

## The NAGA Group

**Financials**

15 November 2021

### New capital to fuel growth

NAGA materially grew its customer base and trading volume in the first nine months of 2021 (9M21), supported by its social-trading functionalities, strong cryptocurrency trading and relatively high market volatility. After posting preliminary sales of c €41m and EBITDA of c €9m in 9M21, management confirmed its full-year guidance, which assumes revenue of €50–52m in FY21 (versus €24.4m in FY20) and EBITDA of €13–15m (€6.6m). Growth plans should be supported by the c €23m equity funding from Apeiron Investment Group and Exness's founder, Igor Lychagov, in September 2021.

### High trading volume drives 9M21 operating results

NAGA's sales increased c 80% y-o-y to €23.2m in H121, driven by notably higher trading volume (€132bn in H121 versus €50bn in H120). At the same time, EBITDA declined to €3.0m in H121 from €3.9m a year earlier, as business expansion over recent months led to visibly higher marketing, personnel and development costs. Preliminary EBITDA rebounded to c €6m in Q321 and sales reached c €17m in the period. Adjusted for restricted cash and the 2021/22 bond conversion in October 2021, net debt was €5.3m at end-H121 (versus €4.8m at end-FY20), implying a moderate net debt to last 12 months (LTM) EBITDA ratio of 0.9x.

### Growth plans backed by €23m in equity funding

In September 2021, NAGA raised c €23m in equity from Apeiron Investment Group, a family office and asset management business of entrepreneur and investor, Christian Angermayer, and Igor Lychagov, the founder of Exness (a provider of trading services). NAGA will use the proceeds for investments in marketing and branding as well as international expansion to Australia, South Africa and the United Arab Emirates. The company launched a payment platform, NAGA Pay, in November 2021, expanded its offering to over 100 countries in October 2021 and plans to commence the NAGA Non-Fungible-Token (NFT) marketplace in Q421.

### Valuation: Investors expect growth

Following c 113% share price growth ytd to 12 November 2021, NAGA is trading at FY21e and FY22e EV/EBITDA of 28.4x and 14.9x (based on Refinitiv consensus) versus the peers group medians of 12.4x and 8.8x, respectively. Its FY21e and FY22e EV/sales multiples of 6.9x and 4.3x compare with 4.9x and 4.2x for its peer group and 15.8x and 12.8x for its closest comparator Robinhood Markets.

#### 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	N/M	N/A
12/21e	57.6	8.0	6.3	0.17	49.5	N/A
12/22e	93.1	18.4	20.5	0.29	29.0	N/A

Source: NAGA Group, Refinitiv consensus, as at 15 November 2021. Note: \*Revenue includes brokerage sales and revenue from services, as reported by the company.

Price **€8.41**  
Market cap **€390m**

#### Share price graph



#### Share details

Code N4G  
Listing Deutsche Börse Scale  
Shares in issue\* 46.4m  
\*Including shares issued in H221 capital increase.  
Last reported net debt at end-H121\*\* €5.3m

\*\*Adjusted for restricted cash of €5.3m and conversion of the 2021/22 corporate bond post period end.

#### 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, 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 have been 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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## Strong trading momentum continues so far in FY21

NAGA posted a notable rise in revenue to €23.2m in H121 from €12.9m in H120, supported by a higher number of transactions (5.7m in H121 versus 2.7m in H120) and spurt in trading volume (€132bn versus €50bn). This was linked to a dynamically growing customer base (79.1k at end-H121 versus 43.6k at end-FY20) and relatively high volatility in the financial markets. Its assets under management increased to €33.5m at end-H121 from €21.8m at end-FY20. In particular, NAGA's growth has been assisted by its trade-copy offering, NAGA Autocopy (which stimulates user activity while reducing customer-acquisition costs and client churn) and cryptocurrency trading.

Despite the dynamic sales growth in H121, EBITDA declined to €3.0m from €3.9m in H120, largely affected by higher marketing spending (€10.7m in H121 versus €2.9m in H120), personnel expenses (€3.4m in H121 versus €1.7m in H120, with headcount at group level at 138 at end-H121 versus 75 at end-H120), and development costs (€1.5m in H121 versus €0.5m in H120) during the ongoing business expansion. In H121, NAGA incurred higher amortisation costs of €2.7m (versus €1.4m in H121), primarily linked to the rise in capitalised customer acquisition costs. As a result, the net loss was €0.5m in H121 versus net income of €2.4m a year earlier.

### Exhibit 1: Financial summary

€000s unless otherwise stated	H121	H120	y-o-y change
<b>Revenue</b>	<b>23,219</b>	<b>12,923</b>	<b>79.7%</b>
Trading revenue	23,219	12,863	80.5%
Revenue from services	0	59	(100.0%)
Capitalised programming services	1,243	410	203.2%
<b>Total performance</b>	<b>24,461</b>	<b>13,333</b>	<b>83.5%</b>
Direct expenses of trading revenues	(1,968)	(1,488)	32.3%
Trading costs	(962)	(1,250)	(23.0%)
<b>Gross profit</b>	<b>21,531</b>	<b>10,595</b>	<b>103.2%</b>
<i>gross margin (%)</i>	<i>92.7%</i>	<i>82.0%</i>	<i>13.1%</i>
Other operating income	20	462	(95.7%)
Development expenses	(1,526)	(548)	178.5%
Personnel expenses	(3,371)	(1,678)	100.9%
Marketing and advertising expenses	(10,745)	(2,881)	273.0%
Other operating expenses	(2,947)	(2,081)	41.6%
<b>EBITDA</b>	<b>2,962</b>	<b>3,870</b>	<b>(23.5%)</b>
Depreciation and amortisation	(2,680)	(1,414)	89.5%
<b>EBIT</b>	<b>281</b>	<b>2,456</b>	<b>(88.6%)</b>
Financial income	1	(11)	(109.1%)
Financial costs	(458)	(252)	81.7%
<b>Income (loss) before taxes</b>	<b>(176)</b>	<b>2,192</b>	<b>(108.0%)</b>
Income taxes	(345)	227	(252.0%)
<b>Net profit/(loss)</b>	<b>(522)</b>	<b>2,419</b>	<b>(121.6%)</b>
attributable to shareholders of the parent	(520)	2,659	(119.6%)
minority interests	(1)	(240)	(99.6%)

Source: NAGA Group accounts

NAGA's financial liabilities increased to €12.0m at end-H121 from €5.6m at end-FY20, largely due to the issue of a 2021/22 zero-coupon convertible bond (see our previous [update note](#) for more details) with a nominal value of €8m and book value of €6.3m at end-H121. That said, the bondholders used their rights to convert c €8.0m of the bond's volume to NAGA's shares in October 2021, reducing its outstanding balance to a minor 5k, which the company has redeemed subsequently. As a result, its net debt adjusted for restricted cash (which rose to €5.3m at end-H121 from €4.5m at end-FY20) and the October 2021 bond conversion stood at €5.3m at end-H121 (versus €4.8m at end-FY20). This implies a moderate net debt to LTM EBITDA ratio of 0.9x. At end-H121, NAGA's financial liabilities included a €3.0m senior loan (which it received from its largest shareholder, Fosun Fintech Holdings, in November 2019) and a €2.0m convertible bond (which it issued to Fosun Fintech in January 2020); these liabilities are due in November 2021 and January 2022 respectively.

According to preliminary figures, NAGA's revenue reached c €41m in 9M21 and EBITDA was c €9m in the period, implying strong sales of c €17m in Q321 and EBITDA of c €6m. Management highlights that NAGA Autocopy (c 55% of NAGA's revenue in 9M21) was the major growth catalyst in the period, after the revenue linked to this product rose 400% y-o-y. Another growth impulse came from cryptocurrency trading (c 15%), from which sales generated in 9M21 were seven times higher than in the comparable period last year. Management has confirmed its guidance for group sales of €50–52m (versus €24.4m in FY20) and EBITDA of €13–15m in FY21 (€6.6m), implying Q421 revenue of €9–11m and Q421 EBITDA of €4–6m and, according to our calculations. We present historical performance and management forecasts in Exhibit 2.

**Exhibit 2: Historical performance and management guidance**

	FY21e – management guidance	9M21	FY20	FY19
Revenue (€m)	50–52	41	24.4	7.6
EBITDA (€m)	13–15	8.6	6.6	(9.2)
Marketing expense (€m)	22	N/A	6.6	2.5
Transactions (m)	10	8.1	6.0	3
New accounts (000)	288	218	127	34
Volume traded (€bn)	N/A	191	123.5	44.3
Monthly active accounts (000)	26	N/A	13	7
Average churn pa (%)	37	N/A	43	53
Average revenues per active user pa (€)	1,943	N/A	1,813	805
Average number of trades per active user pa (units)	670	N/A	478	427
Number of copies trades (m)	5	N/A	1.7	0.7

Source: NAGA Group

## Equity funding from Apeiron to fuel growth

NAGA's focus remains on direct marketing and branding, with the company guiding for marketing expenses of c €22m in FY21 versus c €11m in H121 (eg after end-H121, the company announced that its corporate logo will appear on Sevilla FC player shirts). Simultaneously, management plans geographic expansion to Australia, South Africa and the United Arab Emirates, once it receives appropriate licenses. Over the longer term, the company hopes to leverage its market position with strategic partnerships and mergers and acquisitions opportunities.

NAGA's growth ambitions should be helped by the c €23m equity financing from Apeiron Investment Group and Igor Lychagov. As a part of the transaction, NAGA issued c 4.2m new shares, representing c 10% of its share capital at the time of the transaction at €5.40 per share. In addition to this, Apeiron, along with Elevat3 (the venture capital arm of Apeiron, which partners with Peter Theil's Founders Fund), has agreed to purchase a block of shares from Fosun Fintech, targeting a c 22% stake in NAGA, upon completion of the transaction. Subsequently, the founder and owner of Apeiron, Christian Angermayer, joined NAGA's supervisory board in H221. According to NAGA's November 2021 presentation, Fosun and Apeiron had a c 33% and 23% stake in the company respectively as of 30 September 2021 and all NAGA's shares except the free float (c 16%) were in lock-up until 31 December 2022.

Meanwhile, NAGA has announced major developments across its product range, including the launch of a payment platform, NAGA Pay, in November 2021. The platform supports payments in the European Economic Area and the UK and combines an IBAN account, a VISA debit card, a brokerage account and copy trading. The company plans to add physical crypto wallets to the platform, which is currently subject to receiving the required licensing (earlier this year, it was planned for Q421). Management hopes the platform will help NAGA convert low-margin payment-services clients into higher-margin contracts for difference customers. Moreover, in October 2021, the company expanded its stock trading offering to over 100 countries, offering a flat charge per trade of €0.99. Management hopes this will help scale up the business by increasing the customer base and reducing customer-acquisition cost.

Finally, NAGA plans to launch the NAGA NFT marketplace in Q421, which will allow users to create and trade their own works of art, music and digital content on a decentralised database via blockchain. NAGA's in-house NFT wallet will be used to pay for and store the tokens on the Ethereum blockchain. NAGA plans to introduce its own NFT collection for the launch.

## Valuation

Our peer group for NAGA includes several listed online brokers, including its close but larger peer Robinhood Markets, which went public in July 2021. Refinitiv consensus estimates FY21 sales for NAGA of €57.6m (ahead of management guidance) and €14.1m for EBITDA (at the mid-point of management guidance). Based on Refinitiv consensus, the company is trading on an FY21e EV/sales multiple of 6.9x (versus the median of 4.9x for its peers and 15.8x for Robinhood Markets) and an FY22e EV/sales multiple of 4.3x (broadly in line with its peers and below the 12.8x for Robinhood Markets). Its FY21e and FY22e EV/EBITDA multiples of 28.4x and 14.9x respectively are above the peer group medians of 12.4x and 8.8x respectively and materially below Robinhood's multiples. We calculate the ratios based on NAGA's share count of 42.2m at end-H121 plus the 4.2m shares that it issued to Apeiron and Igor Lychagov after the end of H121. We note that NAGA's growth path is partially dependent on the level of price volatility and investor activity in the broader markets.

NAGA's close peers include also unlisted social trading and multi-asset broker eToro and a German online broker Trade Republic. In March 2021, eToro announced its plans to go public in Q321 through a merger with a special purpose acquisitions company at a \$10.4bn valuation. However, the company postponed its listing plans to Q421, citing regulatory delays. Based on eToro's Q221 presentation released in August 2021, we calculate that its pro forma enterprise value (estimated by management based on the targeted IPO valuation) and management revenue forecasts implied FY21e and FY22e EV/sales multiples of 9.4x and 8.4x respectively. We also note that Trade Republic raised US\$900m in a Series C funding round in May 2021, which drove its valuation to c US\$5.3bn. However, we note the IPO market overall is somewhat less buoyant currently, adding some uncertainty to these valuation metrics.

**Exhibit 3: 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
CMC Markets	£752	LSE	4.2	11.1	9.1	1.5	2.2	2.0	2.6	6.1	5.4
Alpha FX Group	£845	LSE	65.5	44.0	36.8	16.6	11.4	9.7	40.5	25.5	21.1
Plus 500	£1,280	LSE	3.6	5.7	8.4	0.8	1.1	1.2	1.3	2.1	2.6
flatexDEGIRO	€2,029	Deutsche Börse	33.9	21.5	13.4	10.9	6.7	5.6	28.9	18.1	11.6
IG Group	£3,377	LSE	7.9	11.0	9.8	3.1	3.1	2.8	5.6	6.6	5.9
Robinhood Markets	US\$30,270	NASDAQ	N/A	N/A	N/A	30.1	15.8	12.8	N/A	467.3	89.7
<b>Peer group median</b>	-	-	<b>7.9</b>	<b>11.1</b>	<b>9.8</b>	<b>7.0</b>	<b>4.9</b>	<b>4.2</b>	<b>5.6</b>	<b>12.4</b>	<b>8.8</b>
NAGA Group	€395	Deutsche Börse	283.3	49.0	29.3	16.4	6.9	4.3	60.9	28.4	14.9
<b>Premium/(discount)</b>	-	-	<b>N/M</b>	<b>N/M</b>	<b>198%</b>	<b>135%</b>	<b>41%</b>	<b>2%</b>	<b>N/M</b>	<b>129%</b>	<b>70%</b>

Source: Refinitiv data at 15 November 2021

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