

# The NAGA Group

## 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.

Software

13 July 2018

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.

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## 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
<b>EBITDA</b>	<b>2,878</b>	<b>4,124</b>	<b>(1,246)</b>	<b>(2,660)</b>
Amortisation	(4,778)	(2,394)	(2,384)	(3,735)
<b>EBIT</b>	<b>(1,900)</b>	<b>1,731</b>	<b>(3,631)</b>	<b>(6,395)</b>
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)
<b>Net profit/(loss)</b>	<b>(2,244)</b>	<b>1,653</b>	<b>(3,897)</b>	<b>(6,580)</b>
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)

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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

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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

Company	Market cap (local currency)	P/E (x)			EV/Sales (x)			EV/EBITDA (x)		
		2018	2019	2020	2018	2019	2020	2018	2019	2020
<b>Trading &amp; Investment Advisory</b>										
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
<b>Average</b>		<b>18.02</b>	<b>18.75</b>	<b>14.50</b>	<b>7.16</b>	<b>6.57</b>	<b>4.80</b>	<b>15.41</b>	<b>15.30</b>	<b>11.62</b>
<b>Fintech companies in P2P</b>										
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
<b>Average</b>			<b>0.19</b>	<b>0.30</b>	<b>15.18</b>	<b>6.72</b>	<b>2.42</b>	<b>8.86</b>	<b>4.49</b>	<b>22.18</b>
<b>Mobile social media &amp; gaming</b>										
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
<b>Average</b>		<b>13.42</b>	<b>10.98</b>	<b>9.47</b>	<b>2.75</b>	<b>2.33</b>	<b>2.07</b>	<b>13.16</b>	<b>10.17</b>	<b>8.96</b>
<b>Overall average</b>		<b>15.72</b>	<b>9.97</b>	<b>8.09</b>	<b>8.36</b>	<b>5.21</b>	<b>3.09</b>	<b>12.48</b>	<b>9.99</b>	<b>14.25</b>

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

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