

The NAGA Group AG^{*5a;11}

Buy

Target Price: 1.75 EUR
(until now: 1.86 EUR)

Current price: 0.70
21/11/19 / XETRA / 09:02 am
Currency: EUR

Key data:

ISIN: DE000A161NR7
WKN: A161NR
Ticker symbol: N4G
Number of shares³: 40.20
Marketcap³: 28.14
³ in m / in EUR m
Freefloat: around 8%

Transparency level:
Scale

Market Segment:
Open Market

Accounting Standard:
IFRS

Financial year-end: 31/12

Designated Sponsor:
Oddo Seydler Bank AG

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* catalogue of potential conflicts of interests on page 8

Date (Time) of completion:
28/11/19 (4:22 pm)
Date (Time) first distribution:
29/11/19 (9:00 am)

Price target valid until:
31/12/2020

Sector: FinTech

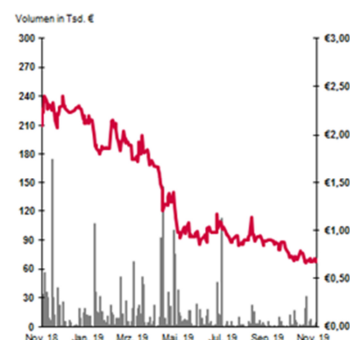
Focus: social trading and investing in financial instruments, cryptocurrencies and virtual goods

Employees : Ø 91,5 (2018)

Founded in: 2015

Headquarter: Hamburg

Executive Board: Benjamin Bilski, Andreas Luecke



THE NAGA GROUP (NAGA) was founded by Benjamin Bilski and Yasin Sebastian Qureshi in August 2015. The company's objective is to drive the development, marketing and growth of disruptive applications for financial technology in order to actively participate in the transformation and opening of the existing financial system.

P&L in €m \ FY-End	31.12.2018	31.12.2019e	31.12.2020e	31.12.2021e
Revenue	16.12	4.70	10.61	14.66
EBITDA	0.27	-6.47	-0.02	3.64
EBIT	-4.82	-10.67	-4.32	-0.66
Net profit	-4.10	-10.60	-4.30	-0.64

Per Share Figures in EUR

EPS	-0.10	-0.26	-0.11	-0.02
Dividend per share	0.00	0.00	0.00	0.00

Key financials

EV/Sales	1.28	4.39	1.94	1.41
EV/EBITDA	76.08	neg.	neg.	5.66
EV/EBIT	neg.	neg.	neg.	neg.
P/E	neg.	neg.	neg.	neg.
PEG	0.24			

Financial Dates:

**last research published by GBC:

Date: publication / price target in € / rating

29/10/19: RS / 1.86 EUR / BUY

11/12/18: RS / 5.15 EUR / BUY

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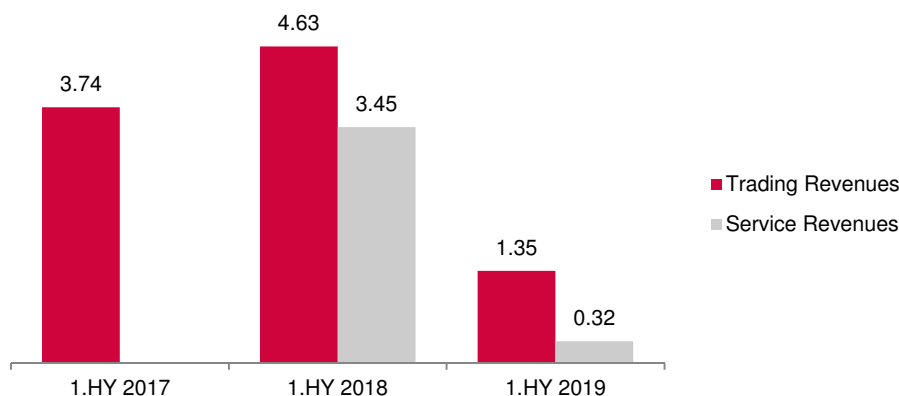
BUSINESS PERFORMANCE 1.HJ 2019

P&L (in €m)	1.HY 2017	1.HY 2018	1.HY 2019
Revenues	3.74	8.08	1.67
Trading Revenues	3.74	4.63	1.35
Service Revenues	0.00	3.45	0.32
EBITDA	-1.25	2.20	-4.58
EBIT	-3.63	-0.06	-6.77
Net profit	-3.90	-0.02	-6.69

Source: The NAGA Group AG; GBC AG

As expected, The NAGA Group AG (NAGA) reported a significant decline in revenues in the first half of 2019. At the time the 2018 Annual Report was published, NAGA's management had already announced an almost complete loss of service revenues, which in the past financial year were generated primarily from the sale and settlement of the NAGA Coin (NGC). At the same time, trading revenues from brokerage business also fell sharply to EUR 1.35 million (previous year: EUR 4.63 million). Firstly, lower market volatility led to a general decline in business. Secondly, new ESMA rules led to declining margins in CFD trading, which also had a negative impact on trading revenues.

Development of the Half-Year Revenues (in €m)



Sources: The NAGA Group; GBC AG

The first six months of 2019 at NAGA were also dominated by the restructuring programme announced and launched in April 2019, which, according to the company, was largely implemented and completed by the end of the reporting period. In this respect, operational activities were centred at the main site in Limassol, Cyprus, and staff numbers were reduced at the Hamburg and Spanish sites. In addition, there has been a streamlining at management level. The aim is to achieve total cost savings of 60-70% (based on operating costs for the 2018 financial year). In addition to the restructuring measures that were introduced, a new strategy was also implemented at product level. NAGA products are now offered via a uniform platform, with a strong focus on traditional securities trading and on the company's own social trading platform "NAGA Trader".

As expected, the restructuring measures were accompanied by significant one-off costs (severance and compensation payments, etc.). In addition, the savings achieved have not yet taken full effect, with the result that EBIT fell sharply to EUR -6.77 million (previous year: EUR -0.06 million) on the basis of significantly lower revenues.

FORECASTS AND VALUATION

P&L (in €m)	FY 2018	FY 2019e (old)	FY 2019 (new)	FY 2020e	FY 2021e
Revenues	16.12	7.70	4.70	10.61	14.66
EBITDA	0.27	-3.07	-6.47	-0.02	3.64
EBIT	-4.82	-7.27	-10.67	-4.32	-0.66
Net profit	-4.10	-7.20	-10.60	-4.30	-0.64

Source: GBC AG

It had already been communicated in advance by NAGA's management that a significant decline in revenue and earnings was to be expected for the first half of 2019. However, revenue and, as a result, operating profit declined more sharply than we had expected, which is why we are lowering our previous forecasts for the current financial year. Overall, however, we anticipate a significant improvement in trading income in the second half of 2019 and that the cost-saving effects from the restructuring of the company, which have largely already been implemented, will have more of an impact.

The improvement in trading revenues is expected to be bolstered, among other things, by the international roll-out of the NAGA platform, which has already been launched. Initial success has already been seen as part of a market offensive in Thailand, Malaysia, Indonesia and Vietnam. In these regions, for example, monthly deposits climbed to EUR 3.52 million (previously: around EUR 1.8 million), monthly transactions rose by more than 65% to 388,000 and the average monthly trading volume rose from EUR 2.5 billion to EUR 4.6 billion. Positive sales and earnings growth is expected from these newly developed regions both in the second half of the year and in the coming financial years.

We generally expect an increase in the number of new customers in the next financial years. The partner programme, which is currently being stepped up, plays a key role in this. The aim is to keep customer acquisition costs low and to market the NAGA Trader on a global scale. We expect a strong increase in trading revenues in the next two financial years and, building on this, a gradual improvement in the earnings situation.

It is also important for the company to secure further financing. The move announced by Fosun to take over the majority of the shares and to carry out further financing is thereby essential, in our view. According to an announcement dated 29/08/2019, the major shareholder Fosun has increased its stake in order to become the majority shareholder. As part of Fosun's investment, the NAGA management team intends to acquire a significant number of shares from other shareholders. The shares will be sold by the former shareholders of Hanseatic Brokerhouse Securities AG to Fosun, the NAGA management team and other investors. As a result of this announcement, Fosun then intends to make further growth capital of EUR 5 million available to the company. EUR 3 million will be invested via a shareholder loan and EUR 2 million via a convertible bond. The transaction requires the approval of the regulatory authorities and is expected to be completed at the beginning of the fourth quarter of 2019.

As part of the DCF valuation model adjusted by the reduced 2019 forecasts, we have set a new stock price target of EUR 1.75 per share (previously: EUR 1.86). We assign a BUY rating to the stock.

Valuation

Model assumptions

We rated The NAGA Group AG using a three-stage DCF model. Starting with the specific consolidated estimates for the years 2019 - 2021 in phase 1, the outlook for 2022 to 2026 was developed in phase 2 using value drivers. We expect increases in revenue of 25.0 %. We have set 28.2% as the target EBITDA margin. We have included the tax rate in phase 3 at 30.0%, based on the remaining losses carried forward. Additionally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity. As the final value, we assume a growth rate of 3.0 %.

Determining the capital costs

The weighted average cost of capital (WACC) of The NAGA Group AG is calculated from the equity cost and the cost of debt. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the "Fachausschuss für Unternehmensbewertung und Betriebswirtschaft" (FAUB, Special Committee for Business Valuation and Business Management) of the "Institut der Wirtschaftsprüfer in Deutschland e.V." (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.00 % (until now: 1.00 %).**

We set the historical market premium of 5.50 % as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.65 (until now: 1.65) is currently determined. The higher beta takes the higher forecasting risk into account. Using the premises provided, the equity cost is calculated at 10.08 % (until now: 10.08 %) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the equity cost of 100 %, the result is a weighted average cost of capital (WACC) of 10.08 % (until now: 10.08 %).

Valuation result

As a result of the significantly changed forecasts we have calculated a new price target of € 1.75 (previously: € 1.86). We have assumed the successful implementation of the financing measure by Fosun and therefore this is a post-money valuation.

DCF-model

The NAGA Group AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase		final - phase	
Revenue growth	25.0%	Eternal growth rate	3.0%
EBITDA-Margin	28.2%	Eternal EBITA - margin	24.1%
Depreciation to fixed assets	23.7%	Effective tax rate in final phase	30.0%
Working Capital to revenue	17.0%		

three phases DCF - model:

phase in €m	estimate			consistency					final value
	FY19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	
Revenues (RE)	4.70	10.61	14.66	18.33	22.91	28.63	35.79	44.74	
RE change	-70.8%	125.7%	38.2%	25.0%	25.0%	25.0%	25.0%	25.0%	3.0%
RE to fixed assets	0.29	0.82	1.47	2.08	2.89	3.94	5.31	7.05	
EBITDA	-6.47	-0.02	3.64	5.17	6.46	8.07	10.09	12.62	
EBITDA-Margin	-137.7%	-0.1%	24.8%	28.2%	28.2%	28.2%	28.2%	28.2%	
EBITA	-10.67	-4.32	-0.66	2.80	4.37	6.19	8.37	11.02	
EBITA-Margin	-227.0%	-40.7%	-4.5%	15.3%	19.1%	21.6%	23.4%	24.6%	24.1%
Taxes on EBITA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Taxes to EBITA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%
EBI (NOPLAT)	-10.67	-4.32	-0.66	2.80	4.37	6.19	8.37	11.02	
Return on capital	-63.8%	-24.5%	-4.4%	22.4%	36.6%	52.3%	69.1%	85.9%	55.7%
Working Capital (WC)	1.50	2.00	2.50	3.12	3.89	4.87	6.08	7.61	
WC to Revenues	31.9%	18.9%	17.1%	17.0%	17.0%	17.0%	17.0%	17.0%	
Investment in WC	-0.34	-0.50	-0.50	-0.62	-0.78	-0.97	-1.22	-1.52	
Operating fixed assets (OAV)	16.10	13.00	10.00	8.83	7.94	7.26	6.74	6.34	
Depreciation on OAV	-4.20	-4.30	-4.30	-2.37	-2.09	-1.88	-1.72	-1.60	
Depreciation to OAV	26.1%	33.1%	43.0%	23.7%	23.7%	23.7%	23.7%	23.7%	
Investment in OAV	-4.74	-1.20	-1.30	-1.20	-1.20	-1.20	-1.20	-1.20	
Capital employed	17.60	15.00	12.50	11.95	11.83	12.13	12.82	13.95	
EBITDA	-6.47	-0.02	3.64	5.17	6.46	8.07	10.09	12.62	
Taxes on EBITA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total investment	-5.08	-1.70	-1.80	-1.82	-1.98	-2.17	-2.42	-2.72	
Investment in OAV	-4.74	-1.20	-1.30	-1.20	-1.20	-1.20	-1.20	-1.20	
Investment in WC	-0.34	-0.50	-0.50	-0.62	-0.78	-0.97	-1.22	-1.52	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-11.55	-1.72	1.84	3.35	4.48	5.90	7.68	9.90	103.82

Value operating business (due date)	71.53	80.46
Net present value explicit free Cashflows	18.54	22.12
Net present value of terminal value	52.99	58.33
Net debt	-1.05	0.65
Value of equity	72.57	79.81
Minority interests	-0.51	-0.56
Value of share capital	72.06	79.24
Outstanding shares in m	45.20	45.20
Fair value per share in €	1.59	1.75

Cost of capital:

Risk free rate	1.0%
Market risk premium	5.5%
Beta	1.65
Cost of equity	10.1%
Target weight	100.0%
Cost of debt	6.5%
Target weight	0.0%
Taxshield	25.0%

WACC 10.1%

Return on capital	WACC				
	8.1%	9.1%	10.1%	11.1%	12.1%
53.7%	2.39	1.99	1.70	1.49	1.33
54.7%	2.43	2.02	1.73	1.51	1.35
55.7%	2.47	2.05	1.75	1.53	1.37
56.7%	2.51	2.08	1.78	1.55	1.38
57.7%	2.55	2.11	1.80	1.57	1.40

ANNEX

I.

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2. The research report is simultaneously made available to all interested investment services companies.

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