

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

Buy

Target Price: 2.70 EUR
(until now: 1.75 EUR)

Current price: 1.70
20/04/20 / XETRA / 10:54 am
Currency: EUR

Key data:

ISIN: DE000A161NR7
WKN: A161NR
Ticker symbol: N4G
Number of shares³: 40.20
Marketcap³: 68.34
³ in m / in EUR m
Freefloat: 8.1%

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 6

Date (Time) of completion:
20/04/20 (1:00 pm)
Date (Time) first distribution:
21/04/20 (10:00 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, Michalis Mylonas



NAGA is an innovative Fintech company that seamlessly combines personal financial transactions and investments with its social trading platform. The company's proprietary platform offers a range of products from stock trading, investments and crypto-currencies to a physical Mastercard. In addition, the platform enables an exchange with other traders, provides relevant information in the feed and autocopy functions for the trades of successful members. NAGA is a synergistic total solution that is easily accessible and inclusive. It provides an improved basis for trading, investing, networking, earning and paying. This applies to both Fiat and crypto products.

P&L in €m \ FY-End	31.12.2018	31.12.2019e	31.12.2020e	31.12.2021e
Revenue	16.12	4.70	20.21	24.25
EBITDA	0.27	-6.47	7.10	7.99
EBIT	-4.82	-10.67	2.80	3.69
Net profit	-4.10	-10.60	2.68	3.52

Per Share Figures in EUR

EPS	-0.10	-0.26	0.07	0.09
Dividend per share	0.00	0.00	0.00	0.00

Key financials

EV/Sales	3.82	13.11	3.05	2.54
EV/EBITDA	227.40	-9.52	8.68	7.71
EV/EBIT	neg.	neg.	22.04	16.71
P/E	neg.	neg.	25.84	19.63
PEG	0.58			

Financial Dates:

June 2020: Consolidated Report 2019
August 2020: AGM
October 2020: Half-Year Report 2020

**last research published by GBC:

Date: publication / price target in € / rating

21/11/19: RS / 1.75 EUR / BUY

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

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

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Q1 figures 2020 significantly above our expectations, forecasts for 2020 and 2021 raised, old price target reached, new price target raised to €2.70

According to preliminary figures, The NAGA Group AG (NAGA) generated a significant increase in revenues to € 7.0 million (previous year: € 0.6 million) in the first quarter of 2020. It is particularly noteworthy that this is exclusively trade and service revenue, which is therefore fully attributable to the operating business. The basis for this development is the significant increase in the number of active accounts, which has doubled since the beginning of the year and as a result of that the trading volume has been expanded to a new quarterly record of € 23 billion. After the 2019 financial year was marked by substantial restructuring, NAGA had shown a positive trend, particularly at the end of the past financial year, with operating revenues rising to €2.5 million in the fourth quarter. In this respect, Q1 2020 must be seen as a continuation of this development, which was also positively influenced by the high volatility currently prevailing on the capital markets.

With preliminary EBITDA of € 3.3 million (previous year: € -2.8 million) and EBIT of € 2.2 million (previous year: € -3.9 million), the operating break-even point was significantly exceeded. Although NAGA has implemented significant cost savings in the course of its restructuring, we did not expect to reach the break-even point until the course of the coming financial year 2021.

The product and customer acquisition strategy was more successful than we had anticipated. In the course of the reorganization, NAGA had transferred its product range to a uniform platform, with a strong focus on traditional securities trading within the framework of its own social trading platform "NAGA Trader". In addition, the implemented partner program, in which important "pro-users" act as catalysts for the cost-effective acquisition of new customers, appears to be very successful. Finally, the international market offensive, which was recently extended to Uruguay and China, also contributed important growth impulses.

The preliminary figures for the first quarter of 2020, which are well above our expectations, make it necessary to adjust our forecasts for 2020 and 2021. Based on the expectation that the high volatilities could continue until at least the middle of the year, we expect sales revenues of € 20.21 million in 2020 (old forecast: € 10.61 million). On the basis of the forecasts, which have thus been raised significantly, we expect revenues in 2021 to also be significantly higher at € 24.25 million (previously: € 14.66 million). The company should exceed the break-even point in both financial years.

P&L (in €m)	FY 2019e	FY 2020e (old)	FY 2020e (new)	FY 2021e (old)	FY 2021e (new)
Sales	4.70	10.61	20.21	14.66	24.25
EBITDA	-6.47	-0.02	7.10	3.64	7.99
EBIT	-10.67	-4.32	2.80	-0.66	3.69
EAT	-10.60	-4.30	2.68	-0.64	3.52

Source: GBC AG

We have adjusted our DCF valuation model and calculated a new price target of € 2.70 (previously: € 1.75). Although the NAGA share has performed very positively compared to our last research report (see report dated 21 November 19), with a price increase of 143 %, and has reached our old price target, based on the new price target a further price potential of 58.8 % is calculated. We thus continue to assign the BUY rating.

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 forecasts for 2022 to 2026 was developed in phase 2 (consistency phase) using value drivers. We expect increases in revenue of 20.0 % (previously: 25.0 %). We have set 32.0 % (previously: 28.2%) as the target EBITDA margin. We have included the tax rate in phase 3 (finale phase) at 30.0%, based on the remaining losses carried forward. Finally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity. To calculate 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 %). The risk-free interest rate of 1.0 % represents our lower limit.**

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. 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 raised forecasts for the current 2020 financial year and on this basis for 2021, a new price target of € 2.70 (previously: € 1.75) has been set.

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	20.0%	Eternal growth rate	3.0%
EBITDA-Margin	32.0%	Eternal EBITA - margin	25.8%
Depreciation to fixed assets	43.0%	Effective tax rate in final phase	30.0%
Working Capital to revenue	20.6%		

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	20.21	24.25	29.10	34.92	41.91	50.29	60.35	
RE change	-70.8%	330.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	3.0%
RE to fixed assets	0.29	1.55	2.43	4.22	6.80	10.16	14.16	18.72	
EBITDA	-6.47	7.10	7.99	9.31	11.18	13.41	16.09	19.31	
EBITDA-Margin	-137.7%	35.1%	32.9%	32.0%	32.0%	32.0%	32.0%	32.0%	
EBITA	-10.67	2.80	3.69	5.01	8.21	11.20	14.32	17.78	
EBITA-Margin	-227.0%	13.8%	15.2%	17.2%	23.5%	26.7%	28.5%	29.5%	25.8%
Taxes on EBITA	0.00	-0.14	-0.18	-0.50	-0.82	-3.36	-4.30	-5.34	
Taxes to EBITA	0.0%	5.0%	5.0%	10.0%	10.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-10.67	2.66	3.50	4.51	7.39	7.84	10.02	12.45	
Return on capital	-63.8%	15.1%	21.9%	30.1%	57.3%	63.6%	78.5%	89.4%	71.6%
Working Capital (WC)	1.50	3.00	5.00	6.00	7.20	8.64	10.37	12.44	
WC to Revenues	31.9%	14.8%	20.6%	20.6%	20.6%	20.6%	20.6%	20.6%	
Investment in WC	-0.34	-1.50	-2.00	-1.00	-1.20	-1.44	-1.73	-2.07	
Operating fixed assets (OAV)	16.10	13.00	10.00	6.90	5.13	4.13	3.55	3.22	
Depreciation on OAV	-4.20	-4.30	-4.30	-4.30	-2.97	-2.21	-1.77	-1.53	
Depreciation to OAV	26.1%	33.1%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	
Investment in OAV	-4.74	-1.20	-1.30	-1.20	-1.20	-1.20	-1.20	-1.20	
Capital employed	17.60	16.00	15.00	12.90	12.33	12.77	13.92	15.67	
EBITDA	-6.47	7.10	7.99	9.31	11.18	13.41	16.09	19.31	
Taxes on EBITA	0.00	-0.14	-0.18	-0.50	-0.82	-3.36	-4.30	-5.34	
Total investment	-5.08	-2.70	-3.30	-2.20	-2.40	-2.64	-2.93	-3.27	
Investment in OAV	-4.74	-1.20	-1.30	-1.20	-1.20	-1.20	-1.20	-1.20	
Investment in WC	-0.34	-1.50	-2.00	-1.00	-1.20	-1.44	-1.73	-2.07	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-11.55	4.26	4.50	6.61	7.95	7.41	8.87	10.70	151.81

Value operating business (due date)	110.47	117.35
Net present value explicit free Cashflows	32.98	32.05
Net present value of terminal value	77.48	85.30
Net debt	-1.05	-5.32
Value of equity	111.51	122.67
Minority interests	-0.50	-0.55
Value of share capital	111.01	122.12
Outstanding shares in m	45.20	45.20
Fair value per share in €	2.46	2.70

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%
69.6%	3.66	3.07	2.65	2.34	2.10
70.6%	3.71	3.10	2.67	2.36	2.12
71.6%	3.75	3.14	2.70	2.38	2.14
72.6%	3.79	3.17	2.73	2.40	2.15
73.6%	3.84	3.20	2.76	2.43	2.17

ANNEX

I.

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

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BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $\geq + 10\%$.
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