

April 29th, 2022
Research comment

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The NAGA Group AG

Several growth initiatives with high potential

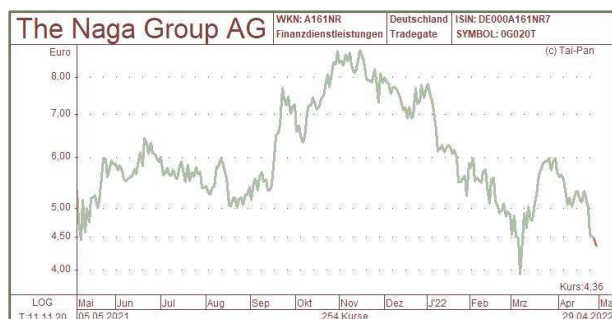
Rating: Buy (unchanged) | Price: 4.36 € | Price target: 11.20 € (prev.: 12.00 €)

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Current development



Basic data

Based in:	Hamburg
Sector:	FinTech
Headcount:	138
Accounting:	IFRS
ISIN:	DE000A161NR7
Ticker:	N4G:GR
Price:	4.36 Euro
Market segment:	Scale
Number of shares:	54.0 m
Market Cap:	235.6 m Euro
Enterprise Value:	213,8 m Euro
Free Float:	approx. 30.0 %
Price high/low (12 M):	8.91 / 4.01 Euro
Øturnover (Xetra, 12 M):	287,600 Euro

FY ends: 31.12.	2021e	2022e	2023e
Sales (m Euro)	55.3	95.0	138.3
EBIT (m Euro)	12.8	24.0	40.5
Net profit	2.6	5.4	15.1
EpS	0.05	0.10	0.28
Dividend per share	0.00	0.00	0.00
Sales growth	126.9%	72.0%	45.5%
Profit growth	109.6%	103.4%	181.6%
PSR	4.26	2.48	1.70
PER	89.4	43.9	15.6
PCR	108.9	22.9	9.6
EV / EBIT	16.7	8.9	5.3
Dividend yield	0.0%	0.0%	0.0%

High growth in Q1

NAGA started the business year 2022 with strong growth: in the first quarter, revenues increased by 63 percent to EUR 18 m. According to an earlier report, January alone accounted for a volume of EUR 8 m. In February and March, customer activities were temporarily affected by the outbreak of war in Ukraine and the impact on the capital markets, but according to the company, there was a recovery trend at the end of March. Almost in step with revenue growth, EBITDA also increased in the first three months and rose by two-thirds to EUR 5 m.

Several growth initiatives

In order to achieve the forecast for 2022 issued last November, which envisages sales of EUR 95 to 105 m and an EBITDA of EUR 25 to 30 m, further significant revenue growth is therefore necessary in the coming quarters. To accomplish this, NAGA is pursuing several high-potential growth initiatives. The focus is particularly on the crypto market, for which the new solution NAGAX, combining spot trading of various cryptocurrencies with an extensive range of information, was introduced at the beginning of March. Other major enhancements to this range of services are in the works, and the company intends to enable the trading of crypto derivatives as well as NFTs (Non-Fungible Token) and staking (generating income from NFT holdings). At the launch of NAGAX, the management has formulated the expectation that in 18 to 24 months the crypto division will generate more revenue than the brokerage business so far.

New arrangement of segments

In future, the company will report separately on these activities. Starting with the second quarter, NAGAX and the crypto business will be a separate segment. In addition, there are the divisions NAGA Trader for the classic brokerage business and NAGA Pay. The new NAGA Pay app was launched last November and is one of the other sources of hope for future growth.

m Euro	12 2022	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029
Sales	95.0	138.3	183.3	221.3	248.5	268.8	282.4	296.7
Sales growth		45.5%	32.5%	20.8%	12.3%	8.2%	5.1%	5.1%
EBIT margin	24.0	40.5	56.7	71.8	82.5	88.9	93.1	97.6
EBIT	8.1	21.4	34.1	48.4	56.7	67.8	76.5	85.1
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	2.4	6.4	10.2	14.5	17.0	20.3	23.0	25.5
NOPAT	5.6	15.0	23.9	33.9	39.7	47.4	53.6	59.5
+ Depreciation & Amortisation	15.9	19.2	22.6	23.4	25.8	21.1	16.6	12.5
+ Increase long-term accruals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating cash flows	21.5	34.1	46.4	57.3	65.5	68.5	70.2	72.0
- Increase Net Working Capital	-11.0	-9.4	-5.6	-5.1	-3.3	-0.9	1.8	1.9
- Investments in fixed assets	-23.5	-27.0	-27.6	-26.0	-21.7	-17.1	-12.5	-9.3
Free cash flow	-12.9	-2.2	13.2	26.2	40.5	50.5	59.5	64.7

SMC estimation model

The company has created a combination offer with various payment options (VISA card, transfers) that are directly linked to the trading system and the client's investment portfolio.

Expansion of the licencing portfolio

The new solutions are accompanied by an expansion of the licencing portfolio, which provides regulatory security for the operation of the platforms. For NAGAX, the company obtained a crypto licence in Estonia at the end of March, and two more licences for crypto-asset services are expected in the second quarter. However, this is by no means the end of the process; the management is striving to secure a licence protection as comprehensive as possible for the international business.

Marketing offensive and acquisitions

After the launch of the platforms, the focus is now primarily on intensifying marketing in order to create the basis for sustained high revenue growth by expanding the customer base. In addition to the planned organic growth, NAGA is also exploring the market in Europe and Southeast Asia for possible acquisition targets that could further accelerate the expansion.

Update of estimates

We have not yet calculated with any acquisitions in our model and are waiting for concrete information on the first possible targets. On an organic basis, we had previously assumed that revenues could increase to EUR 102 m in the current year, leading to an EBITDA of EUR 25.0 m. Given the promising growth initiatives, especially in the crypto market, we still believe these figures are possible. At the same time, however, the general conditions on the capital market have clouded over in the current year, and this state of affairs could well continue for some time. As a result, we are calculating with revenues at the lower end of the target range for now, i.e., EUR 95 m. Our estimated EBITDA of EUR 25 m had already been at the lower end of the company's forecast. After the strong result in the first three months, this figure seems more or less achievable even with the lower revenue base; here we are only making a moderate discount to EUR 24 m.

Lower economies of scale

In response to the lower starting figure from 2022, we have also lowered the further sales projection somewhat, which has also had a dampening effect on the

development of EBITDA. In other words, we have planned for somewhat lower economies of scale here. Nevertheless, we continue to expect that NAGA's well thought-out growth strategy will lead to high revenue and profit gains in the coming years. We see CAGR (2022 to 2029) at 18 percent, and EBITDA is likely to grow by an average of 22 percent over this period. The table on the previous page shows the development of the most important cash flow data resulting from these premises in the detailed forecast period until 2029. Further details on the estimated balance sheet, income statement and cash flow can also be found in the Annex.

Price target: EUR 11.20

The discount rate remained unchanged at 7.5 percent, as did the assumptions for terminal value (safety discount to the target margin of 25 percent, perpetual growth rate of 1 percent). Our updated model thus results in a new price target of EUR 11.20 (previously: EUR 12.00), with the dampening effect of the reduced revenues and earnings estimates having been mitigated by the rollover to the new base year 2022 (a sensitivity analysis for determining the price target can be found in the Annex). We continue to rate the forecast risk of our estimates as slightly above average at four points on a scale of 1 (low) to 6 (high), due in particular to the influence that volatile capital market development has on the business figures.

Conclusion

In the first three months, NAGA increased revenues by 63 percent to EUR 18 m and EBITDA by two-

thirds to EUR 5 m. Further gains are likely in the coming quarters as the company stimulates growth with several high-potential initiatives. One focus of expansion is the crypto sector, which has been addressed since March with the new platform NAGAX, whose range of services is to be significantly expanded soon. In addition, management is exploring the market for suitable acquisitions to support the expansion process.

We have not yet included any acquisitions in our model and are basing the valuation on the estimated organic development for the time being. In view of the more difficult conditions on the capital market, which somewhat dampened the trading activities of NAGA clients in February and March, we now – as a precaution – assume that revenues this year will be at the lower end of management's target range (EUR 95 m to EUR 105 m). We see EBITDA slightly below the target range (EUR 25 to 30 m) due to higher expenditure to stimulate growth. This was a reason for us to model the development path for the next few years a little more cautiously. Nevertheless, we believe NAGA will continue to achieve high gains leading to a target price of EUR 11.20 (previously: EUR 12.00).

In view of the high business dynamics and a large growth potential, the stock is thus very attractive after the strong price correction of the last six months, and we therefore confirm our Buy rating.

Annex I: SWOT analysis

Strengths

- Experienced management team with high competence in FinTech and brokerage.
- Broadly positioned and well-engineered finance platform with high cross-selling potential and excellent scalability thanks to extensive automation.
- Successful growth strategy based on a large network of partners, progressive internationalisation and synergetic additions to the range of services.
- With a strong jump in growth, profitability has also risen sharply, with revenues increasing by around 130 percent in 2021, while the EBITDA margin reached 23.0 percent.
- Several renowned anchor shareholders.

Opportunities

- The network effect ensures that the platform becomes increasingly attractive with increasing numbers of users (already > 1 million registered).
- The new solutions NAGA Pay and NAGAX could provide a further stimulus to growth momentum in the coming quarters.
- By expanding its range of services, the company is diversifying its sources of income and thus creating a broader foundation.
- Synergistic acquisitions could additionally support the expansion course.
- A further significant expansion of revenues should enable considerable economies of scale and thus additional margin potential, especially in the medium and long term.
- The very high industry valuation multiples for leading suppliers still offer significant relative upside potential for the NAGA share.

Weaknesses

- High expenses for the rapid expansion of the customer base, which are partly activated, still cause a clearly negative free cash flow.
- Revenues and profitability depend heavily on trading activities, which in turn are determined by capital market developments, and the company has only limited influence on this.
- Very high proportion of intangible assets in the balance sheet (83.6 percent as at 30.06.21).
- As a FinTech provider, NAGA operates in a complex regulatory environment.
- Dependence on a small management team, especially founder Bilski.

Threats

- The industry trend towards "zero fee" offers for some areas could put pressure on margins.
- A longer downward trend in the markets with declining trading activities could further increase the intensity of competition.
- Simultaneous expansion in several foreign markets creates increased complexity and numerous country-specific risks.
- If the brokerage business does not develop as planned, this can lead to considerable goodwill write-offs.
- Stricter regulation of the financial industry or FinTech in particular could drive up costs or prevent individual business models altogether.
- In a highly dynamic market environment, NAGA could miss or misjudge important trends.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation

m Euro	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
ASSETS									
I. Total non-current	122.9	130.5	138.3	143.4	146.0	141.9	137.9	133.9	130.6
1. Intangible assets	121.5	128.7	136.2	140.8	143.0	138.5	134.1	129.7	126.1
2. Tangible assets	0.6	0.8	1.0	1.3	1.6	1.8	2.1	2.3	2.6
II. Total current assets	79.7	81.0	92.8	117.3	155.3	186.0	217.4	245.2	273.6
LIABILITIES									
I. Equity	175.7	181.4	196.5	220.7	255.3	275.3	295.6	311.8	329.1
II. Accruals	1.3	1.7	2.2	2.6	3.0	3.4	3.9	4.3	4.7
III. Liabilities									
1. Long-term liabilities	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
2. Short-term liabilities	23.9	26.7	30.8	35.7	41.2	47.5	54.2	61.2	68.6
TOTAL	202.6	211.5	231.1	260.7	301.3	327.9	355.3	379.0	404.2

P&L estimation

m Euro	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales	55.3	95.0	138.3	183.3	221.3	248.5	268.8	282.4	296.7
Total operating revenues	57.8	99.0	143.3	188.3	226.3	253.5	273.8	287.4	301.7
Gross profit	50.6	86.7	125.3	164.4	197.5	221.2	238.9	250.7	263.1
EBITDA	12.8	24.0	40.5	56.7	71.8	82.5	88.9	93.1	97.6
EBIT	4.5	8.1	21.4	34.1	48.4	56.7	67.8	76.5	85.1
EBT	4.2	8.1	21.6	34.6	49.4	58.3	69.7	78.9	87.9
EAT (before minorities)	2.9	5.6	15.1	24.2	34.6	40.8	48.8	55.2	61.6
EAT	2.6	5.4	15.1	24.2	34.6	40.8	48.8	55.2	61.6
EPS	0.05	0.10	0.28	0.45	0.64	0.75	0.90	1.02	1.14

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
CF operating	2.2	10.3	24.7	41.0	52.8	63.2	68.9	73.6	75.9
CF from investments	-14.7	-23.5	-27.0	-27.6	-26.0	-21.7	-17.1	-12.5	-9.3
CF financing	64.8	0.3	0.2	0.2	0.1	-20.7	-28.4	-38.9	-44.1
Liquidity beginning of year	5.2	57.5	44.6	42.5	56.1	83.0	103.8	127.1	149.2
Liquidity end of year	57.5	44.6	42.5	56.1	83.0	103.8	127.1	149.2	171.7

Key figures

percent	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e
Sales growth	126.9%	72.0%	45.5%	32.5%	20.8%	12.3%	8.2%	5.1%	5.1%
EBITDA margin	23.1%	25.2%	29.3%	30.9%	32.5%	33.2%	33.1%	33.0%	32.9%
EBIT margin	8.2%	8.5%	15.4%	18.6%	21.9%	22.8%	25.2%	27.1%	28.7%
EBT margin	7.6%	8.5%	15.6%	18.9%	22.3%	23.4%	25.9%	27.9%	29.6%
Net margin (after minorities)	4.8%	5.6%	10.9%	13.2%	15.6%	16.4%	18.2%	19.6%	20.7%

Annex IV: Sensitivity analysis

WACC	Perpetual cash flow growth				
	2.0%	1.5%	1.0%	0.5%	0.0%
6.5%	15.38	14.26	13.33	12.57	11.92
7.0%	13.81	12.92	12.18	11.55	11.01
7.5%	12.52	11.81	11.20	10.68	10.23
8.0%	11.45	10.86	10.36	9.93	9.55
8.5%	10.54	10.06	9.64	9.27	8.95

Disclaimer

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Charts

The charts were made with Tai-Pan (www.lp-software.de).

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II) Preparation and updating

The present financial analysis was prepared by: Dipl.-Kfm. Holger Steffen

Participants in the preparation of the present financial analysis: -

The present analysis was finished on 29.04.2022 at 9:50 and published on 29.04.2022 at 10:30.

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The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

The price targets published within the assessment are calculated with common methods of financial mathematics, especially with the DCF (discounted cash flow) method, the sum of the parts valuation and a peer group analysis. The valuation methods are affected by economic framework conditions, especially by the development of the interest rates.

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In the past 24 months, sc-consult GmbH has published the following financial analyses for the company:

Date	Investment recomm.	Target price	Conflict of interests
19.01.2022	Buy	12.00 Euro	1), 3)
29.11.2021	Buy	12.70 Euro	1), 3), 4)
09.11.2021	Buy	11.70 Euro	1), 3), 4)
24.08.2021	Buy	8.00 Euro	1), 3), 4)
21.05.2021	Buy	8.90 Euro	1), 3), 4)
15.03.2021	Buy	8.90 Euro	1), 3)
15.01.2021	Buy	7.30 Euro	1), 3)
16.12.2020	Buy	5.30 Euro	1), 3), 4)
11.11.2020	Buy	4.40 Euro	1), 3)
30.07.2020	Buy	3.40 Euro	1), 3), 4)

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The publishing dates for the financial analyses are not yet fixed at the present moment.

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