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Research comment

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Small and Mid Cap Research

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The NAGA Group AG

Start-of-year figures show great progress

Rating: Hold (unchanged) | **Price:** 2.39 € | **Price target:** 4.10 € (prev.: 3.40 €)

Analyst: Dipl.-Kfm. Holger Steffen
sc-consult GmbH, Alter Steinweg 46, 48143 Münster

Phone: +49 (0) 251-13476-93
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com
Internet: www.sc-consult.com

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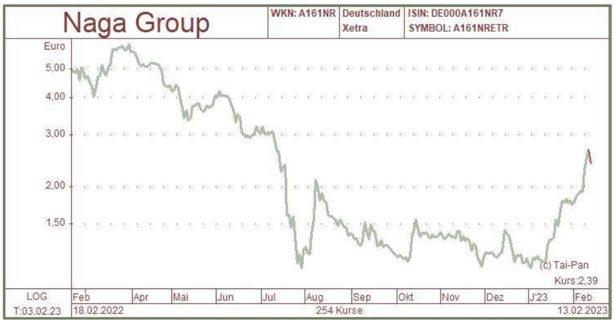
Current development



Basic data

Based in:	Hamburg
Sector:	FinTech
Headcount:	174
Accounting:	IFRS
ISIN:	DE000A161NR7
Ticker:	N4G:GR
Price:	2.39 Euro
Market segment:	OTC
Number of shares:	54.0 m
Market Cap:	129.2 m Euro
Enterprise Value:	126.2 m Euro
Free Float:	41.6 %
Price high/low (12 M):	6.25 / 1.01 Euro
Øturnover (Xetra, 12 M):	80,000 Euro

FY ends: 31.12.	2022e	2023e	2024e
Sales (m Euro)	55.0	66.0	85.3
EBITDA (m Euro)	-8.2	6.5	11.1
Net profit	-30.3	-1.1	2.6
EpS	-0.56	-0.02	0.04
Dividend per share	0.00	0.00	0.00
Sales growth	3.9%	20.0%	29.3%
Profit growth	-	-	-
PSR	2.35	1.96	1.51
PER	-	-	49.0
PCR	-	57.9	17.7
EV / EBITDA	-	19.5	11.3
Dividend yield	0.0%	0.0%	0.0%

Considerable progress in efficiency

Over the past year, NAGA has focused on increasing marketing efficiency and reducing costs in order to quickly reach operational breakeven despite the continued pursuit of growth initiatives. The figures presented in a recent trading update on development in the first 40 days of 2023 demonstrate the great progress made in the process. On the one hand, there are significant improvements in many KPIs: The number of account openings (with deposits) increased by 15 percent to 1,810 and the number of customers active in trading even increased by 28 percent to almost 21,000. As a result, the number of trades processed increased by 28 percent to 1 million, of which 510,000 (+62 percent) were attributable to copied transactions. On the other hand, the company has drastically reduced customer acquisition costs by 65 percent to EUR 405. With a current live-time value of EUR 3,400 per customer on average, this offers sufficient scope for operating profits.

Profitable start to the year

Revenue in the first weeks of the year was nevertheless 18 percent below the previous year's figure at EUR 6 m, reflecting lower trading volumes and thus lower revenues per trade. But even this is already a significant improvement on the average figure for the second half of 2022, which according to our calculations is likely to have been between EUR 4 m and EUR 4.4 m for a comparable period. In addition, expenditure has fallen even more sharply, totalling only EUR 4.5 m in the year to date, 56 percent less than in the same period last year.

Margin estimates raised

If the sales trend continues in a linear manner, NAGA would generate revenues of EUR 55 m in the full year. However, as numerous growth initiatives (including reactivating the customer base in the UK) will take effect in the coming months, we believe our revenue estimate for 2023 (EUR 66 m) is well within reach after

m Euro	12 2023	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030
Sales	66.0	85.3	115.5	144.2	163.4	176.7	185.6	195.0
Sales growth		29.3%	35.5%	24.8%	13.3%	8.2%	5.1%	5.1%
EBITDA	**6.5**	**11.1**	**18.6**	**28.8**	**36.0**	**42.6**	**46.9**	**51.1**
EBIT	-1.6	3.6	11.3	21.7	31.3	39.1	44.3	46.9
Tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Adjusted tax payments	-0.5	1.1	3.4	6.5	9.4	11.7	13.3	14.1
NOPAT	**-1.1**	**2.5**	**7.9**	**15.2**	**21.9**	**27.4**	**31.0**	**32.8**
+ Depreciation & Amortisation	8.1	7.5	7.3	7.1	4.7	3.5	2.6	4.2
+ 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	7.0	10.0	15.2	22.3	26.6	30.9	33.6	37.1
- Increase Net Working Capital	-4.7	-2.8	-2.9	-2.2	-0.8	0.9	0.9	1.0
- Investments in fixed assets	-6.6	-7.6	-7.2	-6.1	-4.8	-3.6	-2.7	-2.1
Free cash flow	**-4.3**	**-0.4**	**5.2**	**14.1**	**20.9**	**28.2**	**31.8**	**36.0**

SMC estimation model

the encouraging start. We therefore leave our sales projection unchanged for the entire detailed forecast period. However, our EBITDA estimate (EUR 4.8 m) seems to be too conservative. Although additional costs will be incurred in the coming months (e.g., for the re-entry into the UK market), we now consider EUR 6.5 m to be achievable – especially since management has pointed out that the analysis and optimisation of the marketing mix is by no means complete but will continue. In particular, NAGA sees additional potential for improvement through further automation of marketing activities. We have therefore slightly increased our margin projection for the entire detailed forecast period. The table above shows the development of the key cash flow data resulting from these adjustments in the detailed forecast period. Further details on the estimated balance sheet, income statement and cash flow statement are provided in the Annex.

New price target: EUR 4,10

With an unchanged discount rate of 8.5 percent, the increase in estimates results in an increase in the target price from the most recent EUR 3.40 to EUR 4.10 euros per share (a sensitivity analysis for the price target determination can be found in the Annex). We continue to rate the forecast risk of our estimates as clearly above average with five points on a scale of 1 (low) to 6 (high).

Conclusion

NAGA has made a good start this year. An improvement in numerous KPIs (number of active customers, new customer acquisition, deposits per account...) shows that the company has made significant progress in customer acquisition, and this at drastically reduced costs. Although revenue in the first 40 days of the year was – despite a significant increase in the number of transactions processed – still 18 percent below the previous year's figure at EUR 6 m (due to lower revenue per trade), the expenses decreased considerably more, by 56 percent to EUR 4.5 m, so that the start of the year has already turned out to be profitable.

The combination of further optimisation of the marketing mix and growth initiatives (including the re-entry into the UK market) is intended to cause a return to the expansion path and a clearly positive operating result in the current year.

We have raised our profitability estimates, which means that the price target has increased from most recently EUR 3.40 to EUR 4.10. At the moment, however, the data basis for the assumed scenario is still somewhat narrow despite the good start to the year, so our rating remains “Hold”. If the figures for the next few months confirm the positive impression, the prerequisite for an upgrade of the share would be given.

Annex I: SWOT analysis

Strengths

- Experienced management team with high competence in FinTech and brokerage.
- Comprehensive 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 the app NAGA Pay and the crypto platform NAGAX, the company has positioned itself strongly in two high-potential market segments over the past two years.
- Several renowned anchor shareholders.

Weaknesses

- Accounting problems and revised figures caused reputational damage last year.
- High marketing expenses have so far caused a clearly negative free cash flow.
- Revenue 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 (77 percent as at 30.06.22).
- As a FinTech provider, NAGA operates in a complex regulatory environment.
- Dependence on a small management team, especially founder Bilski.

Opportunities

- NAGA has significantly reduced costs and improved marketing efficiency. The start of 2023 was already profitable in operating terms, and the cash break-even is to be sustainedly exceeded from the second quarter at the latest. This could further support the revaluation of the share that has started.
- The new solutions NAGA Pay and NAGAX are still at the beginning stages of market penetration and offer great growth potential.
- The network effect ensures that the platforms become more and more attractive as the number of users increases.
- A further dynamic increase in revenues is likely to be associated with significant economies of scale and rising margins.
- The merger with a multinational brokerage firm could support international expansion and should also meet with a positive response on the stock market.

Threats

- The difficult market environment could continue for longer and further increase the competitive intensity in the brokerage market.
- Delays in cash flow break-even would be a disappointment and could require further capital measures.
- Simultaneous expansion in several foreign markets creates increased complexity and numerous country-specific risks.
- If the brokerage business does not develop as planned, it can lead to considerable goodwill write-offs.
- Stricter regulation of FinTech 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	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
ASSETS									
I. Total non-current	113.1	114.6	114.7	114.5	113.5	113.6	113.7	113.8	111.7
1. Intangible assets	112.2	113.7	113.6	113.4	112.1	112.1	112.0	112.0	109.7
2. Tangible assets	0.6	0.7	0.8	0.9	1.1	1.2	1.4	1.6	1.7
II. Total current assets	35.7	49.9	55.1	72.2	91.9	108.8	125.3	139.2	154.5
LIABILITIES									
I. Equity	132.8	146.7	149.3	157.4	172.4	185.4	197.6	207.0	215.2
II. Accruals	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
III. Liabilities									
1. Long-term liabilities	0.2	0.2	0.3	3.3	3.3	3.3	3.3	3.3	3.3
2. Short-term liabilities	15.3	17.2	19.7	25.6	29.2	33.3	37.7	42.3	47.2
TOTAL	**148.7**	**164.5**	**169.7**	**186.7**	**205.4**	**222.4**	**239.1**	**253.0**	**266.2**

P&L estimation

m Euro	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales	55.0	66.0	85.3	115.5	144.2	163.4	176.7	185.6	195.0
Total output	60.0	68.0	87.3	117.5	146.2	165.4	178.7	187.6	197.0
Gross profit	51.2	56.1	71.9	96.7	120.2	136.0	146.9	154.2	161.9
EBITDA	-8.2	6.5	11.1	18.6	28.8	36.0	42.6	46.9	51.1
EBIT	-29.3	-1.6	3.6	11.3	21.7	31.3	39.1	44.3	46.9
EBT	-30.3	-1.6	3.8	11.5	21.5	31.4	39.5	44.9	47.7
EAT (before minorities)	-30.3	-1.1	2.6	8.1	15.1	22.0	27.6	31.5	33.4
EAT	-30.3	-1.1	2.6	8.1	15.1	22.0	27.6	31.5	33.4
EPS	-0.56	-0.02	0.04	0.13	0.24	0.34	0.43	0.49	0.52

Annex III: Cash flows estimation and key figures

Cash flows estimation

m Euro	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
CF operating	-16.7	2.2	7.3	12.5	19.4	25.2	31.4	34.3	38.0
CF from investments	9.1	-6.6	-7.6	-7.2	-6.1	-4.8	-3.6	-2.7	-2.1
CF financing	1.0	15.0	0.3	6.0	0.6	-8.4	-14.8	-21.5	-24.5
Liquidity beginning of year	8.6	2.0	12.6	12.7	24.0	38.0	49.9	63.0	73.1
Liquidity end of year	2.0	12.6	12.7	24.0	38.0	49.9	63.0	73.1	84.5

Key figures

percent	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sales growth	3.9%	20.0%	29.3%	35.5%	24.8%	13.3%	8.2%	5.1%	5.1%
EBITDA margin	-14.9%	9.8%	13.0%	16.1%	20.0%	22.0%	24.1%	25.3%	26.2%
EBIT margin	-53.4%	-2.4%	4.2%	9.8%	15.0%	19.2%	22.1%	23.9%	24.1%
EBT margin	-55.1%	-2.4%	4.4%	10.0%	14.9%	19.2%	22.3%	24.2%	24.5%
Net margin (after minorities)	-55.1%	-1.7%	3.1%	7.0%	10.4%	13.5%	15.6%	16.9%	17.1%

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	2.0%	1.5%	1.0%	0.5%	0.0%
7.5%	5.43	5.11	4.83	4.60	4.40
8.0%	4.94	4.68	4.45	4.26	4.08
8.5%	4.53	4.31	**4.12**	3.95	3.81
9.0%	4.17	3.99	3.83	3.69	3.56
9.5%	3.86	3.71	3.57	3.45	3.35

Disclaimer

Editor

sc-consult GmbH
Alter Steinweg 46
48143 Münster
Internet: www.sc-consult.com

Phone: +49 (0) 251-13476-94
Telefax: +49 (0) 251-13476-92
E-Mail: kontakt@sc-consult.com

Responsible analyst

Dipl.-Kfm. Holger Steffen

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 14.02.2023 at 7:10 and published on 14.02.2023 at 8:30.

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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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Date	Investment recomm.	Target price	Conflict of interests
26.01.2023	Hold	3.40 Euro	1), 3)
31.10.2022	Hold	3.40 Euro	1), 3), 4)
29.04.2022	Buy	11.20 Euro	1), 3)
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)

In the course of the next twelve months, sc-consult GmbH will presumably prepare the following financial analyses for the company: one research report, two updates and two comments.

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

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