

DEA CAPITAL

BUY

SECTOR: Asset Management

Price (Eu):

1.40

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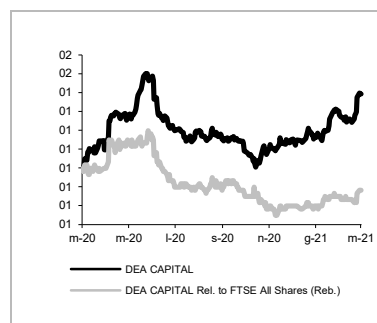
Target Price (Eu):

1.86

Growing Interest in Alternative Assets: DeA Capital is Poised!

- Good operating trends for AAM platform in 2020 despite challenging environment, net profit boosted by goodwill realignment.** DeA reported a good set of FY20 results thanks to positive operating trends on the AAM platform (including the contribution from Quaestio SGR), with revenues at Eu101mn (up 36.6% YoY) and net operating profit at €18.6mn, a 29% YoY jump thanks mostly to strong growth in alternative AM (Private Equity, Credit, MultiAsset-MultiStrategy) while real estate performance was hit by the health emergency. DeA reported net profit of €20.4mn, benefiting from a one-off contribution of €16.4mn related to fiscal goodwill realignment, but also hit by a €10.4mn negative impact from the mark-to-market of investments. Net cash at holding company level was up YoY to €79.3mn thanks to cash generation from AAM platform operations and the disposal of some assets. The solid financial position allowed the company to propose an extraordinary DPS of €0.10 to the next AGM, down from €0.12 last year but much higher than our €0.06 forecast, with an implicit dividend yield of ~7% at current prices and the renewal of the buyback plan for up to 20% of the capital.
- Combined AuM at €23.8bn, further growth expected thanks to recent announcements and solid pipeline.** DeA closed FY20 with combined AuM at €23.8bn, up 5.4% YoY: RE AuM was Eu10.45bn, Credit AuM Eu3.28bn, Private Equity AuM Eu2.2bn, MultiStrategy-MultiManager (Queastio SGR) AuM Eu7.9bn. All business segments contributed to growth and DeA is further strengthening its position on the Italian market as a provider of a full range of investment solutions. It is important to underline that DeA has built up a strong track record and positioning in all four segments. With funds now in different phases of the investment cycle, the group has become more appealing to existing and potential investors.
- Demand for alternative assets should continue to soar.** In the current context of increasing volatility and a need for options other than fixed-income investments, the demand for alternative assets is expected to continue to grow significantly in Italy and Europe. DeA is well placed to capture flows thanks to the wide range of solutions it offers and its expertise on complex markets and transactions. DeA was active in 2020 and 1Q21 with the launch of a new real estate fund for Eu700mn, increased AuM for CCR II, the launches of Taste of Italy II and Sviluppo Sostenibile II, the sale of the remaining stake in Migros and other investments / disposals on the way. The pipeline is solid and we forecast combined AuM to reach ~Eu25bn by YE21.
- Upgrade to BUY: target lifted to Eu1.86 as DeA is now an attractive AAM pure play.** The positive FY20 trend shows that the move to transform the group into a fully-fledged player in the alternative asset management arena is paying off. We believe the company is well placed to create value thanks to: 1) a more focused mission to develop the alternative AM platform; 2) high expertise in structuring and launching complex investment strategies tailored to customer requirements; 3) growing demand for alternative AM. New clients and the launch of new initiatives should propel further revenue growth, allowing DeA Capital to improve the stream of recurring fees and profitability. We are now expecting YE21 combined assets to approach Eu25bn. We value the AAM platform based on a 20% discount to multiples of international listed players and reach a valuation of Eu329mn (Eu1.34ps) included the stake in Quaestio SGR and net cash in the SGRs, or an implied multiple of roughly 16x 2022E adjusted net profit and 7x 2022E EV/EBITDA. We then add the discounted value of the remaining investments, net of holding costs and the net cash at holding company level, to reach our target price of Eu1.86ps (from Eu1.55ps previous), which offers very notable upside on the current stock price: we are therefore upgrading the stock from Outperform to BUY.

DEA CAPITAL - 12m Performance



RATING: from OUTPERFORM to BUY

TARGET PRICE (Eu): from 1.55 to 1.86

Ch. in Adj.EPS est: 2020A 2021E

STOCK DATA

Reuters code: DEA.MI
Bloomberg code: DEA IM

Performance	1m	3m	12m
Absolute	8,8%	20,8%	41,8%
Relative	4,2%	10,6%	-16,6%
12 months H/L:	1.50/0.99		

SHAREHOLDER DATA

No. of Ord. shares (mn):	267
Total No. of shares (mn):	267
Mkt Cap Ord (Eu mn):	371
Total Mkt Cap (Eu mn):	371
Mkt Float - ord (Eu mn):	112
Mkt Float (in %):	30,1%
Main shareholder:	
De Agostini	67,1%

BALANCE SHEET DATA

	2021
Book value (Eu mn):	
BVPS (Eu):	1,75
P/BV:	0,8
Net Debt (Eu mn):	
NAV (Eu mn)	548

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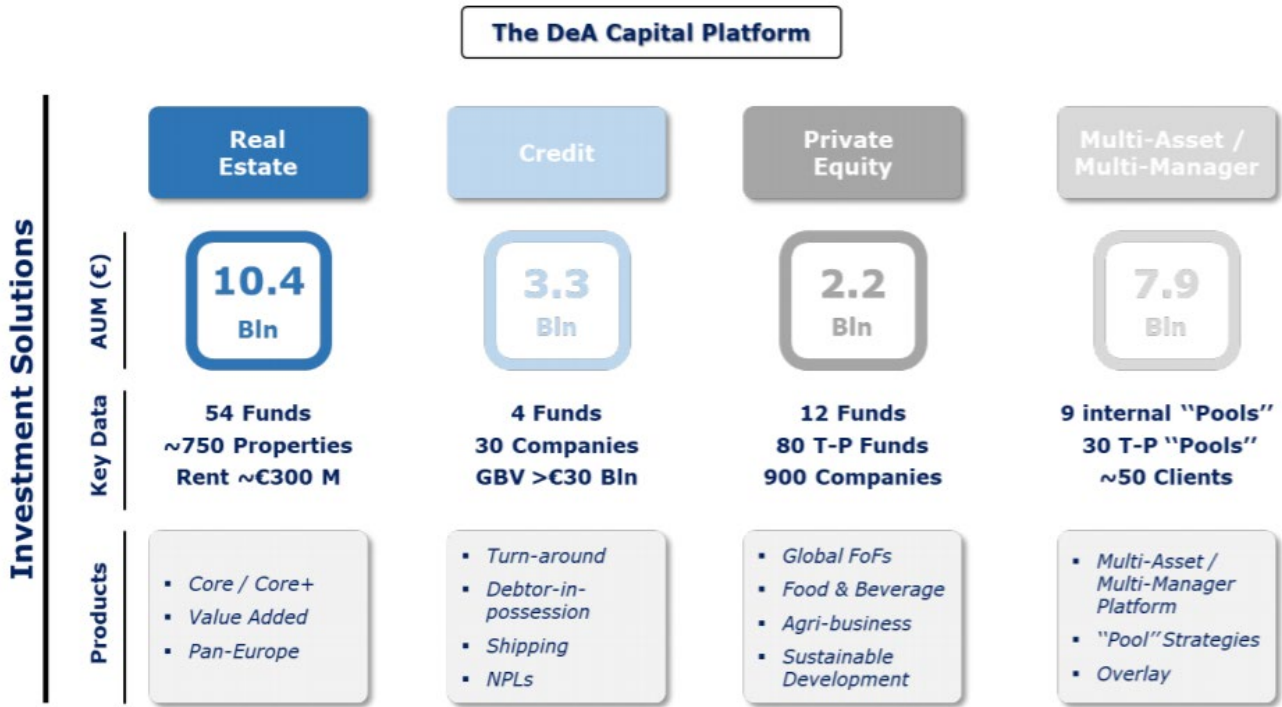
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FY20 results: good operating trends coupled with a high dividend

DeA's FY20 results show an increase in net profit to €20.4mn, with a €16.2mn contribution from a non-recurring item related to the tax realignment of DeA Capital Real Estate's goodwill. The positive NFP rose as high as €126mn at YE20 thanks to working capital flows from the AAM platform and the liquidation of investments.

The company proposed an extraordinary dividend of €0.10 vs. our expectation of €0.06, as well as a new treasury share purchase plan on up to 20% of the capital; treasury shares currently stand at 2.6% of the capital.

DeA Capital Results at a Glance

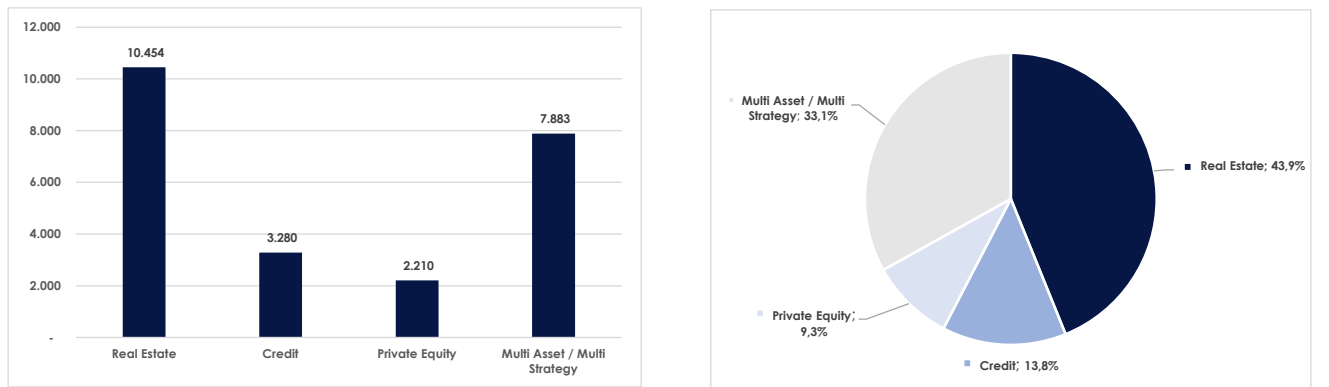


Source: Company presentation

Combined AuM up 5.4% YoY to €23.8bn at YE20, further growth expected thanks to recent announcements and solid pipeline.

DeA closed FY20 with combined AuM at €23.8bn, up 5.4% YoY. All business segments contributed to growth, and DeA is further strengthening its position on the Italian market as a provider of a full range of investment solutions.

DeA Capital Combined AuM Breakdown



Source: Intermonte on Company data

It is important to underline that DeA has built up a strong track record and positioning in all four segments. With funds now in different phases of the investment cycle, the group has become more appealing to existing and potential investors.

- **Real Estate AuM at €10.45bn (+4% YoY) – 54 RE funds managing ~750 properties and bringing in ~€300mn in annual rents**

In Real estate, the group is by far the largest domestic player, and as of 1st March 2021 the group is managing a new fund with an additional €700mn in AuM.

The group has gained a pan-European exposure, with green field operations in France, Germany, Spain and Poland increasingly contributing to growth in the segment. Germany is in the ramp-up phase for the first fund, while in Spain a partnership has begun with a local financial institution.

- **Credit AuM at €3.3bn (+4% YoY) – 4 funds investing in 30 companies for a total GBV in excess of €30bn**

The CCR II fund achieved AuM of €650mn thanks to ~€100mn of inflows in 2020, confirming investor and bank interest for this method of handling troubled loans. There is a strong appetite for additional contributions given the current uncertain economic environment.

- **Private Equity AuM rising sharply to €2.2bn (+24%) – 12 direct funds & 80 third party funds investing in ~900 companies**

In 2020 the segment saw the launch of Taste of Italy 2 with €330mn of funding focused on food and agriculture in Italy and Spain, and €70mn gathered by Sviluppo Sostenibile II, which focuses on ESG-compliant companies. With the recent launches the direct funds are mostly focused on segments such as food & beverage, agri-business and sustainable development.

- **Multi-asset/multi-manager at €7.8bn (+4% YoY) – 9 internal investment 'pools' and 30 third party 'pools' for ~50 institutional clients**

The industrial/commercial integration with Quaestio SGR has been completed and will allow the group to present integrated offerings to the market, such as DeA Capital AAM acting as advisor in infrastructure investment strategies.

Alternative AAM Platform Operating Performance

2020 was a complex year marked by the pandemic. Nonetheless, the platform was able to deliver robust growth, with revenues rising sharply YoY to €101mn, including multi-asset/multi-strategy asset segment revenues for €29.5mn. Net profit, adjusted for non-recurring items, was €18.6mn (+28.7% YoY) including the pro-quota contribution from Quaesio SGR (38.82%).

The positive trend in FY20 showed the move to transform the group into a fully-fledged player in the alternative asset management arena is paying off.

New clients and the launch of new investment initiatives should propel further revenues growth, allowing DeA Capital to improve the stream of recurring fees and enhance profitability. We are now expecting combined assets to approach €25bn at YE21.

DeA Capital Real Estate SGR Performance

Eu k	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A/E
AUM (Eu mn)	7.884	8.700	9.542	9.451	9.900	10.454
YoY %	-12,4%	10,4%	9,7%	-1,0%	4,8%	5,6%
RE Asset Management fees	47.725	40.261	41.381	39.768	40.391	37.040
YoY %	-11,8%	-15,6%	2,8%	-3,9%	1,6%	-8,3%
Fees on AuM	0,56%	0,51%	0,43%	0,42%	0,41%	0,35%
EBITDA	22.073	15.512	18.116	11.116	20.588	15.759
YoY %	-20,9%	-29,7%	16,8%	-38,6%	85,2%	-23,5%
Margin	46,2%	38,5%	43,8%	28,0%	51,0%	42,5%
PROFIT/(LOSS) FOR THE PERIOD	6.695	5.412	-24.999	7.078	9.373	23.003
Net profit adjusted	6.695	5.412	8.900	7.078	9.373	9.940

Source: Company data & Intermonte SIM estimates

DeA Capital Alternative Funds SGR Performance

Eu k	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A/E
AAM fees	16.947	20.724	18.411	23.557	24.466	32.636
YoY %	17,4%	22,3%	-11,2%	28,0%	3,9%	33,4%
Fees on AuM	1,06%	1,13%	0,84%	0,97%	0,50%	0,59%
				15,8%		
EBITDA	6.563	6.180	4.974	9.407	7.982	13.670
YoY %	14,5%	-5,8%	-19,5%	89,1%	-15,1%	71,3%
Margin	38,7%	29,8%	27,0%	39,9%	32,6%	41,9%
PROFIT/(LOSS) FOR THE PERIOD	4.207	3.776	3.133	6.127	4.868	9.961

Source: Company data & Intermonte SIM estimates

Extraordinary Dividend at €0.10, Buyback Plan Renewal

DeA Capital announced the distribution of an extraordinary dividend of €0.10 (yield in the region of 7%) compared to €0.12 last year. In the future the company could consider a dividend distribution more directly linked to the operating performance of the AAM platform, although at the moment the level of net cash at holding company level (~€70mn post-dividend and cash-in from Migros disposal in 1Q21) remains quite high.

As expected, DeA announced a renewal of the buyback plan for up to 53mn shares or ~20% of the capital. Currently DeA holds 2.6% of the capital as treasury shares (~7mn shares).

Adjusting valuation to the journey ahead: focus on Alternative Asset Management

We are taking a further step forward in looking at DeA as a pure alternative asset management player instead of our previous valuation approach based on its net asset value.

Over time we expect group net profit, excluding non-recurring items and gains on investment disposals, to converge towards net operating results from the AAM platform. For this reason, we are assigning a prominent role in our valuation to real estate and alternative AM operations.

Our valuation for these two segments is based on applying discounted multiples of international peers to our 2021/2022 profitability projections.

For the real estate segment we considered a panel of international listed players including Savills, Colliers, Jones Lang Lasalle and CBRE.

For alternative asset managers we considered Partners Group, Blackstone, 3i Group, Tikehau, Intermediate Capital Group.

DeA Capital – AAM Platform Valuation

Eu mn	2021E	2022E
Ebit da	35,9	37,1
Peers EV/Ebit da	12,8x	10,8x
premium / (discount)	-20%	-20%
fair multiple	10,2x	8,7x
DeA RE SGR EV	366,9	321,6
net financial position	47,0	50,0
DeA AAM Platform valuation on EV/Ebit da	413,9	371,6
Adjusted net profit	18,9	19,6
Peers PE	18,4x	16,2x
premium / (discount)	-20%	-20%
fair multiple	14,8x	12,9x
DeA AAM Platform valuation on P/E	279	253
DeA AAM Platform equity value (average EV/Ebit da & P/E)	346,3	312,4

Source: Intermonte SIM estimates

The average between 2021 and 2022 is equal to a fair value of Eu329mn or Eu1.34ps. At this valuation the implied multiples of the AAM platform for 2021 would be in the region of 1.4% of AuM, 8.3x EV/EBITDA and 18.3x earnings.

On the other hand, as shown at the bottom of the table, if we look at the current stock market cap and deduct investments net of holding costs and net cash we get a value of Eu207mn for the AAM platform, which would imply depressed multiples for AAM operations of 0.8% of AuM, 4.5x EV/EBITDA and 11x earnings, very low compared to current trading multiples of sector peers.

DeA Capital – AAM Platform Implied Multiples

Eu mn	2021E	2022E
Combined AuM	25.216	26.439
multiple on AuM	1,4%	1,2%
multiple on EV/Ebit da	8,3x	7,1x
multiple on P/E	18,3x	16,0x
implied multiples at current mkt price		
DEA Capital mkt cap	373,8	373,8
- Investments, net of holding costs & other adjustments	-70	-70
- Net Financial Position @ holding level	-96,3	-96,3
DeA Capital mkt cap, net of investments and cash	207,5	207,5
multiple on AuM	0,8%	0,8%
multiple on EV/Ebit da	4,5x	4,2x
multiple on P/E	11,0x	10,6x

Source: Intermonte SIM estimates

On top of the value attributed to the operating segment we add the discounted value of the investments, which mostly relates to minority stakes in directly-managed funds and third party funds net of holding costs and adjustments. We also add the net cash position of the holding company at YE20 adjusted for the disposal of Migros Turkey in 1Q21, which entailed a ~Eu17mn cash-in.

The fair value of DeA Capital amounts to roughly Eu500mn or Eu1.86ps, which offers significant upside of 33% vs. the current price and more than 40% after the payment of the Eu0.10ps extraordinary dividend.

DeA Capital – Valuation Recap

DeA Capital - Valuation				
	(€ mn)	per share €	%	Method
Alternative Asset Management Platform	329,3	1,34	65,1%	based on 2021/2022 discounted intl. peers multiples
Investments, net of holding costs & other adjustments	70,0	0,26	14,1%	carry value, net of discount, 7x normalized holding discount
Net Financial Position @ holding level	96,3	0,36	19,4%	YE'20 + cash-in from Migros stake disposal in 1Q21
Total	495,6	1,86		
Current price		1,4		
upside/(downside)		33%		

Source: Company data & Intermonte SIM estimates

Upgrade to BUY; target Eu1.86

DeA Capital looks perfectly poised to take advantage of market tailwinds, emphasising its track record and the enlargement of the product portfolio. The positive trend in FY20 shows that the move to transform the group into a fully-fledged player in the alternative asset management arena is paying off.

We believe the company is well placed to create value thanks to:

1. a more focused mission to develop the alternative AM platform and a leadership position in the domestic market for alternative investment solutions
2. high expertise in structuring and launching complex investment strategies tailored to customer requirements
3. growing demand for alternative AM

New clients and the launch of new initiatives should propel further revenue growth, allowing DeA Capital to improve the stream of recurring fees and profitability. We are now expecting YE21 combined assets to approach Eu25bn.

We like the prospects for the sector overall and expect a positive stock performance in the coming quarters as long as our expectations on positive operating trends are confirmed.

Based on our valuation of the AAM platform and the addition of net investments and cash we reach a fair value for the stock of Eu1.86ps, which offers 33% upside, or more than 40% after the Eu0.10 extraordinary dividend payment.

We are therefore raising our recommendation to BUY and target price to Eu1.86.

We report below international peers trading multiples.

DeA Capital – International peers trading multiples

Stock	Price	Ccy	Mkt cap	EV/Ebitda 2020	EV/Ebitda 2021	EV/Ebitda 2022	P/E 2020	P/E 2021	P/E 2022	Div Yield 2020	Div Yield 2021
Alternative Asset Managers											
Tikehau Capital SCA	25,10	Euro	3.421		13,9x	10,8x		16,9x	13,1x	0,9%	2,5%
Blackstone Group Inc.	76,09	USD	89.779	25,2x	23,0x	19,0x				3,0%	3,6%
Intermediate Capital Group plc	18,98	GBP	5.514	21,6x	22,1x	19,1x	18,4x	18,4x	16,3x	2,8%	3,2%
3i Group plc	11,92	GBP	11.600	7,5x	6,5x	6,6x	7,6x	6,3x	6,9x	3,1%	3,5%
Partners Group Holding AG	1.138	CHF	30.385	29,9x	25,8x	22,5x	37,8x	30,6x	27,3x	2,4%	2,5%
Median Alternative AM				23,4x	22,1x	19,0x	18,4x	17,7x	14,7x	2,8%	3,2%
Traditional Asset Managers											
Azimut Holding Spa	19,03	EU	2.773	5,4x	6,7x	6,2x	8,0x	10,0x	9,5x	5,3%	5,7%
Janus Henderson Group PLC Shs Chess	41,39	GBP	7.207	7,0x	5,4x	5,1x	10,4x	9,5x	9,2x	4,6%	4,7%
Rathbone Brothers Plc	16,90	GBP	987	8,2x	8,1x	7,1x	13,2x	12,1x	11,2x	4,3%	4,4%
Schroders PLC	34,68	GBP	9.231	9,8x	8,8x	8,0x	17,5x	16,2x	15,1x	3,3%	3,3%
Man Group PLC	1,55	GBP	2.252	7,8x	7,3x	6,5x	13,4x	11,1x	9,8x	4,7%	5,3%
Ashmore Group plc	4,12	GBP	2.934	11,6x	11,9x	11,1x	15,9x	14,5x	15,9x	4,1%	4,2%
Hargreaves Lansdown plc	15,54	GBP	7.371	19,5x	19,4x	21,8x	27,2x	25,6x	28,7x	3,5%	3,1%
Media Traditional AM				9,0x	8,4x	7,6x	14,6x	13,3x	13,2x	4,2%	4,3%
Median Alternative and Traditional AM				10,7	11,9	10,8	15,9	15,3	14,1	3,3%	3,5%

RE service Co

Savills plc	11,2	GBP	1.607	7,2	10,5	8,5	20,6	20,6	16,2	1,5%	1,9%
CBRE Group, Inc. Class A	79,3	CHF	26.620	11,7	12,8	11,2				0,0%	0,0%
Colliers International Group Inc.	0,0	-	0	11,6	10,6	8,7				0,1%	0,1%
Jones Lang LaSalle Incorporated	0,0	-	0	9,3	9,6	8,2				0,0%	0,1%
Average RE Services				10,0	10,8	9,2	20,6	20,6	16,2	0,7%	1,0%

Source: Factset consensus estimates for peer group

Blended Alternative AM & RE AM Multiples				11,7	12,8	10,8	16,7	18,4	16,2	3,0%	3,2%
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Source: Factset

DeA Capital – International peers performance

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
DeA Capital S.p.A.	1,40	Euro	373	9,4%	21,5%	21,1%	23,2%	55,1%	18,7%
Tamburi Investment Partners S.p.A.	7,5	Euro	1.377	4,0%	11,2%	24,7%	8,4%	46,8%	18,8%
Alternative Asset Managers									
Tikehau Capital SCA	25,1	Euro	3.421	0,8%	5,5%	15,7%	(2,3%)	62,5%	20,7%
Intermediate Capital Group plc	19,0	GBP	5.514	(0,5%)	12,2%	53,3%	10,0%	128,8%	74,9%
3i Group plc	11,9	GBP	11.600	3,1%	2,8%	22,7%	2,9%	89,0%	25,6%
Partners Group Holding AG	1.138,0	CHF	30.385	3,3%	12,4%	32,9%	9,4%	105,4%	54,9%
Traditional Asset Managers									
Azimut Holding Spa	19,0	EU	2.773	(3,7%)	8,3%	13,1%	7,0%	66,2%	32,9%
Janus Henderson Group PLC Shs Chess	41,4	GBP	7.207	6,0%	(3,3%)	51,8%	(2,0%)	66,4%	21,1%
Rathbone Brothers Plc	16,9	GBP	987	6,2%	9,6%	(1,4%)	9,7%	31,6%	(30,4%)
Schroders PLC	34,7	GBP	9.231	(2,3%)	3,9%	24,7%	3,9%	48,1%	26,4%
Blackstone Group Inc.	76,1	USD	89.779	8,9%	16,5%	45,8%	17,4%	83,6%	118,1%
Man Group PLC	1,5	GBP	2.252	4,1%	15,0%	34,0%	12,2%	55,4%	11,7%
Partners Group Holding AG	1.138,0	CH	30.385	3,3%	12,4%	32,9%	9,4%	105,4%	54,9%
Ashmore Group plc	4,1	GBP	2.934	(9,5%)	(5,3%)	9,5%	(4,5%)	31,4%	(2,8%)
Hargreaves Lansdown plc	15,5	GBP	7.371	0,9%	2,9%	(4,6%)	1,9%	7,2%	(13,9%)
Simple mean performance				1,5%	6,7%	22,9%	6,1%	55,0%	24,2%
RE service Co									
Savills plc	11,2	GBP	1.607	(1,1%)	13,8%	38,3%	17,7%	60,1%	22,9%
CBRE Group, Inc. Class A	79,3	CHF	26.620	13,8%	23,1%	60,0%	26,5%	118,6%	56,6%
Euro STOXX	427,7	EU		4,2%	8,1%	18,0%	7,6%	63,5%	15,2%

Source: Factset

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	DEA CAPITAL		
Current Recomm:	BUY	Previous Recomm:	OUTPERFORM
Current Target (Eu):	1.86	Previous Target (Eu):	1.55
Current Price (Eu):	1.39	Previous Price (Eu):	1.15
Date of report:	19/03/2021	Date of last report:	05/10/2020

