

Investment Banking

Data

Shares Outstanding (m):	45.5
Market Cap. (EURm):	118.2
Enterprise Value (EURm):	NA
Free Float (%):	36.7%
Av. Daily Trad. Vol. (m):	0.06
Main Shareholder:	Management 54.3%
Reuters/Bloomberg:	EQUI.MI EQUI IM
52-Week Range (EUR)	2.43 3.45

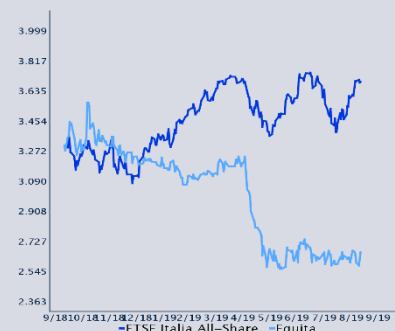
Source: FactSet, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	3.2%	0.4%	-21.8%
Rel. to FTSE IT	-1.8%	-16.7%	-44.2%

Source: FactSet

Graph area Absolute/Relative 12 M



Source: FactSet

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Stabilization in 3Q, ambitious BP issued

In the third quarter of 2019 Equita financials showed, finally, some signs of stabilization with a EUR1,6 million net profit, +4% vs. the 3Q18 figure. Revenues were up YoY thanks to market shares gains in Global Markets and despite negative m-t-m of Equita's SPAC. In the wording of the 3Q19 release it seems clear how management perceives a stabilization in market conditions, specifically in Investment Banking. This perception and the reassuring 3Q19 lead Equita to confirm its 2019 guidance. Management went further by announcing a mid-long term guidance that points to EUR75 million revenues in 2022 up 43% from the EUR52.5 million we estimate for 2019. The plan envisages also M&A as an eventual accelerator towards mid-long term targets. We don't rule out that the plan exercise will ease itself this M&A effort. We are reducing our 2019-22 estimates by 12.2% but reiterating our positive stance supported by the signs of stabilization supplied by 3Q19 and reinforced by some M&A appeal.

- > **3Q19: Global markets impressive performance.** Against mild growth in MTA third-party traded volumes (+4%), GM commissions grew 25% YoY (entirely organic). Market share gains were the name of the game: a 9.4% share in Equities, 6.4% in bonds and 8.1% in Equity Options for imply, respectively, +280bps, +220bps and +280bps vs. 9MYTD 2018. With Investment Banking flat YoY, this was enough to more than compensate the 50% YoY decline in AAM (explained by a EUR0.8 million non-recurring charge on the SPAC. The last, considering that Equita decided to reimburse investors).
- > **Mid-long term plan: organic and inorganic.** GM is seen growing to EUR34 million (45% of total sales) thanks to cross-selling and diversification. IB, the most challenging target of the entire BP, is seen at least doubling 2019 revenues and reach a EUR30/34 million mark (40-45% of total). AAM, where AuM should reach the EUR2 billion level, is seen doubling too, reaching a EUR8/11 million mark (10% of total). While targets are organic, and based on future business initiatives, the plan could be accelerated by M&A and/or partnerships. Management went as far as saying that it could use part of the excess capital, leverage capacity or even opening up the capital to new partners. While management during roadshows never ruled out external growth, the fact that now it is explicitly written down implies a higher conviction which could be a propeller also for the share price.
- > **BUY reiterated, tp to EUR3.37.** Despite peers re-rated in the past 2 months, the cut in estimates brought our TP down by 4%. FY2019 results will be useful to understand the amount of performance fees and the dividend, which we expect at the high end of the EUR0.18-0.20 guidance. Notwithstanding extremely harsh market conditions in 1H19 which depressed the share, Equita growth resumption in 2020 underpins our positive stance.

Financials EURm (ex. treasury shares)

	2018A	2019E	2020E	2021E
Revenues	59,8	52,5	57,6	61,7
Profit Before Taxes	15,6	11,8	14,8	16,9
Net Income	11,0	8,1	10,3	11,7
Net Income Adjusted	12,0	8,1	10,3	11,7
BVPS (EUR)	1,76	1,72	1,75	1,78
EPS (EUR)	0,24	0,18	0,23	0,26
DPS (EUR)	0,22	0,20	0,22	0,25

Source: Combanv data. UBI Banca estimates

Ratios (ex treasury shs), priced on 15-11-19

	2018A*	2019E	2020E	2021E
P/E (x)	13,2	14,5	11,5	10,1
P/BV (x)	1,8	1,5	1,5	1,5
TCR (%)	25,2%	25,8%	25,1%	24,5%
CET1 ratio (%)	25,2%	25,8%	25,1%	24,5%
Dividend yield (%)	6,9%	7,7%	8,5%	9,4%
Payout ratio (%)	90,7%	111,9%	97,1%	95,0%
Net Inc./Sales (%)	18,4%	15,5%	17,9%	19,0%

Source: Combanv data. UBI Banca est. *Based on 2018 avr price

Key Financials

(EURm)	2018A	2019E	2020E	2021E
Revenues	59,8	52,5	57,6	61,7
Profit Before Taxes	15,6	11,8	14,8	16,9
Net profit	11,0	8,1	10,3	11,7
Net Profit - Adjusted	12,0	8,1	10,3	11,7
Shareholders' Equity	80,1	78,2	79,4	81,1
RWA	218,2	212,9	224,9	236,2

Source: Company data, UBI Banca estimates

Key Profitability Drivers

(%)	2018A	2019E	2020E	2021E
RoE	13,8%	10,4%	13,0%	14,5%
RoTE	20,4%	14,8%	19,1%	21,6%
Cost/Income	73,9%	77,6%	74,3%	72,7%
Comp/Revenues	45,8%	46,0%	45,2%	45,3%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

(x)	2018A *	2019E	2020E	2021E
P/E (x)	13,2	14,5	11,5	10,1
P/E Adjusted (x)	12,2	14,5	11,5	10,1
P/BV (x)	1,8	1,5	1,5	1,5
P/TBV (x)	2,2	1,8	1,9	1,8
Dividend Yield (%)	6,9%	7,7%	8,5%	9,4%
RoE/CoE (x)	1,97	1,48	1,85	2,06

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Growth Rates

(%)	2018A	2019E	2020E	2021E
Revenues	10,9%	-12,2%	9,7%	7,2%
Profit Before Taxes	1,6%	-24,5%	25,8%	13,8%
Net Income	0,2%	-26,3%	26,7%	13,8%
Net Income Adjusted	6,6%	-32,0%	26,7%	13,8%

Source: Company data, UBI Banca estimates

Recent developments

- > **3Q19 broadly in line with our estimates, worth noting that results quality was high.** Revenues surprised and were 6% above our estimates with the bulk of the surprise coming from Global Markets, with IB broadly aligned and AAM well below our expectations. The latter was hit by EUR0.8 million mark-to-market of the SPAC booked also in view of the fact that EPS2 will be liquidated (as written here below). Net of that AAM revenues would have amounted to EUR1.2 million or 50% higher YoY (and above our estimates by the same amount). The usual tight control on costs translated the EUR0.7 million revenues surprise to the pre-tax level. Higher than expected taxes brought the net income below our estimates but, the quality of the results (a top line beat and a non-recurring charge) was high.
- > **Investment Banking revenues stabilized in 3Q19 and comparison got (and will get) easier.** IB revenues were down 8% YoY and were aligned with our estimates for the first time since we cover the stock. This is a remarkable result when looking at the end-markets conditions: 9M19, M&A volumes were down 15% YoY, ECM deals below EUR1 billion were down 73% YoY while DCM (high-yields and not-rated) were down 35%.
- > **Equita launched a second private debt fund and will liquidate EPS2.** Notable events announced after the closure of the quarter were: a) the launch of a second private debt fund. The fund has a target size of EUR200 million and will have an investment strategy in line with its predecessor (Equita Private Debt Fund: invest in senior unitranche and subordinated bonds in sponsor-led transactions, with a maturity of 5 to 7 years and a bullet repayment structure). Expected returns are in line with the ones achieved by EPD, now fully deployed with an expected gross return of around 9.5%; b) EPS2 (Equita's SPAC) will be liquidated and shareholders will be reimbursed sooner than expected. While this outcome is different from what was the original aim, it shows how the company aims to be fair with the market.

Figure 1 - 3Q19 and 9M19 results

(EURm)	3Q18A	3Q19A	YoY chg.	3Q19E	A/E change	9M18A	9M19A	YoY chg.
Global Markets	6,0	7,5	25,0%	6,3	19,2%	22,9	24,6	7,4%
Inv Banking	5,0	4,6	-8,1%	4,5	2,2%	22,4	10,4	-53,6%
AAM	0,8	0,4	-49,2%	1	-60,0%	3,2	3,1	-3,1%
Net Revenues	11,8	12,5	6,0%	11,8	6,0%	48,5	38,0	-21,6%
Personnel Costs	5,5	5,8		5,0		22,8	17,4	
Administrative expenses	4,5	4,4		4,5		12,9	12,5	
Profit before Taxes	1,7	2,4	37,8%	2,3	4,3%	12,8	8,2	-36,1%
Group Net profit	1,56	1,64	5,0%	2,1	-20,4%	9,1	5,6	-38,5%
margin %	13,2%	13,1%		17,5%		18,8%	14,7%	
Group Net profit Adj.	1,56	1,64	5,0%	2,1	-20,4%	9,1	5,6	-38,5%
margin %	13,2%	13,1%		17,5%		18,8%	14,7%	
Group Net Equity	83,2	73,8	-11,3%	73,8	0,0%	83,2	73,8	-11,3%

Source: Company data, UBI Banca estimates

Financial Projections

- > **2019 guidance confirmed. Our estimates revised down (performance fees not included yet quite likely to materialize).** While management confirmed the 2019 guidance (which was calling for a 2H19 in line with 1H19), undoubtedly 3Q19 sounded better than expected. Furthermore, both guidance and our estimates do not include any performance fees which, at this stage, seems extremely visible. Our new estimates see: a) 2019 revenues at EUR52.5 million (slightly above the EUR50.8 million of the guidance and due to the surprise in 3Q19); b) a net income of EUR8.1 million (broadly aligned with the guidance); c) a dividend at the high end of the EUR0.18-0.20 included in the guidance. If the market stabilization will persist in fact, regardless of the 2019 Net Income, confidence in what 2020 could bring should push towards the EUR0.20 dividend.
- > **2022 targets: challenging but achievable.** After a tough year on the P&L side and, at the same time, a prolific year in terms of business initiatives, the mid-long term business plan was presented to the market, in our view, to give more visibility on what the shape of the group will be once all those initiatives will reach a cruise speed. Looking at the targets by division is helpful in better understanding how the business, operationally, should evolve: a) Global market: end-markets are still seen tough and the revenues growth toward the high end of the EUR30/34 million range (between 40% and 45% of total revenues) should be driven by cross-selling and diversification; b) IB: the plan assumes a EUR30/34 million revenues target (again 40-45% of total) which means at least doubling from the EUR15 million expected for this year, but the 2022 target is more realistic if seen in the context of the EUR26 million achieved only one year ago. Enlargement of the product offer and, likely, of the team should support this growth; c) AAM: the launch of the SGR should ease the AuM growth towards the EUR2 billion targeted with revenues being 10% of total (EUR8-11 million). Some AuM will come from asset classes already in house while others (ELTIF for instance) from the entrance in new niches.
- > **Balance between organic and in-organic growth, capital and dividends.** The press release mentions that the plan is built on a relatively stable market framework and on a stand-alone basis. This means it includes new hirings (also of entire teams), commercial agreements and new product launches. The guidance does not include external growth which however is targeted: while a 20% TCR is achievable (and coherent with EUR20 million co-investment in new products), a 15% is a level considered still acceptable with the balance to be used, eventually, for M&A. Management went as far as saying that they are available, with the support of the main shareholders, to open the share capital to strategic partners with the aim of accelerating the growth trajectory. Last, but not least, the plan envisage a significant Corporate Social Responsibility side which should have evident benefits on the company's stakeholders and should put Equita at par, on this front, with larger companies.
- > **Our new 2020-22 estimates:** While the Net Income/Revenues target of 20% is absolutely achievable (this level was reached in 2018 already, scale and efficiencies could even justify an higher number) obviously the revenues target is where the challenge lies. Our new estimates are broadly aligned with the company business plan with the exception of the IB division. Obviously, we don't have access to the new initiatives and hiring plans that the management has in mind and this makes-up for part of the gap. Furthermore, IB market conditions stabilized but seems still fragile, so we would like to have more evidences of market trends at the beginning of 2020. For this reasons we estimate IB revenues at EUR23.8 million in 2022, almost in line with the 2018 level. All in all, we reach a 2022 total revenues of EUR66.3 million (as opposed to a guidance of EUR75 million) and a Net Income/revenues of 19.9% (as opposed to 20%

of the guidance). With our new estimates we are able to see a 2022 dividend of EUR0.29 which would imply a yield >11% at current prices.

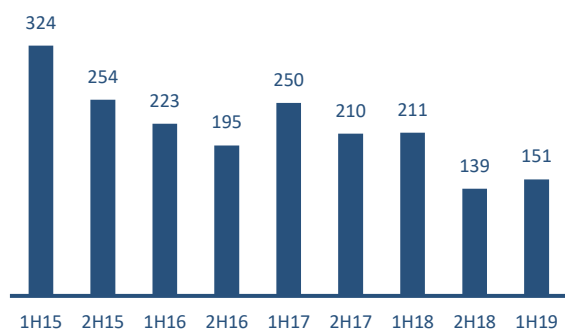
> **Recent evolution of the market and regulatory scenario is positive.** Interestingly enough, with Equita openly speaking about M&A, there were recently some deals in the Investment Banking arena: Mediobanca bought Messier Maris & Associates, a French boutique that shortly after the deal was announced gained to the Italian investment bank a place in the list of the advisors to the PSA-FCA merger. Houlihan Lokey, one of the comparable we use to value Equita, in October 2019 acquired Freeman & Co, a New York based independent advisory firm and added coverage in the FIG space. In a tough market boutiques may prefer to sell and converge into larger entities which, on their side, to balance revenues contraction may seek to expand in new niches. The other point to stress is that more and more often we hear about proposed changes to Mifid II, which on top of having negative impacts on brokers' financials, reported ample criticism over its effectiveness from investors, industry players and some regulators too. While we don't expect any short term decision nor massive benefits for industry participants, the fact that the regulation will not get worse is a positive news per-se. A reduction in bureaucracy is the main claim of the ones calling for a tweak to the rules.

Figure 2 - Old vs. new estimates

(EURm)	2019E			2020E			2021E		
	Old	New	% diff.	Old	New	% diff.	Old	New	% diff.
Revenues	54,9	52,5	-4,4%	58,3	57,6	-1,3%	61,4	61,7	0,5%
Profit before taxes	13,5	11,8	-12,6%	16,6	14,8	-10,6%	18,8	16,9	-10,2%
Profit before taxes %	24,5%	22,4%		28,4%	25,7%		30,6%	27,3%	
Net profit	9,6	8,1	-15,0%	11,8	10,3	-12,5%	13,3	11,7	-12,1%
Net profit adjusted	9,6	8,1	-15,0%	11,8	10,3	-12,5%	13,3	11,7	-12,1%

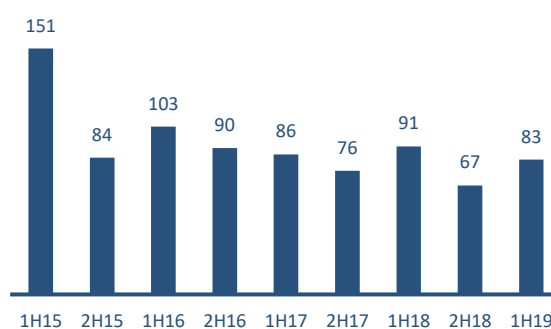
Source: UBI Banca estimates

Figure 3 - MTA traded volumes by semester (EURbn)



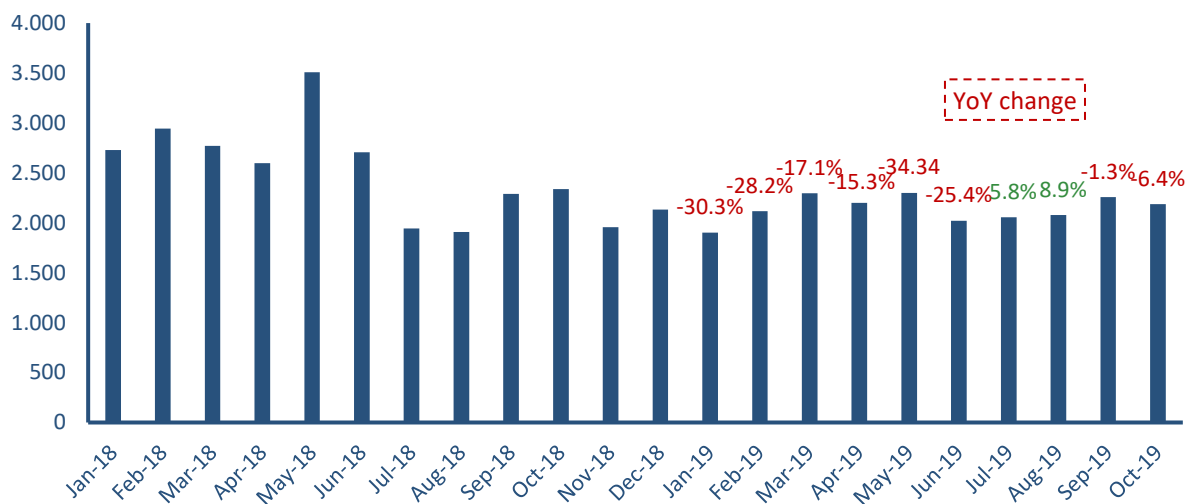
Source: Assosim

Figure 4 - Bond traded volumes by semester (EURbn)



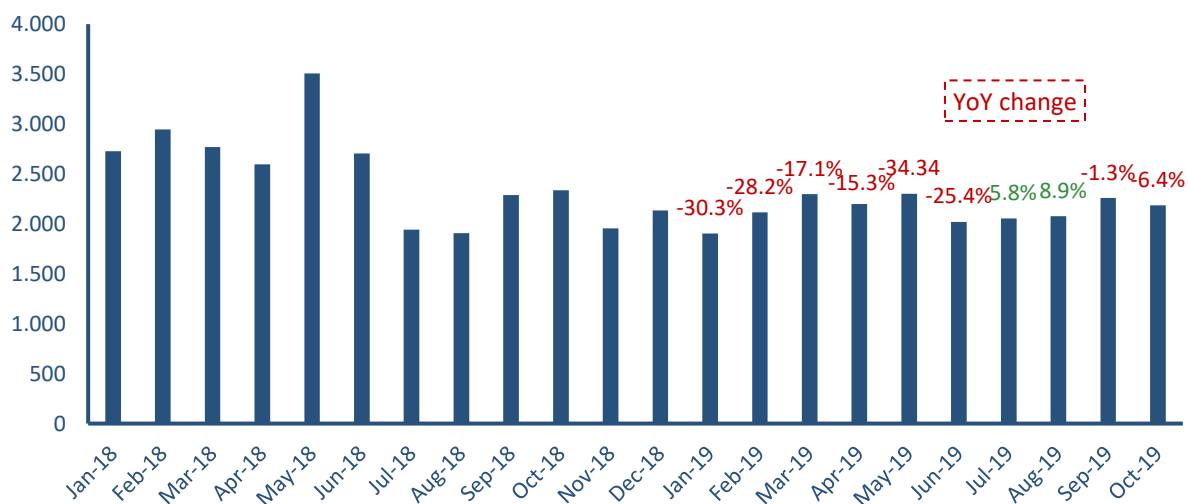
Source: Assosim

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 EUR3.37 (from EUR3.50).** This is the result of a) the cut in estimates (-12.2% on average in 2019-22 at net income level); b) balanced by a 9% peers re-rating.
- **We reiterate our Buy rating (29% upside).** While we acknowledge that the stock performance has been significantly negative, we believe this was due to end-market conditions. Management did all the right things to put the boat in the right direction. A market stabilization and the easy comparison approaching should ease tensions on the share price which, if the 2022 targets are considered, seems cheap. M&A appeal and the disclosure of performance fees could be other catalyst of a re-rating.

Figure 7 - Valuation summary

(EUR)	New	Old	% difference
P/BV	3,13	3,38	-7%
Peers	3,60	3,61	0%
Average	3,37	3,50	-4%

Source: Company data, UBI Banca estimates

Figure 8 - Peer based valuation

(EUR, x)	2019E	2020E
PE	16,5	14,9
Equita EPS	0,18	0,23
Equita fair value - A	2,95	3,37
Treasury shares - B	0,26	0,26
Equity co-invested - C	0,24	0,24
Pension liabilities - D	-0,05	-0,05
Equita Equity Value (A+B+C-D)	€ 3,40	€ 3,81

Source: Company data, UBI Banca estimates, FactSet

Figure 9 - Peer Group multiples (priced on 14 November 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	69,0	USD	991	1,4 x	1,0 x	1,0 x	11,9	10,2	10,0	1,4 x	1,4 x	1,3 x	3,3%	3,4%	3,8%
Numis Corp	I	2,8	GBP	290	2,2 x	1,6 x	na	24,6	22,9	na	1,8 x	na	na	5,1%	na	na
Evli Pankki Oyj	I	8,9	EUR	212	2,9 x	2,8 x	2,8 x	13,0	11,4	10,5	2,7 x	2,6 x	2,5 x	7,3%	7,7%	7,9%
Moelis	II	30,5	USD	1.901	2,7 x	2,3 x	2,2 x	14,3	12,8	12,7	5,5 x	4,8 x	6,6 x	7,2%	8,1%	8,9%
Evercore	II	68,6	USD	2.681	1,5 x	1,4 x	1,4 x	9,6	9,1	9,8	3,5 x	2,8 x	2,0 x	3,0%	3,3%	3,5%
Houlihan Lokey	II	42,7	USD	2.812	2,7 x	2,5 x	2,4 x	15,5	14,3	13,7	3,3 x	3,1 x	2,7 x	2,6%	2,9%	3,1%
DeA Capital	II	1,4	EUR	374	6,0 x	5,5 x	na	72,0	36,9	na	0,8 x	0,9 x	na	8,5%	7,8%	na
Tikehau Capital	II	23,7	EUR	3.230	7,9 x	6,5 x	5,5 x	19,7	16,8	13,2	1,0 x	1,0 x	1,0 x	3,0%	3,0%	3,3%
Azimut	II	22,8	EUR	3.319	3,4 x	3,5 x	3,3 x	11,5	14,8	14,2	4,3 x	4,1 x	3,7 x	5,4%	5,2%	5,3%
Average					2,7 x	2,5 x	2,4 x	14,3 x	14,3 x	12,7 x	2,7 x	2,7 x	2,5 x	5,0%	5,2%	5,1%
Equita Group		2,6	EUR	118	2,3 x	2,1 x	1,9 x	14,5 x	11,5 x	10,2 x	1,5 x	1,5 x	1,5 x	7,7%	8,5%	9,4%
Tier I					2,2 x	1,8 x	1,9 x	16,5 x	14,9 x	10,3 x	1,9 x	2,0 x	1,9 x	5,2%	5,5%	5,8%
Tier II					4,0 x	3,6 x	3,0 x	23,7 x	17,4 x	12,7 x	3,1 x	2,8 x	3,2 x	4,9%	5,1%	4,8%

Source: FactSet

Income Statement

(EURm)	2018A	2019E	2020E	2021E
Global Markets	30,0	32,3	32,6	32,9
Investment Banking	26,1	15,1	17,4	20,4
Alternative Asset Management	3,7	5,0	7,5	8,5
Net Revenues	59,8	52,5	57,6	61,7
Personnel Costs	27,4	24,2	26,0	28,0
Administrative Expenses	16,8	16,6	16,8	16,9
Profit Before Taxes	15,6	11,8	14,8	16,9
% on Net Revenues	26,1%	22,4%	25,7%	27,3%
Income Taxes	4,5	3,7	4,5	5,1
Group Net Profit	11,0	8,1	10,3	11,7
Non-recurring	0,9	0,0	0,0	0,0
Group Net Profit - Adjusted	12,0	8,1	10,3	11,7

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2018A	2019E	2020E	2021E
Financial Assets at FV through P&L	60,5	62,2	64,1	66,0
Financial Assets at Amortised Cost	215,1	221,0	230,4	240,7
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	306,0	317,2	329,4
Financial Liabilities at Amort. Cost	184,8	194,0	203,7	213,9
Financial Liabilities Held for Trad.	8,3	8,6	8,9	9,2
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	78,2	79,4	81,1
Total Liabilities and Equity	298,3	306,0	317,2	329,4

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2018A	2019E	2020E	2021E
TCR	25,2%	25,8%	25,1%	24,5%
CET1 ratio	25,2%	25,8%	25,1%	24,5%
RoE	13,8%	10,4%	13,0%	14,5%
RoTE	20,4%	14,8%	19,1%	21,6%
Cost/Income	73,9%	77,6%	74,3%	72,7%
Comp/Revenues	45,8%	46,0%	45,2%	45,3%
Payout	90,7%	111,9%	97,1%	95,0%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2018A	2019E	2020E	2021E
EPS - reported	0,24	0,18	0,23	0,26
EPS - adjusted	0,26	0,18	0,23	0,26
DPS	0,22	0,20	0,22	0,25
BVPS - ex-treasury	1,76	1,72	1,75	1,78
TBVPS - ex treasury	1,44	1,43	1,39	1,42

Source: Company data, UBI Banca estimates

Stock Market Ratios

(X)	2018A *	2019E	2020E	2021E
P/E	13,2	14,5	11,5	10,1
P/E Adjusted	12,2	14,5	11,5	10,1
P/BV	1,8	1,5	1,5	1,5
P/TBV	2,2	1,8	1,9	1,8
Dividend Yield (%)	6,9%	7,7%	8,5%	9,4%
RoE/CoE	2,0	1,5	1,9	2,1

Source: Company data, UBI Banca estimates

* Based on 2018 average price

Growth rates

(%)	2018A	2019E	2020E	2021E
Revenues	10,9%	-12,2%	9,7%	7,2%
Profit Before Taxes	1,6%	-24,5%	25,8%	13,8%
Net Income	0,2%	-26,3%	26,7%	13,8%
Net Income Adjusted	6,6%	-32,0%	26,7%	13,8%

Source: Company data, UBI Banca estimates

Disclaimer

Analyst Declaration

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Equity rating dispersion in the past 12 months

Buy	Hold	Sell	No Rating
91.2%	7.0%	1.8%	0.0%

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

Buy	Hold	Sell	No Rating
82.5%	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