

Company report

Buy (maintained)

11 September 2020 – 5:30 PM

MARKET PRICE: EUR2.48

TARGET PRICE: EUR3.04 (from EUR2.89)

Investment Banking

Data

Shares Outstanding (m):	45.5
Market Cap. (EURm):	124.0
Enterprise Value (EURm):	NA
Free Float (%):	37.0%
Av. Daily Trad. Vol. ('000):	25.5
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	+8.3%	-8.1%	5.3%
Rel. to FTSE IT	+7.9%	-8.0%	6.1%

Source: FactSet

Graph area Absolute/Relative 12 M



Source: FactSet

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Another strong quarter, estimates upgrade

Equita reported a set of 2Q20 results which we define strong and with a good earnings' quality for two reasons: a) reference markets were not so solid in the quarter; b) strong performances of IB and AAM rebalance the portfolio vis-à-vis the GM. In IB Equita was on at least 13 deals (we signal: the largest IPO on AIM by countervalue, Newlat acquisition of CDL, INWIT integration with Vodafone and GEDI takeover by EXOR) and 2H will benefit from the Intesa-Ubi advisory and from the K Finance consolidation. AAM re-absorbed entirely the Blueglen negative m-t-m and markets rebound bodes well for inflows in 2H. All that lead to what we perceive as an improvement in the sentiment expressed through the outlook statement. This supported both an upgrade in our estimates (+5.8% on 2020-22) and the company indication on 2020 DPS between EUR0.18-0.20. The latter seems more a reassurance to investors rather than a FY20 net income guidance (it implies a EUR8.3-9.2 million distribution which simply equals to the 1H20 net income plus the undistributed 2019 earning of EUR3.9 million. In other words, even if 2H20 net income would be zero the dividend guidance is achievable. Buy rating confirmed.

- > **2Q20: all divisions up YoY.** Against a slowdown vs. 1Q20 in MTA third-party traded volumes (+15%), Sales & trading commissions declined 2.8% YoY. In a volatile market that usually doesn't favour local brokers, Equita managed to defend its market share in Equities (8.0% in 2Q20 from 8.2% in 1Q20) and in bonds (6.0% from 6.3% in 1Q20). GM performance was brought back-in-black by the client-driven trading & MM.
- > **IB and AAM made up for 44% of 2Q20 group revenues.** With market conditions stabilizing, AAM returned to EUR2 million run rate, thanks also to the complete recovery of the 1Q20 losses at Blueglen. While it remains still difficult to see performance fees in FY2020, all strategies are performing better than peers' average, with some of the funds positive YTD. On top of that, 2H should see the launch of the second PD fund. IB posted a +36.5% YoY in revenues despite some deals postponement to 2H (which should apply also to K Finance, improving the share of profits consolidated by Equita). The pipeline is good according to management (Equita advises the Zurich Bourse over its offer for Borsa Italiana).
- > **2022 targets more visible. BUY reiterated, TP to EUR3.04.** 1H20 results make 2022 targets attainable: EUR75 million revenues (GM at EUR34 million, IB at EUR30/34 million and AAM, with AuM reaching the EUR2 billion level, at EUR8/11 million). Based on a increase in 2020-22 EPS estimates of we raise our TP to EUR3.04. Dividend yield of 7.7% remains a good reason to own the stock.

Financials EURm (ex. treasury shares)

	2019A	2020E	2021E	2022E
Revenues	58.3	57.0	65.9	71.4
Profit Before Taxes	13.7	12.6	16.5	19.0
Net Income	9.5	8.8	11.3	13.0
Net Income Adjusted	9.5	8.8	11.3	13.0
BVPS (EUR)	1.76	1.76	1.81	1.88
EPS (EUR)	0.21	0.19	0.25	0.28
DPS (EUR)	0.19	0.19	0.21	0.22

Source: Combanv data. UBI Banca estimates

Ratios (ex treasury shs), priced on 10-09-20

	2019A*	2020E	2021E	2022E
P/E (x)	13.4	12.9	10.1	8.7
P/BV (x)	1.6	1.4	1.4	1.3
TCR (%)	25.8%	25.8%	25.1%	25.2%
CET1 ratio (%)	25.8%	25.8%	25.1%	25.2%
Dividend yield (%)	6.7%	7.7%	8.5%	8.9%
Payout ratio (%)	90.5%	99.5%	85.6%	77.4%
Net Inc./Sales (%)	16.4%	15.3%	17.1%	18.2%

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

Key Financials

(EURm)	2019A	2020E	2021E	2022E
Revenues	58.3	57.0	65.9	71.4
Profit Before Taxes	13.7	12.6	16.5	19.0
Net profit	9.5	8.8	11.3	13.0
Net Profit - Adjusted	9.5	8.8	11.3	13.0
Shareholders' Equity	80.1	80.2	82.8	86.2
RWA	220.6	225.0	243.0	257.5

Source: Company data, UBI Banca estimates

Key Profitability Drivers

(%)	2019A	2020E	2021E	2022E
RoE	11.9%	10.9%	13.6%	15.1%
RoTE	17.2%	15.5%	19.9%	22.4%
Cost/Income	76.4%	77.9%	75.0%	73.4%
Comp/Revenues	46.5%	46.2%	46.2%	46.1%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

(x)	2019A*	2020E	2021E	2022E
P/E (x)	13.4	12.9	10.1	8.7
P/E Adjusted (x)	13.4	12.9	10.1	8.7
P/BV (x)	1.6	1.4	1.4	1.3
P/TBV (x)	2.0	1.7	1.7	1.7
Dividend Yield (%)	6.7%	7.7%	8.5%	8.9%
RoE/CoE (x)	1.71	1.57	1.96	2.18

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth Rates

(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-2.2%	15.6%	8.4%
Profit Before Taxes	-11.9%	-8.5%	31.1%	15.2%
Net Income	-13.5%	-8.3%	28.5%	15.8%
Net Income Adjusted	-20.1%	-8.3%	28.5%	15.8%

Source: Company data, UBI Banca estimates

Recent developments

- > **2Q20 well above our estimates.** In more details the quarter showed: a) Net revenues of EUR16.2 million (up 26.1% YoY) above our estimates of EUR12.7 million; b) Global market revenues grew double digit - reflecting two completely different trends: Sales & Trading up 10% YoY in IH20 while directional Trading went negative; c) IB revenues grew nicely, supported also by an easy comp; d) AAM revenues, after being negative in 1Q20 due to m-2-m practices (which were completely recovered in 2Q20), posted a nice YoY growth and EUR2.1 million revenues in the quarter; e) Pre-tax profit of EUR4.5 million (51% YoY) was much better than our estimates of EUR2.7 million; f) Net Income of EUR3.2 million (62% YoY) or +71% above our estimates of EUR1.9 million;
- > **Costs remain under control.** Operating expenses grew by 19% YoY and compares with a revenues growth of 26%. The compensation/revenues stood at 46%, in line with 2019 and personnel expenses grew by 28% YoY, still in line with revenues. A strict cost control meant that other operating expenses grew by 6% despite extra-costs not present the year before (SGR, K Finance related costs, costs to structure the new financing) and which could be quantified in EUR0.6 million in IH20.

Figure 1 – Equita Group 2Q20 and IH20 results

(USDm, %)	2Q19A	2Q20A	% chg	2Q20E	Actual vs estimates	IH19A	IH20A	% chg
Global Markets	7.9	9.1	15.9%	7.6	20.6%	32.1	34.2	6.6%
Inv Banking	3.7	5.1	36.5%	3.7	36.5%	18.0	22.9	27.2%
AAM	1.3	2.1	58.5%	1.4	44.1%	4.4	7.3	63.2%
Net Revenues	12.9	16.2	26.1%	12.7	27.9%	54.5	64.3	18.0%
Personnel Costs	5.8	7.4		5.7		25.3	29.2	
Administrative expenses	4.1	4.3		4.3		17.3	18.6	
Profit before Taxes	3.0	4.5	51.2%	2.7	67.7%	11.9	16.5	39.0%
Group Net profit	1.97	3.19	61.9%	1.86	71.4%	8.13	11.10	36.5%
margin %	15.3%	19.7%		14.7%		14.9%	17.3%	
Group Net profit Adjusted	1.97	3.19	61.9%	1.86	71.4%	8.13	11.10	36.5%
margin %	15.3%	19.7%		14.7%		14.9%	17.3%	
Group Net Equity	80.1	76.9	-4.0%	75.5	1.9%	80.1	76.9	-4.0%

Source: Company data, UBI Banca estimates

Financial Projections

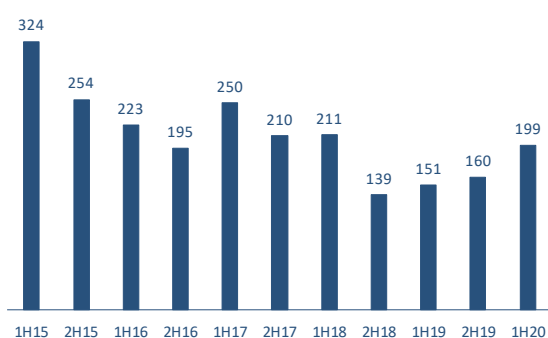
- **Raising our estimates on the back of the 2Q20 results, mostly thanks to IB.** We are raising our 2020 estimates by 7.7% as a result of a softer GM in 2H (both market volumes and lower market shares), a stable AAM (AuM decline impact but no more negative m-t-m and some more revenues from the new PD fund for one quarter. As usual, we are not including any performance fee) and a sound IB. The consolidation of K Finance should add around EUR2 million in revenues and some costs this year.
- **Our EUR0.19 dividend assumes almost a 100% payout.** The company has around EUR50 million distributable reserve and EUR3.9 million which were held back over the last three years. Based on our current estimates there should be no reason to use reserves but we wanted to stress that, in case needed, there is the will to use them.

Figure 2 - Old vs. new estimates

(EURm)	2020E			2021E			2022E		
	Old	New	% diff.	Old	New	% diff.	Old	New	% diff.
Revenues	54.5	57.0	4.7%	64.3	65.9	2.5%	69.3	71.4	3.1%
Profit before taxes	11.9	12.6	6.0%	16.5	16.5	-0.1%	17.8	19.0	6.6%
Profit before taxes %	21.8%	22.1%		25.7%	25.0%		25.7%	26.6%	
Net profit	8.1	8.8	7.7%	11.1	11.3	1.4%	12.0	13.0	8.4%
Net profit adjusted	8.1	8.8	7.7%	11.1	11.3	1.4%	12.0	13.0	8.4%

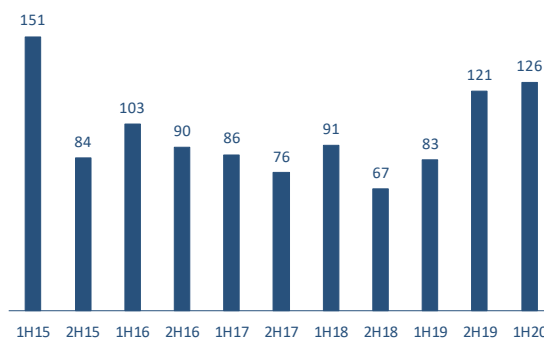
Source: UBI Banca estimates

Figure 3 - MTA traded volumes by semester (EURbn)



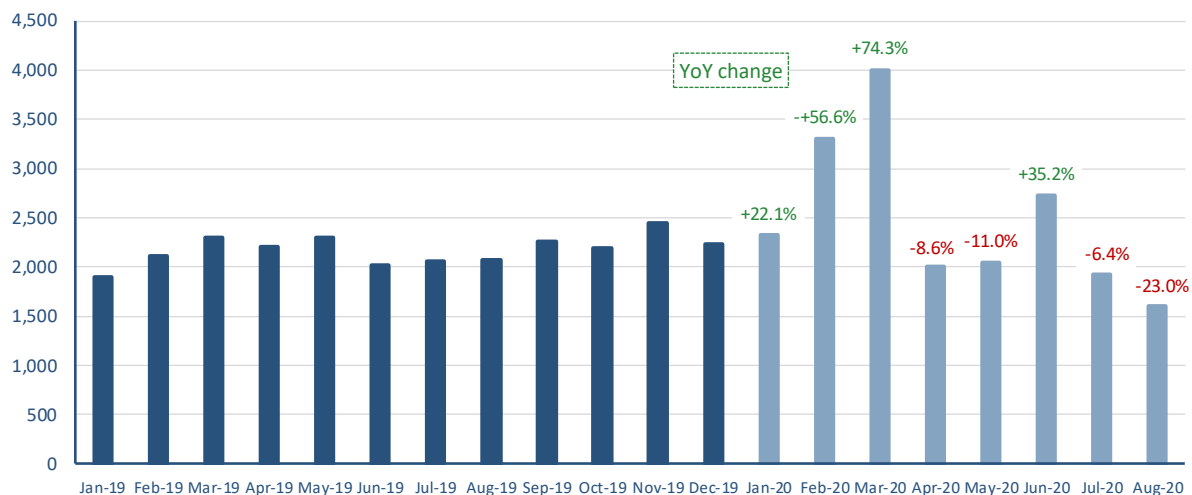
Source: Assosim

Figure 4 - Bond traded volumes by semester (EURbn)



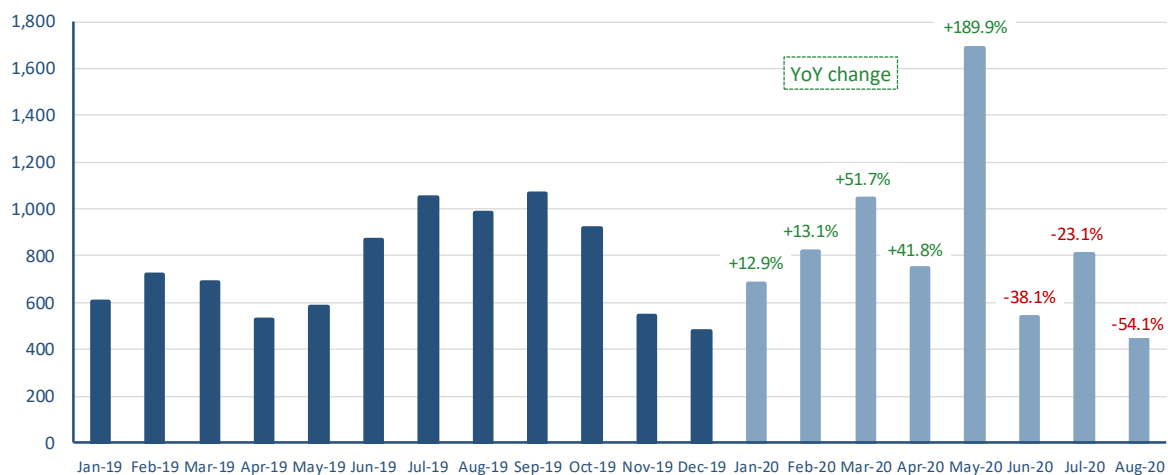
Source: Assosim

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 by 5.2% to EUR3.04 (from EUR2.89).** This is the result of the increase in estimates (5.8% on average in 2020-22 at net income level). The increase in the fair value deriving from the DDM was impacted by our new DPS estimates too.
- **Executing along the 2022 BP line....which is still above our estimates.** With the growth in AuM and, consequently, in the AAM revenues, the stabilization of the IB business and, finally, the acquisition of K Finance Equita is executing along the lines of its 2022 BP. Achieving the plan target would represent a surprise to our estimates: EUR75 million revenues with a net income/revenues ratio of 20% returns EUR15 million net income which is above our EUR12.9 million estimates. Obviously the reference markets are volatile, as the Covid-driven turmoil back in February reminds, and this is why we are cautious in estimating earnings 3 years from now. But there is no doubt that, regardless of the number, Equita has transformed its business in the past years and this doesn't seem reflected in the share price.

Figure 7 - Valuation summary

(EUR)	New	Old	% difference
P/BV	3.14	3.07	2.1%
DDM (new) or Peers (old)	2.95	2.70	9.1%
Average	3.04	2.89	5.2%

Source: Company data, UBI Banca estimates

Figure 8 - Peer Group multiples (priced on 10 September 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	57.9	USD	1,039	1.2 x	1.2 x	1.1 x	12.8	12.0	9.6	1.3 x	1.2 x	1.2 x	2.3%	2.6%	NA
Numis Corp	I	3.2	GBP	338	2.3 x	NA	NA	16.9	NA	NA	2.2 x	NA	NA	4.1%	NA	NA
Evli Pankki Oyj	I	9.5	EUR	225	3.2 x	2.8 x	2.6 x	15.3	11.4	11.0	2.9 x	2.6 x	2.5 x	5.3%	6.9%	7.9%
Moelis	II	25.9	USD	1,721	3.4 x	2.6 x	2.3 x	67.3	18.2	15.6	4.6 x	4.4 x	4.3 x	4.4%	4.6%	6.8%
Evercore	II	51.4	USD	2,087	1.5 x	1.4 x	1.3 x	16.3	10.6	9.2	2.7 x	2.4 x	2.1 x	3.8%	3.9%	4.1%
Houlihan Lokey	II	48.8	USD	3,404	4.1 x	3.1 x	3.0 x	22.9	16.3	15.5	3.3 x	2.9 x	2.7 x	2.2%	2.4%	2.6%
DeA Capital	II	1.2	EUR	314	4.5 x	4.4 x	NA	29.5	29.5	NA	NA	NA	NA	8.5%	8.5%	0.0%
Tikehau Capital	II	21.5	EUR	2,941	11.1 x	5.5 x	4.4 x	1154.3	13.2	9.5	1.0 x	0.9 x	0.8 x	1.9%	3.1%	3.4%
Azimut	II	16.1	EUR	2,350	2.6 x	2.5 x	2.4 x	10.2	10.4	9.6	2.7 x	2.5 x	2.2 x	6.4%	6.8%	7.4%
Average					3.2 x	2.7 x	2.4 x	16.9 x	12.6 x	9.6 x	2.7 x	2.5 x	2.2 x	4.3%	4.8%	4.6%
Equita Group		2.48	EUR	128	2.0 x	1.7 x	1.6 x	12.9 x	10.1 x	8.7 x	1.4 x	1.4 x	1.3 x	7.7%	8.5%	8.9%
Tier I average					2.2 x	2.0 x	1.9 x	15.0 x	11.7 x	10.3 x	2.1 x	1.9 x	1.8 x	3.9%	4.7%	7.9%
Tier II average					4.5 x	3.2 x	2.7 x	NM	16.4 x	11.9 x	2.9 x	2.6 x	2.4 x	4.5%	4.9%	4.0%

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	8.1%

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	30.8	33.5	34.7
Investment Banking	18.2	21.2	26.3	30.2
Alternative Asset Management	8.6	5.0	6.2	6.6
Net Revenues	58.3	57.0	65.9	71.4
Personnel Costs	27.1	26.4	30.4	32.9
Administrative Expenses	17.5	18.1	19.0	19.5
Profit Before Taxes	13.7	12.6	16.5	19.0
% on Net Revenues	23.6%	22.1%	25.0%	26.6%
Income Taxes	4.2	3.6	4.8	5.5
Group Net Profit	9.5	8.8	11.3	13.0
Non-recurring	0.0	0.0	0.0	0.0
Group Net Profit - Adjusted	9.5	8.8	11.3	13.0

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2019A	2020E	2021E	2022E
Financial Assets at FV through P&L	54.9	69.1	75.5	82.8
Financial Assets at Amortised Cost	229.1	227.0	234.3	242.4
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	306.7	318.8	332.6	347.9
Financial Liabilities at Amort. Cost	194.0	203.7	213.9	224.6
Financial Liabilities Held for Trad.	7.4	9.7	10.7	11.9
Tax Liabilities	2.0	2.0	2.0	2.0
Other Liabilities	14.5	14.5	14.5	14.5
Employees' Termination Inde millionities	2.4	2.4	2.4	2.4
Allowances for Risks and Charges	6.2	6.2	6.2	6.2
Equity	80.1	80.2	82.8	86.2
Total Liabilities and Equity	306.7	318.8	332.6	347.9

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2019A	2020E	2021E	2022E
TCR	25.8%	25.8%	25.1%	25.2%
CET1 ratio	25.8%	25.8%	25.1%	25.2%
RoE	11.9%	10.9%	13.6%	15.1%
RoTE	17.2%	15.5%	19.9%	22.4%
Cost/Income	76.4%	77.9%	75.0%	73.4%
Comp/Revenues	46.5%	46.2%	46.2%	46.1%
Payout	90.5%	99.5%	85.6%	77.4%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2019A	2020E	2021E	2022E
EPS - reported	0.21	0.19	0.25	0.28
EPS - adjusted	0.21	0.19	0.25	0.28
DPS	0.19	0.19	0.21	0.22
BVPS - ex-treasury	1.76	1.76	1.81	1.88
TBVPS - ex treasury	1.43	1.43	1.42	1.48

Source: Company data, UBI Banca estimates

Stock Market Ratios

(X)	2019A *	2020E	2021E	2022E
P/E	13.4	12.9	10.1	8.7
P/E Adjusted	13.4	12.9	10.1	8.7
P/BV	1.6	1.4	1.4	1.3
P/TBV	2.0	1.7	1.7	1.7
Dividend Yield (%)	6.7%	7.7%	8.5%	8.9%
RoE/CoE	1.7	1.6	2.0	2.2

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth rates

(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-2.2%	15.6%	8.4%
Profit Before Taxes	-11.9%	-8.5%	31.1%	15.2%
Net Income	-13.5%	-8.3%	28.5%	15.8%
Net Income Adjusted	-20.1%	-8.3%	28.5%	15.8%

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 - "Informativa sintetica sull'attività di ricerca") and (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.

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.

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
76.7%	17.8%	2.2%	3.3%

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

Buy	Hold	Sell	No Rating
37.7%	93.8%	100%	100%

For further information regarding yearly and quarterly rating statistics and descriptions, please refer to 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
6 May 2020	BUY	2.71	2.31
10 July 2020	BUY	2.89	2.49