

EAB Group Oyj

Financials
Finland

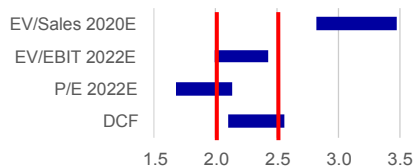
KEY DATA

Stock country	Finland
Bloomberg	EAB FH
Reuters	EABG.HE
Share price (close)	EUR 2.20
Free Float	35%
Market cap. (bn)	EUR 0.03/EUR 0.03
Website	www.eabgroup.fi
Next report date	28 Aug 2020

PERFORMANCE



VALUATION APPROACH (EUR/SHARE)



ESTIMATE CHANGES

Year	2020E	2021E	2022E
Sales	4 %	2 %	4 %
EBIT (adj)	-79 %	13 %	23 %

Source: Nordea estimates

Nordea Markets - Analysts

Pauli Lohi
AnalystSvante Krokfors
Analyst

Growth in recurring revenue adds quality

Despite negative profitability, we see several positives in the H1 report indicating that the company could achieve growth in both UCITS and Alternative Investments (AI) over the next few years. We continue to believe that EBIT could turn positive in H2, helped by cost savings and improved market conditions. Cash flow was strong in H1, adding dividend potential for 2021 if the turnaround progresses as planned. The increased share of recurring revenue, such as fees from UCITS funds and AI funds, has improved the earnings quality and bolsters our confidence in the company's growth plan. We lift fair value range to EUR 2.0-2.5 (1.6-2.0) based on the median of four valuation methods.

Positive takeaways from H1 despite negative EBIT

The H1 weakness was partially attributable to weakness in brokerage income and the company's limited ability to gain new business from clients during the lockdown. Although H1 EBIT came in slightly worse than we expected (EUR 0.4m below), we see several positives in the H1 report. Net subscriptions for EAB's UCITS funds were positive despite the challenging environment with negative market growth in H1. Moreover, the company disclosed its plan to launch a new AI fund focused on renewable energy by the end of 2020. Around 79% of H1 revenue was recurring in nature (66% in H1 2019). The increased earnings stability with 13% growth in recurring revenue makes us more confident in the company's growth plan and profitability turnaround.

We raise 2021E-22E EBIT by 13-23%

We increase EBIT by 13% for 2021E and by 23% for 2022E. We lift our growth expectations, especially for the UCITS product segment – partly due to the good performance in H1 and partly because of the announced cooperation with Alfred Berg Norway. We revise our AI fee estimate down slightly for 2021 due to slower-than-expected revenue growth in H1 but raise our 2022 estimate in view of the announced plan to launch a new renewable energy fund.

Valuation sensitive to new AI funds

We base our fair value range on a combination of four valuation methods, including a DCF-based valuation and peer valuation using P/E, EV/EBIT, and EV/sales multiples. Based on the median of these valuation methods, we derive a fair value range of EUR 2.0-2.5 (1.6-2.0) per share for EAB Group. We expect that progress in the new AI 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	18.3	20.6	22.5
EBIT (adj)	0.1	-0.1	1.8	-1.4	0.2	2.4	3.0
EBIT (adj) margin	0.5%	-0.6%	9.3%	-7.7%	0.9%	11.5%	13.5%
EPS (adj), EUR	0.00	-0.03	0.09	-0.11	-0.01	0.11	0.15
EPS (adj) growth	-99.7%	n.a.	-445.3%	-230.8%	-88.5%	-964.5%	34.8%
DPS, EUR	0.08	0.07	0.00	0.00	0.05	0.06	0.07
EV/Sales	2.6	3.6	3.2	2.5	2.1	1.8	1.5
EV/EBIT (adj)	480.1	-566.3	34.9	-32.5	226.4	15.5	11.0
P/E (adj)	n.a.	-166.9	32.0	-24.3	-182.9	21.2	15.7
P/BV	3.1	3.1	1.8	2.0	1.7	1.7	1.6
Dividend yield (ord)	2.4%	1.7%	3.6%	0.0%	2.1%	2.5%	2.9%
FCF Yield bef acq & disp	-10.1%	3.3%	-7.6%	1.6%	1.1%	7.7%	9.7%
Net debt	1	2	6	7	7	5	3
Net debt/EBITDA	1.4	-3.1	1.4	5.3	2.3	0.9	0.5

Source: Company data and Nordea estimates

H1 results review and estimate changes

Even though reported H1 EBIT fell short of our estimate, we think that the underlying development in EAB Group's business was positive compared to a year ago. Net subscriptions for EAB Group's funds were positive, operating cash flow was strong at EUR 2.2m and the company is already planning to launch a new fund in Alternative Investments during H2. Moreover, 13% y/y growth in recurring revenue adds stability to the business, thus increasing earnings quality.

EBIT missed on lower-than-expected growth in alternatives fees and due to a decrease in non-recurring revenue

H1 improved slightly y/y despite COVID-19

Reported H1 EBIT came in at EUR -0.8m, below our estimate of EUR -0.4m. This was partially explained by slower-than-expected growth in Alternative Investments but especially by the decreased non-recurring revenue such as brokerage fees and insurance fees. It was more difficult to gain new business from clients during H1 due to COVID-19 related uncertainty and the physical meeting restrictions. EAB's RE2 fund, however, continued investments in May and June, which will support fee income in H2 2020. The company still expects that the fund will be fully invested by the end of 2020.

Alternatives growth pipeline seems promising

EAB disclosed that it plans to launch a new alternatives fund focused on renewable energy by the end of 2020. We estimate that the fund could have an initial size of EUR 50m and to grow further in 2021, when retail investors will be allowed to invest in the fund. We believe the fund could have a EUR 1m positive impact on 2021 sales and upside beyond that, depending on retail demand. We expect that the company could also launch a new real estate fund (RE3) in 2021 after RE2 has been fully invested, adding further upside in the coming years.

Positive net subscriptions in the UCITS fund business

Fee income from UCITS funds was slightly better than expected despite the stock market crash caused by COVID-19. Net subscriptions for EAB's UCITS funds were positive, which could indicate increasing UCITS fees going forward. Moreover, the company is insourcing part of its asset management operations in cooperation with Alfred Berg Norway, which could increase EAB's annual management fees by EUR 0.3m, according to the company.

H1 DEVIATION FROM OUR ESTIMATES

EURm	Actual	NDA est.	Deviation		Actual	Actual		
	H1 20	H1 20E	vs. actual		H2 19	h/h	H1 19	y/y
Comparable sales	8.7	8.3	0.4	5 %	8.9	-2 %	9.2	-5 %
Adj. EBIT	(0.8)	(0.4)	-0.4	100 %	(0.5)	60 %	(0.8)	0 %
Adj. EBIT margin	-9.2%	-4.8%	-4.3pp		-5.6%	-3.6pp	-8.7%	-0.5pp
EPS (EUR)	(0.06)	(0.04)	63 %		(0.04)	50 %	(0.06)	4 %
Fees from UCITS funds	2.8	2.5	12 %		3.0	-7 %	3.7	-24 %
Fees from alternative funds	2.0	2.4	-17 %		1.2	67 %	1.0	100 %
Performance-based fees	0.8	0.1	700 %		0.9	-11 %	1.1	-27 %
Other segments	3.0	3.3	-9 %		4.2	-29 %	4.0	-25 %

Source: Company data and Nordea estimates

Net debt decreased to EUR 5.7m

Improved net debt adds potential for dividend

Despite a negative result for the period, EAB achieved clearly positive operating cash flow of EUR 2.2m, which helped the company reduce its net debt to EUR 5.7m at the end of June from EUR 6.9m at the end of December 2019. The reduced net debt adds capacity to pay dividends for 2021, but the outcome will also depend on whether the company can turn its result positive, as we expect it will.

We raise 2021E-22E EBIT by 13-23%

We raise EBIT by 13-23% for 2021E-22E, given the positive underlying development in UCITS net subscriptions, the announced ambition to launch a new renewable energy fund by 2020 and the successful cost-control measures. However, we cut 2020E EBIT due to the weaker-than-expected profitability in H1.

ESTIMATE REVISIONS

EURm	New estimates			Old estimates			Difference		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Comparable sales	18.3	20.6	22.5	17.6	20.3	21.6	4 %	2 %	4 %
Adj. EBIT	0.2	2.4	3.0	0.8	2.1	2.5	-79 %	13 %	23 %
Adj. EBIT margin	0.9%	11.5%	13.5%	4.6%	10.3%	11.5%	-3.7pp	1.1pp	2.1pp
Adj. EPS (EUR)	-0.01	0.11	0.15	0.02	0.10	0.12	-155 %	16 %	27 %
Gross sales by segment									
Fees from UCITS funds	6.0	6.5	6.8	5.5	5.8	6.1	9 %	13 %	13 %
Fees from alternative funds	4.7	6.2	7.4	5.4	6.4	7.0	-13 %	-3 %	5 %
Performance-based fees	1.5	1.8	1.9	0.4	1.8	1.9	275 %	0 %	0 %
Other segments	6.3	6.3	6.6	6.5	6.5	6.8	-3 %	-3 %	-3 %

Source: Company data and Nordea estimates

We are almost in line with consensus

After the estimate revisions, we remain slightly below consensus for 2021E-22E on adjusted EBIT. However, we do not see this as a materially negative trigger for the share, since consensus estimates have consistently been higher than our estimates.

OUR ESTIMATES VS CONSENSUS

EURm	Nordea estimates			Consensus estimates			Difference %		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales	18.3	20.6	22.5	20.5	20.0	22.0	-11 %	3 %	2 %
Adj. EBIT	0.2	2.4	3.0	2.5	2.5	3.5	-93 %	-6 %	-13 %
Adj. EBIT margin	0.9%	11.5%	13.5%	12.2%	12.5%	15.9%	-11.2pp	-1.0pp	-2.4pp
Adj. EPS (EUR)	-0.01	0.11	0.15	0.11	0.13	0.18	-112 %	-13 %	-13 %

Source: Refinitiv and Nordea estimates

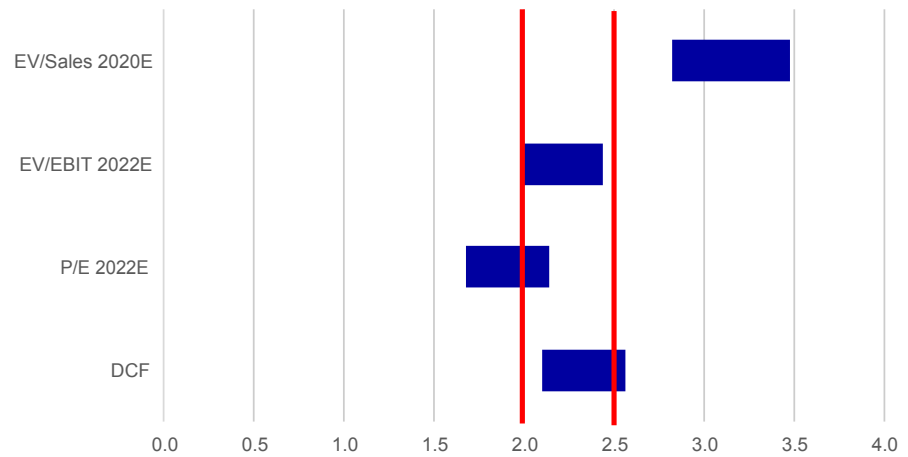
Fair value range increased to EUR 2.0-2.5 per share

Given our assumption that EAB Group can deliver revenue growth and an operating profit margin in line with our expectations, we estimate a fair value range of EUR 2.0-2.5 per share (previously EUR 1.6-2.0) based on a median of four different valuation approaches. This valuation range is represented as the red lines in the chart below.

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

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

VALUATION SUMMARY (EUR/SHARE)



The EUR 2.0-2.5 fair value range is the result of four different valuation methods

Source: Nordea estimates

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 EAB's funds over the long term. Sales could suffer if the performance in EAB Group's funds fails to meet the expectations set out by investors. Success or failure in single fundraising projects could have a significant impact on the company's EBIT and valuation.

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	9.8
Revenue growth	-14 %	16 %	22 %	9 %	-5 %	-9 %	-6 %	9 %
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	-3.2
Other administrative costs	-1.3	-1.9	-1.7	-1.9	-1.9	-2.2	-1.6	-1.8
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	1.0
EBIT margin %	3 %	-5 %	15 %	4 %	-9 %	-6 %	-9 %	10 %
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	-0.2
Net income	0.1	1.2	1.2	0.2	-0.8	-0.6	-0.8	0.6
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	0.6
EPS (EUR)	0.01	0.10	0.09	0.00	-0.06	-0.04	-0.06	0.04

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	18.3	20.6	22.5
Revenue growth	22 %	12 %	16 %	23 %	-7 %	1 %	13 %	9 %
of which total organic	22 %	7 %	4 %	8 %	-7 %	1 %	13 %	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	-6.7	-7.0	-7.6
Other administrative costs	-2.2	-2.4	-4.7	-3.6	-4.1	-3.4	-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	0.2	2.4	3.0
EBIT margin %	4 %	1 %	-16 %	9 %	-8 %	0.9%	11.5%	13.5%
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	0.0	-0.4	-0.5
Net income	1.8	0.6	-2.3	1.4	-1.6	-0.2	1.6	2.1
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	1.6	2.1
EPS (EUR)	0.09	0.00	-0.20	0.09	-0.11	-0.01	0.11	0.15

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	3.0	3.4	3.7
Cash and bank	0.8	2.0	1.1	0.5	0.9	2.6	4.6
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	35.1	36.5	38.1
Shareholders equity	12.3	21.8	22.0	19.2	19.0	19.9	21.0
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	19.1	20.0	21.1
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	4.2	4.8	5.2
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	4.2	4.8	5.2
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	35.1	36.5	38.1

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	2.9	5.1	5.8
Paid taxes	0.0	0.0	0.0	0.2	0.0	-0.4	-0.5
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	3.3	5.3	5.9
Change in NWC	-1.6	1.2	-3.7	1.5	0.0	0.2	0.1
Cash flow from operations (CFO)	-1.0	0.2	-0.1	2.5	3.4	5.5	6.0
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	0.4	2.4	3.0
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	0.4	2.4	3.0
Funds distributed to shareholders	-0.7	-0.7	-0.7	-1.3	0.0	-0.7	-1.0

Source: Company data and Nordea estimates

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Completion Date

28 Aug 2020, 22:53 CET

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