

The NAGA Group

Software
13 July 2018

Broadening portfolio stimulates profitability

NAGA Group (N4G) moved to positive EBITDA of €2.9m in FY17 on the back of higher brokerage fees and one-off ICO-related advisory fees. Management expects to double trading volumes in 2018. However, the business is still in its early stages, and future profitability will depend on the number and activity of brokerage clients, the success of recently launched products, as well as the sentiment towards cryptocurrencies in the aftermath of the recent market crash.

Positive EBITDA reported in FY17

NAGA reported EBITDA of €2.9m in FY17, following a surge in revenues (excluding activated programming services) to €12.8m (H117: €3.7m). This was driven by the growing customer base and higher trading volumes (€42bn in FY17) in the brokerage business, as well as advisory fees in initial coin offerings (ICOs). Sales growth continued in the first two months of FY18, driving the best monthly results in the company's short history. The issuance (15 December 2017) of NAGA Coin raised US\$50m, exceeding the initial goal of US\$30m. The proceeds from the offering are earmarked mainly for marketing, platform growth and tech development projects. The NAGA Coin has already been introduced across the whole NAGA Ecosystem, although for now the adoption level is limited outside NAGA Trader.

New apps, partnerships and acquisitions

NAGA Group is still in an intense expansion phase, which is executed through both internal development and M&A activity. The company is building its own ecosystem, which includes its own cryptocurrency, NAGA Coin; NAGA Wallet, a digital wallet to support all transactions; and core business apps, NAGA Trader and NAGA Virtual. NAGA is also looking for external growth drivers, which have resulted in a series of alliances and acquisitions. These include the acquisition of Hanseatic Brokerhouse Securities (currently NAGA Brokers), a strategic partnership with MyBucks (aimed at entering the sub-Saharan Africa market), and a joint venture with Asobimo Inc designed to enable NAGA Virtual to enter the Japanese mobile gaming market.

Valuation: Share price drop continues

Following the significant decline in share price, NAGA is currently trading at 8.6x EV/Sales and 4.7x price/book based on FY17 figures. Blockchain and fintech companies that are still in the ramp-up phase may be the most appropriate comparators, given NAGA's short operating history.

Historical financials

Year end	Sales (€m)	EBIT (€m)	PBT (€m)	EPS* (€)	P/E (x)	Yield (%)
12/15	0.60	(0.77)	(0.78)	(15.60)	N/A	N/A
12/16	3.23	(6.40)	(6.49)	(131.60)	N/A	N/A
12/17	14.11	(1.90)	(2.10)	(0.14)	N/A	N/A

Source: NAGA Group accounts. Consensus forecasts are not available. Note: *Based on 50,000 shares in 2015, 50,001 in 2016 and 21,000,048 shares in 2017.

Price €3.25
Market cap €131m

Share price graph



Share details

Code	N4G
Listing	Deutsche Börse Scale
Shares in issue	40.2m
Last reported net cash as at December 2017	€8.7m

Business description

The NAGA Group is a fintech start-up in social trading with its own cryptocurrency (NAGA Coin) and two flagship products: NAGA Trader (for securities trading) and NAGA Virtual (for in-game items trading), a joint venture with the Deutsche Börse. Headquartered in Hamburg, the company acquired Hanseatic Brokerhouse Group, now rebranded to NAGA Brokers.

Bull

- The major stakeholder Fosun may be successful in bringing NAGA to the Chinese market.
- German fintech companies may benefit from Brexit.
- Social trading and robo-advisor may gain significant traction in Germany.

Bear

- China's recent crackdown on cryptocurrency trading may have adverse effect on NAGA.
- NAGA's business model may be copied by Silicon Valley tech giants.
- Competition is likely from existing players in finance and gaming.

Analyst

Milosz Papst +44 (0)20 3077 5700

tech@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

NAGA Group reaches positive EBITDA

NAGA's FY17 annual report (not yet approved by the auditor) is the first one covering the period from 1 January to 31 December, with the comparative period presented in the report as the six months from 1 July to 31 December 2016 (ie H216). Group revenues reached €12.8m (vs €2.0m in H216), of which €6.5m was related to the brokerage business (€2.0m in H216), assisted by the growing customer base and higher trading volumes. After accounting for commission expenses of €3.4m (which do not yet reflect the recent acquisition of Hanseatic Brokerhouse Securities), this translates into net commission income of c €3.1m (€1.3m in H216). The remaining revenues of €6.3m represent income from commissions (€4.36m), advisory services and trademark rights (€1.96m) received from Naga Development Association (NDA) in conjunction with the NAGA token sale, which should be considered as one-off events.

Earnings from activated programming services amounted to €1.3m and in particular reflected development costs of SwipeStox (NAGA Trader) and to a lesser extent (€0.3m) investments in SWITEX. Overall programming expenses stood at €2.0m in FY17 (mainly attributable to SwipeStox). Other operating income amounted to €3.5m and included predominantly one-off income from the transfer of expenses to Naga Development Association in conjunction with the NAGA token sale. The corresponding one-time expenses were recognised in the marketing and advertising (€1.5m) as well as other operating expense (€1.7m) lines, with a 5% margin applied to the former. Earnings were also influenced by the legal and advisory costs associated with the IPO (€0.5m).

As a result of the above, the company recorded positive EBITDA of €2.9m, compared with negative €1.4m in H216. Amortisation stood at €4.8m and was twice as high as in H216, thus remaining at comparable levels on an annualised basis, and was largely attributable to Swipy Technology (€4.0m). Consequently, the company reported a negative pre-tax profit and a net loss of €2.2m.

NAGA recorded positive cash flow before taking into account changes in working capital (which was affected by the increase in receivables from Naga Development Association related to the ICO), in line with the positive EBITDA developments. Operating cash flow after working capital changes was a negative €4.2m. Investment cash outflows were -€1.6m. Offsetting these were positive cash flows from financing activity of €9.9m including €2.5m IPO proceeds (completed in July 2017). As a result, the net cash balance at end-2017 improved to €8.7m.

Exhibit 1: Results highlights

€000s	FY17	01-Jul-17 to 31-Dec-17*	01-Jan-17 to 30-Jun-17	01-Jul-16 to 31-Dec-16
Revenue	12,843	9,102	3,741	1,987
Activated programming services (commissions)	1,266	677	589	1,243
Total Sales	14,109	9,779	4,330	3,230
Other Operating income	3,534	3,229	305	351
Commission expenses	(3,426)	(1,850)	(1,576)	699
Personal expenses	(2,699)	(1,454)	(1,245)	1,373
Marketing & advertising expenses	(1,735)	(1,443)	(292)	243
Other operating expenses	(6,906)	(4,138)	(2,768)	1,756
EBITDA	2,878	4,124	(1,246)	(2,660)
Amortisation	(4,778)	(2,394)	(2,384)	(3,735)
EBIT	(1,900)	1,731	(3,631)	(6,395)
Net financial incomes (expenses)	(204)	(111)	(93)	(93)
Income (loss) before taxes	(2,104)	1,620	(3,724)	(6,488)
Income taxes	(141)	32	(173)	(92)
Net profit/(loss)	(2,244)	1,653	(3,897)	(6,580)
Cash flow from operating activities	(4,159)	(1,750)	(2,409)	(1,212)
Cash flow from investing activities	(1,597)	(747)	(850)	(1,682)
Cash flow from financing activities	9,858	9,813	45	6,281
Net Cash	8.728	8.728	0.257	0.266

Source: NAGA Group accounts. Note: *Edison calculations based on NAGA Group accounts.

The NAGA Group posted a solid start to the year. It recorded its best results to date in the first two months of 2018 with positive EBITDA from the core business activity. The social trading app NAGA Trader (previously SwipeStox) remains the key revenue growth driver. The number of live trading accounts in NAGA Trader more than quadrupled, resulting in a trading volume upswing of 42%. The average monthly trading volume exceeded €5bn (vs an aggregate €42bn in FY17) and translated into total revenues of around €2.7m in the period. This trend needs to be monitored in the forthcoming months as it could have been a positive effect of high market volatility, which usually results in higher trade volume in the CFD market. An additional driver for NAGA Trader may come from the recent acquisition of a 25% stake in easyfolio GmbH, which adds ETF products to the platform. Moreover, the recently introduced NAGA Wallet has already recorded over 100k registrations in the first two months after launch. The app brings all of NAGA's products and services together and is available across the globe. The same global marketing strategy has been applied to NAGA Markets (online broker), which is now available in 180 countries. The next app in NAGA's portfolio will be NAGA Academy (Q318), a tool designed to provide education on financial market concepts, which may help users benefit from the NAGA Ecosystem.

US\$50m raised in initial coin offering (ICO)

In Q417 the company conducted an ICO of NAGA Coin (NGC), which will be the main currency of NAGA's ecosystem. It raised US\$50m from 63,000 investors, exceeding the initial goal of US\$30m. Although it was lower than the total number of available tokens (US\$220m), it still ranks in the top 5% of all ICOs completed in 2017 and the second largest of those conducted by financial entities (source: coinschedule.com). NGC differs from most of the other cryptocurrencies, not only because it has been released by a publicly traded company, but also because it has a capped supply, given that the coin is not minable and that unsold tokens have been burned. Importantly, having an independent management board and the participation of FOSUN, a foreign institutional fund, should have a positive impact on the transparency and credibility of NGC.

The proceeds collected by NDA will be used mainly for marketing, NAGA Ecosystem growth and tech development projects. The ICO was completed on 15 December 2017 and the NAGA Coin was listed on the HitBTC exchange on 22 December 2017. It is now listed on nine crypto exchanges. On 29 March 2018, NGC was introduced to NAGA Trader as its base currency and funding method. It is supported by NAGA Wallet, a fully automated tool acting as a digital wallet and simple exchange for cryptocurrencies, which went live on 15 March this year.

Expansion through acquisitions and alliances

NAGA Virtual (previously SWITEX, NAGA's subsidiary) recently announced the launch of a co-operation with Asobimo Inc, one of the leading providers of online games for smartphones in Japan, which will result in a Japan-based joint venture. The Japanese gaming market is the third largest in the world with more than US\$12.4bn in total revenues, 52% of which were generated by mobile games. The company is yet to benefit from the agreement, as the integration of the first game (Petit Chronicles) has just been completed. NAGA Virtual expected the first live virtual goods transaction to take place in Q118, but the official go-live took place on 26 April 2018.

Furthermore, NAGA has announced a strategic partnership with MyBucks, a digital banking group providing financial services in high-growth emerging markets. Both companies are targeting significant share of the remittance market in sub-Saharan Africa, which amounts to US\$34bn annually. MyBucks will implement NAGA Wallet into its client interface for over 1.5 million customers, who will gain fast and affordable access to crypto assets based on real-time transactions and lowered transaction fees. These features will also be available for money transfers. MyBucks will be the exclusive business partner for NAGA Wallet in these countries.

Finally, on 3 May 2018, NAGA and Ontology announced a long-term strategic co-operation aimed at building and developing a new generation of public blockchain infrastructure. Ontology is a high-performance public blockchain project with the ability to customise different blockchains for different applications. NAGA, on the other hand, runs a fintech ecosystem based on the same technology. As Ontology's main focus is on trust, identity, data exchange and authorisation, it is a good fit, extending its reach into the European markets where NAGA operates and opening Chinese and global opportunities for NAGA if it migrates its ecosystem to the Ontology network.

Valuation

Since November 2017, NAGA's share price has been on a downward trend. After almost quadrupling in value in the first four months after the July 2017 IPO, it has reverted to almost the IPO level.

Given NAGA's short-term operating history and blockchain focus, blockchain companies such as Digital X may be suitable comparators in the near term. These companies are still young, small in scale and are often listed on exchanges with lighter regulatory burdens (such as OTC markets in the US). Fintech companies still in the ramp-up phase may also be appropriate comparators.

Exhibit 2: NAGA Group peer comparison

	Market cap	P/E (x)			EV/Sales (x)			EV/EBITDA (x)		
Company	(local currency)	2018	2019	2020	2018	2019	2020	2018	2019	2020
Trading & Investment Advisory										
IG Group	£3,121.54	14.41	16.54	15.40	6.14	6.31	5.94	11.86	13.39	12.56
CMC Markets	£593.91	13.34	17.27	13.61	3.71	3.93	3.66	10.88	13.12	10.68
Alpha FX Group	£183.30	26.32	22.45	N/A	11.64	9.47	N/A	23.48	19.41	N/A
Average		18.02	18.75	14.50	7.16	6.57	4.80	15.41	15.30	11.62
Fintech companies in P2P										
Cinnober Financial Technology	SEK1,197.82	N/A	N/A	0.53	3.31	2.81	2.32	N/A	N/A	41.25
Change Financial	A\$53.33	N/A	N/A	N/A	39.25	15.32	3.32	N/A	N/A	N/A
MyBucks	€116.69	N/A	0.19	0.07	2.96	2.05	1.60	8.86	4.49	3.12
Average			0.19	0.30	15.18	6.72	2.42	8.86	4.49	22.18
Mobile social media & gaming										
Gree	JPY140,349.04	18.74	15.70	13.57	2.79	2.62	2.47	18.94	14.71	13.02
Momo INC	\$7,313.18	19.58	15.67	13.48	4.61	3.68	3.13	17.02	12.98	11.30
YY INC	\$4,818.53	1.95	1.57	1.37	0.85	0.69	0.60	3.52	2.82	2.55
Average		13.42	10.98	9.47	2.75	2.33	2.07	13.16	10.17	8.96
Overall average		15.72	9.97	8.09	8.36	5.21	3.09	12.48	9.99	14.25

Source: Bloomberg data as at 3 July 2018, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Any Information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.