The NAGA Group AG*5a,11

Rating: BUY
Target price: EUR 11.70
(previously: EUR 9.10)

Current price: 8.45
05.11.21 / XETRA / 5:35 pm
Currency: EUR

Key data:

ISIN: DE000A161NR7
WKN: A161NR
Stock exchange symbol: N4G
Number of shares³: 46.43
Marketcap³:391.86
³ in million / in million EUR
free float: 15.7%.

transparency level:
Scale
market segment:
Open Market

Accounting standard:
IFRS

End of financial year: 31.12.

Analysts:

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* Catalogue of possible conflicts of interest on page 6

Date (time) Completion:
08/11/21 (08:28 am)

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08/11/21 (10:30 am)

Validity of the course target:
until max. 31.12.2022

Branch: FinTech

Focus: Social trading and investments in financial instruments, crypto currencies and virtual goods

Employees: 138

Year of foundation: 2015

Head office: Hamburg

Board of Directors: 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 Visa Debit. In addition, the platform enables exchanges 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 EUR million \ end of FY	31.12.2020	31.12.2021e	31.12.2022e	31.12.2023e
Revenues	24.35	54.06	81.10	113.53
EBITDA	6.57	14.39	16.99	32.03
EBIT	2.79	9.99	12.19	27.53
Net profit for the year	2.02	8.67	10.06	19.02
Key figures in EUR				
Earnings per share	0.04	0.19	0.22	0.41
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/Revenues	15.45	6.96	4.64	3.31
EV/EBITDA	57.26	26.13	22.14	11.74
EV/EBIT	134.83	37.64	30.85	13.66
P/E RATIO	193.80	45.20	38.96	20.60
KBV	3.50			

Financial dates

****last research by GBC:**
Date: Publication / Target price in EUR / Rating
09.08.2021: RS / 9.10 EUR / BUY
13.01.2021: RS / 7.03 EUR / BUY
07.12.2020: RS / 4.30 EUR / BUY
07.09.2020: RS / 3.75 EUR / BUY
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Stronger focus on customer growth, financial flexibility through capital increase, forecasts raised, target price: €11.70

- As expected, The NAGA Group AG (NAGA for short) has been able to continue its impressive growth course in 2021. This is evident from both the published half-year report 2021 and the preliminary figures for the third quarter 2021 published at the same time. After nine months of 2021, the company reports a doubling of sales revenues to around € 40.5 million (9M 2020: € 20.0 million). On the one hand, NAGA is benefiting from a market environment characterised by high volatility. In addition, NAGA's management has made significant investments to increase brand and product awareness, which is reflected in continued customer growth. In the first three quarters, 218,000 new users were added, surpassing the 1.0 million registered account mark. In the first six months, marketing expenses climbed significantly to € 10.75 million (H1 2020: € 2.88 million).

- Despite visibly expanded marketing activities, EBITDA improved to around € 8.6 million in the first nine months (9M 2020: € 5.8 million) and is thus even significantly above the EBITDA generated in the full year 2020 (2020: € 6.57 million). Accordingly, NAGA's management continues to expect an increase in revenues to up to €52 million (achievement level after nine months: 77.9%) and EBITDA to up to €15 million (achievement level after nine months: 57.3%) in 2021.

- First and foremost, NAGA will continue to keep marketing activities high in order to accelerate the growth rate of new customers. For the full year, marketing expenses (including main sponsorship of Sevilla FC) are expected to amount to approximately € 22.0 million (2020: € 6.6 million). Following the largest capital increase in the company's history, the growth-oriented corporate strategy has a substantial financial cushion in this respect. In September 2021, growth capital of € 22.7 million was raised in a capital increase.

- Further growth drivers are likely to be the product launches that have already taken place and others that are in the pipeline. With NAGA Pay, for example, a new payment platform has been introduced to the market. NAGA Pay combines an IBAN account, a Visa debit card, a share deposit account and physical crypto-wallets (licensing for crypto-wallets is still pending). With this app, customers should be more integrated into the NAGA product world. In addition, NAGA customers have been able to trade physical shares at a very competitive price of € 0.99 per trade since October 2021. Finally, an expansion of the business base is also to take place through geographical expansion. The focus is on Australia, South Africa and the United Arab Emirates.

- In our view, once the product range is largely developed, NAGA will focus even more on customer growth and thus expand its marketing activities even more than we expect. While we are only making a small forecast adjustment for the current 2020 financial year with estimated sales of € 54.06 million (previous estimate: € 51.00 million), we expect significantly higher growth rates for the coming financial years. For 2022, we expect revenues of € 81.10 million (previously: € 66.30 million) and for 2023 of € 113.53 million (previously: € 66.30 million). In view of higher marketing expenses, the EBITDA margin should be below our previous estimates. In absolute terms, however, EBITDA should increase significantly from 2023 onwards.

Model assumptions

The NAGA Group AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2021 - 2023 in phase 1, the forecast is made from 2024 to 2028 in the second phase by applying value drivers. We expect increases in turnover of 15.0 %. We have assumed a target EBITDA margin of 28.2%. Due to the existing loss carry-forwards, we have only taken the tax rate into account at 30.0 % from phase 3. In the third phase, a residual value is determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 3.0 %.

Determining the cost of capital

The weighted average cost of capital (WACC) of The NAGA Group AG is calculated from the cost of equity and the cost of debt. The fair market premium, the company-specific beta and the risk-free interest rate are used to determine the cost of equity.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is 0.25 % (previously: 0.25 %).

We use the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.65 (previously: 1.65) is currently determined. Using the assumptions made, a cost of equity of 9.33% (previously: 9.33%) is calculated (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 100% for the cost of equity, the weighted average cost of capital (WACC) is 9.33% (previously: 9.33%).

Valuation result

The significant adjustment of our revenue estimates and, from 2023, the higher EBITDA estimate, which at the same time forms the basis for the continuity phase of our DCF valuation model, have led to an overall increase in the fair value of the company. Even taking into account the extensive capital increase, we are raising our price target to €11.70 (previously: € 9.10). We thus continue to give the rating BUY.

DCF model

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

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

consistency - phase	
Revenue growth	15.0%
EBITDA-Margin	28.2%
Depreciation to fixed assets	17.9%
Working Capital to revenue	5.5%

final - phase	
Eternal growth rate	3.0%
Eternal EBITA - margin	26.4%
Effective tax rate in final phase	30.0%

three phases DCF - model:

phase	**estimate**			**consistency**					**final**
in €m	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	**value**
Revenues (RE)	54.06	81.10	113.53	130.56	150.15	172.67	198.57	228.36	
RE change	122.0%	50.0%	40.0%	15.0%	15.0%	15.0%	15.0%	15.0%	3.0%
RE to fixed assets	2.35	3.38	4.51	5.29	6.18	7.21	8.39	9.74	
EBITDA	14.39	16.99	32.03	36.83	42.36	48.71	56.02	64.42	
EBITDA-Margin	26.6%	21.0%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	
EBITA	9.99	12.19	27.53	32.33	37.95	44.37	51.74	60.19	
EBITA-Margin	18.5%	15.0%	24.2%	24.8%	25.3%	25.7%	26.1%	26.4%	26.4%
Taxes on EBITA	-1.00	-1.83	-8.26	-9.70	-11.38	-13.31	-15.52	-18.06	
Taxes to EBITA	10.0%	15.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	8.99	10.36	19.27	22.63	26.56	31.06	36.22	42.14	
Return on capital	101.5%	51.8%	68.8%	71.9%	83.2%	95.2%	108.0%	121.5%	120.2%
Working Capital (WC)	-3.00	4.00	6.30	7.25	8.33	9.58	11.02	12.67	
WC to Revenues	-5.5%	4.9%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	
Investment in WC	-6.10	-7.00	-2.30	-0.95	-1.09	-1.25	-1.44	-1.65	
Operating fixed assets (OAV)	23.00	24.00	25.20	24.70	24.29	23.95	23.67	23.45	
Depreciation on OAV	-4.40	-4.80	-4.50	-4.50	-4.41	-4.34	-4.28	-4.23	
Depreciation to OAV	19.1%	20.0%	17.9%	17.9%	17.9%	17.9%	17.9%	17.9%	
Investment in OAV	-9.45	-5.80	-5.70	-4.00	-4.00	-4.00	-4.00	-4.00	
Capital employed	20.00	28.00	31.50	31.95	32.62	33.53	34.69	36.12	
EBITDA	14.39	16.99	32.03	36.83	42.36	48.71	56.02	64.42	
Taxes on EBITA	-1.00	-1.83	-8.26	-9.70	-11.38	-13.31	-15.52	-18.06	
Total investment	-15.54	-12.80	-8.00	-4.95	-5.09	-5.25	-5.44	-5.65	
Investment in OAV	-9.45	-5.80	-5.70	-4.00	-4.00	-4.00	-4.00	-4.00	
Investment in WC	-6.10	-7.00	-2.30	-0.95	-1.09	-1.25	-1.44	-1.65	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-2.15	2.36	15.77	22.19	25.89	30.15	35.06	40.71	667.99

Value operating business (due date)	469,71	511.20
Net present value explicit free Cashflows	112,06	120,16
Net present value of terminal value	357,65	391.04
Net debt	-29.44	-31.44
Value of equity	499.15	542.64
Minority interests	0.44	0.48
Value of share capital	499.59	543.12
Outstanding shares in m	46.43	46.43
Fair value per share in €	10.76	**11.70**

Cost of capital:

Risk free rate	0.3%
Market risk premium	5.5%
Beta	1.65
Cost of equity	9.3%
Target weight	100.0%
Cost of debt	6.5%
Target weight	0.0%
Taxshield	25.0%
WACC	**9.3%**

Return on capital	**WACC**				
	7.3%	**8.3%**	**9.3%**	**10.3%**	**11.3%**
118.2%	16.79	13.66	11.55	10.05	8.92
119.2%	16.91	13.75	11.63	10.10	8.97
120.2%	17.03	13.84	**11.70**	10.16	9.02
121.2%	17.14	13.93	11.77	10.22	9.07
122.2%	17.26	14.02	11.84	10.28	9.12

ANNEX

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