	Yes
Does the company have an ethical code?	Yes
Percentage of female directors	28.57% (2 out of 7)
How is the cybersecurity issue managed?	Not disclosed



**Income Statement**

(EURm)	2019A	2020E	2021E	2022E
Global Markets	31.5	32.1	34.2	35.2
Investment Banking	18.2	18.0	22.9	26.3
Alternative Asset Management	8.6	4.4	7.3	7.8
Net Revenues	58.3	54.5	64.3	69.3
Personnel Costs	27.1	25.3	29.2	32.1
Administrative Expenses	17.5	17.3	18.6	19.4
Profit Before Taxes	13.7	11.9	16.5	17.8
% on Net Revenues	23.6%	21.8%	25.7%	25.7%
Income Taxes	4.2	3.6	4.9	5.3
Group Net Profit	9.5	8.1	11.1	12.0
Non-recurring	0.0	0.0	0.0	0.0
Group Net Profit - Adjusted	9.5	8.1	11.1	12.0

Source: Company data, UBI Banca estimates

**Balance Sheet**

(EURm)	2019A	2020E	2021E	2022E
Financial Assets at FV through P&L	51.8	63.2	69.0	75.4
Financial Assets at Amortised Cost	231.7	231.3	239.7	248.3
Equity Investments	1.5	1.5	1.5	1.5
Tangible Assets	0.6	0.6	0.6	0.6
Intangible Assets	15.0	15.0	15.0	15.0
Tax Assets	3.9	3.9	3.9	3.9
Other Assets	1.7	1.7	1.7	1.7
Total Assets	306.2	317.2	331.5	346.5
Financial Liabilities at Amort. Cost	194.0	203.7	213.9	224.6
Financial Liabilities Held for Trad.	6.9	8.7	9.6	10.7
Tax Liabilities	2.0	2.0	2.0	2.0
Other Liabilities	14.5	14.5	14.5	14.5
Employees' Termination Indemnities	2.4	2.4	2.4	2.4
Allowances for Risks and Charges	6.2	6.2	6.2	6.2
Equity	80.1	79.6	82.7	86.0
Total Liabilities and Equity	306.2	317.2	331.5	346.5

Source: Company data, UBI Banca estimates

**Financial Ratios**

(%)	2019A	2020E	2021E	2022E
TCR	25.8%	26.3%	25.7%	25.8%
CET1 ratio	25.8%	26.3%	25.7%	25.8%
RoE	11.9%	10.2%	13.4%	14.0%
RoTE	17.2%	14.4%	19.6%	20.4%
Cost/Income	76.4%	78.2%	74.3%	74.3%
Comp/Revenues	46.5%	46.5%	45.4%	46.2%
Payout	90.5%	98.7%	78.5%	76.3%

Source: Company data, UBI Banca estimates

**Per Share Data**

(EUR)	2019A	2020E	2021E	2022E
EPS - reported	0.21	0.18	0.24	0.26
EPS - adjusted	0.21	0.18	0.24	0.26
DPS	0.19	0.18	0.19	0.20
BVPS - ex-treasury	1.76	1.74	1.80	1.88
TBVPS - ex treasury	1.43	1.43	1.41	1.48

Source: Company data, UBI Banca estimates

**Stock Market Ratios**

(X)	2019A *	2020E	2021E	2022E
P/E	13.4	14.0	10.3	9.5
P/E Adjusted	13.4	14.0	10.3	9.5
P/BV	1.6	1.4	1.4	1.3
P/TBV	2.0	1.7	1.8	1.7
Dividend Yield (%)	6.7%	7.0%	7.6%	8.0%
RoE/CoE	1.6	1.4	1.8	1.9

Source: Company data, UBI Banca estimates

\* Based on 2019 average price

**Growth rates**

(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-6.6%	18.0%	7.8%
Profit Before Taxes	-11.9%	-13.7%	39.0%	8.0%
Net Income	-13.5%	-14.8%	36.5%	8.4%
Net Income Adjusted	-20.1%	-14.8%	36.5%	8.4%

Source: Company data, UBI Banca estimates

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UBI Banca maintains procedures and organizational mechanism (physical and non physical barriers designed to restrict the flow of information between the unit which performs investment research activity and other units of UBI Banca) to prevent and professionally manage conflicts of interest in relation to investment research in accordance with art. 23 of Directive 2014/65/EU and under art. 34 (3) and art. 37 of the Regulation 2017/565/EU.

More specifically, UBI Banca has established, implements and maintains an effective conflicts of interests policy aimed at preventing and managing the potential conflicts of interest that could occur during the performance of the investment research services.

Insofar as the above mentioned organizational and administrative arrangements established by UBI Banca to prevent or manage potential conflicts of interests are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the client will be prevented, UBI Banca engages to provide a clear disclosure of the specific conflicts of interests arising of the performance of investment research services, including a description of the sources of those conflicts and the steps undertaken to mitigate them, taking into account the nature of the client to whom the disclosure is being made.

*For further information please see UBI Banca's website ([www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research) - "Informativa sintetica sull'attività di ricerca") and ([www.ubibanca.com/Mifid](http://www.ubibanca.com/Mifid) - "Policy sintetica conflitti di interessi"). More details about the conflicts of interests policy will be provided by UBI Banca upon request.*

#### **Disclosure of interests and conflicts of interests pursuant to Delegated Regulation 2016/958/EU**

*In relation to the Company the following interest/conflict of interest have been found:*

- > UBI Banca acts as Specialist for Equita Group
- > UBI Banca may have long or short positions not exceeding the threshold of 0.5% of the total issued share capital of the issuer

*On the basis of the checks carried out no other interest/conflict of interest arose.*

**Frequency of updates**

UBI Banca aims to provide continuous coverage of the companies in conjunction with the timing of periodical accounting reports and any exceptional event that occurs affecting the issuer's sphere of operations and in any case at least twice per year. The companies for which UBI Banca acts as Sponsor or Specialist are covered in compliance with regulations of the market authorities.

For further information please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

**Valuation methodology**

UBI Banca's analysts value the Company subject to their recommendations using several methods among which the most prevalent are: the Discounted Cash Flow method (DCF), the Economic Value Added method (EVA), the Multiple comparison method, the SOP method and the NAV method.

The 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 (i.e. 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.

For further information please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

**Ranking system**

UBI Banca's analysts use an "absolute" rating system, not related to market performance. The explanation of the rating system is listed below:

**Buy:** if the target price is 15% higher than the market price, over the next 12 months.

**Hold:** if the target price is 15% below or 15% above the market price, over the next 12 months.

**Sell:** if the target price is 15% lower than the market price, over the next 12 months.

**No Rating:** the investment rating and target price have been suspended as there is not sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect. Alternatively, No Rating is assigned in certain circumstances when UBI Banca is acting in any advisory capacity in a strategic transaction involving the Company.

**Target price:** the market price that the analyst believes that the share may reach within a one-year time horizon.

**Market price:** closing price on the day before the issue date of the report, appearing on the first page.

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#### Distribution of ratings

##### Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
77.8%	17.2%	2.5%	2.5%

##### Proportion on issuers to which UBI Banca has supplied investment banking services relating to the last 12 months

Buy	Hold	Sell	No Rating
33.3%	92.9%	100%	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to [www.ubibanca.com/equity-research](http://www.ubibanca.com/equity-research).

#### Historical ratings and target prices

Date	Rating	Target Price (EUR)	Market Price (EUR)
9 May 2019	BUY	3.57	3.02
12 September 2019	BUY	3.50	2.68
18 November 2019	BUY	3.37	2.60
19 March 2020	BUY	2.57	2.12
7 May 2020	BUY	2.71	2.31