

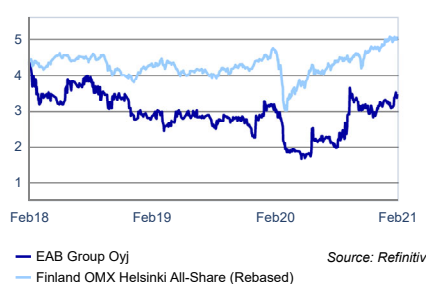
EAB Group Oyj

Financials
Finland

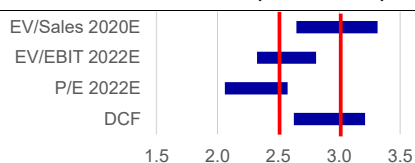
KEY DATA

Stock country	Finland
Bloomberg	EAB FH
Reuters	EABG.HE
Share price (close)	EUR 3.50
Free Float	35%
Market cap. (bn)	EUR 0.05/EUR 0.05
Website	www.eabgroup.fi
Next report date	

PERFORMANCE



VALUATION APPROACHES (EUR/SHARE)



ESTIMATE CHANGES

Year	2021E	2022E	2023E
Sales	-1%	3%	3%
EBIT (adj)	-8%	6%	8%

Source: Nordea estimates

Nordea Markets - Analysts

Pauli Lohi
AnalystSvante Krokfors
Analyst

Positive development in the fund pipeline

EAB Group's H2 results were roughly in line with our estimates after its guidance upgrade in December. The tight cost control and increasing recurring revenue contributed to the profitability turnaround. Most importantly, EAB's Alternative Investments fundraising pipeline seems promising, including solid development in fundraising for the new renewable energy-focused fund and the intention to launch a new real estate fund soon. Assets under management grew by 9% y/y, adding confidence on growing fee income in 2021 and continued positive profitability development. The fundraising pipeline is likely to support AuM growth and improve revenue predictability over time. We increase our fair value range to EUR 2.5-3.0 based on the median of four valuation methods.

H2 confirmed the successful profitability turnaround

EAB Group executed a successful profitability turnaround in H2 2020, helped by increased Alternative Investments (AI) fees, tight cost control and improved profitability in associated companies. Continuing revenues grew 9% compared to H1 2020. The company plans to distribute EUR 0.05 per share to the shareholders compared to our DPS estimate of EUR 0.03. The company guides for positive net income in 2021. We expect the company to reach its guidance, helped by increased AuM and a promising fundraising pipeline. Management announced that fundraising for its energy-related fund has developed favourably and it plans to launch another real estate fund soon. EAB also disclosed that it targets the fees from AI funds to reach two thirds of the company's operating income in three to five years.

EBIT should reach EUR 3.4m by 2022

We cut 2021E EBIT by 8% due to lower-than-expected UCITS fees but increase 2022E-23E EBIT by 6-8% given the positive development in the Alternative Investments pipeline. We expect EBIT to grow to EUR 3.4m by 2022, mainly owing to the growing fee income from AI funds.

Fair value range increased to EUR 2.5-3.0 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 2.5-3.0 (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	2017	2018	2019	2020	2021E	2022E	2023E
Net sales	15.8	19.4	18.1	18.5	20.6	23.3	24.9
EBIT (adj)	-0.1	1.8	-1.4	0.6	2.3	3.4	3.9
EBIT (adj) margin	-0.6%	9.3%	-7.7%	3.3%	11.2%	14.4%	15.6%
EPS (adj), EUR	-0.03	0.09	-0.11	0.02	0.11	0.17	0.20
EPS (adj) growth	n.a	-445.3%	-230.8%	-116.4%	487.2%	55.7%	17.4%
DPS, EUR	0.07	0.00	0.00	0.05	0.08	0.10	0.12
EV/Sales	3.6	3.2	2.5	2.6	2.4	2.0	1.7
EV/EBIT (adj)	-566.3	34.9	-32.5	78.2	21.2	13.7	11.2
P/E (adj)	-166.9	32.0	-24.3	167.2	30.8	19.8	16.9
P/BV	3.1	1.8	2.0	2.3	2.3	2.2	2.1
Dividend yield (ord)	1.7%	3.6%	0.0%	2.4%	2.9%	3.5%	4.1%
FCF Yield bef acq & disp	3.3%	-7.6%	1.6%	6.0%	6.3%	5.6%	5.0%
Net debt	2.2	5.9	6.9	4.9	2.8	1.4	0.6
Net debt/EBITDA	-3.1	1.4	5.3	1.5	0.6	0.2	0.1

Source: Company data and Nordea estimates

H2 results review and estimate changes

EAB Group executed a successful profitability turnaround in H2 2020, helped by increased Alternative Investments (AI) fees, tight cost control and improved profitability in associated companies. The company guides for positive net income in 2021. We expect the company to reach its guidance helped by increased AuM, increased recurring revenues and a promising fundraising pipeline. The company announced that fundraising for an energy-related fund has proceeded favourably and it plans to launch another real estate fund soon. We cut our 2021E EBIT by 8% due to lower than expected UCITS fees but increase by 6-8% for 2022E-23E given the positive development in AI pipeline.

Profitability turnaround took place in H2	<p>Profitability improved significantly in H2</p> <p>Profitability improved significantly in H2 2020 compared to H1 2020 and H2 2019. Reported H2 EBIT came in at EUR 1.4m, close to our estimate of EUR 1.5m. The tight cost control, increased fees from Alternative Investments funds and a turnaround in associated income contributed to the improved overall performance.</p> <p>Demand for both UCITS funds and Alternative Investments improved in H2, partly helped by the market development. The dividend proposal of EUR 0.05 per share beat our estimate of EUR 0.03.</p>
AuM growth gives us confidence in 2021-22	<p>EAB Group guides for a positive net profit in 2021. We expect positive net income of EUR 1.5m in 2021 compared to EUR 0.3m in 2020. The increase in recurring revenues and 9% growth in assets under management add confidence that the financial performance is developing positively.</p>
Alternatives growth pipeline seems promising	<p>Promising fundraising pipeline in Alternative Investments funds</p> <p>EAB disclosed that its fundraising related to a new fund focused on renewable energy has developed favourably. We estimate that the fund could have an initial size of EUR 50m and could 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. EAB Group also disclosed that it is planning to launch a new real estate fund (RE3) in 2021 after RE2 has been fully invested, adding scope for further upside in the coming years.</p>
EAB aims to grow its AI fund fee income, bringing more stability to revenues	<p>The company has a target to increase the share of fees from Alternative Investments funds to two-thirds of its total fee income in three-to-five years. This would improve the earnings quality, given the more stable and predictable fee income of AI funds.</p>

H2 DEVIATION FROM OUR ESTIMATES

	Actual	NDA est.	Deviation	Actual	Actual	Actual		
EURm	H2 20	H2 20E	vs. actual	H1 20	h/h	H2 19	y/y	
Revenue	10.0	10.1	(0.1)	-1%	8.7	15%	8.9	12%
Adj. EBIT	1.4	1.5	-0.1	-5%	(0.8)	-275%	(0.5)	-380%
Adj. EBIT margin	14.0%	14.6%	-0.6pp	-9.2%	23.2pp	-5.6%	19.6pp	
EPS	0.07	0.07	-5%	(0.06)	-221%	(0.04)	-275%	
Fees from UCITS-funds	3.1	3.4	-9%	2.8	11%	3.2	-3%	
Fees from alternative funds	2.2	2.7	-19%	2	10%	1.9	16%	
Performance-based fees	1.4	0.8	75%	0.8	75%	0.3	367%	
Other segments	3.3	3.2	3%	3.1	6%	3.6	-8%	
DPS	0.05	0.03	67%			-		

Source: Company data and Nordea estimates

Net debt decreased to EUR 4.9m	<p>Improved net debt adds potential for dividend</p> <p>EAB achieved strong positive operating cash flow of EUR 3.7m (2.5m in 2019), which helped the company reduce its net debt to EUR 4.9m at the end of 2020 from EUR 6.9m at the end of 2019. The net debt reduction increases the dividend capacity in the upcoming years, but the outcome will also depend on the profitability development.</p>
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We raise 2022E-23E EBIT by 6-8%

We cut our EBIT for 2021E by 8% but raise by 6-8% for 2022E-23E, given the positive developments in the launch of a new renewable energy fund and the upcoming valued-added real estate fund launch. However, we cut 2021E EBIT due to the slightly weaker UCITS fees than expected.

ESTIMATE REVISIONS

EURm	New estimates			Old estimates			Difference		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Comparable sales	20.6	23.3	24.9	20.8	22.8	24.1	-1%	3%	3%
Adj. EBIT	2.3	3.4	3.9	2.5	3.2	3.6	-8%	6%	8%
Adj. EBIT margin	11.2%	14.4%	15.6%	12.0%	14.0%	14.9%	-0.8pp	0.4pp	0.7pp
Adj. EPS (EUR)	0.11	0.17	0.20	0.12	0.16	0.18	-9%	6%	9%
Gross sales by segment									
Fees from UCITS funds	6.5	6.8	7.1	6.7	7.0	7.4	-4%	-4%	-4%
Fees from alternative funds	6.1	8.1	9.1	6.2	7.4	8.1	-2%	9%	12%
Performance-based fees	1.8	1.9	1.9	1.8	1.9	1.9	0%	0%	0%
Other segments	13.0	13.2	13.7	12.6	12.9	13.4	3%	2%	2%

Source: Company data and Nordea estimates

Our profitability assumptions are more moderate compared to consensus

After the estimate revisions, we remain below consensus for 2021E-23E on adjusted EBIT. However, we do not see this as an obviously 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 %		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sales	20.6	23.3	24.9	21.5	23.5	25.0	-4%	-1%	0%
Adj. EBIT	2.3	3.4	3.9	3.5	4.0	5.0	-34%	-16%	-22%
Adj. EBIT margin	11.2%	14.4%	15.6%	16.3%	17.0%	20.0%	-5.1pp	-2.6pp	-4.4pp
Adj. EPS (EUR)	0.11	0.17	0.20	0.16	0.22	0.30	-29%	-20%	-33%
DPS (EUR)	0.08	0.10	0.12	0.09	0.11	n.a	-11%	-9%	

Source: Refinitiv and Nordea estimates

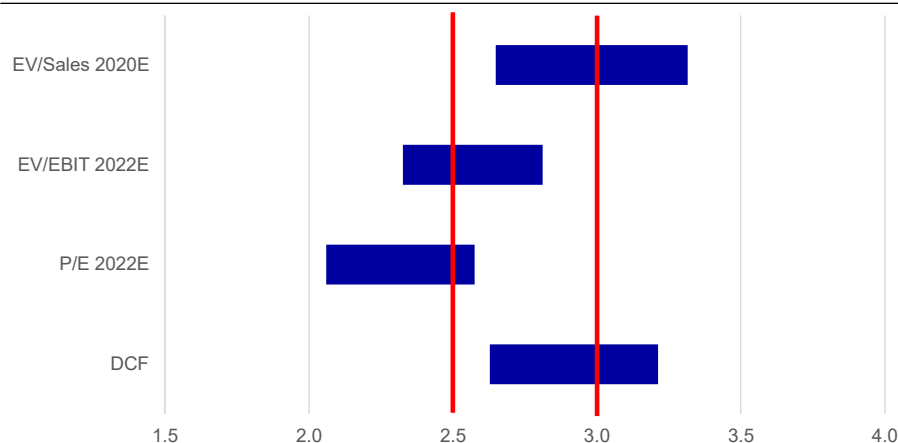
Fair value range at EUR 2.5-3.0 per share

Based on our revenue growth and operating profit margin expectations, we estimate a fair value range of EUR 2.5-3.0 per share (2.2-2.7) 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)



The EUR 2.5-3.0 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 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.

Reported numbers and forecasts

INCOME STATEMENT, SEMI-ANNUAL

EURm	H1 17	H2 17	H1 18	H2 18	H1 19	H2 19	H1 20	H2 20	H1 21E	H2 21E
Net revenue	7.5	8.5	9.6	9.8	9.2	8.9	8.8	10.0	10.2	10.6
Revenue growth	-14%	16%	22%	9%	-5%	-9%	-6%	11%	16%	6%
Fee based costs	-3.4	-2.1	-1.6	-2.5	-2.0	-1.8	-2.6	-2.3	-2.0	-2.0
Personnel costs	-3.1	-2.7	-3.7	-3.9	-4.2	-3.8	-3.5	-3.3	-3.5	-3.5
Other administrative costs	-1.3	-1.9	-1.7	-1.9	-1.9	-2.2	-1.6	-1.6	-1.9	-2.0
D&A	-0.5	-0.8	-1.0	-1.3	-1.3	-1.4	-1.4	-1.3	-1.3	-1.4
Other costs	-0.7	-0.7	-0.6	0.1	-0.4	-0.3	-0.3	-0.4	-0.3	-0.4
Credit losses	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Associates	0	0.0	0.05	0.2	0.0	-0.1	-0.1	0.4	-0.1	0.1
EBIT	0.2	-0.4	1.4	0.4	-0.8	-0.5	-0.7	1.4	1.1	1.2
EBIT margin %	3%	-5%	15%	4%	-9%	-6%	-8%	14%	11%	11%
Interest income	0.0	0.0	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	0.0	0.0
Net financials	0.0	-0.1	-0.1	-0.2	-0.2	-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	-0.2	-0.2
Net income	0.1	1.2	1.2	0.2	-0.8	-0.6	-0.7	1.0	0.7	0.8
Minorities	0.0	0.0	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	-0.7	1.0	0.7	0.8
EPS (EUR)	0.01	0.10	0.09	0.00	-0.06	-0.04	-0.05	0.07	0.05	0.06

Source: Company data and Nordea estimates

INCOME STATEMENT, ANNUAL

EURm	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net revenue	12.1	13.6	15.8	19.4	18.1	18.5	20.6	23.3	24.9
Revenue growth	22%	12%	16%	23%	-7%	2%	11%	13%	7%
of which total organic	22%	7%	4%	8%	-7%	2%	11%	13%	7%
Fee based costs	-6.1	-7.7	-6.2	-4.1	-3.8	-4.9	-4.0	-4.2	-4.4
Personnel costs	-4.0	-4.6	-6.9	-7.6	-8.0	-6.8	-7.0	-7.9	-8.5
Other administrative costs	-2.2	-2.4	-4.7	-3.6	-4.1	-3.2	-3.9	-4.4	-4.7
D&A	-0.5	-0.6	-1.9	-2.3	-2.7	-2.7	-2.7	-2.8	-2.8
Other costs	-1.0	-1.1	-0.6	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7
Credit losses	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.2	-0.1	0.3	0.0	0.0	0.0
EBIT	0.5	0.1	-2.6	1.8	-1.4	0.6	2.3	3.4	3.9
EBIT margin %	4%	1%	-16%	9%	-8%	3.3%	11.2%	14.4%	15.6%
Interest income	0.0	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	0.0
Net financials	0.0	0.0	-0.1	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Income taxes	0.6	-0.1	0.4	-0.1	0.2	0.0	-0.4	-0.6	-0.7
Net income	1.8	0.6	-2.3	1.4	-1.6	0.3	1.5	2.4	2.8
Minorities	0.0	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	0.3	1.5	2.4	2.8
EPS (EUR)	0.09	0.00	-0.20	0.09	-0.11	0.02	0.11	0.17	0.20

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Intangible assets	6.5	14.5	13.4	13.8	12.9	12.9	12.9	12.9
of which R&D	1.7	1.9	2.3	2.3	2.3	2.3	2.3	2.3
of which other intangibles	0.3	3.6	2.0	2.4	2.5	2.5	2.5	2.5
of which goodwill	4.5	9.0	9.1	9.1	8.1	8.1	8.1	8.1
Tangible assets	2.3	1.9	3.2	2.9	2.7	3.0	3.2	3.5
of which machinery plant	2.3	1.9	0.6	0.3	0.0	0.3	0.5	0.8
of which property	0.0	0.0	2.6	2.6	2.7	2.7	2.7	2.7
of which land	0.0	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	1.0	0.0	0.0	0.0
Deferred tax assets	1.0	2.9	2.8	2.8	3.1	1.0	0.0	0.0
Other non-interest bearing assets	0.0	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	24.2	21.4	20.6	20.9
Accounts receivable	0.0	0.0	0.0	0.0	8.1	9.0	10.2	10.9
Other current assets	0.3	1.2	1.3	3.0	0.0	0.0	0.0	0.0
Cash and bank	0.8	2.0	1.1	0.5	0.6	3.7	5.1	5.9
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	20.3	33.2	36.3	35.2	32.9	34.1	36.0	37.7
Shareholders equity	12.3	21.8	22.0	19.2	19.1	19.9	21.2	22.6
of which preferred stock	0.0	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	0.0
Minority interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Equity	12.6	21.9	22.1	19.3	19.2	20.0	21.3	22.7
Deferred tax	0.0	0.3	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	5.5	5.5	5.5	5.5
Non-current liabilities	0.0	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	0.0
Other long-term provisions	0.0	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	3.7	3.7	3.7	3.7
Convertible debt	0.0	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	0.0
Hybrid debt	0.0	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	9.5	9.5	9.5	9.5
Short-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable	0.0	0.0	0.0	0.0	4.1	4.6	5.2	5.5
Other current liabilities	1.1	3.0	3.1	4.2	0.0	0.0	0.0	0.0
Short term interest bearing debt	0.0	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	4.1	4.6	5.2	5.5
Liabilities for assets held for sale	0.0	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	32.8	34.1	36.0	37.7

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA adjusted for associates	0.7	-0.7	3.9	1.4	3.3	5.0	6.1	6.7
Paid taxes	0.0	0.0	0.0	0.2	0.0	-0.4	-0.6	-0.7
Net financials	0.0	0.0	0.0	-0.4	-0.3	-0.4	-0.4	-0.4
Change in Provisions	0.0	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	6.8	2.1	1.0	0.0
Dividends / cash injections to/from associates	0.0	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	0.0
Hybrid debt interest	0.0	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	-6.1	0.0	0.0	0.0
Funds from operations (FFO)	0.6	-1.0	3.6	1.0	3.7	6.4	6.1	5.6
Change in NWC	-1.6	1.2	-3.7	1.5	0.0	-0.4	-0.6	-0.3
Cash flow from operations (CFO)	-1.0	0.2	-0.1	2.5	3.7	5.9	5.5	5.2
Capital Expenditure	-2.4	1.6	-4.2	-1.9	-1.1	-3.0	-3.0	-3.1
Free Cash Flow before A&D	-3.4	1.8	-4.3	0.6	2.6	2.9	2.5	2.2
Proceeds from sale of assets	0.0	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	0.0
Free cash flow	-3.4	1.8	-4.3	0.6	2.6	2.9	2.5	2.2
Funds distributed to shareholders	-0.7	-0.7	-0.7	-1.3	0.0	-0.7	-1.1	-1.4

Source: Company data and Nordea estimates

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