

SCM SIM

Euro 100 m increase in AuC and 20 new senior consultants to boost growth in FY20

FY 2019 Results: SCM SIM, private banking and wealth management company authorized to managed portfolio, provide investment advice and placement services, released a very positive set of FY 2019 results, with a sharp increase in fee income and profitability thanks to actions in line with strategic guidelines put in place by the Management over the last 12 months. More in detail, despite lower AuC (Euro 772 m vs. Euro 846 m of FY 2018), fee income came in at Euro 6.9 m vs Euro 6.4 m in FY 2018 (+9%) and Euro 6.3 of our estimates. Growth was mainly driven by an increase in performance fees thanks to the excellent performance of client portfolios, with a positive impact on brokerage margin that reached Euro 3.8 m, up by +27.5% of FY 2018 (Euro 3.0 m) and outperforming our forecast (Euro 3.4 m). Net profit was of Euro 15 K (vs. a loss of Euro -1.1 m in FY 2018). The Company closed the year with Euro 1.0 m of Net Cash (vs. Euro 0.4 m at year end 2018), after capital increase of Euro 0.7 m, tax benefits of Euro 0.5 m and IFRS 16 impact of Euro -0.6 m.

Strong recovery in profitability: In 2019 Management successfully continued to increase profitability thanks to improved efficiency at core business level coupled with continuous cost savings. Brokerage margin (+27.5%) benefitted from a more favourable mix in fee income (higher weight of performance fees and new business line, e.g. club deal) and from the review in advisory fee rates. While the operating structure was positive impacted also by savings implemented by Management (reduction in the personnel and administrative costs).

Additional Euro 100 m in AuC: Management recently announced that the Company has acquired about twenty senior consultants from Pramerica Marketing, (now Eurovita), adding approx. Euro 100 m to its insurance portfolio bringing total assets controlled by the Company to about c. Euro 800 m.

Valuation: Following our estimates, we set a target price of Euro 7.32 per share, (Euro 7.24 p.s. previously), providing for a +47% upside on current stock price and obtained by the application of DCF model.

Sector: Finance

Target Price (Euro) 7.32 (7.24 pr)
 Market Price (Euro) 4.98
 Market Cap (Euro m) 10
 EV (Euro m) 9
(as of May 12th, 2020)

Share Data

Market	AIM ITALIA
Bloomberg/Reuters	SCM IM / SCM.MI
ISIN	IT0005200248
N. of Shares	2,006,240
Free Float	16.05%
Main Shareholder	HPS Holding Partecipazioni Societarie (83.95%)
CEO	Antonello Sanna

AIM Positioning

Market Data	Company	AIM Italia
Mkt Cap (Eu m)	10	46
Perf. YTD	+26%	-13%
Free Float	16%	33%
ADTT YTD (Eu)	4,499	82,066

Peers Comparison

Market Cap/AuM (x)	19E	20E
SCM Sim	1.3%	1.1%
Peers' median	2.4%	2.3%
Discount/Premium	-45%	-53%

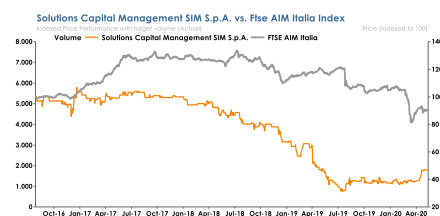
P/E (x)	19E	20E
SCM Sim	n.m.	33.3
Peers' median	9.8	13.2
Discount/Premium	n.m.	n.m.

Performance

	1M	3M	1Y
Absolute	19.1%	27.7%	1.6%
Relative	20.7%	48.2%	32.9%
52-week High/Low (Eu)	5.60 / 3.00		

IR TOP RESEARCH

Luisa Primi – l.primi@irtop.com
 Andrea Praga – a.praga@irtop.com
 T +39 02 89056957



Key Figures (Euro m)	Fee Income	YoY growth	Net Fees	Brokerage margin	EBT	EBT/Brokerage margin	Net Profit	Net Debt (Cash)
2019A	6.9	+9%	3.9	3.8	0.1	2.1%	0.0	(1.0)
2020E	7.2	+4%	3.9	3.9	0.2	3.9%	0.1	(1.2)
2021E	8.8	+22%	4.7	4.7	0.6	11.9%	0.4	(1.6)
2022E	10.7	+22%	5.8	5.8	1.2	21.4%	0.9	(2.3)

KEY FIGURES

Euro m	2018A	2019A	2020E	2021E	2022E
Assets under Control (AuC)	846	772	912	1,132	1,412
Profit & Loss Statement					
Fee income	6.4	6.9	7.2	8.8	10.7
Fees expenses	(3.3)	(3.1)	(3.3)	(4.0)	(4.9)
Net fees	3.0	3.9	3.9	4.7	5.8
Brokerage margin	3.0	3.8	3.9	4.7	5.8
Operating costs	(4.5)	(3.7)	(3.7)	(4.2)	(4.8)
Pre-tax Profit (Loss)	(1.3)	0.1	0.2	0.6	1.2
Taxes	0.3	(0.1)	(0.0)	(0.2)	(0.4)
Net Profit (Loss)	(1.1)	0.0	0.1	0.4	0.9
Balance Sheet					
NWC	2.4	1.8	2.0	2.2	2.5
Fixed assets	0.2	0.7	0.5	0.2	0.1
M/L Funds	0.2	0.1	0.1	0.2	0.2
Net Capital Employed	2.4	2.4	2.3	2.3	2.4
Net financial Debt (Cash)	(0.4)	(1.0)	(1.2)	(1.6)	(2.3)
Total Equity	2.9	3.4	3.5	3.9	4.8
Cash Flow					
Net Profit (Loss)	(1.1)	0.0	0.1	0.4	0.9
D&A	0.1	0.3	0.3	0.3	0.1
Change in M/L Funds	0.0	(0.0)	0.0	0.0	0.0
Gross Cash Flow	(1.0)	0.3	0.4	0.7	1.0
Change in NWC	(0.1)	0.7	(0.2)	(0.2)	(0.3)
Operating Cash Flow	(1.0)	1.0	0.2	0.4	0.7
Capex	(0.1)	(0.9)	0.0	(0.0)	(0.0)
Free Cash Flow	(1.1)	0.1	0.2	0.4	0.7
Dividends	0.0	0.0	0.0	0.0	0.0
Change in Equity	0.2	0.5	(0.0)	0.0	0.0
Change in Net financial Debt (Cash)	(1.0)	0.6	0.2	0.4	0.7
Per Share Data					
Current Price	€ 4.98				
Total outstanding shares (m)	1.91	2.01	2.01	2.01	2.01
EPS	(0.55)	0.01	0.05	0.20	0.43
DPS	0.00	0.00	0.00	0.00	0.00
FCF	(0.59)	0.04	0.08	0.22	0.35
Pay-out ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Ratios					
Fee income/AuM	0.8%	0.9%	0.8%	0.8%	0.8%
Fees expenses/Fee income (%)	-52.4%	-44.0%	-46.0%	-46.0%	-46.0%
Net fees/AuM	0.4%	0.5%	0.4%	0.4%	0.4%
Cost/Income ratio	-149.3%	-96.5%	-96.3%	-88.9%	-82.2%
EBT/Brokerage margin	-43.2%	2.1%	3.9%	11.9%	21.4%
Net Debt/Equity (Gearing)	-15.2%	-30.8%	-34.3%	-42.0%	-49.2%
Total Equity/Total Assets	70.2%	68.4%	72.3%	76.1%	78.8%
ROE	-36.8%	0.4%	3.1%	10.1%	18.2%
Free Cash Flow Yield	-11.8%	0.9%	1.6%	4.3%	7.1%
Growth Rates					
Assets under Control (AuC)	-21.9%	-8.8%	18.1%	24.1%	24.7%
Fee income	-19.9%	8.9%	4.1%	21.7%	22.1%
Fees expenses	-14.1%	-8.5%	8.7%	21.7%	22.1%
Net fees	-25.4%	28.1%	0.4%	21.7%	22.1%
Brokerage margin	-26.5%	27.5%	1.2%	21.7%	22.1%
Pre-tax Profit (Loss)	-377.6%	106.2%	88.2%	268.2%	120.1%
Net Profit (Loss)	-233.6%	101.4%	606.5%	268.2%	120.1%

FY 2019 RESULTS

In FY19 Management successfully continued to recover efficiency thanks to a strategy based on focus on (i) core business (brokerage margin +27.5%) through a review in advisory fees and the development of new business lines (club deal and corporate strategic advisory), and (ii) cost savings (-17% in operating costs) through rationalization of SG&As. As a result, brokerage margin increased by +27.5% to come Euro 3.8 m (vs. Euro 3.0 m of FY 2018) and Net Result reached breakeven (Euro 15 k vs. a Net Loss of Euro -1.1 m in FY 2018).

More in detail, at the end of FY19 Asset Under Control stood at Euro 772 m, of which Euro 504 (65%) related to asset management and Euro 186 m (24%) to advisory.

Despite, a decrease in AuC from Euro 846 m to Euro 772 m, fees income grew up by +8.9% and reached Euro 6.9 m vs Euro 6.4 m of FY18 and Euro 6.3 m of our estimates. Growth was mainly driven by the excellent results of portfolios managed by SCM SIM that contributed with significant performance fees (Euro 1.2 m), characterized by high margins. The recurring fees on asset management grew up by +3%, while the fees from advisor activities decreased. This reduction was offset by revenues from generic advisory services which include the fees for club deal operations.

After fees expenses of Euro 3.1 m (-8.5% vs. FY 2018), brokerage margin came in at Euro 3.8 m, up by +27.5% compared to Euro 3.0 m of FY 2018 and outperforming our estimates (Euro 3.4 m). Growth was mainly driven by lower fee expenses, a more favourable mix in fee income with higher weight of performance fees and fees from the new business lines (club deal and corporate advisory). At the end of the year, brokerage margin stood at 56% (% on fee income) in line with that recorded in 1H 2019 (47% in FY 2018).

The Company has begun to reap the benefits from the important cost saving initiatives implemented by Management in 2018 with a reduction in personnel and administrative costs (respectively -19% and -17%), positively impacting Net Result that basically reached breakeven at year end 2019 (Euro 15k vs. a Net Loss of Euro -1.1 m of FY 2018).

At the end of 2019, Net Cash increased to Euro 1.0 m from Euro 0.4 m at the end of FY 2018, following a capital increase (completed in April 2019) of Euro +0.7 m, tax credit recovery for Euro +0.5 m and a negative impact of Euro -0.6 m following the adoption of IFRS 16. Total Equity reached Euro 3.4 m (+19%).

FY 2019 RESULT

Euro m – IAS/IFRS	FY 2018A	FY 2019A	Var. % 18-19
AuC	846	772	-8.8%
Fee income	6.4	6.9	+8.9%
Fee income /AuC	0.8%	0.9%	
Fee expenses	(3.3)	(3.1)	-8.5%
Net Fees	3.0	3.9	+28.1%
Net Fees/AuC	0.4%	0.5%	
Brokerage margin	3.0	3.8	+27.5%
Cost/Income ratio	-149.3%	-96.5%	
Pre-tax Profit / (Loss)	(1.3)	0.1	
EBT/Brokerage margin	-43.2%	2.1%	-106.2%
Net Profit / (Loss)	(1.1)	0.0	-101.4%
EPS (Euro)	n.a.	0.008	n.a.

Euro m – IAS/IFRS	FY 2018A	FY 2019A	Var. % 18-19
Net Working Capital (NWC)	2.4	1.8	-28.3%
Fixed net assets	0.2	0.7	+368.2%
Funds	(0.2)	(0.1)	-19.9%
Net Capital Employed	2.4	2.4	-2.9%
Net Financial Position (Cash)	(0.4)	(1.0)	+140.3%
Total Equity	2.9	3.4	+18.9%
Sources	2.4	2.4	-2.9%

Source: Company data (IAS/IFRS)

OUTLOOK AND ESTIMATES

In the first months of 2020 Management continued to work in line with strategic guidelines, and recently announced that the Company has acquired about twenty senior consultants from Pramerica Marketing, (now Eurovita), adding approx. Euro 100 m to its insurance portfolio bringing total assets controlled by the Company to about c. Euro 800 m. Management stated that the transaction represents an important step for SCM in terms of growth as well as in cultural change towards a more customer-centric vision with higher content of consultancy.

Regarding the coronavirus it is still difficult to make any assumptions on the effects on FY20 financials. For now, the Company has taken all actions necessary to protect employees and has not halted activity.

Considering that SCM's business is only partially deepening on performance fees and thus the overall performance of the financial markets, we believe that any potential reduction in performance fee could be offset by fees from advisory activity (e.g. general advisory, financial and asset planning, club deals, corporate strategic advisory) the integration of the newly acquired insurance consultants which Management believes will start to show the first results already in 2H20.

For the next three years Management has announced that main drivers for growth will continue to be represented by rationalization and strengthening of the sales network by targeted recruitment and consultancy activity.

Strategic drivers

- ❖ Rationalization of the sales network, achieved through the division into territorial areas coordinated by senior managers;
- ❖ Recruitment of new financial advisors from other banking networks / institutions;
- ❖ Recruitment of private bankers employed by other networks;
- ❖ Recruitment of professionals in the field of investment insurance products;
- ❖ Development of operations linked to obtaining the extension of authorizations to hold customer assets;
- ❖ New fee-only financial and wealth planning services;
- ❖ Corporate strategic advisory;
- ❖ New club deals.

Given the above, we confirm our forecast for 2020 fees income (Euro 7.2 m) because of any potential decrease caused by Coronavirus emergency could be offset by the new insurance network acquired during the year. Going forward, we assume a growth in fees income, to factor the increase in insurance portfolio (Euro 100 m). In term of marginality, we prudentially confirm our brokerage margin of 54% on fee income. We also added 2022 to our forecast. At the end of the period (2022) brokerage margin could reach Euro 5.8 m while Net Cash should reach Euro 2.3 m. We stress that our forecast does not include any potential opportunities arising from M&A activity.

ESTIMATES REVISION

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E New
Fee income	6.9	7.2	7.2	8.8	8.8	10.7
YoY	+8.9%	+14.15%	+4.1%	+21.7%	+21.7%	+22.1%
Fee expenses	3.1	(3.3)	(3.3)	(4.0)	(4.0)	(4.9)
Net Fees	3.9	3.9	3.9	4.7	4.7	5.8
YoY	+28.1%		+0.4%		+21.7%	+22.1%
Brokerage margin	3.8	3.9	3.9	4.7	4.7	5.8
Cost/Income ratio	-96.5%	-95%	-96.3%	-83%	-88.9%	-82.2%
Pre-tax Profit / (Loss)	0.1	0.4	0.2	1.0	0.6	1.2
EBT/Brokerage margin	2.1%	9.6%	3.9%	20.6%	11.9%	21.4%
Net Profit / (Loss)	0.0	0.3	0.1	0.7	0.4	0.9
EPS (Euro)	0.008	0.13	0.05	0.34	0.20	0.43

Euro m – IAS/IFRS	19A	20E Old	20E New	21E Old	21E New	22E New
Net Working Capital (NWC)	1.8	2.7	2.0	3.0	2.2	2.5
Fixed net assets	0.7	0.2	0.5	0.2	0.2	0.1
Funds	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Net Capital Employed	2.4	2.7	2.3	3.0	2.3	2.4
Net Financial Position (Cash)	(1.0)	(1.0)	(1.2)	(1.4)	(1.6)	((2.3)
Total Equity	3.4	3.7	3.5	4.4	3.9	4.8
Sources	2.4	2.7	2.3	3.0	2.3	2.4
ROE	0.4%	7.1%	3.1%	15.6%	10.1%	18.2%
Total Equity / Total Assets	78.1%	77.9%	72.3%	79.0%	76.1%	78.8

Source: Company data (IAS/IFRS) for FY 2019, IR Top Research estimates for FY 2020-2022

VALUATION SUMMARY

We updated our model to factor in new estimates, up-to-date risk-free rate and ERP and we set a new target price of Euro 7.32 (Euro 7.24 p.s previously). Providing an upside of +47% to the current share price and obtained by a DCF model. At our target price, SCM Sim would be trading at 1.6x and 1.3x 2020-2021 Market Cap/AuM multiple respectively.

DETAILS PEER GROUP

SCM Sim currently trades at large discount (on average 49% for 2019-2020 Market Cap/AUM) compared to a peers group made of both Italian and international players operating in the asset management industry.

	Country	Market Cap (Eu m)	AuM 2019E (Eu m)	Net profit 2018A (Eu m)	Net profit 2019E (Eu m)
ANIMA Holding SpA	Italy	1,246	185,683	122	146
Azimut Holding SpA	Italy	2,193	52,356	123	370
Banca Generali SpA	Italy	2,718	69,000	180	272
Banca Mediolanum SpA	Italy	4,144	75,772	256	565
Ashmore Group Plc	UK	3,073	91,827	171	202
GAM Holding AG	Switzerland	299	125,102	(794)	3
Janus Henderson Group PLC	UK	3,180	340,665	433	435
Julius Baer Gruppe AG	Switzerland	7,734	398,954	637	435
Jupiter Fund Management Plc	UK	1,172	49,769	162	153
Liontrust Asset Management PLC	UK	661	18,231	19	25
Man Group Plc	UK	2,254	107,151	231	259
Schroders Plc	UK	8,648	577,673	571	648
Skarbiec Holding S.A.	Poland	28	843	5	7
St. James's Place Plc	UK	5,192	137,090	196	172
Standard Life Aberdeen PLC	UK	5,773	621,121	(944)	535
Asset management peers' median		2,718	107,151	171	259
SCM SIM	Italy	10	772	(1.1)	0.0

Source: FactSet data as of May 12th, 2020 for peers and IRTop Research estimates for SCM SIM

	Market Cap / AuM		P/E	
	19E	20E	19E	20E
ANIMA Holding SpA	0.7%	0.7%	6.8	7.9
Azimut Holding SpA	4.2%	4.5%	6.5	11.7
Banca Generali SpA	3.9%	4.0%	9.8	14.6
Banca Mediolanum SpA	5.5%	5.5%	7.4	14.1
Ashmore Group Plc	3.3%	3.9%	15.2	15.5
GAM Holding AG	0.2%	0.2%	166.8	n.m.
Janus Henderson Group PLC	0.9%	1.1%	7.6	9.1
Julius Baer Gruppe AG	1.9%	1.9%	10.2	10.8
Jupiter Fund Management Plc	2.4%	2.3%	7.8	12.3
Liontrust Asset Management PLC	3.6%	3.0%	18.6	18.0
Man Group Plc	2.1%	2.2%	8.1	12.1
Schroders Plc	1.5%	1.6%	14.3	18.1
Skarbiec Holding S.A.	3.3%	3.8%	5.3	7.1
St. James's Place Plc	3.8%	3.9%	16.6	20.8
Standard Life Aberdeen PLC	0.9%	1.0%	11.6	16.1
Asset management peers' median	2.4%	2.3%	9.8	13.2
SCM SIM	1.3%	1.1%	n.m.	33.3
Discount/Premium to peers	-45%	-53%	n.m.	n.m.

Source: FactSet data as of May 12th, 2020 for peers and PMI Capital for P/E multiple for SCM Sim

SCM SIM ON AIM ITALIA

IPO

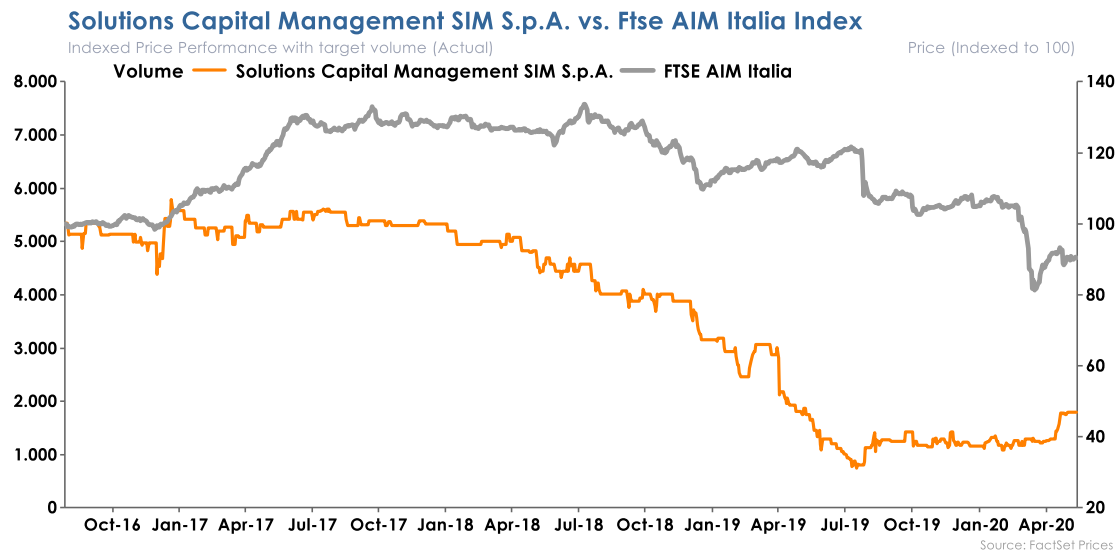
Trading Market: AIM Italia – Borsa Italiana SpA
Date: July 28th, 2016
Price: Euro 10.59
Capital raised: Euro 2.2 m
Capitalisation: Euro 20.2 m

SHARES (as of May 12th, 2020)

Code: SCM
Bloomberg: SCM IM
Reuters: SCM.MI
ISIN: IT0005200248
Shares: 2,006,240
Share capital: Euro 2,006,240
Price: Euro 4.98
Performance from IPO: -53%
Capitalisation: Euro 10 m
Free Float: 16.05%
NomAd: EnVent Capital Markets SpA
Specialist: Banca Fim Euramerica SpA
Auditing firm: Crowe AS SpA

Shareholder	N° of shares	%
HPS Holding Partecipazioni Societarie Srl	1,684,160	83.95%
Market	322,080	16.05%
Total	2,006,240	100.00%

Source: Company data as of May 12th, 2020



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Date	Target Price	Market Price	Validity Time
May 13 th , 2020	7.32	4.98	12 months
November 7 th , 2019	7.24	4.10	12 months
May 15 th , 2019	7.15	4.74	12 months
October 25 th , 2018	9.25	8.50	12 months
June 7 th , 2018	10.24	9.20	12 months

VALUATION METHODOLOGY (HORIZON: 12M): IR Top obtained a fair value using different valuation methodologies including Discounted Cash Flow method and Multiple-based models. Moreover, IR Top used a proprietary model, "AIM Positioning rating", which incorporates a number of variables selected by IR Top based on research of "Osservatorio AIM Italia", managed by IR Top and focused on research about performance of Companies listed on AIM Italia.

Detailed information about the valuation or methodology and the underlying assumptions and information about the proprietary model used is accessible at IR Top premises.

RESEARCH TEAM:

Luisa Primi, (Senior Analyst, AIAF Associated)
Andrea Praga, (Analyst)

Chiara Cardelli, (Researcher)

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