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Research comment

SMC Research
Small and Mid Cap Research
Platz 1 Europe Industrials
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The NAGA Group AG

New partnerships as a catalyst for strong growth acceleration

Rating: Buy (unchanged) | **Price:** 0.952 € | **Price target:** 1.60 € (unchanged)

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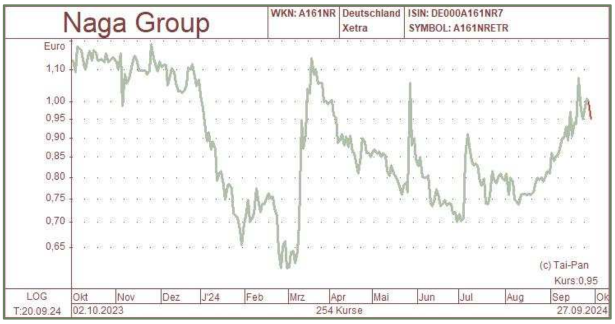
Current development



Basic data

Based in:	Hamburg
Sector:	Fin Tech
Headcount:	>350
Accounting:	IFRS
Ticker:	N4G:GR
ISIN:	DE000A161NR7
Price:	0.952 Euro
Market segment:	Scale
Number of shares:	approx. 232 m*
Market Cap:	220.9 m Euro*
Enterprise Value:	223.4 m Euro*
Free Float:	9.4 %*
Price high/low (12 M):	1.378 / 0.60 Euro
Ø turnover (12 M Xetra):	21,700 Euro

FY ends: 31.12.**	2023e	2024e	2025e
Sales (m Euro)	39.7	75.6	101.7
EBITDA (m Euro)	8.4	7.4	14.5
Net profit (m Euro)	-61.0	-5.3	3.2
EpS (Euro)	-1.13	-0.02	0.01
Dividend per share	0.00	0.00	0.00
Sales growth	-31.0%	90.3%	34.5%
Profit growth	-	-	-
PSR	5.56	2.92	2.17
PER	-	-	70.1
PCR	-	-	30.5
EV / EBITDA	26.5	30.2	15.4

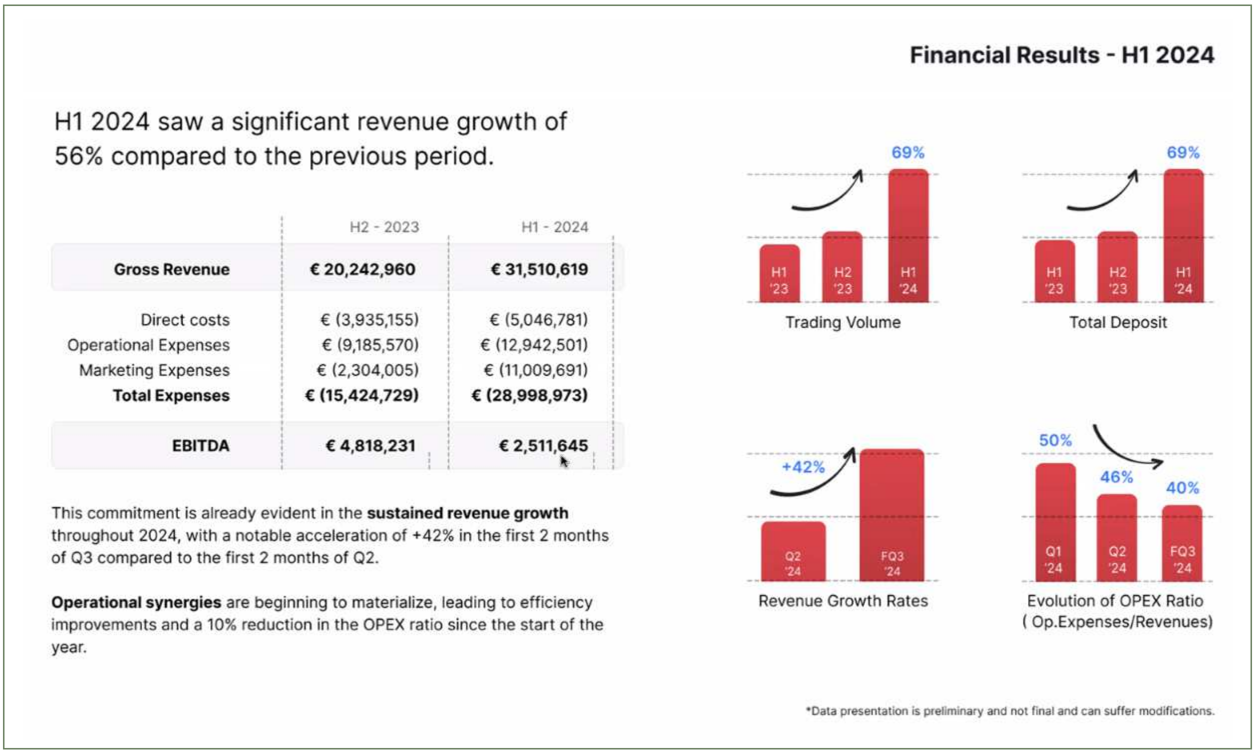
**after merger; **from 2024 including CAPEX.com/Key Way Group, 2024 on an as-if-basis*

NAGA integration into Telegram

With a new partnership, NAGA has opened up a large potential customer base. The “NAGA Everything Trading” app can now be accessed directly via the Telegram messenger, giving its users easy access to all of the platform's trading options. According to the company, it is the first trading app to be fully integrated into the messenger service. This gives NAGA access to a huge community of 950 million users in one fell swoop. The integration into Telegram alone has already led to an initial wave of registrations with NAGA, although there has not yet been any advertising. The company expects that the launch of a marketing programme will further boost momentum and will help to rapidly acquire 1 million customers via this channel alone. Further positive effects are also to be expected from a new marketing partnership that was recently concluded with Borussia Dortmund. At “very attractive conditions” (CEO Octavian Patrascu), NAGA has become the football club's new sponsoring partner for two years at the start of the season, which is linked to various advertising opportunities (use of BVB logo, players, perimeter advertising).

Synergies currently being leveraged

Following the merger of NAGA and Capex.com, the management's focus is now on implementing the growth strategy that was formulated for the newly formed company in July (see our detailed update from 22 July 2022). At the same time, the company is also working on realising the synergies identified with the merger, which have been estimated at around USD 10 m. CEO Octavian Patrascu provided an update on the progress made in this process at a recent round table discussion. Very good progress has already been made in the two most important areas, technology and operations, which account for 44 and 37 percent of the identified synergy potential respectively, so that it is realistic to expect all adjustment measures to be completed by the end of the year. The leveraging of synergies in marketing (the remaining 19 percent) is somewhat more challenging, as agreements sometimes have



Source: Company

to be adapted, which takes a little more time. Nevertheless, good progress has been made here as well.

Sales grow by 56 percent

The realisation of synergies will have a positive impact for the first time in the second half of the year. The first six months, on the other hand, were strongly influenced by the conclusion of the merger. As a result of the merger, NAGA has increased its trading volume by 69 percent compared to the previous year, which, according to preliminary calculations, has translated into a 56 percent increase in sales to EUR 31.5 m. In comparison, direct trading costs and operating expenses rose at a disproportionately low rate, by 28 percent to EUR 5.0 m and 41 percent to EUR 12.9 m respectively. However, marketing expenses, which had been reduced to just EUR 2.3 m in the previous year to conserve liquidity, have multiplied and have now risen again to EUR 11.0 m. This was reflected in EBITDA, which at EUR 2.5 m was still below the previous year's level (EUR 4.8 m).

Good start to the third quarter

However, the effects of the measures to improve efficiency are becoming increasingly apparent, for example in the ratio of operating expenses to sales, which is expected to be only 40 percent in the third quarter, compared to 50 percent in the first three months and 46 percent in Q2. At the same time, the positive effects of the marketing measures introduced are already clearly reflected in the revenue trend: Revenue in July and August was 42 percent higher than in the first two months of the second quarter. The company will shortly provide an update on the outlook for 2024. To date, the planning envisages revenue of EUR 75 m and EBITDA of EUR 8.7 m, resulting in an EBITDA margin of 12 percent.

Ambitious goals

For the coming year, an increase in revenue to EUR 103 m is being targeted. The company can easily realise part of this effect within its own customer base – as a direct result of the merger of Capex.com and NAGA. This is because Capex users will also have access to NAGA's social network in the future, which

m Euro	12 2024	12 2025	12 2026	12 2027	12 2028	12 2029	12 2030	12 2031
Sales	75.6	101.7	128.2	160.2	198.3	234.9	266.1	287.8
Sales growth		34.5%	26.1%	25.0%	23.8%	18.5%	13.3%	8.2%
EBITDA	**7.4**	**14.5**	**24.0**	**34.4**	**46.0**	**55.3**	**62.4**	**67.3**
EBIT	-4.5	3.5	13.7	25.3	37.0	50.2	57.3	64.3
Tax rate	0.0%	5.0%	5.0%	10.0%	25.0%	30.0%	30.0%	30.0%
Adjusted tax payments	0.0	0.2	0.7	2.5	9.2	15.1	17.2	19.3
NOPAT	**-4.5**	**3.3**	**13.0**	**22.8**	**27.7**	**35.2**	**40.1**	**45.0**
+ Depreciation & Amortisation	11.9	11.0	10.3	9.1	9.1	5.1	5.1	3.1
+ 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	7.4	14.3	23.3	31.8	36.8	40.3	45.2	48.1
- Increase Net Working Capital	-7.4	-6.5	-4.4	-4.7	-2.8	-1.0	-1.2	-1.3
- Investments in fixed assets	-4.5	-4.7	-4.9	-4.8	-4.6	-4.3	-4.0	-3.7
Free cash flow	**-4.5**	**3.1**	**14.1**	**22.4**	**29.4**	**34.9**	**40.0**	**43.1**

SMC estimation model, 2024 as-if-approach including Key Way / Capex

according to previous surveys leads to significantly higher trading activities (+24 percent). Overall, the company expects this alone to increase its trading volume by 14.4 percent. Further strong impetus is promised by the new partnerships, in particular the integration into Telegram, and further internationalisation, especially in emerging markets. In terms of costs, the targeted strong growth will lead to significant economies of scale, which, in combination with the synergies realised, should enable a disproportionately high increase in EBITDA to EUR 22.8 m and an improvement in the margin to 22 percent. This process is to continue seamlessly in 2026, with growth in revenue and EBITDA to EUR 129.0 m and EUR 31.3 m respectively (margin: 24 percent).

Confirmation of our estimates

In our view, especially the Telegram deal is a strong confirmation of NAGA's potential following the merger with Capex.com. With the significantly expanded management team, international marketing should now be driven forward very dynamically and, according to the CEO, further partnerships are currently being negotiated. We therefore consider the company's growth plans to be highly valid and have already assumed a similar revenue trend until 2026 in our model – and further significant growth thereafter. We maintain these estimates as well as our EBITDA projection. The latter is even more cautious than the corporate targets, with EUR 7.4 m this year and EUR 14.5 and 24.0 m in 2025 and 2026. We have chosen a more conservative approach for the time being to see how strong the economies of scale turn out to be. Should the management realise its targets, this would result in considerable upside potential to our model result. The table above shows the development of the key cash flow data resulting from our assumptions in the detailed forecast period. Further details on the estimated balance sheet, income statement and cash flow statement are provided in the Annex.

Price target remains EUR 1.60

The framework parameters of our model are unchanged. We continue to calculate with a fully diluted number of shares of 232 million (post-merger) and an unchanged discount rate (WACC) of 8.5 percent and, to determine the terminal value, a safety discount of 20 percent on the target margin in conjunction with a “perpetual” growth rate of 1 percent. The model results in a fair value of EUR 1.60 per share, which means that our target price remains unchanged (a sensitivity analysis for determining the target price can be found in the Annex). Even after the share's recent positive performance, we see further upside potential of more than 60 percent. We continue to rate the forecast risk of our estimates as slightly above average at four points on a scale of 1 (low) to 6 (high), since consolidated figures for the newly formed company are not yet available and the volatile capital market trend has a substantial impact on NAGA's business results.

Conclusion

NAGA merged with Capex.com in the current year, which is reflected in the figures for the first half of the year. The trading volume handled by the merged company increased by 69 percent compared to the previous year, resulting in sales growth of 56 percent to EUR 31.5 m. As the company once again significantly increased its marketing expenditure from EUR 2.3 m to EUR 11.0 m, the half-year EBITDA of EUR 2.5 m was still below the previous year's figure (EUR 4.8 m).

In the third quarter, however, the intensified advertising measures are already showing clear positive effects in the form of rising revenue – in July and August, sales were 42 percent higher than in the first two months of the second quarter. At the same time, the ratio of operating expenses to revenue has improved considerably and is expected to be only 40 percent in Q3, compared to 50 percent in Q1.

For the full year, the plans so far envisage revenue of EUR 75 m and EBITDA of EUR 8.7 m; there will be an update on this shortly. Further significant increases are targeted for 2025 and 2026, to EUR 103 m and EUR 129 m in revenue and EUR 22.8 m and EUR 31.3 m in EBITDA, respectively.

This strong growth is to be achieved through a whole bundle of measures. On the one hand, the company is currently realising synergies amounting to USD 10 m, which should take full effect in 2025. On the other hand, the expansion of NAGA's social network to include Capex.com users has a clearly positive impact on trading activities according to previous surveys.

Above all, however, the management can now fully focus on new growth initiatives. The integration into Telegram is a good example of this, with a potentially powerful boost for user acquisition.

We think NAGA is making excellent progress now. In our model, we roughly follow the management's revenue projection but have been a little more cautious in our earnings expectations. Nevertheless, we still see a target price of EUR 1.60, which offers attractive upside potential. On this basis, we confirm our “Buy” rating.

Annex I: SWOT analysis

Strengths

- Experienced management team with high competence in FinTech and brokerage. The merger with the Key Way Group has further strengthened the team and expanded the organisational structure. Among other things, NAGA has gained a CEO with a strong track record in Octavian Patrascu.
- Comprehensive and well-engineered finance platform with excellent scalability thanks to extensive automation.
- 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 and a half years.
- Several renowned anchor shareholders.

Weaknesses

- Despite a strong improvement in EBITDA, the free cash flow in 2023 was still clearly negative.
- 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 (85 percent as at 31.12.23).
- Complex regulatory environment.
- The publicly available data on the Key Way Group is still limited. It will be some time before consolidated figures for the newly formed company are available.

Opportunities

- The merger with the Key Way Group takes NAGA to another dimension in terms of size. The realisation of the projected synergies of USD 10 m p.a. could significantly improve profitability and cash flow.
- The essential elements of the technology have been developed by now, so the increase in product development costs should only be disproportionately low in the future.
- The solutions for brokerage, social trading, crypto and payment are currently being merged into a super app, which should stimulate further marketing.
- Sales are expected to rise sharply over the next few years thanks to high cross-selling potential between the NAGA and CAPEX solutions and the planned expansion in emerging markets. Achieving these goals would presumably go hand in hand with a strong increase in profits.

Threats

- The integration of NAGA and the Key Way Group could fall short of the envisaged targets – in particular synergies totalling USD 10 m p.a.
- The intensity of competition in the brokerage market is high and it is not certain that the company will succeed in gaining the targeted market share in competition with, in some cases, significantly larger providers.
- The communicated ambitious growth and margin targets for the coming years could be missed.
- 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.

Annex II: Balance sheet and P&L estimation

Balance sheet estimation*

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
ASSETS									
I. Total non-current	52.6	205.2	198.9	193.4	189.1	184.6	183.8	182.7	183.3
1. Intangible assets	51.9	204.3	197.9	192.3	187.8	183.1	182.0	180.6	180.9
2. Tangible assets	0.5	0.6	0.7	0.9	1.0	1.3	1.6	1.9	2.2
II. Total current assets	8.3	26.2	36.6	58.5	89.2	125.2	154.4	175.8	193.1
LIABILITIES									
I. Equity	49.5	222.1	225.3	238.3	261.4	289.8	314.6	330.7	344.1
II. Accruals	0.8	1.0	1.1	1.2	1.3	1.5	1.6	1.7	1.8
III. Liabilities									
1. Long-term liabilities	3.4	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4
2. Short-term liabilities	7.2	6.6	7.7	10.9	14.1	17.1	20.6	24.6	29.0
TOTAL	**60.9**	**231.3**	**235.5**	**251.9**	**278.3**	**309.8**	**338.3**	**358.5**	**376.3**

P&L estimation*

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales	39.7	75.6	101.7	128.2	160.2	198.3	234.9	266.1	287.8
Total output	41.9	77.6	103.7	130.2	162.2	200.3	236.9	268.1	289.8
Gross profit	31.9	58.7	78.2	98.2	122.2	150.7	178.2	201.6	217.9
EBITDA	8.4	7.4	14.5	24.0	34.4	46.0	55.3	62.4	67.3
EBIT	-57.6	-4.5	3.5	13.7	25.3	37.0	50.2	57.3	64.3
EBT	-61.0	-5.3	3.3	13.8	25.7	37.8	51.7	59.2	66.5
EAT (before minorities)	-61.0	-5.3	3.2	13.1	23.1	28.3	36.2	41.4	46.5
EAT	-61.0	-5.3	3.2	13.1	23.1	28.3	36.2	41.4	46.5
EPS	-1.13	-0.02	0.01	0.06	0.10	0.12	0.16	0.18	0.20

** up to 2023 NAGA stand-alone, from 2024 including Key Way / Capex (with as-if-estimate for 2024)*

Annex III: Cash flows estimation and key figures

Cash flows estimation*

m Euro	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
CF operating	-0.9	-1.7	7.2	18.9	27.3	34.4	40.0	45.2	48.1
CF from investments	-3.4	-4.5	-4.7	-4.9	-4.8	-4.6	-4.3	-4.0	-3.7
CF financing	5.8	14.5	-1.2	0.2	0.2	0.2	-11.1	-25.1	-33.0
Liquidity beginning of year	3.1	4.5	12.8	14.1	28.3	51.0	81.0	105.6	121.7
Liquidity end of year	4.5	12.8	14.1	28.3	51.0	81.0	105.6	121.7	133.1

Key figures*

percent	2023 act.	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e
Sales growth	-31.0%	90.3%	34.5%	26.1%	25.0%	23.8%	18.5%	13.3%	8.2%
EBITDA margin	21.3%	9.8%	14.3%	18.7%	21.4%	23.2%	23.6%	23.5%	23.4%
EBIT margin	-145.0%	-6.0%	3.4%	10.7%	15.8%	18.6%	21.4%	21.5%	22.3%
EBT margin	-153.4%	-7.1%	3.3%	10.7%	16.0%	19.1%	22.0%	22.2%	23.1%
Net margin	-153.4%	-7.1%	3.1%	10.2%	14.4%	14.3%	15.4%	15.6%	16.2%

** up to 2023 NAGA stand-alone, from 2024 including Key Way / Capex (with as-if-estimate for 2024)*

Annex IV: Sensitivity analysis

	Perpetual cash flows growth				
WACC	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**
7.5%	2.14	2.01	1.89	1.79	1.71
8.0%	1.95	1.83	1.74	1.66	1.58
8.5%	1.78	1.68	**1.60**	1.53	1.47
9.0%	1.63	1.56	1.49	1.43	1.37
9.5%	1.51	1.44	1.38	1.33	1.29

Disclaimer

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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 30.09.2024 at 7:00 am and published on 30.09.2024 at 9:15 am.

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Buy	We expect an increase in price for the analysed financial instrument by at least 10 percent. We assess the estimation risk as average (3 to 4 points).
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Sell	We expect that the price of the analysed financial instrument will drop by at least 10 percent. The forecast risk (1 to 6 points) has no further impact on the rating.

The expected change in price refers to the current share price of the analysed company. This price and any other share prices used in this analysis are XETRA closing prices as of the last trading day before publication. If the share is not traded on XETRA, the closing price of another public stock exchange is used with a separate note to that effect.

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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An overview of the recommendations prepared and distributed by SMC Research in the last 12 months can be found at: http://www.smc-research.com/publikationsuebersicht

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Date	Investment recomm.	Target price	Conflict of interests
22.07.2024	Buy	1.60 Euro	1), 3), 4)
29.04.2024	Speculative Buy	1.40 Euro	1), 3)
05.03.2024	Speculative Buy	1.40 Euro	1), 3), 4)
13.11.2023	Hold	2.80 Euro	1), 3)
14.04.2023	Hold	3.60 Euro	1), 3), 4)
14.02.2023	Hold	4.10 Euro	1), 3)
26.01.2023	Hold	3.40 Euro	1), 3)
31.10.2022	Hold	3.40 Euro	1), 3), 4)

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

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

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