

Investment Banking

Data

Shares Outstanding (m):	45.5
Market Cap. (EURm):	134
Enterprise Value (EURm):	NA
Free Float (%):	36.7%
Av. Daily Trad. Vol. (m):	0.1
Main Shareholder:	Management 54.3%
Reuters/Bloomberg:	EQUI.MI EQUI IM
52-Week Range (EUR)	2.51 3.58

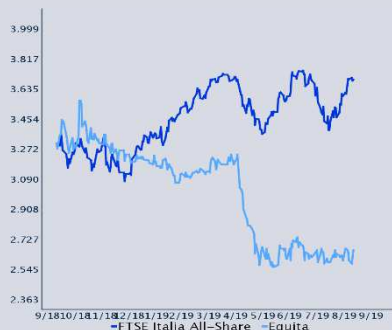
Source: FactSet, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	3.1%	2.7%	-15.8%
Rel. to FTSE IT	-4.6%	-3.0%	-20.1%

Source: FactSet

Graph area Absolute/Relative 12 M



Source: FactSet

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2Q19 hit by weak IB despite solid Markets

Equita Group reported a net profit above our estimates and down 29.6% YoY when compared against a particularly strong quarter. However the surprise on our net profit estimates is attributable to an impressive cost-control while top line was hit, as was the case in 1Q19, by a weak underlying investment banking market (division revenues -53% YoY). We are adjusting our 2019 estimates but we are leaving 2020-21 estimates unchanged thanks to the recovery in traded volumes on the Italian equities and fixed income markets coupled with the initiatives recently announced (the new fund raised by Euromobiliare AM and the official launch of the fully owned SGR). The company offers a 8.2% dividend yield on our estimates (7.1% if the mid-point of the very conservative dividend guidance is taken into account). Worth mentioning that our revenues estimates do not include any performance fees, despite stock markets performances are sound. We therefore reiterate our BUY rating, lowering (-2% vs. previous EUR3.57) the TP to EUR3.50 (30.5% upside) to take into account the revised estimates.

- > **2Q19 in more details:** Global markets revenues held well (-8.6% YoY) as a result of a solid Sales&Trading despite traded volumes contracted in both equities and bond (-28% and -9% respectively in 1H19). Market share grew nicely reaching new highs of 9.5%, 5.9% and 8.7% respectively in equities, bond and equity options. Client driven trading & market making grew as well while Directional trading declined as a consequence of low volatility. IB revenues were hit as the reference markets in which Equita operates were still bleak in 1H19 (M&A -41%, ECM -72% and DCM -34%). AAM revenues, when EUR0.6 million related to the SPAC are netted from 2Q18 revenues, was up YoY.
- > **2019 EPS estimate -10.6%, 2020-21 fine tuned upward.** The -24.2% YoY trend in total costs allowed the company to report a net profit only down by 29.6% YoY (basically in line with the YoY decline in revenues). The easy comparison coming in 2H19 (traded volumes on Italian equities and fixed income were up both in July and August) leaves us confident. However the visibility on the IB revenues remains low so we are now expecting a 35% decline in FY2019. 2020-21 estimates were left unchanged to take into account the new fund raised with Euromobiliare AM and the peculiarity of 2019 for the IB market.
- > **Buy confirmed, TP EUR3.50.** Upside risk not embedded in our estimates is mostly related to the performance fees of the AAM division, potentially worth anywhere between 4% to 7% of revenues with a full impact on profit before tax. M&A optionality not to be estimated either.

Financials EURm (ex. treasury shares)

	2018A	2019E	2020E	2021E
Revenues	59.8	54.9	58.3	61.4
Profit Before Taxes	15.6	13.5	16.6	18.8
Net Income	11.0	9.6	11.8	13.3
Net Income Adjusted	12.0	9.6	11.8	13.3
BVPS (EUR)	1.76	1.75	1.79	1.85
EPS (EUR)	0.24	0.21	0.26	0.29
DPS (EUR)	0.22	0.22	0.23	0.25

Source: Company data, UBI Banca estimates

Ratios (ex treasury shs), priced on 12-9-19

	2018A*	2019E	2020E	2021E
P/E (x)	13.2	12.7	10.3	9.1
P/BV (x)	1.8	1.5	1.5	1.4
TCR (%)	25.2%	25.7%	25.6%	25.8%
CET1 ratio (%)	25.2%	25.7%	25.6%	25.8%
Dividend yield (%)	6.9%	8.2%	8.6%	9.1%
Payout ratio (%)	90.7%	104.5%	88.8%	83.5%
Net Inc./Sales (%)	18.4%	17.4%	20.2%	21.7%

Source: Company data, UBI Banca est. *Based on avg price

Key Financials

(EURm)	2018A	2019E	2020E	2021E
Revenues	59.8	54.9	58.3	61.4
Profit Before Taxes	15.6	13.5	16.6	18.8
Net profit	11.0	9.6	11.8	13.3
Net Profit - Adjusted	12.0	9.6	11.8	13.3
Shareholders' Equity	80.1	79.6	81.4	84.3
RWA	218.2	216.3	226.2	236.8

Source: Company data, UBI Banca estimates

Key Profitability Drivers

(%)	2018A	2019E	2020E	2021E
RoE	13.8%	12.0%	14.5%	15.8%
RoTE	20.4%	17.4%	21.6%	23.8%
Cost/Income	73.9%	75.5%	71.6%	69.4%
Comp/Revenues	45.8%	44.8%	43.2%	42.5%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

(x)	2018A *	2019E	2020E	2021E
P/E (x)	13.2	12.7	10.3	9.1
P/E Adjusted (x)	12.2	12.7	10.3	9.1
P/BV (x)	1.8	1.5	1.5	1.4
P/TBV (x)	2.2	1.9	1.9	1.8
Dividend Yield (%)	6.9%	8.2%	8.6%	9.1%
RoE/CoE (x)	1.85	1.61	1.94	2.12

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Growth Rates

(%)	2018A	2019E	2020E	2021E
Revenues	10.9%	-8.2%	6.2%	5.4%
Profit Before Taxes	1.6%	-13.6%	23.1%	13.2%
Net Income	0.2%	-13.3%	23.1%	13.2%
Net Income Adjusted	6.6%	-20.0%	23.1%	13.2%

Source: Company data, UBI Banca estimates

Recent developments

- > **More details on 2Q19 divisional revenues.** Global markets revenues held very well in 2Q19, although some in-organic impact from the retail hub is a partial explanation. While Sales&Trading solid performance is set to continue in 2H19 in our view, Client driven trading & market making and above all Directional trading are more difficult to predict. IB revenues declined despite a relevant number of deals closed, which let us think that the market was competitive. As far as AAM revenues performance is concerned, one has to remember that 2Q18 benefited from EUR0.6 million related to the SPAC business combination with ICF. Net of that 2Q19 revenues were up YoY and it is worth mentioning that some of the initiatives will start to deploy their benefits from 2H19.
- > **A new fund with Euromobiliare AM was launched in July.** EUR229 million fund was raised by Euromobiliare AM, fully placed by the Credem's network. The fund, called "Euromobiliare Equity Selected Dividend", focuses on Italian and European high dividend stocks and has a tenure of 7 years. The Fund's key objective is to build a portfolio that pays a yearly, although not-guaranteed, variable cash-flow of up to 3 per cent of the initial investment.
- > **A new shareholders' agreement was signed in early August, thus reducing overhang risk.** Four different shareholders' agreement were regulating lock-ups and voting rights and the new agreement replaces the "First" and the "Second" while enlarging the number of managers involved (now 46.75% of the share capital). The lock-up expires in July 2022 and will include all the shares held by the parties until 1 August 2020 and 75% of the shares thereafter. Each party as a call option (at a 10% discount to the weighted average market price of the month before) in case of adverse event (permanent disability or death);
- > **Equita Capital SGR launched in early September.** The approval of Banca D'Italia was the last step of an initiative already anticipated by management in the recent past. The creation of the SGR will allow to improve the fund raising by avoiding potential conflict of interests and by offering to investors a governance in line with market best practices (this without a significant increase in costs). Few highlights: a) the SGR will stress the ESG side in its investment philosophy, supported also by the recently signed partnership with "Università Cattolica" and by the focus that Equita itself put on this theme in the past; b) including the recently launched fund ("Euromobiliare Equity Selected Dividend", EUR229 million raised) and including the private debt fund, the SGR manages around EUR1.2 billion; c) the strategy is to position the SGR away from traditional wealth and asset management but rather to offer tailored products to the institutional investors and retail banks needs. Various asset classes could be targeted (ELTIF, venture capital, real estate, etc.); d) Equita group will co-invest in the SGR products, so to align its interests with investors' ones.

Figure 1 - 2Q19 and 1H19 results

(EURm)	2Q18A	2Q19A	YoY chg.	2Q19E	A/E chg.	1H18A	1H19A	YoY chg.
Global Markets	8.6	7.9	-8.6%	8.5	-7.4%	16.9	17.0	0.6%
Inv Banking	7.9	3.7	-52.9%	4.3	-14.3%	17.4	5.7	-67.2%
AAM	1.5	1.3	-12.0%	1.6	-18.8%	2.4	2.7	12.5%
Net Revenues	17.9	12.9	-28.3%	14.4	-10.7%	36.7	25.5	-30.5%
Personnel Costs	8.0	5.8		7.7		17.3	11.6	
Administrative expenses	5.1	4.1		5.1		8.4	8.1	
Profit before Taxes	4.9	3.0	-39.1%	1.6	82.8%	11.0	5.8	-47.3%
Group Net profit	3.2	2.0	-38.4%	1.1	85.3%	7.6	4.0	-47.4%
margin %	17.8%	15.3%		7.4%		20.7%	15.7%	
Group Net profit Adjusted	2.8	2.0	-29.6%	1.1	85.3%	7.6	4.0	-47.8%
margin %	15.6%	15.3%		7.4%		20.7%	15.6%	
Group Net Equity	83.2	73.8	-11.3%	73.1	0.9%	83.2	73.8	-11.3%

Source: Company data, UBI Banca estimates

Financial Projections

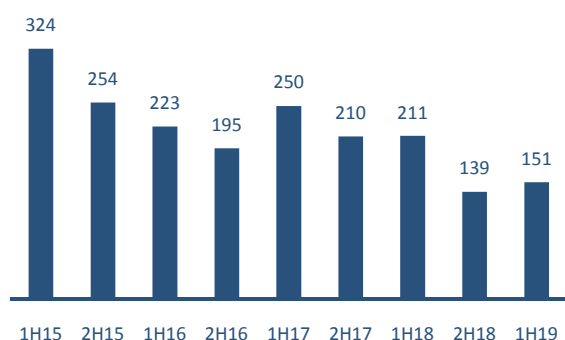
- > **2019 estimates revised down, 2020-21 fine tuned upward.** While we are marginally improving our Global market revenues estimates and leaving unchanged the AAM ones (which, again, do not include performance fees) the cut to our IB revenues estimate is such that the overall FY 2019 revenue number is -5.4% lower than before. However, we believe that the IB pipeline is building up and, barring unexpected market turmoil, it should materialize in 2H19 and in 2020. The newly raised fund with Euromobiliare AM will increase revenues already in 2019 but the full impact will be evident in 2020 (we expect this to be worth EUR0.7 million). Management, in the press release, mentioned a 2019 dividend guidance (EUR0.18-0.20) which we see based on a worst case scenario in terms of revenues (i.e. 2H19 only marginally up YoY).
- > **Comparison is getting easier in 2H19, at least for the Global Markets.** In our initiation of coverage (May 9th 2019) we incorporated in our FY estimates a scenario on traded countervalues which was better than the one prevailing at the time (for instance, on equities volumes on MTA we estimated a -20% YoY vs. the -25% that was the YTD actual). This was predicated on an easy comparison looming in 2H19 (see Figure 3 and 4 below). This still seems to be the case, and in fact the YTD countervalue on MTA for Equities is now down -20% YoY with a +5.8% YoY in July and +8.9% YoY in August. For this reason we leave our underlying assumptions unchanged and, despite no consensus is available, we suspect that the buy-side would assume lower countervalues for the FY2019. Obviously this has to do only with a part of the business (53% of our FY2019 revenues estimates).

Figure 2 - Old vs. new estimates

(EURm)	2019E			2020E			2021E		
	New	Old	% diff.	New	Old	% diff.	New	Old	% diff.
Revenues	58.0	54.9	-5.4%	60.6	58.3	-3.8%	63.1	61.4	-2.7%
Profit before taxes	15.0	13.5	-10.4%	16.6	16.6	-0.4%	18.2	18.8	3.1%
Profit before taxes %	25.9%	24.5%		27.5%	28.4%		28.8%	30.6%	
Net profit	10.7	9.6	-10.4%	11.8	11.8	-0.4%	12.9	13.3	3.1%
Net profit adjusted	10.7	9.6	-10.4%	11.8	11.8	-0.4%	12.9	13.3	3.1%

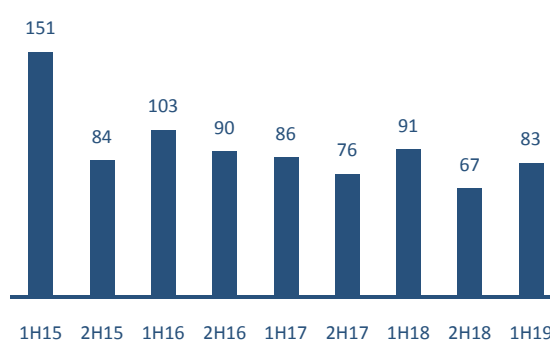
Source: UBI Banca estimates

Figure 3 - MTA traded volumes by semester (EURbn)



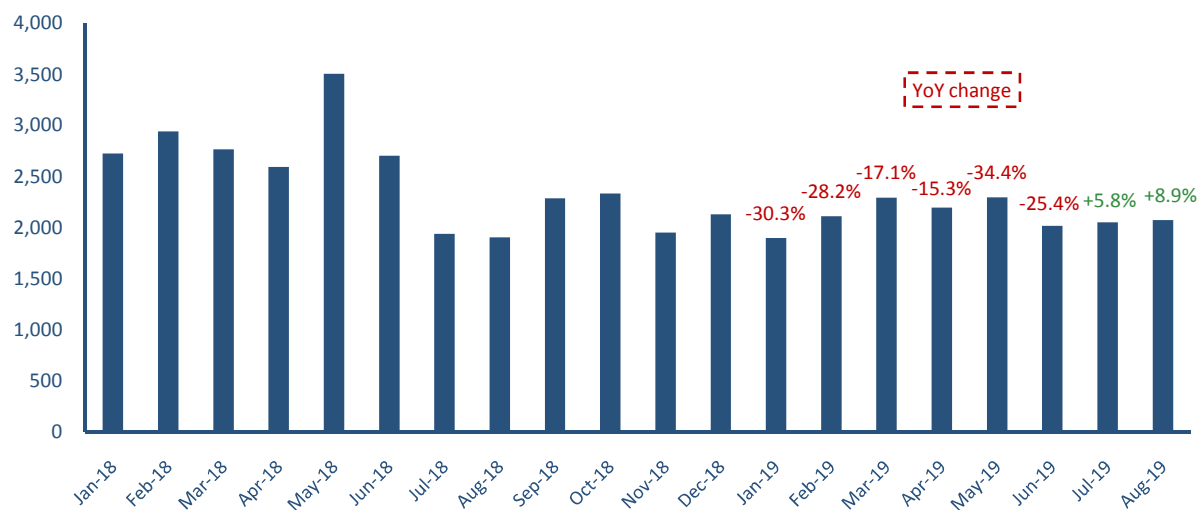
Source: Assosim

Figure 4 - Bond traded volumes by semester (EURbn)



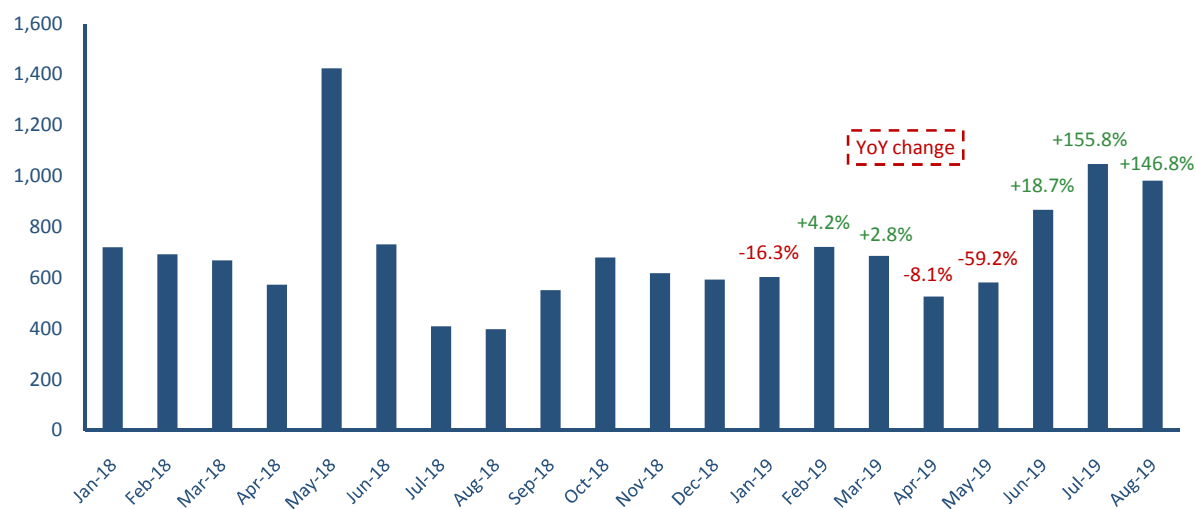
Source: Assosim

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 to EUR3.50 (from EUR3.57).** This is mostly driven by the change in estimates given that the peer group was broadly flat since our last report. As a reminder, we value the stock by using a RoE to CoE ratio and a comparison with peers. Looking at the stock through a Dividend Discount Model it looks like that the current share price assumes a yearly decline of the DPDS of 0.75% in perpetuity. If the company will be able to confirm 2018 dividend, the undervaluation will become more evident.
- > **We reiterate our Buy rating.** Upside risk not embedded in our estimates is mostly related to the performance fees of the AAM division, potentially worth anywhere between 4% to 7% of revenues with a full impact on profit before tax. M&A optionality not to be estimated either.

Figure 7 - Valuation summary

(EUR)	New	Old	% difference
P/BV	3.38	3.57	-5.3%
Peers	3.61	3.57	1.2%
Average	3.50	3.57	-2.1%

Source: Company data, UBI Banca estimates

Figure 8 - Peer based valuation

(EUR, x)	2019	2020
PE	14.2	12.9
Equita EPS	0.21	0.26
Equita fair value - A	2.98	3.34
Treasury shares - B	0.27	0.27
Equity co-invested - C	0.24	0.24
Pension liabilities - D	-0.05	-0.05
Equita Equity Value (A+B+C-D)	3.43	3.79

Source: Company data, UBI Banca estimates, FactSet

Figure 9 - Peer Group multiples (priced on 11 September 2019)

Name	TIER	Price	Currency	Mkt Cap million	P/Sales			P/E			P/BV			Div Yield		
					2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Piper Jaffray	I	70.5	USD	1,001	1.4 x	1.3 x	NA	11.9	11.0	NA	1.2 x	NA	NA	NA	NA	NA
Numis Corp	I	2.6	GBP	277	2.1 x	1.9 x	NA	18.5	17.2	NA	1.8 x	NA	NA	5.1%	NA	NA
Evli Pankki Oyj	I	8.1	EUR	194	2.7 x	2.5 x	2.4 x	12.0	10.5	9.8	2.5 x	2.4 x	2.3 x	7.7%	8.0%	8.6%
Moelis	II	31.7	USD	1,971	2.8 x	2.4 x	2.3 x	15.4	12.8	12.5	6.2 x	5.3 x	7.2 x	7.5%	8.0%	7.5%
Evercore	II	73.2	USD	2,919	1.5 x	1.5 x	1.5 x	9.5	9.1	10.2	3.7 x	3.0 x	2.4 x	2.8%	3.0%	3.3%
Houlihan Lokey	II	42.2	USD	2,793	2.7 x	2.5 x	2.4 x	15.1	14.0	13.3	3.2 x	3.0 x	2.6 x	2.7%	2.9%	3.4%
DeA Capital	II	1.3	EUR	355	5.6 x	5.2 x	NA	55.5	35.5	NA	0.8 x	0.8 x	NA	9.0%	8.3%	NA
Tikehau Capital	II	18.5	EUR	2,515	6.4 x	5.2 x	4.5 x	14.2	10.7	8.6	0.8 x	0.8 x	0.7 x	3.5%	3.9%	4.2%
Azimut	II	16.7	EUR	2,429	2.7 x	2.8 x	2.6 x	9.1	10.8	10.4	3.3 x	3.0 x	2.8 x	7.0%	6.8%	7.0%
Average					2.7 x	2.5 x	2.4 x	14.2 x	11.0 x	10.3 x	2.5 x	3.0 x	2.5 x	5.7%	5.9%	5.7%
Equita Group		2.7	EUR	122	2.1 x	2.0 x	1.9 x	11.4 x	10.3 x	9.3 x	1.5 x	1.5 x	1.4 x	8.2%	8.6%	9.1%
Tier I					2.1 x	1.9 x	2.4 x	14.2 x	12.9 x	9.8 x	1.8 x	2.4 x	2.3 x	6.4%	8.0%	8.6%
Tier II					3.6 x	3.2 x	2.7 x	19.8 x	15.5 x	11.0 x	3.0 x	2.6 x	3.1 x	5.4%	5.5%	5.1%

Source: FactSet

Income Statement

(EURm)	2018A	2019E	2020E	2021E
Global Markets	30.0	31.9	31.2	30.5
Investment Banking	26.1	17.0	19.5	22.4
Alternative Asset Management	3.7	6.1	7.5	8.5
Net Revenues	59.8	54.9	58.3	61.4
Personnel Costs	27.4	24.6	25.2	26.1
Administrative Expenses	16.8	16.8	16.5	16.6
Profit Before Taxes	15.6	13.5	16.6	18.8
% on Net Revenues	26.1%	24.5%	28.4%	30.6%
Income Taxes	4.5	3.9	4.8	5.4
Group Net Profit	11.0	9.6	11.8	13.3
Non-recurring	0.9	0.0	0.0	0.0
Group Net Profit - Adjusted	12.0	9.6	11.8	13.3

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2018A	2019E	2020E	2021E
Financial Assets at FV through P&L	60.5	57.6	56.7	58.0
Financial Assets at Amortised Cost	215.1	226.3	238.6	250.5
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	298.3	306.7	318.0	331.3
Financial Liabilities at Amort. Cost	184.8	194.0	203.7	213.9
Financial Liabilities Held for Trad.	8.3	7.8	7.7	7.9
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	81.4	84.3
Total Liabilities and Equity	298.3	306.7	318.0	331.3

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2018A	2019E	2020E	2021E
TCR	25.2%	25.7%	25.6%	25.8%
CET1 ratio	25.2%	25.7%	25.6%	25.8%
RoE	13.8%	12.0%	14.5%	15.8%
RoTE	20.4%	17.4%	21.6%	23.8%
Cost/Income	73.9%	75.5%	71.6%	69.4%
Comp/Revenues	45.8%	44.8%	43.2%	42.5%
Payout	90.7%	104.5%	88.8%	83.5%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2018A	2019E	2020E	2021E
EPS - reported	0.24	0.21	0.26	0.29
EPS - adjusted	0.26	0.21	0.26	0.29
DPS	0.22	0.22	0.23	0.25
BVPS - ex-treasury	1.76	1.75	1.79	1.85
TBVPS - ex treasury	1.44	1.43	1.42	1.46

Source: Company data, UBI Banca estimates

Stock Market Ratios

(X)	2018A *	2019E	2020E	2021E
P/E	13.2	12.7	10.3	9.1
P/E Adjusted	12.2	12.7	10.3	9.1
P/BV	1.8	1.5	1.5	1.4
P/TBV	2.2	1.9	1.9	1.8
Dividend Yield (%)	6.9%	8.2%	8.6%	9.1%
RoE/CoE	1.8	1.6	1.9	2.1

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Growth rates

(%)	2018A	2019E	2020E	2021E
Revenues	10.9%	-8.2%	6.2%	5.4%
Profit Before Taxes	1.6%	-13.6%	23.1%	13.2%
Net Income	0.2%	-13.3%	23.1%	13.2%
Net Income Adjusted	6.6%	-20.0%	23.1%	13.2%

Source: Company data, UBI Banca estimates

Disclaimer

Analyst Declaration

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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.

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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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Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
91.5%	6.4%	0.0%	2.1%

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

Buy	Hold	Sell	No Rating
100%	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