

EAB Group Oyj

Financials
Finland

KEY DATA

Stock country	Finland
Bloomberg	EAB FH
Reuters	EABG.HE
Share price (close)	EUR 3.00
Free Float	35%
Market cap. (bn)	EUR 0.04/EUR 0.04
Website	www.eabgroup.fi
Next report date	11 Feb 2022

PERFORMANCE



VALUATION APPROACH (EUR/SHARE)



ESTIMATE CHANGES

Year	2021E	2022E	2023E
Sales	1%	0%	7%
EBIT (adj)	-2%	19%	56%

Source: Nordea estimates

Nordea Markets - Analysts

Joni Sandvall
AnalystSvante Krokfors
Director

Waiting for economies of scale to kick in

EAB has benefitted from a positive financial market development in 2021. In addition, the company has trimmed its cost base, which should bode well for its earning development, with clear ambitions to increase its exposure to alternative investments (AI). We believe the toughest fee pressure has started to fade, while the company should be able to increase its recurring revenue in line with scaling up its AI portfolio. We remain slightly cautious about the possible carry potential from multiple funds, while these could boost earnings development in 2022-23. The process of recruiting a new CEO is underway and could support the cost development ahead. We derive a multiples-based fair value range of EUR 3.1-3.8 (3.0-3.7) per share.

Private equity funds in focus

EAB aims to derive two-thirds of its operating income from alternative investments within three to five years. We view this target as ambitious given that AI funds currently correspond to approximately a third of EAB's operating income. However, we expect solid growth in AI funds and we model roughly a 30% operating income CAGR for these funds in 2020-23. The company is currently performing fundraising for two AI funds – a real estate fund and a renewable energy fund. In addition, we believe it could announce a new real estate fund in 2022, as the current property development fund's term closes then.

We keep our 2021 estimates largely intact, upping 2022E-23E

Although we keep our 2021 estimates largely intact, we hike our 2022-23 EBIT estimates by 19-56% owing to lower cost assumptions. We believe the company can scale down its investments, which should become visible in depreciation. In addition, we remain slightly cautious about possible carry potential, which could boost the earnings development in 2022-23.

Fair value range of EUR 3.1-3.8 – growth required

We base our fair value range on a combination of two valuation methods: peer valuations and P/E and EV/EBIT. Based on the average of these valuation methods, we derive a fair value range of EUR 3.1-3.8 (3.0-3.7) per share. We expect progress in the new AI funds to act as a trigger for the share. However, we note that the company must succeed with the ramp-up of its funds in order to reach our estimates. In addition, we note that the UCITS fund business is cyclical in nature, thus exposing EAB Group to capital market fluctuations.

SUMMARY TABLE - KEY FIGURES

EURm	2017	2018	2019	2020	2021E	2022E	2023E
Net sales	15.8	19.4	18.1	18.5	21.3	23.8	27.1
EBIT (adj)	-0.1	1.8	-1.4	0.6	2.6	4.4	6.6
EBIT (adj) margin	-0.6%	9.3%	-7.7%	3.3%	12.0%	18.5%	24.4%
EPS (adj), EUR	-0.03	0.09	-0.11	0.02	0.13	0.23	0.36
EPS (adj) growth	n.a	-445.3%	-230.8%	-116.4%	596.7%	79.2%	54.6%
DPS, EUR	0.07	0.00	0.00	0.05	0.08	0.12	0.18
EV/Sales	3.6	3.2	2.5	2.7	2.0	1.6	1.2
EV/EBIT (adj)	-566.3	34.9	-32.5	79.8	17.0	8.8	5.0
P/E (adj)	-166.9	32.0	-24.3	167.2	22.9	12.8	8.3
P/BV	3.1	1.8	2.0	2.3	2.0	1.8	1.6
Dividend yield (ord)	1.7%	3.6%	0.0%	1.6%	2.7%	4.0%	6.0%
FCF Yield bef acq & disp	3.3%	-7.6%	1.6%	6.0%	9.2%	11.0%	12.1%
Net debt	2.2	5.9	6.9	5.9	3.0	-0.2	-2.9
Net debt/EBITDA	-3.1	1.4	5.3	1.8	0.6	0.0	-0.3

Source: Company data and Nordea estimates

Expectations ahead of H2 2021

EAB's H1 was solid. Operating income was up 21% y/y and EBIT was EUR 1.1m. The company has benefitted from a strong financial market recovery, while we expect slightly slower growth in UCITS fund revenues in H2. Alternative investments remain the key growth driver going forward and the company is proceeding with two fundraising projects. EAB is currently searching for a new CEO so that the current CEO can focus solely on the development of sustainable private capital fund operations. The company targets having two-thirds of operating income from private capital funds within the next three to five years.

We model 7% y/y operating income growth for H2

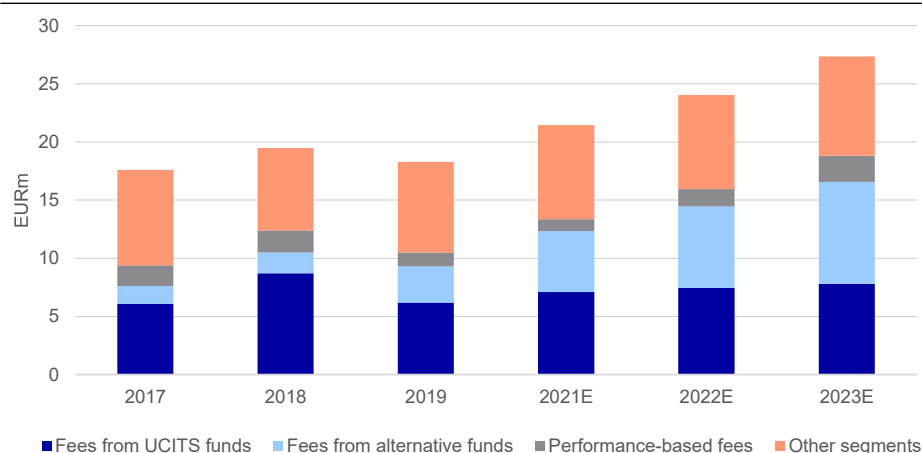
We believe EAB has been able to continue increasing its fees from UCITS funds, although at a slightly slower pace than in H1 (+22% y/y). More importantly, we expect roughly 30% y/y growth in alternative investment (AI) funds, driven by continuing fundraising in Value Added Fund III and Renewable Energy Infrastructure Fund II. We believe the company can close its Renewable Energy Fund in 2022. In total, we model 7% y/y operating income growth for H2 (+20% in H1).

EAB targets two-thirds of operating income from private capital funds

EAB refreshed its financial targets in conjunction with its H2 2020 report in February. The company has a target for two-thirds of its operating income to come from private capital funds over the next three to five years. We currently expect roughly a 50% share by 2023 when taking into account performance and brokerage fees. However, we remain slightly cautious on possible performance fees, which could surprise on the upside in 2022. We currently model EUR 1m in performance fees for 2021 and EUR 1.5m for 2022.

In addition, the company aims to increase its operating income by 100% within the next three to five years (we model a ~50% increase in 2020-23) and improve its operating profit margin from comparable operating income to above 35% (we model ~25% in 2023 after 3.6% in 2020).

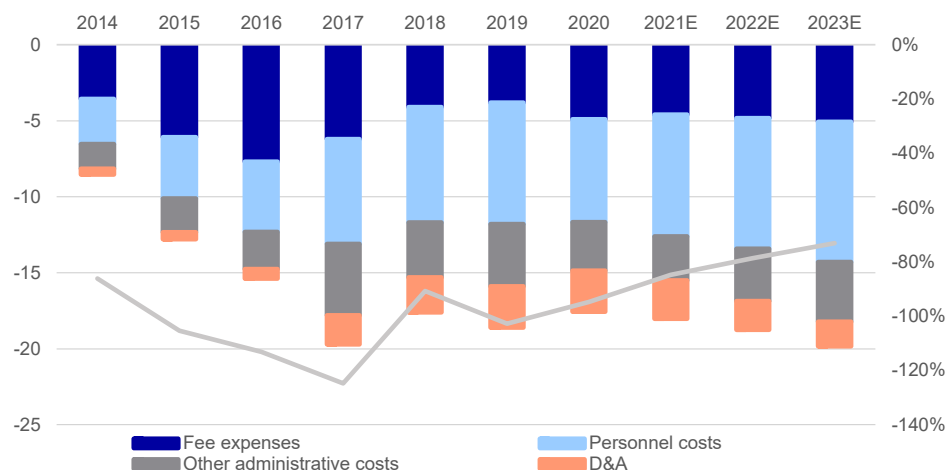
GROSS SALES SPLIT, 2016-23E (EURm)



Source: Company data and Nordea estimates

Trimmed cost base

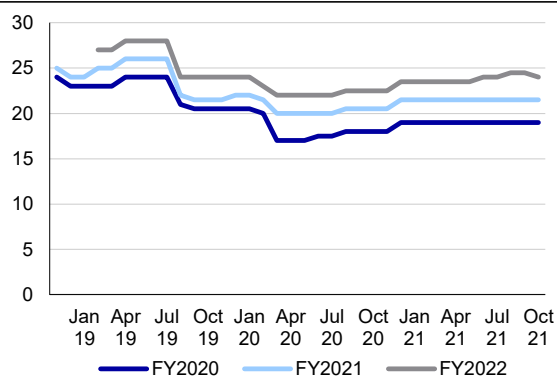
We think the company has trimmed its cost base during the pandemic. Personnel costs started to normalise during H1, while we expect a slight relative increase in 2022, as EAB is most likely stepping up its renewable energy and private equity expertise in order to steer towards its strategic target of two-thirds of operating income from private capital funds. However, we believe the company will maintain tight cost control for other administrative expenses. For H2, we expect tight cost control and we model EUR 4.0m in personnel costs (EUR 4.0m in H1) and EUR 1.5m in other administrative costs (EUR 1.4m in H1).

COST BASE, 2014-23E (EURm AND %)

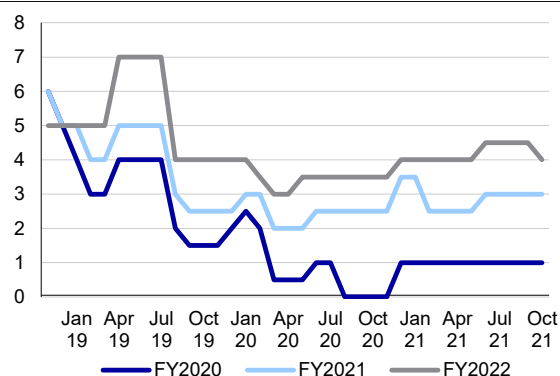
Source: Company data and Nordea estimates

Consensus expectations

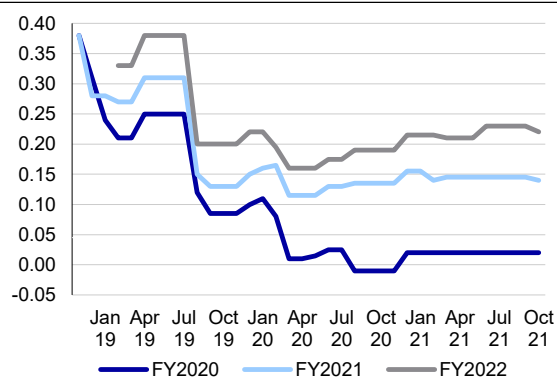
Consensus expectations for income have been fairly stable, while operating profit estimates were raised after the positive profit warning in June.

CONSENSUS SALES ESTIMATES (EURm)

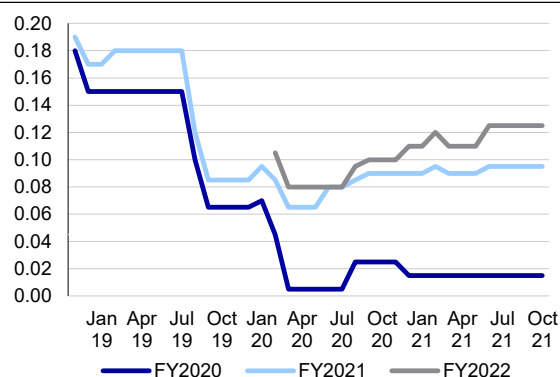
Source: Refinitiv

CONSENSUS EBIT ESTIMATES (EURm)

Source: Refinitiv

CONSENSUS EPS ESTIMATES (EUR)

Source: Refinitiv

CONSENSUS DPS ESTIMATES (EUR)

Source: Refinitiv

We are ahead of consensus on net earnings

We are fairly in line with Refinitiv consensus on the top line, while we are clearly ahead on net results for 2022E-23E. However, we note the low quality of consensus.

OUR ESTIMATES VERSUS REFINITIV CONSENSUS

EURm	Nordea estimates			Consensus estimates			Difference %		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Sales	21.3	23.8	27.1	21.5	24.0	26.5	-1%	-1%	2%
Adj. EBIT	2.6	4.4	6.6	3.5	4.0	5.5	-27%	10%	20%
Adj. EBIT margin	12.0%	18.5%	24.4%	16.3%	16.7%	20.8%	-4.2pp	1.8pp	3.7pp
Net result	1.8	3.2	5.0	2.0	3.0	4.0	-9%	8%	25%
Net result margin	8.5%	13.6%	18.5%	9.3%	12.5%	15.1%	-0.8pp	1.1pp	3.4pp
Adj. EPS (EUR)	0.13	0.23	0.36	0.16	0.22	0.31	-16%	7%	19%
DPS (EUR)	0.08	0.12	0.18	0.09	0.13	0.14	-11%	-4%	29%

Source: Refinitiv and Nordea estimates

Estimate revisions

We take a slightly more positive view on costs

We make only minor top-line revisions for 2021E-22E, while we take a more positive view for 2023E. We hike our 2022-23 EBIT estimates by 19-56% owing to an expected lower cost base.

ESTIMATE REVISIONS

EURm	New estimates			Old estimates			Difference		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	21.3	23.8	27.1	21.0	23.8	25.4	1%	0%	7%
Adj. EBIT	2.6	4.4	6.6	2.6	3.7	4.2	-2%	19%	56%
Adj. EBIT margin	12.0%	18.5%	24.4%	12.5%	15.6%	16.7%	-0.4pp	2.9pp	7.7pp
Adj. EPS (EUR)	0.13	0.23	0.36	0.13	0.19	0.23	-3%	21%	61%

Source: Nordea estimates

Valuation and risks

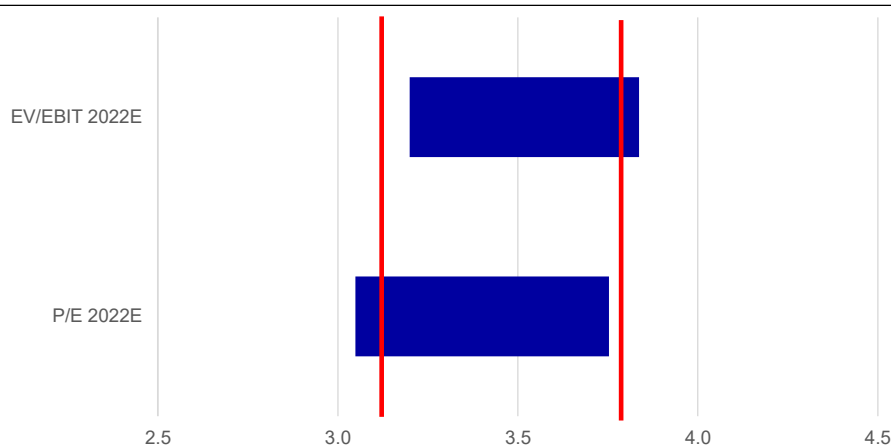
We derive a fair value range of EUR 3.1-3.8 (3.0-3.7) by equally weighting our P/E and EV/EBIT multiples.

Fair value range of EUR 3.1-3.8

Based on our revenue growth and operating profit margin expectations, we estimate a fair value range of EUR 3.1-3.8 per share (3.0-3.7) using the average of two different valuation approaches (P/E and EV/EBIT). This valuation range is represented by the red lines in the chart below.

Based on our 2022 EBIT estimate of EUR 4.4m and an accepted valuation multiple range of 10-12x (midpoint: 11x), we derive our EV/EBIT multiple-based fair value range of EUR 3.2-3.8. Similarly, we use our 2022 EPS estimate of EUR 0.23 and an accepted multiple range of 13-16x (midpoint: 14.5x) to derive our P/E-based fair value range of EUR 3.0-3.8.

FAIR VALUE RANGE



Source: Nordea estimates

Main risks

We believe 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 the company's 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 21	H2 21E
Net revenue	7.5	8.5	9.6	9.8	9.2	8.9	8.7	10.0	10.5	10.8
Revenue growth	-14%	16%	22%	9%	-5%	-9%	-6%	12%	22%	8%
Fee based costs	-3.4	-2.1	-1.6	-2.5	-2.0	-1.8	-2.6	-2.3	-2.5	-2.1
Personnel costs	-3.1	-2.7	-3.7	-3.9	-4.2	-3.8	-3.5	-3.3	-4.0	-4.0
Other administrative costs	-1.3	-1.9	-1.7	-1.9	-1.9	-2.2	-1.6	-1.6	-1.4	-1.5
D&A	-0.5	-0.8	-1.0	-1.3	-1.3	-1.4	-1.4	-1.3	-1.3	-1.3
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	0.0	0.0
EBIT	0.2	-0.4	1.4	0.4	-0.8	-0.5	-0.8	1.4	1.1	1.4
EBIT margin %	3%	-5%	15%	4%	-9%	-6%	-9%	14%	11%	13%
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	-0.8	1.1	0.8	1.0
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	-0.8	1.1	0.8	1.0
EPS (EUR)	0.01	0.10	0.09	0.00	-0.06	-0.04	-0.06	0.08	0.06	0.07

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	21.3	23.8	27.1
Revenue growth	22%	12%	16%	23%	-7%	2%	15%	12%	14%
of which total organic	22%	7%	4%	8%	-7%	2%	15%	12%	14%
Fee based costs	-6.1	-7.7	-6.2	-4.1	-3.8	-4.9	-4.6	-4.8	-5.1
Personnel costs	-4.0	-4.6	-6.9	-7.6	-8.0	-6.8	-8.0	-8.6	-9.2
Other administrative costs	-2.2	-2.4	-4.7	-3.6	-4.1	-3.2	-2.9	-3.5	-3.9
D&A	-0.5	-0.6	-1.9	-2.3	-2.7	-2.7	-2.5	-1.9	-1.6
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	2.6	4.4	6.6
EBIT margin %	4%	1%	-16%	9%	-8%	3.3%	12.0%	18.5%	24.4%
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	-0.8	-1.3
Net income	1.8	0.6	-2.3	1.4	-1.6	0.3	1.8	3.2	5.0
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Net income to equityholders	1.8	0.6	-2.3	1.4	-1.6	0.3	1.8	3.2	5.0
EPS (EUR)	0.09	0.00	-0.20	0.09	-0.11	0.02	0.13	0.23	0.36

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	10.5	10.0	9.3	9.1
of which R&D	1.7	1.9	2.3	0.0	0.0	0.0	0.0	0.0
of which other intangibles	0.3	3.6	2.0	4.7	1.4	0.9	0.2	0.0
of which goodwill	4.5	9.0	9.1	9.1	9.1	9.1	9.1	9.1
Tangible assets	2.3	1.9	3.2	2.9	5.1	5.2	5.3	5.4
of which machinery plant	2.3	1.9	0.6	0.1	0.0	0.1	0.2	0.3
of which property	0.0	0.0	2.6	0.2	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	20.7	19.1	19.0
Accounts receivable	0.0	0.0	0.0	0.0	8.1	9.3	10.4	11.9
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	4.5	7.7	10.4
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	33.9	35.5	38.2	42.3
Shareholder equity	12.3	21.8	22.0	19.2	19.1	20.2	22.4	25.7
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	20.3	22.5	25.8
Deferred tax	0.0	0.3	0.3	0.2	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	4.7	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	12.3	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	0.0	0.0	0.0	0.0
Other current liabilities	1.1	3.0	3.1	3.7	4.1	4.7	5.3	6.0
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	3.7	5.1	5.7	6.3	7.0
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	35.3	33.8	35.5	38.2	42.3

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	5.1	7.3	9.2
Paid taxes	0.0	0.0	0.0	0.2	0.0	-0.4	-0.8	-1.3
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	3.1	5.1	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	-3.3	-4.4	0.0	0.0	0.0
Funds from operations (FFO)	0.6	-1.0	3.6	1.0	3.7	6.4	7.1	7.6
Change in NWC	-1.6	1.2	-3.7	1.5	0.0	-0.6	-0.6	-0.7
Cash flow from operations (CFO)	-1.0	0.2	-0.1	2.5	3.7	5.8	6.6	6.9
Capital Expenditure	-2.4	1.6	-4.2	-1.9	-1.1	-1.1	-1.3	-1.5
Free Cash Flow before A&D	-3.4	1.8	-4.3	0.6	2.6	4.7	5.3	5.4
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	4.7	5.3	5.4
Funds distributed to shareholders	-0.7	-0.7	-0.7	-1.3	0.0	-0.7	-1.1	-1.7

Source: Company data and Nordea estimates

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