

EAB Group Oyj

Financials
Finland

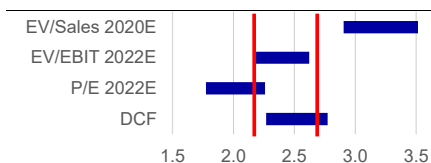
KEY DATA

Stock country	Finland
Bloomberg	EAB FH
Reuters	EABG.HE
Share price (close)	EUR 3.14
Free Float	35%
Market cap. (bn)	EUR 0.04/EUR 0.04
Website	www.eabgroup.fi
Next report date	12 Feb 2021

PERFORMANCE



VALUATION APPROACH



ESTIMATE CHANGES

Year	2020E	2021E	2022E
Sales	0%	0%	0%
EBIT (adj)	0%	0%	0%

Source: Nordea estimates

Nordea Markets - Analysts

Pauli Lohi
AnalystSvante Krokfors
Analyst

Favourable market development in H2

Recent data from the Finnish mutual funds market confirms a positive shift in demand during H2 2020 which should impact positively on EAB's fees from UCITS funds in H2 2020 and 2021 after a COVID-burdened H1 2020. Increased capital inflows could also have a positive impact on other sources of revenue such as brokerage fees and full-mandate wealth management. The market tailwinds together with declining fixed costs should help the company in its profitability turnaround over the coming years. We see any new Alternative Investments funds as potential next triggers for the share and keep our fair value range unchanged at EUR 2.2-2.7 based on the median of four valuation methods.

UCITS market developed favourably in H2 2020

The mutual funds market developed favourably in H2 2020, with data from Investment Research Finland showing a strong recovery in fund net subscriptions after a weak H1. Despite the COVID-burdened H1, AuM in Finnish mutual funds was 6% higher y/y in December 2020, mostly driven by equities. We expect the positive market trends to support EAB Group's fees from UCITS funds, which comprise around 33% of 2020E group sales. We expect the fees from UCITS funds to grow by 6% y/y in H2 2020 and 8% y/y in 2021.

Turnaround progressed in H2 despite COVID-19

EAB's guidance upgrade in December affirmed that the company is reaching its original goal of turning its 2020 results to positive territory after a loss-making 2019. The guidance upgrade was a result of improved market conditions supporting revenue and of cost savings that are partly due to temporary lay-offs and partly due to permanent staff reductions made during H2 that will take full effect in 2021.

Our fair value range is at EUR 2.2-2.7 per share

We base our fair value range on a combination of four valuation methods: a DCF-based valuation and peer valuations using P/E, EV/EBIT, and EV/sales multiples. Based on the median of these valuation methods, we derive an unchanged fair value range of EUR 2.2-2.7 per share for EAB Group. We expect that progress in the new Alternative Investments funds could act as a trigger for the share going forward.

SUMMARY TABLE - KEY FIGURES

EURm	2016	2017	2018	2019	2020E	2021E	2022E
Net sales	13.6	15.8	19.4	18.1	18.6	20.8	22.8
EBIT (adj)	0.1	-0.1	1.8	-1.4	0.7	2.5	3.2
EBIT (adj) margin	0.5%	-0.6%	9.3%	-7.7%	3.6%	12.0%	14.0%
EPS (adj), EUR	0.00	-0.03	0.09	-0.11	0.02	0.12	0.16
EPS (adj) growth	-99.7%	n.a	-445.3%	-230.8%	-113.8%	669.6%	32.9%
DPS, EUR	0.08	0.07	0.00	0.00	0.03	0.07	0.08
EV/Sales	2.6	3.6	3.2	2.5	2.6	2.2	1.9
EV/EBIT (adj)	480.1	-566.3	34.9	-32.5	72.4	18.2	13.3
P/E (adj)	n.a.	-166.9	32.0	-24.3	196.5	25.5	19.2
P/BV	3.1	3.1	1.8	2.0	2.2	2.1	1.9
Dividend yield (ord)	2.4%	1.7%	3.6%	0.0%	1.0%	2.3%	2.6%
FCF Yield bef acq & disp	-10.1%	3.3%	-7.6%	1.6%	1.8%	6.1%	7.6%
Net debt	1.0	2.2	5.9	6.9	6.1	4.0	1.9
Net debt/EBITDA	1.4	-3.1	1.4	5.3	1.8	0.8	0.3

Source: Company data and Nordea estimates

Preview of H2 report

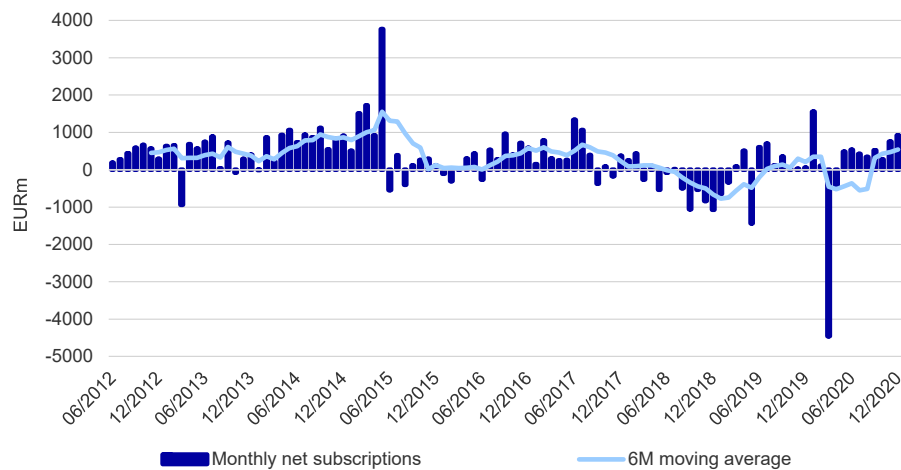
The mutual funds market has developed favourably in H2 2020, with data from Investment Research Finland showing a strong recovery in fund net subscriptions after a weak H1. Despite the COVID-burdened H1, AuM in Finnish mutual funds was 6% higher y/y in December 2020, mostly driven by equities. We expect the positive market trends to support EAB Group's fees from UCITS funds, which comprise around 33% of 2020E group sales. We expect the fees from UCITS funds to grow by 6% y/y in H2 2020 and 8% y/y in 2021.

Market turned favourable for fund managers in H2 2020

The monthly net subscriptions numbers for Finnish mutual funds improved during H2 2020, when around a cumulative EUR 3bn was added to these funds. Looking to full year 2020, the cumulative net subscriptions amounted to only EUR 1bn owing to the outflow of EUR 4.5bn in March 2020. Thus, H2 provided a clearly more favourable demand environment for mutual fund managers than H1.

Monthly net subscriptions for mutual funds have been positive since May 2020

MONTHLY NET SUBSCRIPTIONS IN FINNISH MUTUAL FUNDS

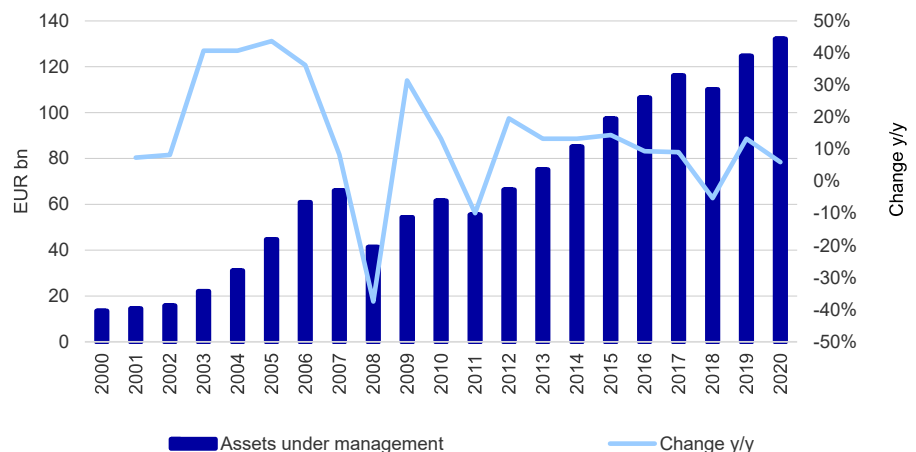


Source: Investment Research Finland

Looking at the total assets under management in domestic mutual funds, the fund capital grew by EUR 7.5bn in 2020, or 6% compared to the end of 2019. Most of this change was explained by equities, where AuM increased by EUR 4.5bn or 10.5% y/y.

Total AuM in Finnish mutual funds grew by 6% y/y in 2020 despite COVID-19

ASSETS UNDER MANAGEMENT IN FINNISH MUTUAL FUNDS



Source: Investment Research Finland

We expect fees from UCITS funds to grow by 6% y/y in H2 2020 and 8% y/y in 2021

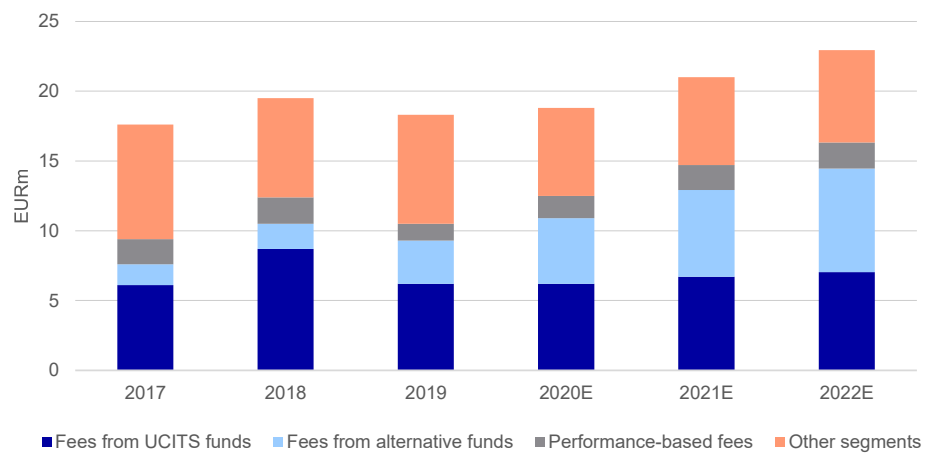
UCITS funds are the most important asset class for revenue and the second-most important for EBIT, we argue

Favourable market supports EAB's sales in H2 2020 and 2021

The AuM in EAB's own UCITS funds has increased by 7% y/y during 2020. This analysis takes into account the funds that are visible in the Investment Research Finland database. We expect EAB's fees from UCITS funds to grow by 6% in H2 2020, compared to a 7% y/y decline in H1. We also see a positive outlook for 2021 and expect 8% growth in fees from UCITS funds, taking into account the positive AuM development and relatively easy comparison figures from COVID-burdened H1 2020.

Fees from UCITS funds comprise around 33% of group gross sales in 2020, we estimate. This is the largest single source of revenue for EAB, although we argue that fees from limited partnership funds (alternative investment funds) are even more important for EBIT owing to higher profitability. The bullish trend in the capital markets might also have a positive impact on other sources of revenue, such as full-mandate asset management and brokerage fees, owing to increased trading activity.

EAB GROUP: REVENUE SPLIT (EURm)



Source: Company data and Nordea estimates

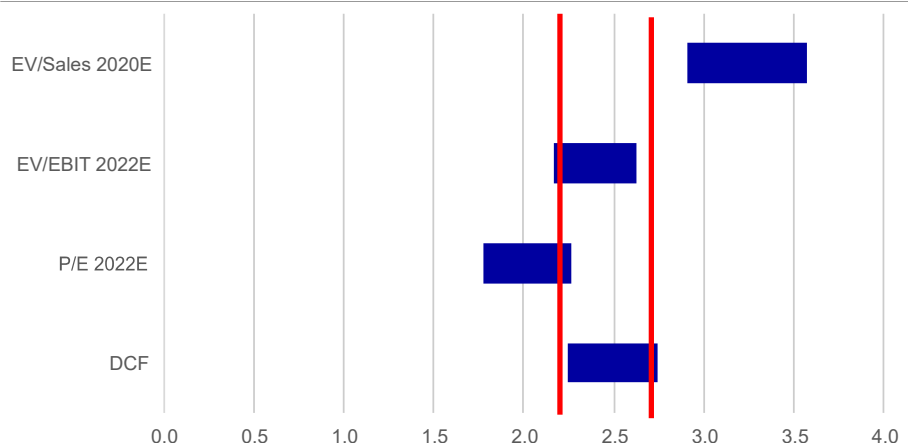
Fair value range at EUR 2.2-2.7 per share

Based on our revenue growth and operating profit margin expectations, we estimate a fair value range of EUR 2.2-2.7 per share (unchanged) using the median of four different valuation approaches. This valuation range is represented by the red lines in the chart below.

Sector P/E gives an overly negative view; EV/sales looks too positive

We believe that solely using the EV/EBIT or the P/E multiple would be misleading, as the company is in the middle of a turnaround process. Again, EV/sales shows an overly positive view, given that the company likely will not reach sector-average profitability within the next two to three years. We believe the fair range lies between these three relative valuation methods and our DCF valuation model supports this view.

VALUATION SUMMARY (EUR PER SHARE)



Source: Nordea estimates

The EUR 2.2-2.7 fair value range is the result of four different valuation methods

Risks

We believe that the largest risks for EAB Group's operations are macroeconomic and market-related, as an economic slowdown could hamper the performance of funds and thus affect fees negatively. The internal risks are related to its ability to attract customers to invest in its own funds in the long term. Sales could suffer if the performance of EAB Group's funds fails to meet investor expectations. Success or failure in single fundraising projects could have a significant impact on the company's EBIT and valuation.

Our estimates versus consensus

We are below consensus for 2020E-22E sales and EBIT

Looking at consensus, we are 3% below for 2020E-22E net sales and 20-29% below for adjusted EBIT.

OUR ESTIMATES VS CONSENSUS

EURm	Nordea estimates			Consensus estimates			Difference %		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales	18.6	20.8	22.8	19.0	21.5	23.5	-2%	-3%	-3%
Adj. EBIT	0.7	2.5	3.2	1.0	3.5	4.0	-33%	-29%	-20%
Adj. EBIT margin	3.6%	12.0%	14.0%	5.3%	16.3%	17.0%	-1.6pp	-4.3pp	-3.0pp
Adj. EPS (EUR)	0.02	0.12	0.16	0.02	0.16	0.22	-21%	-22%	-25%
DPS (EUR)	0.03	0.07	0.08	0.02	0.09	0.11	50%	-22%	-27%

Source: Refinitiv and Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT, SEMI-ANNUAL

EURm	H1 17	H2 17	H1 18	H2 18	H1 19	H2 19	H1 20	H2 20E
Net revenue	7.5	8.5	9.6	9.8	9.2	8.9	8.7	10.1
Revenue growth	-14%	16%	22%	9%	-5%	-9%	-6%	12%
Fee based costs	-3.4	-2.1	-1.6	-2.5	-2.0	-1.8	-2.6	-2.0
Personnel costs	-3.1	-2.7	-3.7	-3.9	-4.2	-3.8	-3.5	-3.1
Other administrative costs	-1.3	-1.9	-1.7	-1.9	-1.9	-2.2	-1.6	-1.7
D&A	-0.5	-0.8	-1.0	-1.3	-1.3	-1.4	-1.4	-1.3
Other costs	-0.7	-0.7	-0.6	0.1	-0.4	-0.3	-0.3	-0.3
Credit losses	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0
Associates	0	0.0	0.05	0.2	0.0	-0.1	-0.1	0.0
EBIT	0.2	-0.4	1.4	0.4	-0.8	-0.5	-0.8	1.5
EBIT margin %	3%	-5%	15%	4%	-9%	-6%	-9%	15%
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	-0.1	-0.1	0.2	0.0	0.0	0.0	0.0
Net financials	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Income taxes	-0.1	1.6	-0.1	0.0	0.1	0.1	0.2	-0.3
Net income	0.1	1.2	1.2	0.2	-0.8	-0.6	-0.8	1.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income to equityholders	0.1	0.0	0.0	0.0	-0.8	-0.7	-0.8	1.0
EPS (EUR)	0.01	0.10	0.09	0.00	-0.06	-0.04	-0.06	0.07

Source: Company data and Nordea estimates

INCOME STATEMENT, ANNUAL

EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net revenue	12.1	13.6	15.8	19.4	18.1	18.6	20.8	22.8
Revenue growth	22%	12%	16%	23%	-7%	3%	12%	9%
of which total organic	22%	7%	4%	8%	-7%	3%	12%	9%
Fee based costs	-6.1	-7.7	-6.2	-4.1	-3.8	-4.6	-4.0	-4.2
Personnel costs	-4.0	-4.6	-6.9	-7.6	-8.0	-6.6	-7.1	-7.7
Other administrative costs	-2.2	-2.4	-4.7	-3.6	-4.1	-3.3	-3.9	-4.3
D&A	-0.5	-0.6	-1.9	-2.3	-2.7	-2.7	-2.8	-2.8
Other costs	-1.0	-1.1	-0.6	-0.5	-0.7	-0.6	-0.6	-0.6
Credit losses	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.2	-0.1	-0.1	0.0	0.0
EBIT	0.5	0.1	-2.6	1.8	-1.4	0.7	2.5	3.2
EBIT margin %	4%	1%	-16%	9%	-8%	3.6%	12.0%	14.0%
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0
Net financials	0.0	0.0	-0.1	-0.3	-0.4	-0.4	-0.4	-0.4
Income taxes	0.6	-0.1	0.4	-0.1	0.2	-0.1	-0.4	-0.6
Net income	1.8	0.6	-2.3	1.4	-1.6	0.2	1.7	2.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income to equityholders	1.8	0.6	-2.3	1.4	-1.6	0.2	1.7	2.2
EPS (EUR)	0.09	0.00	-0.20	0.09	-0.11	0.02	0.12	0.16

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2016	2017	2018	2019	2020E	2021E	2022E
Intangible assets	6.5	14.5	13.4	13.8	13.8	13.8	13.8
of which R&D	1.7	1.9	2.3	2.3	2.3	2.3	2.3
of which other intangibles	0.3	3.6	2.0	2.4	2.4	2.4	2.4
of which goodwill	4.5	9.0	9.1	9.1	9.1	9.1	9.1
Tangible assets	2.3	1.9	3.2	2.9	3.2	3.4	3.7
of which machinery plant	2.3	1.9	0.6	0.3	0.6	0.8	1.1
of which property	0.0	0.0	2.6	2.6	2.6	2.6	2.6
of which land	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest bearing assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	1.0	2.9	2.8	2.8	2.0	1.0	0.0
Other non-interest bearing assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	19.2	30.0	33.9	31.7	31.2	30.4	29.7
Accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	0.3	1.2	1.3	3.0	3.1	3.4	3.8
Cash and bank	0.8	2.0	1.1	0.5	1.3	3.4	5.5
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	20.3	33.2	36.3	35.2	35.5	37.3	39.0
Shareholders equity	12.3	21.8	22.0	19.2	19.4	20.7	21.9
of which preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which Equity part of hybrid debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Total Equity	12.6	21.9	22.1	19.3	19.5	20.8	22.0
Deferred tax	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Long term interest bearing debt	1.8	4.2	7.0	7.4	7.4	7.4	7.4
Non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	4.9	3.8	3.9	4.0	4.0	4.0	4.0
Convertible debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	6.7	8.3	11.2	11.7	11.7	11.7	11.7
Short-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	1.1	3.0	3.1	4.2	4.3	4.8	5.3
Short term interest bearing debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	1.1	3.0	3.1	4.2	4.3	4.8	5.3
Liabilities for assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	20.4	33.2	36.4	35.2	35.5	37.3	39.0

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA adjusted for associates	0.7	-0.7	3.9	1.4	3.4	5.3	6.0
Paid taxes	0.0	0.0	0.0	0.2	-0.1	-0.4	-0.6
Net financials	0.0	0.0	0.0	-0.4	-0.4	-0.4	-0.4
Change in Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in other LT non-IB assets/liabilities	1.5	-4.7	-3.0	2.4	0.8	1.0	1.0
Dividends / cash injections to/from associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid to minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hybrid debt interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other adjustments to reconcile to cash flow	-1.6	4.4	2.7	-2.6	0.0	0.0	0.0
Funds from operations (FFO)	0.6	-1.0	3.6	1.0	3.7	5.4	6.0
Change in NWC	-1.6	1.2	-3.7	1.5	0.0	0.1	0.1
Cash flow from operations (CFO)	-1.0	0.2	-0.1	2.5	3.8	5.6	6.1
Capital Expenditure	-2.4	1.6	-4.2	-1.9	-3.0	-3.0	-3.1
Free Cash Flow before A&D	-3.4	1.8	-4.3	0.6	0.8	2.6	3.1
Proceeds from sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-3.4	1.8	-4.3	0.6	0.8	2.6	3.1
Funds distributed to shareholders	-0.7	-0.7	-0.7	-1.3	0.0	-0.4	-1.0

Source: Company data and Nordea estimates

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