

The NAGA Group

High trading momentum maintained

NAGA Group continues to benefit from retail investor activity and volatility in financial markets, further underpinned by its social trading functionalities (trade copy feature in particular). Consequently, after completing its restructuring in FY19, NAGA posted a positive EBITDA and a small net profit in FY20, with management now guiding to robust FY21 sales of €50–52m (€24.5m was already generated in H121) and EBITDA of €13–15m. Recently, it also secured further funding through convertible bonds with a volume up to €25m (of which €8.0m has already been issued).

Strong FY20 trading driving earnings

NAGA Group reported a significant increase in revenues to €24.4m in FY20 (versus €7.6m in FY19 and FY20 management guidance of €22–24m), driven by growing trading volumes (€120bn in FY20 versus €41bn in FY19). An improved gross margin (93.8% versus 74.3% in FY19), coupled with lower personnel expenses (down 10% y-o-y to €4.1m) as a result of earlier restructuring, helped NAGA reach an EBITDA of €6.6m (versus a loss of €9.2m in FY19). Earnings per share excluding minorities stood at a minor positive €0.03 after a €0.31 loss in FY19. The company's net debt excluding restricted cash stood at €4.8m at end-2020 (versus €3.4m), implying a moderate net debt to EBITDA ratio of 0.7x.

Growth from foreign expansion and new products

NAGA Group aims at fulfilling its growth ambitions through maintained focus on core competencies in the online brokerage business, further development of customer support to drive user satisfaction and growth in customer base, and continued high level of IT and product innovation. Major potential growth catalysts are international expansion (in particular beyond European markets), as well as new products, including NAGA Pay (a mobile banking and investing app) and NAGA Pro (a service for 'digital influencers').

Valuation: FY21 and FY22 growth seems priced in

NAGA's FY21e and FY22e EV/EBITDA of 14.9x and 9.4x (based on Refinitiv consensus) represents a 2% discount and 7% premium to peer group median. This suggests its current valuation discounts a continuation of high earnings momentum into FY22. Its FY21e and FY22e EV/sales multiples of 4.1x and 2.9x imply a 4% premium and a 10% discount to peer group, respectively.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	PBT (€)	EPS (€)	P/E (x)	Yield (%)
12/19	7.6	(12.2)	(12.3)	(0.31)	N/A	N/A
12/20	24.4	2.8	2.1	0.03	169.3	N/A
12/21e	53.1	11.5	11.3	0.24	21.5	N/A
12/22e	75.7	22.3	25.2	0.35	14.7	N/A

Source: NAGA Group, Refinitiv consensus as at 2 August 2021. Note: *Revenue includes brokerage sales and revenues from services as reported by the company.

Financial services

2 August 2021

Price €5.08
Market cap €214m

Share price graph



Share details

Code N4G
Listing Deutsche Börse Scale
Shares in issue 42.0m
Last reported net debt at end-FY20* €4.8m

*Adjusted for restricted cash of €4.5m.

Business description

The NAGA Group is a fintech start-up in social trading with a flagship product (Naga Trader) and supplementary services. Headquartered in Hamburg, the company's operating subsidiary Naga Markets Ltd is located in Limassol, Cyprus.

Bull

- Higher market volatility supports NAGA's results.
- Trade copy feature stimulates user activity while reducing customer acquisition costs and churn.
- Expansion to non-European markets may boost sales.

Bear

- Sales and earnings are dependent on market conditions historically.
- Competitive threat from existing larger players.
- Business activity in emerging markets poses a greater risk than in developed countries.

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Financials: High user activity in FY20

NAGA's revenues increased significantly in FY20 to €24.4m from €7.6m in FY19, slightly exceeding management guidance of €22–24m published in July 2020. This was assisted by a visible growth in trading volumes (€120bn in FY20 versus €41bn a year earlier) amid increased volatility during the COVID-19 pandemic and ongoing expansion of the business supported by NAGA's marketing activities. NAGA's customer base increased 72% y-o-y to 43.6m users at end-2020, with the average number of active users per month more than doubling to 10,549k versus 5,090k in FY19. Moreover, NAGA's assets under management reached €21.8m versus €17.6m in FY19. NAGA's growth has been assisted in particular by its trade copy offering, which stimulates user activity while reducing customer acquisition costs and client churn.

Meanwhile, direct expenses related to trading revenues and trading costs associated with hedging the trades grew in aggregate by 27% y-o-y to c €3.5m, translating into a gross profit margin of c 93.8% in FY20 compared to 74.3% in FY19. NAGA's development expenses stood at €2.5m in FY20, representing c 10.3% of its revenues (22.5% in FY19), mostly aimed at expanding functionalities and enhancing the stability of the Naga Trader app and web application, as well as developing the NAGA Pay app. NAGA capitalised c €2.0m of these expenses, including €1.6m attributable to Naga Trader and c €0.4m to NAGA Pay. The company spent €6.6m on marketing and advertising in FY20 (versus €2.5m in FY19 amid restructuring), focused on non-European markets, while personnel expenses declined by 10% y-o-y to €4.1m as a result of cost optimisation. Consequently, NAGA's EBITDA reached €6.6m versus management's FY20 guidance of €5.5–6m and a loss of €9.2m in FY19. At the same time, its operating cash flow improved to €3.7m in FY20 from a negative €2.4m in FY19. NAGA's net income excluding minorities stood at €1.3m (versus a €12.0m loss in FY19).

Exhibit 1: Financial summary			
€000s unless otherwise stated	FY20	FY19	y-o-y change
Revenue	24,353	7,619	219.6%
Trading revenue	24,259	5,618	331.8%
Revenue from services	94	2,001	(95.3%)
Capitalised programming services	1,964	779	152.1%
Total performance	26,317	8,398	213.4%
Direct expenses of trading revenues	(2,347)	(1,339)	75.3%
Trading costs	(1,131)	(1,396)	(19.0%)
Gross profit	22,838	5,663	303.3%
<i>gross margin</i>	<i>93.8%</i>	<i>74.3%</i>	<i>19.5 pp</i>
Other operating income	1,490	167	792.2%
Development expenses	(2,510)	(1,717)	46.2%
Personnel expenses	(4,119)	(4,589)	(10.2%)
Marketing & advertising expenses	(6,614)	(2,455)	169.4%
Allowance from doubtful accounts from deliveries and services	0	(1,410)	(100.0%)
Other operating expenses	(4,516)	(4,828)	(6.5%)
EBITDA	6,570	(9,167)	NM
D&A	(3,594)	(2,745)	30.9%
Amortisation of goodwill	(186)	(270)	(31.1%)
EBIT	2,789	(12,182)	NM
Financial income	28	7	300.0%
Financial costs	(683)	(132)	417.4%
Income (loss) before taxes	2,134	(12,307)	NM
Income taxes	148	(151)	NM
Deferred taxes	(261)	(919)	(71.6%)
Net profit/(loss)	2,021	(13,377)	NM
attributable to shareholders of the parent	1,256	(12,002)	NM
minority interests	765	(1,375)	NM
EPS, basic and diluted (€)	0.03	(0.31)	NM

Source: NAGA Group accounts

Adjusted for restricted cash (which rose to €4.5m at end-2020 from €2.9m at end-2019), NAGA's net debt increased to €4.8m from c €3.0m at end-H120 and c €3.4m at end-FY19. This implies a

safe net debt to EBITDA ratio of 0.7x. However, we note this includes the €3.0m senior loan that NAGA received from its largest shareholder, Fosun Fintech Holdings, in November 2019 and a €2.0m convertible bond that it issued to this company in January 2020, which both have a two-year maturity (due in November 2021 and January 2022, respectively). NAGA completed a share issue in July 2020 with gross proceeds of c €4.6m. Consequently, its ratio of total equity to total assets stood at 86% at end-2020 versus 88% at end-2019. Here, we note that c 86% of NAGA's total assets represent intangibles, primarily built in 2018 for the Cash Generating Unit Brokerage.

Moreover, NAGA's growth ambitions should be supported by financing from Yorkville Advisors, a US alternative investment manager that provides specialty financing solutions, which it secured in March 2021. As part of this agreement, NAGA will issue a convertible bond to Yorkville Advisors with a total volume of up to €25m (equivalent to US\$30m) over the next three years on meeting certain undisclosed conditions. NAGA already issued the first c €8.0m zero-coupon tranche (maturing in March 2022) at a 5% discount to its nominal value, with conversion price per share set at 95% of the market price per share (calculated in line with the [terms and conditions document](#)). We estimate that at NAGA's current share price, a conversion would result in a c 3% dilution. NAGA can redeem the already issued convertible note at any time in whole, at a rate of 108% of their principal value.

Continued growth envisaged for FY21

Management reaffirmed its guidance for group sales of €50–52m and EBITDA of €13–15m in FY21, which it hopes will be supported by NAGA's global expansion and rising client demand for digital investing and banking products. NAGA's unaudited preliminary sales in H121 increased to €24.5m (of which €11.7m in Q121) from €13.3m in H120 (of which c €7.0m in Q120). As a result, the company is broadly halfway through its full-year revenue target. This was largely driven by copied trades, which reached 2.8m in H121 (out of 4.8m total trades) versus 0.6m in H120 (2.7m). It translated into total trading volumes of €132bn in H121 versus €50bn in H120.

Meanwhile, the company has been working on new functionalities of its offering, most notably NAGA Pay, a mobile neo-banking app with a fully digital onboarding process that will offer direct payment services in the UK and the European Economic (including SEPA transfers), a European IBAN account, a prepaid credit card and access to social trading with all asset classes available in NAGA Trader. The relaunched version of NAGA Pay app will be powered by Contis, one of the leading banking-as-a-service platforms in Europe (NAGA Pay was initially launched in November 2020 under a different setup). NAGA plans to deliver the first personal accounts in NAGA Pay in Q321, subject to receiving regulatory approvals. NAGA has also initiated the licensing of its crypto and blockchain division, which we understand will allow to expand the NAGA Pay app to cover physical crypto wallets (subject to licensing later in Q421, according to management), including buying and selling physical cryptocurrencies and make blockchain-based deposits and withdrawals. Management aims at leveraging NAGA Pay to convert low margin payment services clients into higher-margin contract for difference customers via its social trading platform NAGA Trader, which it will offer as part the NAGA Pay app.

NAGA has subsidiaries in Cyprus, China, Thailand and Nigeria and intends to launch operations in Australia, South Africa and Vietnam once it receives the appropriate licences.

Valuation

We compare NAGA Group to a peer group consisting of several online brokers, as well as the social media platform JOYY. Based on Refinitiv consensus, the company is trading on a FY21e EV/sales ratio of 4.1x, which implies a 4% premium to peer median. However, this changes into a

10% discount on FY22e EV/sales. Its FY21e EV/EBITDA of 14.9x is 2% below the peer group median and the FY22e ratio of 9.4x implies a 7% premium. This suggests its valuation discounts a continuation of high earnings momentum into FY22. We note FY21e Refinitiv consensus for NAGA Group's sales and EBITDA is €53.1m and €14.6m, respectively, sales in line with management guidance and EBITDA close to the upper end of guidance. NAGA's growth path is partially dependent on the level of price volatility and investor activity in the broader markets.

NAGA's shares are now cross-listed publicly on the OTCQX Best Market (the top-tier segment of an over-the-counter market dedicated for entrepreneurial and development stage US and international companies, provided by OTC Markets Group), which management hopes will improve liquidity and help expand investor base. The cross-listing does not affect NAGA's existing ordinary shares and it did not issue any new ordinary shares as part of the cross-trade. NAGA continues to rely on the announcements and disclosures it makes to Deutsche Börse's Scale segment and is not subject to the SEC reporting requirements.

Exhibit 2: NAGA group peer comparison

Company name	Market cap local ccy (m)	Stock exchange	P/E (x)			EV/Sales (x)			EV/EBITDA (x)		
			2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e
IG Group	£3,864	LSE	8.9	12.9	10.2	3.7	3.9	3.0	6.6	8.0	5.9
CMC Markets	£1,317	LSE	7.4	12.4	12.2	2.9	3.6	3.4	5.0	8.0	7.8
Alpha FX Group	£688	LSE	53.2	35.7	N/A	13.2	9.0	N/A	32.2	20.3	N/A
JOYY	CNY4,180	Nasdaq	N/A	127.5	13.0	0.8	0.5	0.3	N/A	29.5	9.8
flatex	€2,801	Deutsche Börse	46.8	18.9	13.1	13.8	7.6	6.0	36.8	15.3	10.9
Peer group median	-	-	27.9	18.9	12.6	3.7	3.9	3.2	19.4	15.3	8.8
NAGA Group	€214	Deutsche Börse	169.3	21.5	14.7	9.0	4.1	2.9	33.2	14.9	9.4
Premium/(discount)	-	-	NM	14%	16%	144%	4%	(10%)	71%	(2%)	7%

Source: Refinitiv data at 2 August 2021, Edison Investment Research

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