

Investment Banking
Data

Shares Outstanding (m):	45.5
Market Cap. (EURm):	105.0
Enterprise Value (EURm):	NA
Free Float (%):	37.0%
Av. Daily Trad. Vol. ('000):	10.6
Main Shareholder:	Management 53.9%
Reuters/Bloomberg:	EQUI.MI EQUI IM
52-Week Range (EUR)	1.9 3.2

Source: FactSet, UBI Banca estimates

Performance

	1m	3m	12m
Absolute	+14.0%	-11.6%	-24.4%
Rel. to FTSE IT	+9.3%	+17.1%	-2.3%

Source: FactSet

Graph area Absolute/Relative 12 M


Source: FactSet

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A solid IQ improves the perception on 2020

Equita reported a solid set of results in IQ20, above all in the context of the turmoil driven by COVID19: revenues were up by 2% YoY, net profit was only marginally down (-7% YoY) and a 22% TCR reminded about the capital solidity. The overall picture is instead a tale of two faces: client-related activities grew nicely (+42% YoY) while directional trading and investments in AAM declined significantly hit by the market turmoil and the m-2-m of the assets. Looking forward, the results posted in IQ20 and the improved visibility on the market traded countervalue improve the feeling we have on 2020, despite COVID19. We are leaving our 2020 estimates unchanged but improving the 2021-22 entirely on Global Markets expectations. The estimates upgrade and the capital solidity should be enough to compensate for the dependency on Italy and the stock liquidity and warrants a Buy rating.

- > **IQ20: Sales & Trading impressive performance.** Against a strong growth in MTA third-party traded volumes (+48%), Sales & trading commissions grew 24% YoY (entirely organic) in a volatile market that usually doesn't favour local brokers. Equita managed to defend its market share in Equities (8.2% in IQ20 from 8.4% in 4Q19) and even grow its share in bonds (to 6.3% from 5.6% in 4Q19). Investment Banking too had a good quarter with revenues almost doubling since the particularly depressed IQ19 and basically back in line with the historical seasonality.
- > **But the market fall witnessed in IQ20 couldn't have left casualties on the road.** While Client Driven market making posted also a strong performance (+66%), Directional Trading portfolio was impacted by the market collapse and posted a EUR-1.3 million revenues. AAM too was hit by the market collapse which is responsible for two thirds of the EUR150 million decline in AuM but impacted also the proprietary stakes that Equita co-invests in its product (namely in this case Blueglen). Net of this revenues would have been in line with last year.
- > **2022 targets still visible. BUY reiterated, TP to EUR2.71.** After a crazy March where asset prices dislocation and explosion in volatility were supporting armageddon-like scenarios, market conditions seem to have stabilized. In this context, and following a reassuring set of results, the 2022 targets seems still attainable: EUR75 million revenues (GM at EUR34 million (45% of total sales) thanks to cross-selling and diversification. IB reaching EUR30/34 million and AAM, where AuM should reach the EUR2 billion level, reaching a EUR8/11 million mark). The plan could be accelerated by M&A which is probably easier today. Based on a increase in 2020-22 EPS estimates of 7.4% we increase our TP to EUR2.71 and reiterate our buy. Dividend yield of 7.8% remains a good reason to own the stock.

Financials EURm (ex. treasury shares)

	2019A	2020E	2021E	2022E
Revenues	58.3	53.8	58.6	62.1
Profit Before Taxes	13.7	11.6	14.4	15.6
Net Income	9.5	8.1	10.1	10.9
Net Income Adjusted	9.5	8.1	10.1	10.9
BVPS (EUR)	1.76	1.75	1.79	1.84
EPS (EUR)	0.21	0.18	0.22	0.24
DPS (EUR)	0.19	0.18	0.19	0.20

Source: Combanv data. UBI Banca estimates

Ratios (ex treasury shs), priced on 06-05-20

	2019A*	2020E	2021E	2022E
P/E (x)	13.4	13.0	10.4	9.6
P/BV (x)	1.6	1.3	1.3	1.3
TCR (%)	25.8%	26.3%	25.9%	25.9%
CET1 ratio (%)	25.8%	26.3%	25.9%	25.9%
Dividend yield (%)	6.7%	7.8%	8.2%	8.7%
Payout ratio (%)	90.5%	101.0%	85.7%	83.2%
Net Inc./Sales (%)	16.4%	15.0%	17.2%	17.6%

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

Key Financials

(EURm)	2019A	2020E	2021E	2022E
Revenues	58.3	53.8	58.6	62.1
Profit Before Taxes	13.7	11.6	14.4	15.6
Net profit	9.5	8.1	10.1	10.9
Net Profit - Adjusted	9.5	8.1	10.1	10.9
Shareholders' Equity	80.1	79.6	81.5	83.8
RWA	220.8	220.2	232.5	243.6

Source: Company data, UBI Banca estimates

Key Profitability Drivers

(%)	2019A	2020E	2021E	2022E
RoE	11.9%	10.2%	12.4%	13.1%
RoTE	17.2%	14.4%	17.9%	18.9%
Cost/Income	76.4%	78.5%	75.4%	74.9%
Comp/Revenues	46.5%	45.9%	45.2%	45.7%

Source: Company data, UBI Banca estimates

Key Valuation Ratios

(x)	2019A*	2020E	2021E	2022E
P/E (x)	13.4	13.0	10.4	9.6
P/E Adjusted (x)	13.4	13.0	10.4	9.6
P/BV (x)	1.6	1.3	1.3	1.3
P/TBV (x)	2.0	1.6	1.6	1.6
Dividend Yield (%)	6.7%	7.8%	8.2%	8.7%
RoE/CoE (x)	1.54	1.32	1.60	1.69

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth Rates

(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-7.7%	8.9%	6.0%
Profit Before Taxes	-11.9%	-15.8%	24.4%	8.5%
Net Income	-13.5%	-15.1%	24.4%	8.5%
Net Income Adjusted	-20.1%	-15.1%	24.4%	8.5%

Source: Company data, UBI Banca estimates

Recent developments

- > **IQ20 was aligned to our estimates.** In more details the quarter showed: a) Net revenues of EUR12.9 million (up 2% YoY) vs. our estimates of EUR12.4 million; b) Pre-tax profit of EUR2.7 million (-5% YoY) in line with our estimates of EUR2.8 million – costs were under control despite the growth in Sales & Trading which usually has attached volumes related fees; c) Net Income of EUR1.9 million (-7% YoY) in line with our estimates of EUR2.0mn; d) AuM declined from EUR1 billion to EUR851 million. We understand that 2/3 of the decline is due to market performances and only 1/3 to withdrawals
- > **Costs under control.** Operating expenses grew by 8% YoY thanks to a strict cost control. Within that figure, Trading fees grew by 9% (as opposed to Sales & Trading growing 24%) despite part of those costs are volume-driven. Personnel expenses grew in line with revenues 2%, with a decline in the average cost per employees due to senior departures compensated by hiring of more junior profiles.

Figure 1 – Equita Group IQ20 results

(EURm)	IQ19A	IQ20A	YoY chg.	IQ20E	A/E change
Global Markets	9.1	9.1	-0.2%	9.0	1.0%
Inv Banking	2.1	4.0	88.1%	2.5	58.0%
AAM	1.4	-0.1	NM	0.9	NM
Net Revenues	12.6	12.9	2.6%	12.4	4.2%
Personnel Costs	5.8	5.9		5.7	
Administrative expenses	4.0	4.3		3.9	
Profit before Taxes	2.8	2.7	-2.5%	2.8	-1.0%
Group Net profit	2.00	1.93	-3.5%	1.96	-1.4%
margin %	15.9%	14.9%		15.8%	
Group Net profit Adj.	2.00	1.93	-3.5%	1.96	-1.4%
margin %	15.9%	14.9%		15.8%	
Group Net Equity	80.1	80.1	0.0%	80.1	0.0%

Source: Company data, UBI Banca estimates

Financial Projections

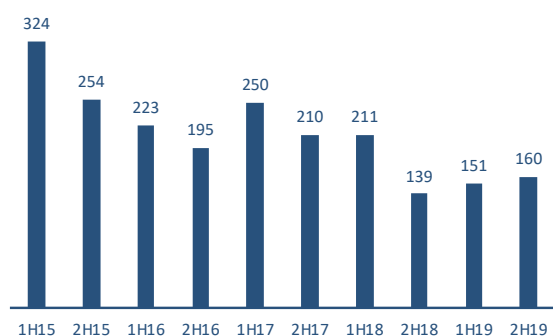
- **Leaving our 2020 estimates unchanged.** Multiplying IQ20 revenues by four would return a number (EUR51.6 million) similar to our estimates (EUR53.8 million). It makes sense considering that: a) AAM should do better than in IQ20 thanks to its recurrent management fees and even assuming no recovery in terms of m-2-m (but no deterioration either). Furthermore, 4 out of the 5 funds managed beat the benchmark and this bodes well for performance fees in 2020 (which however are not included in our estimates and weighted for EUR3.7mn in FY2019); b) on the other hand the visibility on the IB pipeline in 2H20 is still low considering that COVID19 halted IPOs and probably delayed some M&A deal. GM should continue to perform like IQ20, assuming probably lower market volumes but no losses from directional tradin either.
- **Raising our 2021-22 estimates by 10.9%.** As usual we assume flat volumes on GM from the second year of the forecast period. For this reason the increase in 2020 revenues on GM should be a higher starting base for 2021 and 2022 while the decrease in AAM should be temporarily. Our new estimates remain below the BP targets which calls for 2022 revenues of EUR75 million coupled with a net income of EUR15 million (targeted Net Income/Revenues of 20%). Fund raising for the second private debt fund is underway and launch should take place in 2H20. The ELTIF too should be launched in September. Both initiatives should support 2021 results and also stabilize the revenues base.

Figure 2 - Old vs. new estimates

(EURm)	2020E			2021E			2022E		
	Old	New	% diff.	Old	New	% diff.	Old	New	% diff.
Revenues	53.5	53.8	0.6%	55.3	58.6	6.1%	58.5	62.1	6.3%
Profit before taxes	11.7	11.6	-1.4%	13.2	14.4	8.8%	14.2	15.6	9.9%
Profit before taxes %	21.9%	21.5%		23.9%	24.6%		24.3%	25.1%	
Net profit	8.1	8.1	0.0%	9.1	10.1	10.3%	9.8	10.9	11.5%
Net profit adjusted	8.1	8.1	0.0%	9.1	10.1	10.3%	9.8	10.9	11.5%

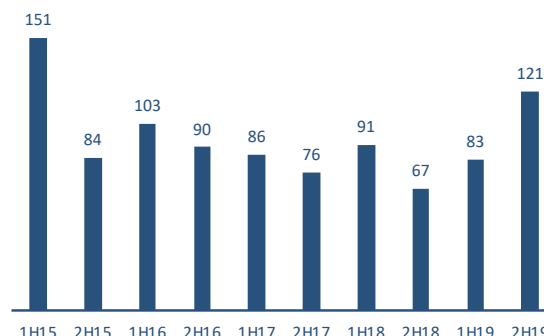
Source: UBI Banca estimates

Figure 3 - MTA traded volumes by semester (EURbn)



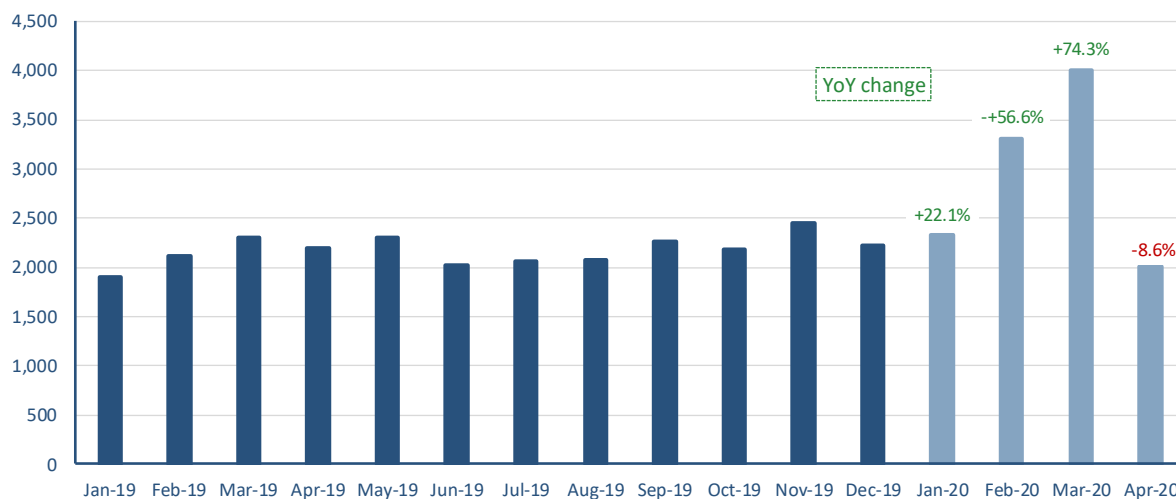
Source: Assosim

Figure 4 - Bond traded volumes by semester (EURbn)



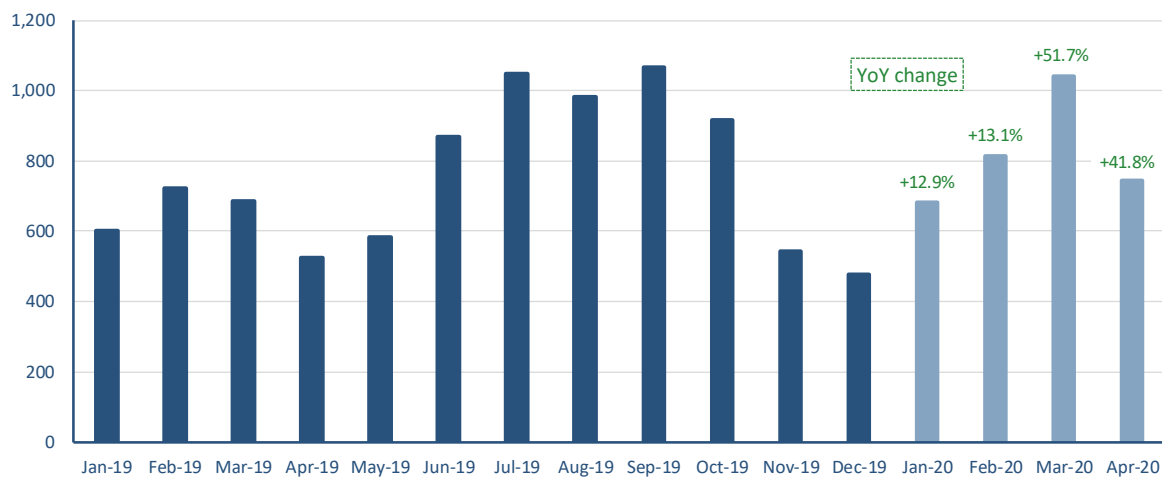
Source: Assosim

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 EUR2.71 (from EUR2.57).** This is the result of the increase in estimates (7.3% on average in 2020-22 at net income level). In our previous report we introduced in the valuation methods the DDM substituting the peer comparison. We continue to use DDM in view of the fact that peers multiples have been moving erratically: the 2020 P/E for the Tier I doubled since our latest report. It is now at 20.8x compared to 10.9x on 19 March. Prices went up by 40% and estimates down by around 30%. A peer group comparison (reported in figure 8) would have resulted in a EUR2.81 fair value (averaging 2020 and 2021) thus increasing the overall TP by 3.4%. Still, as it evident from the gap in 2020 and 2021 fair value in figure 8, we believe that it is fair to take peers multiples with some cautiousness right now.
- > **Capital strength, flexible cost structure and dividend distribution the main drivers of our buy.** We all have gone already through turbulent times in the past and we know that investors would look for solidity, no cash requirements, flexibility to adapt to changing scenarios, solid management teams and committed shareholders. Instead, investors would be wary of low revenues diversification (by country and by business) and small caps. Equita ranks very well in the majority of those features but we cannot hide that its revenues are significantly related to Italy and that it is a small cap. We believe this is already reflected in the share price and, after the recent fall, we see valuation as a protection to the downside. Furthermore, in the current market environment, Equita itself could take some opportunity with bolt-on M&A, which were probably prevented only some months ago. We therefore reiterate our Buy rating on the name.

Figure 7 - Valuation summary

(EUR)	New	Old	% difference
P/BV	2.79	2.60	7.3%
DDM (new) or Peers (old)	2.63	2.55	3.1%
Average	2.71	2.57	5.4%

Source: Company data, UBI Banca estimates

Figure 8 - Peer based valuation

(EUR, x)	2020E	2021E
PE	16.9	10.1
Equita EPS	0.18	0.22
Equita fair value - A	3.01	1.79
Treasury shares - B	0.23	0.23
Equity co-invested - C	0.24	0.24
Pension liabilities - D	-0.05	-0.05
Equita Equity Value (A+B+C-D)	3.42	2.21

Source: Company data, UBI Banca estimates

Figure 9 - Peer Group multiples (priced on 6 May 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	45.8	USD	818	1.0 x	0.9 x	NA	13.3	9.0	NA	0.8 x	0.8 x	NA	3.2%	3.6%	NA
Numis Corp	I	3.2	GBP	338	2.4 x	NA	NA	18.4	NA	NA	2.1 x	NA	NA	4.3%	NA	NA
Evli Pankki Oyj	I	8.2	EUR	194	2.9 x	2.5 x	2.4 x	19.0	11.2	11.1	2.6 x	2.4 x	2.3 x	4.9%	7.3%	8.6%
Moelis	II	27.5	USD	1,827	3.3 x	2.5 x	2.5 x	25.7	15.2	14.6	4.8 x	4.5 x	4.3 x	5.2%	5.5%	6.3%
Evercore	II	44.3	USD	1,796	1.3 x	1.1 x	1.0 x	16.4	8.4	7.9	2.1 x	1.8 x	1.6 x	4.8%	4.9%	5.3%
Houlihan Lokey	II	54.2	USD	3,521	3.4 x	2.9 x	2.9 x	20.5	16.4	16.4	3.6 x	3.1 x	3.1 x	2.3%	2.4%	2.4%
DeA Capital	II	1.3	EUR	336	4.5 x	NA	NA	30.8	NA	NA	0.8 x	NA	NA	8.7%	NA	NA
Tikehau Capital	II	21.0	EUR	2,873	11.2 x	5.9 x	4.4 x	96.7	12.3	9.9	0.9 x	0.9 x	0.8 x	2.0%	3.3%	3.9%
Azimut	II	15.0	EUR	2,192	2.5 x	2.3 x	2.3 x	11.9	10.8	10.0	2.7 x	2.5 x	2.3 x	7.1%	7.6%	7.6%
Average					2.9 x	2.5 x	2.4 x	19.0 x	11.2 x	10.5 x	2.1 x	2.4 x	2.3 x	4.7%	5.0%	5.7%
Equita Group		2.3	EUR	128	1.9 x	1.8 x	1.7 x	13.0 x	10.4 x	9.6 x	1.3 x	1.3 x	1.3 x	7.8%	8.2%	8.7%
Tier I					2.1 x	1.7 x	2.4 x	16.9 x	10.1 x	11.1 x	1.8 x	1.6 x	2.3 x	4.1%	5.5%	8.6%
Tier II					4.4 x	2.9 x	2.6 x	33.7 x	12.6 x	11.8 x	2.5 x	2.6 x	2.4 x	5.0%	4.7%	5.1%

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	33.1	34.2	34.6
Investment Banking	18.2	16.4	17.2	19.7
Alternative Asset Management	8.6	4.4	7.3	7.8
Net Revenues	58.3	53.8	58.6	62.1
Personnel Costs	27.1	24.7	26.5	28.4
Administrative Expenses	17.5	17.5	17.8	18.1
Profit Before Taxes	13.7	11.6	14.4	15.6
% on Net Revenues	23.6%	21.5%	24.6%	25.1%
Income Taxes	4.2	3.5	4.3	4.7
Group Net Profit	9.5	8.1	10.1	10.9
Non-recurring	0.0	0.0	0.0	0.0
Group Net Profit - Adjusted	9.5	8.1	10.1	10.9

Source: Company data, UBI Banca estimates

Balance Sheet

(EURm)	2019A	2020E	2021E	2022E
Financial Assets at FV through P&L	57.0	63.5	65.9	68.5
Financial Assets at Amortised Cost	227.3	231.0	241.1	251.9
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	307.0	317.2	329.7	343.1
Financial Liabilities at Amort. Cost	194.0	203.7	213.9	224.6
Financial Liabilities Held for Trad.	7.7	8.8	9.2	9.6
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	81.5	83.8
Total Liabilities and Equity	307.0	317.2	329.7	343.1

Source: Company data, UBI Banca estimates

Financial Ratios

(%)	2019A	2020E	2021E	2022E
TCR	25.8%	26.3%	25.9%	25.9%
CET1 ratio	25.8%	26.3%	25.9%	25.9%
RoE	11.9%	10.2%	12.4%	13.1%
RoTE	17.2%	14.4%	17.9%	18.9%
Cost/Income	76.4%	78.5%	75.4%	74.9%
Comp/Revenues	46.5%	45.9%	45.2%	45.7%
Payout	90.5%	101.0%	85.7%	83.2%

Source: Company data, UBI Banca estimates

Per Share Data

(EUR)	2019A	2020E	2021E	2022E
EPS - reported	0.21	0.18	0.22	0.24
EPS - adjusted	0.21	0.18	0.22	0.24
DPS	0.19	0.18	0.19	0.20
BVPS - ex-treasury	1.76	1.75	1.79	1.84
TBVPS - ex treasury	1.43	1.43	1.42	1.46

Source: Company data, UBI Banca estimates

Stock Market Ratios

(X)	2019A *	2020E	2021E	2022E
P/E	13.4	13.0	10.4	9.6
P/E Adjusted	13.4	13.0	10.4	9.6
P/BV	1.6	1.3	1.3	1.3
P/TBV	2.0	1.6	1.6	1.6
Dividend Yield (%)	6.7%	7.8%	8.2%	8.7%
RoE/CoE	1.5	1.3	1.6	1.7

Source: Company data, UBI Banca estimates

* Based on 2019 average price

Growth rates

(%)	2019A	2020E	2021E	2022E
Revenues	-2.4%	-7.7%	8.9%	6.0%
Profit Before Taxes	-11.9%	-15.8%	24.4%	8.5%
Net Income	-13.5%	-15.1%	24.4%	8.5%
Net Income Adjusted	-20.1%	-15.1%	24.4%	8.5%

Source: Company data, UBI Banca estimates

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Organizational and administrative arrangements to prevent conflicts of interests

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
79.7%	14.5%	2.9%	2.9%

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

Buy	Hold	Sell	No Rating
72.7%	30.0%	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