GBC AG Investment Research

The NAGA Group AG*5a,11

Rating: BUY
Target price: EUR 2.90
(previously: EUR 3.60)

Current price: 1.10
17.11.23 / XETRA / 5:36 pm
Currency: EUR

Key data:

ISIN: DE000A161NR7
WKN: A161NR
Stock exchange symbol: N4G
Number of shares³: 54.05
Marketcap³: 59.24
³ in million / in million EUR

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:
20/11/23 (09:32 am)

Date (time) first transmission:
20/11/23 (11:30 am)

Validity of the course target:
until max. 31.12.2024

Branch: FinTech

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

Employees: 117 (30.09.2023)

Year of foundation: 2015

Head office: Hamburg

Board of Directors: Michalis Mylonas, Andreas Luecke

NAGA is an innovative fintech company that seamlessly connects personal finance and investing with its social trading platform. The company's own platform offers a range of products, from share trading, investments and crypto-to-currencies to a physical Mastercard. In addition, the platform enables exchange 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	31.12.2022	31.12.2023e	31.12.2024e	31.12.2025e
Revenues	57.60	39.17	43.08	47.39
EBITDA	-13.73	5.13	6.62	9.21
EBIT	-36.86	-2.40	0.62	3.51
Net profit for the year	-37.29	-3.10	0.02	2.53
Key figures in EUR				
Earnings per share	-0.69	-0.06	0.00	0.05
Dividend per share	0.00	0.00	0.00	0.00
Key figures				
EV/revenues	0.74	1.08	0.98	0.89
EV/EBITDA	neg.	8.25	6.40	4.60
EV/EBIT	neg.	neg.	68.74	12.05
P/E RATIO	neg.	neg.	3692.09	23.40
P/B-RATIO	0.47			

Financial dates
21.12.2023: AGM

**last research by GBC:
Date: Publication / Target price in EUR / Rating
03.02.2023: RS / 3.60 EUR / BUY
19.01.2022: RS / 12.75 EUR / BUY
08.11.2021: RS / 11.70 EUR / BUY
09.08.2021: RS / 9.10 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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Strong earnings growth achieved in the first nine months of 2023, lower sales growth but increase in profitability expected, price target: € 2.90, rating: BUY

- The NAGA Group AG recently published its annual report for the 2022 financial year, which is therefore late. The delayed publication is mainly due to a change of auditor, the inclusion of new business activities and new subsidiaries, but above all due to the clarification of valuation issues regarding the cryptocurrency portfolio.

- Although it is clear from the annual report that the company recorded further sales growth of 8.9% to € 57.60 million (previous year: € 52.88 million) in the past 2022 financial year, EBIT of € -36.86 million (previous year: € -9.55 million) was significantly below the previous year's level. In particular, write-downs on cryptocurrencies held long-term and intended for trading totalling € 18.57 million and a bad debt provision of € 1.45 million led to the significant decline in earnings, as expected. The write-downs on cryptocurrencies are related to the sharp fall in the price of NAGA Coin (NGC). Even adjusted for these special effects, NAGA would have reported a negative EBIT of € -16.84 million. This reflects the strategy of strong customer and sales growth pursued until the 2022 financial year, which was accompanied, for example, by unchanged high marketing expenses of € 28.35 million (previous year: € 30.97 million). In order to reach the operating break-even point, these high expenses must generate higher sales growth. However, this was offset by a generally difficult market environment, which was characterised by a significant decline in cryptocurrency prices on the one hand and falling transaction figures on the other.

- In response to developments in the past financial year 2022, NAGA's management changed its strategy and initiated a reorganisation. The focus was shifted from sales growth to profit growth and the corporate and cost structures were adjusted accordingly. This change in strategy benefits the "one-stop-shop" approach of the Naga app, which has now been fully developed and introduced to the market. With the introduction of Naga Pay and NAGAX, the aspects of a NeoBank, a NeoBroker and social investing are combined with a crypto ecosystem within one app or application.

- The development of the current financial year 2023 reflects the success of the strategic realignment that has been introduced. According to preliminary nine-month figures, EBITDA of € 4.2 million (previous year: € -11.2 million) was already noticeably higher than the previous year's figure despite a significant decline in sales to € 28.7 million (previous year: € 46.7 million). The EBITDA margin was 14.6% after a negative figure in the previous year. The main reason for this development was the reduction in total expenses. Marketing and sales expenses in particular were reduced to € 3.7 million (previous year: € 26.1 million). In this context, the costs per customer acquired fell significantly to € 181. In the past financial year, they still peaked at over € 1,650. In addition to customer acquisition in foreign markets, which is associated with lower costs, this sharp fall in costs is due to deliberate cost savings in the area of marketing. Inefficient measures were discontinued and all agreements in this area were scrutinised.

- Despite the cost savings in customer acquisition, the number of active customers rose to 20,700 as at 30/09/2023 (30/09/2022: 17,700). This was accompanied by an increase in the number of trades in the first nine months to 10.9 million (previous year: 8.4 million), although sales per trade fell due to market conditions, which explains the decline in sales.

- Based on the nine-month development, a visible decline in sales to € 39.17 million (previous year: € 57.60 million) should be reported in the current financial year 2023, but

EBITDA should, according to our estimates, reach € 5.13 million (previous year: € -13.73 million), the best figure in the company's history.

- We also anticipate lower growth momentum in the coming financial years compared to previous years, although we expect a further improvement in profitability. On the one hand, the cost-cutting measures taken, which are also attributable to a sharp reduction in the number of employees to 117 (31/12/22: 171), are likely to have a full impact in the coming financial year. On the other hand, the development of the so-called Super-app has been completed, meaning that significantly lower development costs can be expected in the coming financial years. Finally, the NAGA technology will also be offered to third parties as a white label solution, a high-margin business model. A first regulated online brokerage company from Kuwait will soon launch a social trading product based on NAGA technology.

- For the coming financial years 2024 and 2025, we expect sales growth of 10% each to € 43.08 million (2024) and € 47.39 million (2025) respectively. NAGA should break even in the coming financial year due to the expected reduction in total costs at all earnings levels. The EBITDA margin should rise to 15.4% and to 19.4% in the 2025 financial year.

- As part of our DCF valuation model, we have determined a new price target of € 2.90 (previously: € 3.60). The reduction in the price target is due in particular to our reduced sales growth momentum. Although we expect a general increase in profitability, the absolute earnings figures are below our previous estimates. We continue to rate the share as BUY.

Model assumptions

The NAGA Group AG was valued by us using a three-stage DCF model. Starting with the specific estimates for the years 2023 to 2025 in phase 1, the second phase involves a forecast from 2026 to 2030 based on value drivers. We expect sales to increase by 10.0% (previously: 15.0%). We have assumed an EBITDA margin target of 22.8% (previously: 18.9%). We have initially recognised the tax rate at 10% due to the remaining loss carry forwards and only set it at 30.0% in the terminal value. In the third phase, a residual value is also determined after the end of the forecast horizon using perpetuity. 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. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the IDW's Technical Committee for Business Valuation and Economics (FAUB). This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth out short-term market fluctuations, the average yields of the previous three months are used and the result is rounded to 0.25 basis points. The risk-free interest rate currently used is 2.00% (previously: 1.50%).

We use the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of equity 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: 1.61) is currently calculated using the assumptions made, resulting in a cost of equity of 10.84% (previously: 10.34%) (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of equity costs of 90% (previously: 100%), the weighted average cost of capital (WACC) is 10.58% (previously: 10.34%).

Valuation result

Due to the reduced forecasts and the higher cost of capital, we have reduced the target price to € 2.90 (previously: € 3.60) as part 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	
Revenue growth	10.0%
EBITDA-Margin	25.0%
Depreciation to fixed assets	84.8%
Working Capital to revenue	-5.3%

final - phase	
Eternal growth rate	3.0%
Eternal EBITA - margin	22.8%
Effective tax rate in final phase	30.0%

three phases DCF - model:

phase	estimate			consistency					final
in €m	FY 23e	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e	FY 30e	value
Revenues (RE)	39.17	43.08	47.39	52.13	57.34	63.08	69.38	76.32	
RE change	-32.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	3.0%
RE to fixed assets	2.72	4.13	7.05	17.24	23.31	26.57	29.38	32.35	
EBITDA	5.13	6.62	9.21	13.03	14.34	15.77	17.35	19.08	
EBITDA-Margin	13.1%	15.4%	19.4%	25.0%	25.0%	25.0%	25.0%	25.0%	
EBITA	-2.40	0.62	3.51	7.33	11.77	13.68	15.33	17.08	
EBITA-Margin	-6.1%	1.4%	7.4%	14.1%	20.5%	21.7%	22.1%	22.4%	22.8%
Taxes on EBITA	0.00	0.00	-0.35	-0.73	-1.18	-1.37	-1.53	-1.71	
Taxes to EBITA	0.0%	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	30.0%
EBI (NOPLAT)	-2.40	0.62	3.16	6.60	10.60	12.32	13.80	15.37	
Return on capital	-16.7%	5.9%	47.7%	156.3%	3916.4%	1740.6%	850.9%	589.2%	347.9%
Working Capital (WC)	-4.00	-3.80	-2.50	-2.75	-1.75	-0.75	0.25	1.25	
WC to Revenues	-10.2%	-8.8%	-5.3%	-5.3%	-5.3%	-5.3%	-5.3%	-5.3%	
Investment in WC	-1.63	-0.20	-1.30	0.25	-1.00	-1.00	-1.00	-1.00	
Operating fixed assets (OAV)	14.42	10.42	6.72	3.02	2.46	2.37	2.36	2.36	
Depreciation on OAV	-7.53	-6.00	-5.70	-5.70	-2.56	-2.09	-2.01	-2.00	
Depreciation to OAV	52.2%	57.6%	84.8%	84.8%	84.8%	84.8%	84.8%	84.8%	
Investment in OAV	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	
Capital employed	10.42	6.62	4.22	0.27	0.71	1.62	2.61	3.61	
EBITDA	5.13	6.62	9.21	13.03	14.34	15.77	17.35	19.08	
Taxes on EBITA	0.00	0.00	-0.35	-0.73	-1.18	-1.37	-1.53	-1.71	
Total investment	-3.63	-2.20	-3.30	-1.75	-3.00	-3.00	-3.00	-3.00	
Investment in OAV	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	-2.00	
Investment in WC	-1.63	-0.20	-1.30	0.25	-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	1.50	4.42	5.56	10.55	10.16	11.40	12.81	14.37	164.08

Value operating business (due date)	125.31	134.15
Net present value explicit free Cashflows	44.15	44.41
Net present value of terminal value	81.16	89.74
Net debt	-17.69	-21.51
Value of equity	143.00	155.66
Minority interests	1.11	1.21
Value of share capital	144.11	156.87
Outstanding shares in m	54.05	54.05
Fair value per share in €	2.67	**2.90**

Cost of capital:

Risk free rate	2.0%
Market risk premium	5.5%
Beta	1.61
Cost of equity	10.8%
Target weight	90.0%
Cost of debt	11.0%
Target weight	10.0%
Taxshield	25.0%
WACC	**10.6%**

Return on capital	WACC				
	8.6%	**9.6%**	**10.6%**	**11.6%**	**12.6%**
346%	3.74	3.25	2.89	2.62	2.41
347%	3.75	3.26	2.90	2.63	2.42
348%	3.76	3.26	**2.90**	2.63	2.42
349%	3.77	3.27	2.91	2.64	2.43
350%	3.77	3.27	2.91	2.64	2.43

ANNEX

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The analysts responsible for this analysis are
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