

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

Rating: BUY

Target price: EUR 3.60
(previously: EUR 12.75)

Current price: 1.84
02.02.23 / XETRA / 09:22 am
Currency: EUR

Key data:

ISIN: DE000A161NR7
WKN: A161NR
Stock exchange symbol: N4G
Number of shares³: 54.05
Marketcap³: 99.45
³ in million / in million EUR
free float: 41.6%.

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 7

Date (time) Completion:
03/02/23 (08:24 pm)

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03/02/23 (11:30 am)

Validity of the course target:
until max. 31.12.2023

Branch: FinTech

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

Employees: 174

Year of foundation: 2015

Head office: Hamburg

Board of Directors: Benjamin Bilski, Andreas Luecke, Michalis Mylonas



NAGA is an innovative fintech company that seamlessly connects personal finance and investment with its social trading platform. The company's proprietary platform offers products ranging from stock trading, investments and crypto-currencies to a physical VISA card. In addition, the platform allows for exchanges with other traders, provides relevant information in the feed as well as auto-copy functions for the trades of successful members. NAGA is a synergistic total solution that is easily accessible and inclusive. It provides an improved foundation to trade, invest, network, earn and pay. This applies to both fiat and crypto products.

P&L in EUR million \ end of FY	31.12.2021	31.12.2022e	31.12.2023e	31.12.2024e
Revenues	52.88	52.08	67.42	84.27
EBITDA	-4.20	-5.97	5.99	15.96
EBIT	-9.55	-29.77	0.79	10.46
Net profit for the year	-10.75	-30.47	0.08	6.99

Key figures in EUR				
Earnings per share	-0.20	-0.56	0.00	0.13
Dividend per share	0.00	0.00	0.00	0.00

Key figures				
EV/Revenues	1.52	1.54	1.19	0.95
EV/EBITDA	neg.	neg.	13.40	5.03
EV/EBIT	neg.	neg.	101.50	7.67
P/E RATIO	neg.	neg.	1215.60	14.24
P/B-RATIO	0.69			

Financial dates
June 2023: Financial Report 2022
August 2023: AGM
October 2023: Half-Year Report 2023

**last research by GBC:
Date: Publication / Target price in EUR / Rating
19.01.2022: RS / 12.75 EUR / BUY
08.11.2021: RS / 11.70 EUR / BUY
09.08.2021: RS / 9.10 EUR / BUY
13.01.2021: RS / 7.03 EUR / BUY
** the above research studies can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg

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First positive effects from initiated restructuring visible; Break-even expected in the current financial year; Target price: € 3.60; Rating: BUY

- Communication with the financial market of NAGA Group AG (NAGA for short) in the past 2022 financial year was characterised by the postponement of the 2021 annual report. Part of the delay was related to the clarification of valuation issues. In the opinion of the auditors, the cryptocurrency holdings now had to be accounted for at acquisition cost and part of the customer acquisition costs could no longer be capitalised. Although the company was in a position to continue on its previous growth path with an increase in total revenues of 117.1% to € 52.88 million (previous year: € 24.35 million), the changes in the balance sheet led to a significant decline in EBIT to € -9.55 million (previous year: € 0.94 million).
- Due to the delayed publication of the annual report, the 2022 half-year report was also published late on 30 December 2022. In this report, the NAGA management paints a picture of a turbulent first half of 2022, characterised in particular by the collapse of the crypto markets, a decline in turnover resulting from their withdrawal from the UK and the overall decline in transaction activity on the capital markets in the wake of the war in Ukraine. However, due to the still high level of customer acquisition activities, turnover continued to grow dynamically by 50.1% to € 35.02 million (previous year: € 23.22 million), but EBIT was significantly below the previous year's level at € -18.63 million (previous year: € -1.95 million). Among other things, the necessary valuation adjustments of the crypto assets held in the amount of around € -12.00 million were a significant factor in the sharp decline in earnings.
- The NAGA Board of Directors has taken the development of the first half of 2022 as an opportunity to initiate a complete change in strategy and a restructuring since July 2022. On the basis of the product areas that have now been expanded and introduced to the market (NAGA Trader; NAGAX; NAGA Pay), the focus has been shifted away from strong customer and revenue growth towards reaching the break-even point. This is to be exceeded sustainably from the second quarter of 2023.
- Their focus on their trading business and on reducing their operating cost base and acquisition costs is already bearing fruit, according to the company. With the improvement in marketing costs, staff reductions and their cut in R&D expenses, the cost base was reduced to €14 million in the second quarter of 2022 and further to €12 million in the fourth quarter of 2022. In the first quarter of 2022, this was still at €20 million. This reduction is partly driven by an improvement in customer acquisition costs. In Q3, these were € 816, a significant reduction compared to the first two quarters (Q1: € 1,343; Q2: € 1,609). In Q4 2022, these fell further to € 613. At the same time, an increase in revenue per customer is to be achieved through geographical diversification.
- These measures should only become clearly visible in the current financial year 2023, but will only have a full impact in 2024. The past financial year 2022 should still be characterised by a clearly negative result.
- The expected high negative operating cash flow should be partly offset by a positive investment cash flow. This is primarily related to the sale of money market funds in which NAGA had temporarily parked the liquid funds raised from the capital increases. A free cash flow of € -3.22 million was reported at the end of the first half of 2022.

- A key aspect of the company's further development is likely to be their planned strategic transaction with a multinational brokerage company. As reported by NAGA on 19 January 2023, discussions are currently taking place with an unnamed brokerage company with the aim of merging the two companies. The transaction should be completed by the fourth quarter of 2023, subject to a positive due diligence review and other approvals. In our view, NAGA would be taken over in this case, but their independent stock exchange listing would be maintained. Obviously, the current valuation of NAGA is considered low and, on the other hand, the now fully developed NAGA product range is considered attractive. In the event of an acquisition, NAGA could benefit from the existing licences of the brokerage company, which would allow it to enter new markets without having to first obtain a time-consuming licence.
- The current financial year 2023 will be characterised by a focus on improving the key earnings figures, as described above. In addition, the company plans to re-enter the UK, where the largest traded volume was in 2021, by Q2 2023. The reactivation of the former customer base (180,000 leads) is to be carried out at lower profit costs, which would have an immediate effect on earnings. In addition, the company plans to grow more strongly outside Europe. In this respect, the recently granted licence in the Seychelles is of great importance. Finally, the introduction of the NAGA Institutional Desk, planned for the beginning of 2023, is intended to address volume traders more strongly.
- After an expected negative EBIT of € -29.77 million for the past financial year, with sales revenues of € 52.08 million, in particular due to the losses in value of cryptocurrencies held, the break-even point should be reached in the current financial year. With a 30% increase in turnover to € 67.42m, we expect EBIT to improve to € 0.79m. The effects of the UK re-entry and the further regional expansion should be fully reflected positively in the coming 2024 financial year. We expect revenue growth of 25% to € 84.27 million in 2024 and consider EBIT of € 10.46 million to be realistic.
- Within the framework of our DCF valuation model, we have determined a target price of € 3.60 (previously: € 12.75). The significant lowering of the target price is a consequence of the significantly reduced forecasts for the concrete estimation period (2022e - 2024e), which provides a lower basis for the continuity phase of our valuation model. On the other hand, we take into account the market-related increase in the risk-free interest rate and thus visibly raise the weighted average cost of capital (WACC) to 10.34% (previously: 9.33%). Based on the current share price of € 1.84, we assign the rating BUY.

Model assumptions

The NAGA Group AG was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2022 - 2024 in phase 1, the forecast is made from 2025 to 2029 in the second phase by applying value drivers. We expect increases in turnover of 15.0 %. We have assumed a target EBITDA margin of 18.9% (previously: 28.1%). We have only taken the tax rate into account from phase 3 at 30.0 % due to the still existing loss carryforwards. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value we assume a growth rate of 3.0 %.

Determination of 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 1.50 % (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 1.61 (previously: 1.65) is currently determined. Using the assumptions made, a cost of equity of 10.34 % (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 10.34% (previously: 9.33%).

Valuation result

Due to the significantly reduced forecasts and the higher cost of capital, we have determined a significant reduction of the share price target to € 3.60 (previously: € 12.75) within the framework of our DCF valuation model.

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	15.0%	Eternal growth rate	3.0%
EBITDA-Margin	18.9%	Eternal EBITA - margin	15.7%
Depreciation to fixed assets	458.3%	Effective tax rate in final phase	30.0%
Working Capital to revenue	30.0%		

three phases DCF - model:

phase in €m	estimate			consistency					final value
	FY 22e	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	
Revenues (RE)	52.08	67.42	84.27	96.91	111.45	128.17	147.39	169.50	
RE change	-1.5%	29.4%	25.0%	15.0%	15.0%	15.0%	15.0%	15.0%	3.0%
RE to fixed assets	43.40	56.18	70.23	80.76	92.88	106.81	122.83	141.25	
EBITDA	-5.97	5.99	15.96	18.35	21.11	24.27	27.91	32.10	
EBITDA-Margin	-11.5%	8.9%	18.9%	18.9%	18.9%	18.9%	18.9%	18.9%	
EBITA	-29.77	0.79	10.46	12.85	15.61	18.77	22.41	26.60	
EBITA-Margin	-57.2%	1.2%	12.4%	13.3%	14.0%	14.6%	15.2%	15.7%	15.7%
Taxes on EBITA	0.00	-0.08	-3.14	-3.86	-4.68	-5.63	-6.72	-7.98	
Taxes to EBITA	0.0%	10.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EBI (NOPLAT)	-29.77	0.71	7.32	9.00	10.92	13.14	15.69	18.62	
Return on capital	-62.1%	2.5%	25.1%	29.9%	36.1%	42.0%	48.6%	56.0%	56.0%
Working Capital (WC)	27.00	28.00	28.90	29.07	30.07	31.07	32.07	33.07	
WC to Revenues	51.8%	41.5%	34.3%	30.0%	30.0%	30.0%	30.0%	30.0%	
Investment in WC	-4.37	-1.00	-0.90	-0.17	-1.00	-1.00	-1.00	-1.00	
Operating fixed assets (OAV)	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	
Depreciation on OAV	-23.80	-5.20	-5.50	-5.50	-5.50	-5.50	-5.50	-5.50	
Depreciation to OAV	1983.3%	433.3%	458.3%	458.3%	458.3%	458.3%	458.3%	458.3%	
Investment in OAV	0.32	-5.20	-5.50	-5.50	-5.50	-5.50	-5.50	-5.50	
Capital employed	28.20	29.20	30.10	30.27	31.27	32.27	33.27	34.27	
EBITDA	-5.97	5.99	15.96	18.35	21.11	24.27	27.91	32.10	
Taxes on EBITA	0.00	-0.08	-3.14	-3.86	-4.68	-5.63	-6.72	-7.98	
Total investment	-4.05	-6.20	-6.40	-5.67	-6.50	-6.50	-6.50	-6.50	
Investment in OAV	0.32	-5.20	-5.50	-5.50	-5.50	-5.50	-5.50	-5.50	
Investment in WC	-4.37	-1.00	-0.90	-0.17	-1.00	-1.00	-1.00	-1.00	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-10.02	-0.29	6.42	8.82	9.92	12.14	14.69	17.62	247.32

Value operating business (due date)	166.90	184.44
Net present value explicit free Cashflows	42.69	47.39
Net present value of terminal value	124.21	137.05
Net debt	-9.75	-8.76
Value of equity	176.65	193.21
Minority interests	1.09	1.19
Value of share capital	177.74	194.40
Outstanding shares in m	54.05	54.05
Fair value per share in €	3.29	3.60

Cost of capital:

Risk free rate	1.5%
Market risk premium	5.5%
Beta	1.61
Cost of equity	10.3%
Target weight	100.0%
Cost of debt	6.5%
Target weight	0.0%
Taxshield	-2.8%

WACC 10.3%

Return on capital	WACC				
	8.3%	9.3%	10.3%	11.3%	12.3%
54.0%	4.80	4.04	3.50	3.10	2.78
55.0%	4.88	4.10	3.55	3.14	2.82
56.0%	4.95	4.16	3.60	3.18	2.85
57.0%	5.02	4.22	3.64	3.21	2.88
58.0%	5.10	4.28	3.69	3.25	2.92

ANNEX

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The analysts responsible for this analysis are

Cosmin Filker, Dipl. Betriebswirt (FH), Deputy Chief Analyst

Other person involved in the study:

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