

Investment Banking

Data

Shares Outstanding (m):	46.2
Market Cap. (EURm):	136.9
Enterprise Value (EURm):	NA
Free Float (%):	37.0%
Av. Daily Trad. Vol. ('000):	33.0
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	+6.0%	+24.2%	+43.3%
Rel. to FTSE IT	+0.5%	+14.2%	-11.5%

Source: FactSet

Graph area Absolute/Relative 12 M



Source: FactSet

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Running 1 year ahead on 2022 BP targets

Equita reported a strong set of 4Q20 results that prompted us to increase our estimates for the fourth consecutive time on the back of improvements that we consider structural, also thanks to a bolt-on M&A campaign in the Global Markets and IB divisions. In a supportive market backdrop, Q420 revenues grew 1% YoY with positive YoY across all divisions (if on AAM we strip out performance fees). EUR3.65 million net profit was almost in line with last year (despite the tough comparison) and above our estimates.

2020 closed with a 17% YoY top line growth and a net income up 29% to EUR12.3 million, allowing the board to propose a EURO.20 DPS (in the high end of the EURO.18-0.20 guidance). The company 2021 should get very close to its 2022 BP targets: revenues of EUR75 million and net income of EUR15 million with probably only the AAM running to meet targets in 2022. This is prompting us to revise up our 2021-22 EPS estimates by 12.7% and the DPS by 2.3%. Buy rating confirmed, TP raised to EUR3.77.

- > **4Q20: trading revenues are back, IB holding well.** GM solid performance came despite a 10% YoY decline in Sales & Trading commissions more than balanced by a 24% growth in Client Driven and Market Making and to the return to a profitable Directional trading. Equita closed the year with a 8% share on the MTA, 9% on AIM, 7% on Fixed Income, 5% on Options and 7% on ETFPlus. IB held well against a tough comparison with several deals across both the public and the private markets. AAM was able to book EUR1.8 million of performance fees, not a given looking at how markets began the year.
- > **2021: GM to hold, IB to reap the FY benefit of K Finance, AAM to grow the AuM.** The first months of 2021 have begun with solid trading volumes across markets. On IB management sees a solid pipeline and Equita will consolidate K Finance for the FY. On AAM in-flows should be positive and, on the not-liquid side, the PD II fund reached the EUR131 million mark and is still in raising phase. May is the month when the ELTIF should be launched.
- > **2020 payout at 75%: a message from Management on potential M&A.** While the 2020 DPS was in the high-end of the guidance, the payout was lower than the usual 90% and, in the press release, management made a clear mention to a change in the policy now pointing to a “higher than 50%” payout. The reason behind the change is to have fire-power for in-organic growth. Another message in the same direction has been given with the change in the incentive plan preserving the treasury shares in the company hands (while leaving unchanged the dilution). The bolt-on acquisition in GM (the “Retail Hub”) and in IB (K Finance) have been accretive to earnings and improved the competitive position (more retail trading and more Corporate Finance deals respectively) so we take the external growth as a positive opportunity.

Financials EURm (ex. treasury shares)

	2020A	2021E	2022E	2023E
Revenues	68.2	71.9	77.0	80.8
Profit Before Taxes	17.6	19.5	22.4	23.3
Net Income	12.3	13.0	15.0	16.3
Net Income Adjusted	12.3	13.0	15.0	16.3
BVPS (EUR)	1.88	1.95	2.06	2.44
EPS (EUR)	0.27	0.28	0.33	0.40
DPS (EUR)	0.20	0.22	0.23	0.24

Source: Combanv data. UBI Banca estimates

Ratios (ex treasury shs), priced on 17-03-21

	2020A*	2021E	2022E	2023E
P/E (x)	9.0	10.5	9.1	7.5
P/BV (x)	1.3	1.5	1.4	1.2
TCR (%)	20.7%	21.1%	21.9%	21.6%
CET1 ratio (%)	20.7%	21.1%	21.9%	21.6%
Dividend yield (%)	8.3%	7.2%	7.6%	8.1%
Payout ratio (%)	74.4%	75.9%	69.0%	60.7%
Net Inc./Sales (%)	18.1%	18.1%	19.5%	20.2%

Source: Combanv data. UBI Banca est. *Based on 2020 avr price

Key Financials

(EURm)	2020A	2021E	2022E	2023E
Revenues	68.2	71.9	77.0	80.8
Profit Before Taxes	17.6	19.5	22.4	23.3
Net profit	12.3	13.0	15.0	16.3
Net Profit - Adjusted	12.3	13.0	15.0	16.3
Shareholders' Equity	85.7	89.6	94.7	100.7
RWA	218.5	229.9	243.7	255.8

Source: Company data, UBI Banca estimates

Key Profitability Drivers

(%)	2020A	2021E	2022E	2023E
RoE	14.4%	14.5%	15.8%	16.2%
RoTE	26.9%	26.5%	28.7%	28.7%
Cost/Income	74.1%	72.8%	71.0%	71.2%
Comp/Revenues	47.4%	47.2%	46.4%	47.2%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

(x)	2020A *	2021E	2022E	2023E
P/E (x)	9.0	10.5	9.1	7.5
P/E Adjusted (x)	9.0	10.5	9.1	7.5
P/BV (x)	1.3	1.5	1.4	1.2
P/TBV (x)	1.7	2.4	2.2	1.8
Dividend Yield (%)	8.3%	7.2%	7.6%	8.1%
RoE/CoE (x)	2.07	2.09	2.28	2.33

Source: Company data, UBI Banca estimates

* Based on 2020 average price

Growth Rates

(%)	2020A	2021E	2022E	2023E
Revenues	17.0%	5.4%	7.0%	5.0%
Profit Before Taxes	28.4%	10.7%	14.4%	4.2%
Net Income	29.4%	5.4%	15.2%	8.8%
Net Income Adjusted	29.4%	5.4%	15.2%	8.8%

Source: Company data, UBI Banca estimates

Recent developments

- > 4Q20 well above our estimates chiefly thanks to the Global Market division.** Although all divisions were above our estimates is the GM that, with a EUR3.3 million surprise, contributed the most to the overall Net revenues and, consequently, to the bottom line beat (more than double vs. our estimates). In more details: a) Net Revenues stood at EUR20.5 million (+0.9% YoY) above our estimates of EUR13.7 million. Global Markets revenues grew high double digit – chiefly due to Client Driven Trading & Market Making while Sales & Trading revenues - posted a 26% YoY. IB revenues grew 4.2% YoY, supported also by the consolidation of K Finance by a good market and by a specific solid performance by Equita and against a tough comparison with 4Q19. AAM revenues declined YoY due to lower performance fees (EUR1.8 million this year vs. EUR3.7 million last year) and to lower AuM (that reached EUR944 million, almost in line with the EUR1 billion of YE 2019 but below that mark for the average of 2020); b) Pre-tax profit of EUR5.2 million (-6.5% YoY) was much better than our estimates of EUR2.1 million – costs were under control despite the growth in Sales & Trading which usually has attached volumes related fees; c) Net Income of EUR3.62 million (+8% YoY) above our estimates of EUR1.3 million.
- > Costs grew 3% in 4Q20 and 13% in the FY: a good result when compared to revenues growth and considering the inclusion of K Finance.** Operating expenses grew by 4% YoY in FY20, due also to the inclusion of K Finance costs, a remarkable result achieved thanks to optimization on the IT side (-7% YoY) and Trading fees (-1% against growing traded volumes). The line “Other” instead grew 14% YoY and includes some one-offs (fees on the K Finance acquisition and the new credit lines obtained) and other non-recurring costs (charity and marketing/PR expenses which very likely will remain at this level also going forward) as well as the SGR-related costs. The compensation/revenues stood at 47.5% in the quarter and not dissimilar for the FY, in line with the 47% targeted by management. The cost/income instead reached the 74% mark, better than the 77% of 2019 with a long-term objective of 71%.

Figure 1 – Equita Group 4Q20 and FY20 results

(USDm, %)	4Q19A	4Q20A	% chg	4Q20E	Actual vs estimates	FY19A	FY20A	% chg
Global Markets	7.1	8.9	26.1%	5.6	61.0%	31.6	33.7	6.7%
Inv Banking	7.8	8.1	4.2%	6.6	22.0%	18.2	28.0	54.1%
AAM	5.5	3.5	-37.0%	1.5	137.9%	8.6	6.5	-24.2%
Net Revenues	20.4	20.5	0.9%	13.7	50.3%	58.3	68.2	17.0%
Personnel Costs	9.7	9.7		6.4		27.1	32.3	
Administrative expenses	5.0	5.5		5.1		17.5	18.2	
Profit before Taxes	5.6	5.2	-6.1%	2.1	145.2%	13.7	17.6	28.4%
Attributable Net profit	3.93	3.65	-7.3%	1.31	177.4%	9.54	12.35	29.4%
margin %	19.3%	17.8%		9.6%		16.4%	18.1%	
Attributable Net profit Adjusted	3.93	3.65	-7.3%	1.31	177.4%	9.54	12.35	29.4%
margin %	19.3%	17.8%		9.6%		16.4%	18.1%	
Group Net Equity	80.1	81.4	1.7%	81.4	0.0%	80.1	81.4	1.7%

Source: Company data, UBI Banca estimates

Financial Projections

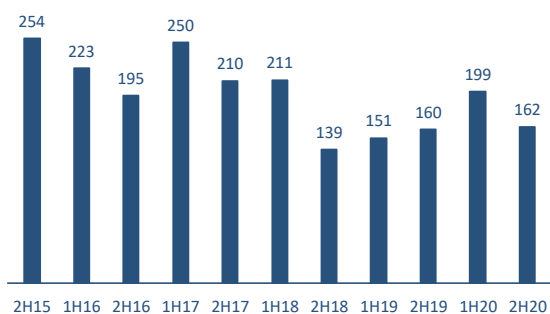
- **Raising our estimates on the back of 4Q20 results, positive market backdrop in 2021 and a diversified and sustainable product offer and market presence by Equita.** For sure the surprising performances of 4Q20 were one of the reasons that prompted us to increase our 2021-22 estimates and to release still growing 2023 estimates. However, the feeling we had from Equita recent developments coupled with the increased diversification of revenues (in 4Q20 half of which were coming from IB and AAM) gave us the confidence to envisage 3 more years of growth on and above 2020, pushing the company to revenues and profit levels never reached before. On GM the first months of 2021 began on the right foot and the newly appointed Draghi government is attracting foreign investors onto the local markets (which underpins 100% of Equita revenues). This division that, given its relative weight and its leadership position on the market, could have been source of risks is instead demonstrating to be a stable source of revenues and brand image also for other divisions. The IB division closed 2020 ranked 6th in Italy for number of M&A deals (and for the first time in a better position in terms of value, helped by the Intesa-UBI deal). The acquisition of K Finance is adding non-market related deals pipeline giving more stability to the revenues stream. AAM is continuing to launch new products and raise AuM while booking performance fees on the most recent mandates, more profitable than the original ones.
- **Deconstructing our forecasts.** We assume Sales & Trading to be stable in 2021-23 as a consequence of small market share gains coupled with a decline in bps per trade. New products like OTC derivatives and market share gains in recently launched activities like the Fixed Income, Equity Options and ETF provides upside risk that could balance eventual weakness in the traditional cash-equity business. In IB we are factoring in the benefit of the FY consolidation of K Finance (around EUR3 million impact) which explains entirely the 10.8% YoY growth we assume. The positive market backdrop and the reassuring messages from management on the pipeline are an upside risk that balances the downside risk of not repeating a deal like the Intesa-UBI. In AAM as usual we are not including at this stage any performance fees. Still like-for-like revenues would grow in the 31% tune thanks to the growing AuM (PD II fund) and their deployment. We are not yet factored the AuM coming from the ELTIF as we don't have enough details. All in all, our 2021-22 EPS estimates were raised by 12.7% matching the 2022 BP targets (even marginally exceeding them on revenues by EUR2 million).
- **We expect a 7.5% YoY growth for the 2021 dividend and another 4.7% on the 2022.** Despite the reduction in the expected payout ratio, dividends should grow in the foreseeable future as a consequence of stronger net income growth. The 2020 dividend of EUR0.20 will be paid in two equal tranches: the first EUR0.10 with a payment date on 12 May and the second EUR0.10 with a payment date on 10 November. This is to better manage the cash flows, limit the stock volatility at the time of going ex-dividend and, last but not least, to please investors dividends-focused.

Figure 2 – Old vs. new estimates

(EURm)	2020A	2021E			2022E			2023E
		Old	New	change	Old	New	change	
Revenues	68.2	68.6	71.9	4.9%	72.8	77.0	5.8%	80.8
Profit before taxes	17.6	18.3	19.5	7.0%	20.7	22.4	7.9%	23.3
Profit before taxes %	25.9%	26.6%	27.2%		28.5%	29.0%		28.8%
Net profit	12.3	11.6	13.0	11.9%	13.2	15.0	13.6%	16.3
Net profit adjusted	12.3	11.6	13.0	11.9%	13.2	15.0	13.6%	16.3

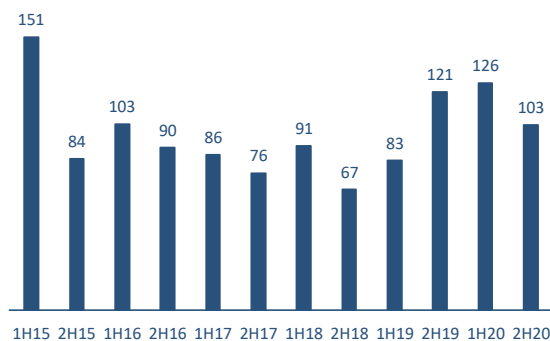
Source: Company data, UBI Banca estimates

Figure 3 - MTA traded volumes by semester (EURbn)



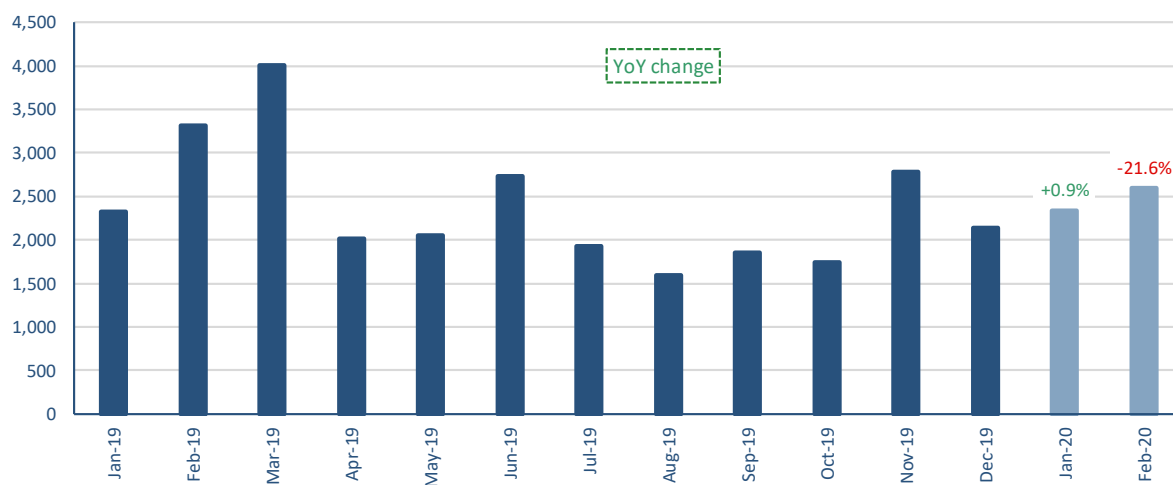
Source: Assosim

Figure 4 - Bond traded volumes by semester (EURbn)



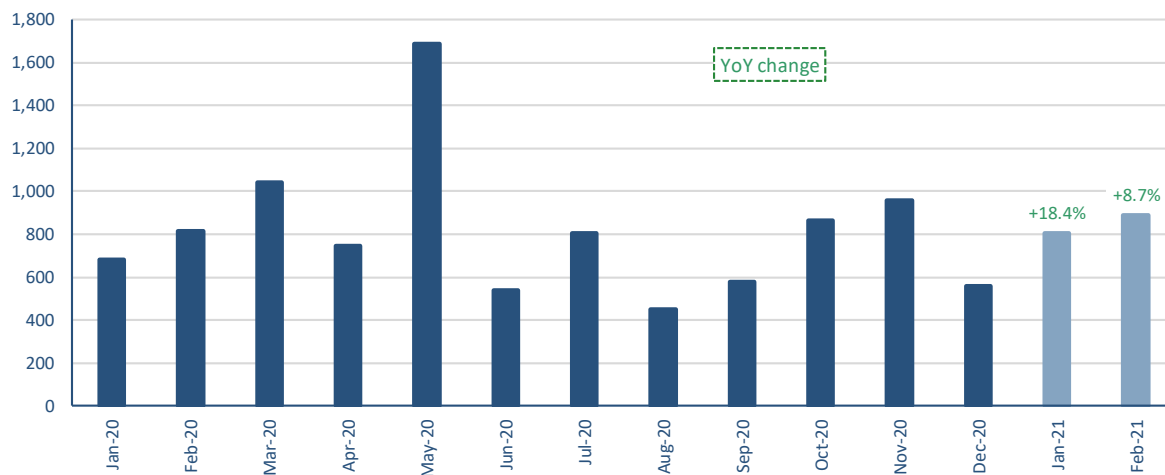
Source: Assosim

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 20.0% to EUR3.77 (from EUR3.13).** This is the result of: a) the increase in estimates (12.7% on average in 2021-22 at net income level); b) a solid peers' performance in the past 4 months; c) rolling the valuation including now 2023. Both P/BV and DDM are based on a CoE of 7% while the DDM assumes a long-term dividend growth rate of 1% (which as of now is below the 6.3% we estimate for 2020-23).
- > Executing along the 2022 BP line with in-organic options to further speed up growth.** While at the time of its issuance the 2022 BP looked extremely ambitious, it is now within reach. Not only in terms of financials but also in terms of overall solidity of Equita's footprint. The message sent on the dividend and the treasury shares signals that management is evaluating several inorganic options. These may go from a simple investment into new products (Equita typically co-invests with its partners/clients) to an acquisition or a partnership. With the first two deals executed in the GM and IB divisions ideally, a new deal, would regard the AAM division. Enlarging the size or extending the geographic scope would make a lot of sense for this division which is growing but probably not diversified enough to weather market turbulences nor large enough to amortize well its costs.

Figure 7 - Valuation summary

(EUR)	New	Old	% difference
P/BV	4.05	3.31	22.2%
DDM	3.49	2.95	18.2%
Average	3.77	3.13	20.3%

Source: Company data, UBI Banca estimates

Figure 8 - Peer Group multiples (priced on 17 March 2021)

Name	TIER	Price	Currency	Mkt Cap million	P/Sales			P/E			P/BV			Div Yield		
					2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Piper Jaffray	I	94.7	USD	1,730	1,7 x	NA	NA	11,9	NA	NA	1,9 x	NA	NA	1,3%	NA	NA
Numis Corp	I	4.5	GBP	481	2,5 x	NA	NA	14,7	NA	NA	2,5 x	NA	NA	3,1%	NA	NA
Evli Pankki Oyj	I	16.8	EUR	398	4,4 x	3,9 x	3,9 x	16,0	13,1	13,1	4,1 x	3,8 x	3,8 x	5,9%	7,3%	7,3%
Moelis	II	48.7	USD	3,240	3,8 x	3,4 x	3,4 x	19,0	16,5	16,5	7,0 x	7,6 x	7,6 x	3,7%	4,6%	4,6%
Evercore	II	118.8	USD	4,993	2,5 x	2,1 x	2,1 x	14,3	12,1	12,1	4,0 x	2,7 x	2,7 x	1,8%	2,1%	2,1%
Houlihan Lokey	II	57.1	USD	3,934	3,4 x	3,3 x	NA	17,4	17,2	17,2	3,2 x	2,9 x	2,9 x	2,1%	2,2%	2,2%
DeA Capital	II	1.4	EUR	371	5,2 x	NA	NA	55,7	NA	NA	0,9 x	NA	NA	8,6%	NA	NA
Tikehau Capital	II	25.2	EUR	3,435	6,5 x	6,1 x	6,1 x	16,6	15,8	15,8	1,1 x	1,1 x	1,1 x	2,4%	4,3%	4,3%
Azimut	II	18.9	EUR	2,757	2,7 x	2,6 x	2,6 x	10,1	8,7	8,7	2,5 x	2,0 x	2,0 x	5,7%	6,2%	6,2%
Average					3,4 x	3,3 x	3,4 x	16,0 x	14,4 x	14,4 x	2,5 x	2,8 x	2,8 x	3,9%	4,4%	4,4%
Equita Group		3.0	EUR	137	1,9 x	1,8 x	1,5 x	10,5 x	9,1 x	9,0 x	1,5 x	1,4 x	1,3 x	7,2%	7,6%	8,3%
Tier I average					2,9 x	3,9 x	3,9 x	14,2 x	13,1 x	13,1 x	2,8 x	3,8 x	3,8 x	3,5%	7,3%	7,3%
Tier II average					4,0 x	3,5 x	3,6 x	22,2 x	14,1 x	14,1 x	3,1 x	3,3 x	3,3 x	4,0%	3,9%	3,9%

Source: FactSet, UBI Banca estimates

ESG Picture
Corporate Governance

Does the company have a combined Chair/CEO?	No
Percentage of independent directors	57.1% (4 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	42.8% (3 out of 7)
How is the cybersecurity issue managed?	Not disclosed

Income Statement

(EURm)	2020A	2021E	2022E	2023E
Global Markets	33.7	34.9	36.7	38.4
Investment Banking	28.0	30.8	33.0	34.6
Alternative Asset Management	6.5	6.3	7.3	7.9
Net Revenues	68.2	71.9	77.0	80.8
Personnel Costs	32.3	33.9	35.7	38.1
Administrative Expenses	18.2	18.5	18.9	19.4
Profit Before Taxes	17.6	19.5	22.4	23.3
% on Net Revenues	25.9%	27.2%	29.0%	28.8%
Income Taxes	4.7	5.9	6.7	7.0
Group Net Profit	12.3	13.0	15.0	16.3
Non-recurring	0.0	0.0	0.0	0.0
Group Net Profit - Adjusted	12.3	13.0	15.0	16.3

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2020A	2021E	2022E	2023E
Financial Assets at FV through P&L	43.8	48.3	52.1	52.1
Financial Assets at Amortised Cost	203.3	212.4	223.5	238.1
Equity Investments	0.1	0.1	0.1	0.1
Tangible Assets	6.2	6.2	6.2	6.2
Intangible Assets	27.5	27.5	27.5	27.5
Tax Assets	3.1	3.1	3.1	3.1
Other Assets	1.6	1.6	1.6	1.6
Total Assets	285.7	299.2	314.1	328.7
Financial Liabilities at Amort. Cost	157.0	164.9	173.1	181.7
Financial Liabilities Held for Trad.	14.2	16.0	17.5	17.5
Tax Liabilities	2.2	2.2	2.2	2.2
Other Liabilities	21.7	21.7	21.7	21.7
Employees' Termination Inde millionities	2.3	2.3	2.3	2.3
Allowances for Risks and Charges	2.7	2.7	2.7	2.7
Equity	85.7	89.6	94.7	100.7
Total Liabilities and Equity	285.7	299.2	314.1	328.7

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2020A	2021E	2022E	2023E
TCR	20.7%	21.1%	21.9%	21.6%
CET1 ratio	20.7%	21.1%	21.9%	21.6%
RoE	14.4%	14.5%	15.8%	16.2%
RoTE	26.9%	26.5%	28.7%	28.7%
Cost/Income	74.1%	72.8%	71.0%	71.2%
Comp/Revenues	47.4%	47.2%	46.4%	47.2%
Payout	74.4%	75.9%	69.0%	60.7%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2020A	2021E	2022E	2023E
EPS - reported	0.27	0.28	0.33	0.40
EPS - adjusted	0.27	0.28	0.33	0.40
DPS	0.20	0.22	0.23	0.24
BVPS - ex-treasury	1.88	1.95	2.06	2.44
TBVPS - ex treasury	1.42	1.27	1.35	1.63

Source: Company data, UBI Banca estimates

Stock Market Ratios

(X)	2020A *	2021E	2022E	2023E
P/E	9.0	10.5	9.1	7.5
P/E Adjusted	9.0	10.5	9.1	7.5
P/BV	1.3	1.5	1.4	1.2
P/TBV	1.7	2.4	2.2	1.8
Dividend Yield (%)	8.3%	7.2%	7.6%	8.1%
RoE/CoE	2.1	2.1	2.3	2.3

Source: Company data, UBI Banca estimates

* Based on 2020 average price

Growth rates

(%)	2020A	2021E	2022E	2023E
Revenues	17.0%	5.4%	7.0%	5.0%
Profit Before Taxes	28.4%	10.7%	14.4%	4.2%
Net Income	29.4%	5.4%	15.2%	8.8%
Net Income Adjusted	29.4%	5.4%	15.2%	8.8%

Source: Company data, UBI Banca estimates

Disclaimer

Analyst Declaration

This research report (the “**Report**”) has been prepared by Massimo Vecchio and Dario Fasani (the “**Analysts**”) on behalf of UBI Banca S.p.A. (“**UBI Banca**”) in the context of the ancillary service provided by UBI Banca named “Investment research and financial analysis or other forms of recommendation relating to transactions in financial instruments” under Paragraph 5), Section B, Annex I of the Directive 2014/65/EU (“MiFID II”). UBI Banca is an Italian bank under art. 4 (1)(27) of MiFID II, it is part of Intesa Sanpaolo group (“**Intesa Group**”), under the direction and control of Intesa Sanpaolo and it is supervised by the European Central Bank and duly authorised to provide investment services pursuant to Article 1, Paragraph 5, letter a), b), c), c-bis), e) and f) of the Legislative Decree 24 February 1998, n° 58 under the supervision of the Italian Authority for the financial markets (Consob). UBI Banca has its head office at Piazza Vittorio Veneto 8, 24122 Bergamo.

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Buy	Hold	Sell	No Rating
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Historical ratings and target prices

<i>Date</i>	<i>Rating</i>	<i>Target Price (EUR)</i>	<i>Market Price (EUR)</i>
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
11 September 2020	BUY	3.04	2.48
13 November 2020	BUY	3.13	2.35