

Numis Corporation

Strong H2 in mixed market conditions

FY16 trading update

Financial services

7 October 2016

Price 224.00p
Market cap £255m

Net debt/cash (£m) as at end 72.0
31 March 2016

Shares in issue 113.7m

Free float 58.5%

Code NUM

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5) 15.2 (9)

Rel (local) (7) 5.1 (17.1)

52-week high/low 268.0p 180.5p

Business description

Numis has grown to become one of the UK's leading institutional stockbrokers and corporate advisors. It employs over 200 staff in offices in London and New York, and has 198 corporate clients.

Next events

FY16 results 7 December 2016

Analysts

Andrew Mitchell +44 (0)20 3681 2500

Martyn King +44 (0)20 3077 5745

Julian Roberts +44 (0)20 3077 5748

financials@edisongroup.com

[Edison profile page](#)

**Numis Corporation is a
research client of Edison
Investment Research Limited**

Numis has provided an encouraging year-end trading update, reporting revenues up 14% for the full year and continued net additions to its corporate client base. This was a strong performance against a mixed market background; so far the signs are encouraging for the new financial year, albeit with the normal caveats about potential market volatility. We have increased our earnings estimates and central valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/14	92.9	30.5	22.0	10.5	10.2	4.7
09/15	98.0	32.7	23.5	11.5	9.6	5.1
09/16e	112.0	37.0	25.6	12.0	8.8	5.3
09/17e	114.8	38.9	26.6	12.5	8.5	5.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY16 year-end update

Both institutional and corporate-related activities contributed to the revenue growth of 14% for the full year and implied growth of 5.6% for the second half against H215 was strong in the circumstances, with the EU referendum acting as a brake on corporate and market activity for part of the period. New co-CEOs Alex Ham and Ross Mitchinson assumed their roles in September and should provide a fresh impetus to the development of the business although, directionally, we expect little change. The continued growth in the corporate client base during FY16 provides a good starting point for FY17.

Outlook

The UK stock market has shown resilience to the Brexit vote but may well suffer further volatility as terms are negotiated with the EU and other trading partners over coming years. Nevertheless, some near-term concerns proved too cautious and current commentary points to a marked revival in potential equity market flotations and issuance. If markets remain sufficiently stable for this to become a reality then there should be further positive surprises for participants such as Numis. However, on a longer view, it is the continued development of the company's franchise through further additions to the corporate client list and maintenance and development of institutional client relations that will determine the valuation of the company through market cycles.

Valuation: Still conservative assumptions

We have increased our earnings estimates (see page 4 for details) and our central valuation has increased from 307p to 339p, based on a ROE/COE calculation. In this we assume a sustainable ROE of 20% but reversing the calculation suggests the market is assuming a sustainable return of c 15%. This appears conservative given Numis's track record and evidence of continued progress in the latest update.

Trading update for year to end September

The second half of Numis's financial year (April to September) included the period of rising uncertainty ahead of the EU referendum and the immediate volatility in its wake. It was therefore a more difficult period for fund raising and equity market activity generally. However, the company's year-end update was stronger than might have been expected. Key points from the statement are as follows, with all figures for the financial year to end September compared with the prior year, unless stated.

- Overall core revenue was 14% ahead (excludes other operating income).
- Combined revenues from deal fees and placing commissions increased 15%, achieving a new record at c £64m (versus £55.6m). The half-yearly progression of revenues is shown in Exhibit 1.
- There were 46 fund raisings including 13 IPOs for the full year (versus 38 including 11 IPOs for FY15) and funds raised for clients were nearly £1.9bn (£2.1bn). Unsurprisingly, the second half was quieter than the first, but during H2 Numis completed 19 equity fund raisings including three IPOs (see Exhibit 2 for selected transactions). H216 funds raised were £0.7bn versus £1.2bn in the first half.
- There were 26 purely advisory mandates during the year, not far short of the 31 in FY15.
- Revenues from institutional commission and trading activities were up 13% year-on-year with the market-making activity recording a better second half and commission income holding up well.
- The corporate client base has continued to grow with a net addition of 15 during the year taking the total to 198 (+8%) further diversifying the franchise and increasing the opportunities for corporate fee generation in future.
- The company continues to invest in additional staff and the headcount for the year increased from 211 to 220, including additions to its healthcare research team.

Exhibit 1: Revenue progression by half year (H1 to end March and H2, September)

£m	H114	H214	H115	H215	H116	H216 indicated	H216 change	FY16 change
Net trading gains	6.3	1.4	1.0	3.1	1.8			
Institutional commissions	17.2	14.7	14.4	14.9	16.1			
Net Institutional Income	23.5	16.1	15.4	18.0	17.8	19.9	10.5%	13.0%
Corporate retainers	3.8	4.0	4.4	4.6	4.5			
Deal fees	5.3	3.6	9.3	8.6	8.5			
Placing commissions	18.8	17.6	16.6	21.1	25.9			
Corporate related	28.0	25.3	30.3	34.3	38.9	35.3	3.0%	15.0%
Total revenue	51.5	41.3	45.7	52.3	56.8	55.2	5.6%	14.0%

Source: Numis Corporation, Edison Investment Research. Note: Changes are versus the prior-year period.

Numis indicates that the deal pipeline is encouraging and, among the pending transactions, we note that it is currently involved as co-adviser and corporate broker in the proposed \$8.8bn merger between HPE Software and Micro Focus (completion expected in Q3 CY17).

As announced at the interim stage, the group has addressed management succession, with founder Oliver Hemsley succeeded by co-CEOs Alex Ham and Ross Mitchinson on 1 September. Ham, who joined Numis in 2005, was head of corporate broking and advisory while Mitchinson was head of equities and joined in 2008. Both are in their thirties and are expected to inject fresh energy into developing the business. The change seems unlikely to alter the general direction of the business and other established executive directors remain in place (Oliver Hemsley, Lorna Tilbian, Simon Denyer and Marcus Chorley). The CEOs have been awarded significant share awards in the

shape of nil-cost options over c 3.6m shares each (together equivalent to c 6% of the current share count ex-treasury shares). These do not vest until the fifth anniversary of the grant and are subject to a combination of subjective and quantitative measures. In particular, for the full award to become eligible, Numis's share price has to reach a threshold price of 509p for a 90-day period although lower share price hurdles (unstated) are set for tranches of the award. Linkage to the share price and the period to vesting should provide an incentive with a longer-term perspective and alignment with shareholders.

Exhibit 2: Selected transactions FY16 and pending

Company	Placing (£m)	Value (£m)	Market	Date
Selected IPOs				
		(at admission)		
Premier Asset Management	64	140	AIM	Oct-16
Draperesprit	79	122	AIM	Jun-16
Motorpoint	100	200	Main	May-16
Morses Club	69	140	AIM	May-16
Countryside	349	1,013	Main	Feb-16
Ascential	280	800	Main	Feb-16
The Gym	125	250	Main	Nov-15
Georgia Healthcare	66	218	Main	Nov-15
Hostelworld	133	177	Main	Oct-15
Selected M&A				
Tullett Prebon acquisition of ICAP voice broking		c 1,000		Est by end CY16
John Menzies acquisition of ASIG	75	\$202m		Pending
McColls acquisition of Co-op convenience stores		117		Pending
Micro Focus merger with Hewlett Packard Enterprise Software		\$8.8bn		Est - Q3 CY17
Wireless acquisition by News Corp		220		Sep-16
Energy Assets acquisition by Euston BidCo		198		Jul-16
Just Retirement merger with Partnership		1,400		Apr-16
Microfocus acquisition of Serena Software	158	375		Mar-16
ISG increased offer from Cathexis				Mar-16
UTV disposal		100		Feb-16
bwin recommended offer by GVC		1,000		Feb-16
Alliance acqn of Sinclair IS Pharma's healthcare products business		128		Dec-15
Trinity Mirror acquisition of Local World	35	220		Nov-15
Punch Taverns sale of 50% interest in Matthew Clark		101		Oct-15
Selected capital raisings				
Cambridge Innovation Capital	75			Aug-16
TwentyFour Asset Management	48			Aug-16
Intl Public Partnerships	125			Jul-16
Hornby	8			Jul-16
Pan African Resources	16			Jun-16
PHP	150			Apr-16
Saga placing of Acromas holding	c 700			Apr-16
Sierra Rutile	\$21m			Apr-16
Primary Health Properties	150			Apr-16
TwentyFour Asset Management	31			Mar-16
Pretivm	85			Feb-16
Skyscanner	128			Jan-16
CATCo Reinsurance Opportunities Fund	\$88m			Oct-15

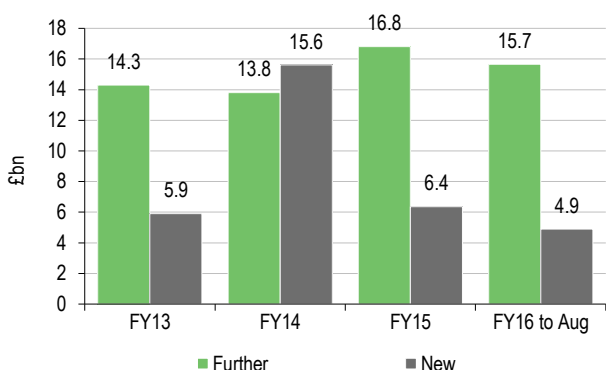
Source: Numis, company releases and press reports

Outlook and revised estimates

The recent trends in equity issuance and order-book trading on the London Stock Exchange are set out in Exhibits 3 and 4. In terms of issuance, the split between further and new issues makes clear the volatility of new issuance compared with further issues in this period. While further swings in sentiment seem likely as Brexit negotiations get under way, the relatively subdued level of new issues compared, for example, with the 12 months to end September 2014 suggests good potential for positive surprises if there is a period relative stability and hence stronger market confidence.

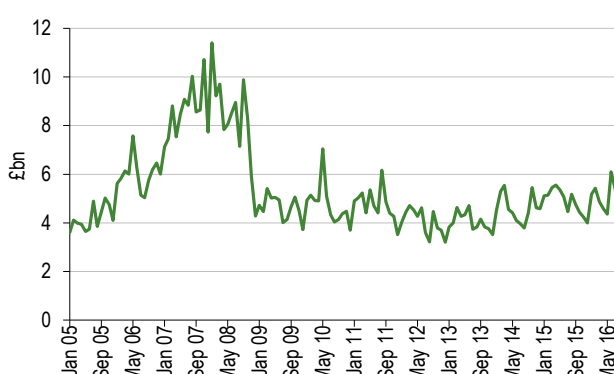
The level of trading activity appears low in relation to the pre-financial crisis peak but has shown resilience and has followed a broadly upward trend since 2013.

Exhibit 3: LSE equity issuance by value



Source: London Stock Exchange. Note: FY is end-September.

Exhibit 4: LSE order book average daily value traded



Source: London Stock Exchange

While the macro environment and trends in the market will have an important influence on Numis's performance in individual periods, over time the success of the team in continuing to build the franchise will determine the longer-term value of the company. As highlighted above, the continued growth of the corporate client base and resilience of institutional commissions are positive indicators on this front.

We have updated our estimates to reflect the trading update, increasing our revenue assumptions for FY16 in line with the growth figures given by Numis. We have also increased our estimates for FY17 on the basis of the enlarged client base and the encouraging signs in terms of transaction pipeline, although this could prove ill-founded if there were a significant market reversal. Old and new estimates for revenue, pre-tax profit, EPS and DPS estimates are set out in the table below and the financial summary provides further detail.

Exhibit 5: Financial summary

Year	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/16e	102.8	112.0	9.0%	34.2	37.0	8.2%	23.8	25.6	7.3%	12.0	12.0	0.0%
09/17e	105.9	114.8	8.4%	36.4	38.9	6.8%	24.9	26.6	6.8%	12.5	12.5	0.0%

Source: Edison Investment Research

Valuation

Before discussing our updated valuation, we start with a table showing the recent share-price performance of quoted UK broker shares and, for reference, the average for US and European investment banks. We note that Numis has outperformed the averages for both UK brokers and the investment banks over most of the periods shown. Only WH Ireland has outperformed in the period since 12-month highs and it has seen Kuwait European Holding Group emerge as a shareholder with a stake of over 20%.

Exhibit 6: Share price performance comparison

	1 Month	3 Months	1 Year	YTD	From 12m high
Numis	0.4	15.8	-7.4	-8.5	-17.9
Arden	18.9	23.5	-24.1	6.8	-24.1
Cenkos	-24.7	-21.5	-49.2	-45.4	-50.5
Panmure Gordon	0.0	-11.1	-47.5	-26.7	-48.1
Shore Capital	-2.0	-3.0	-41.3	-42.4	-42.4
WH Ireland	23.3	41.5	22.7	38.3	-7.8
UK quoted broker average	2.6	7.5	-24.5	-13.0	-31.8
US/European inv. banks	-0.2	19.9	-15.8	-14.9	-22.9

Source: Thomson Datastream as at 6.10.16

Following recent share-price strength (+16% over three months) Numis is trading at a price to book of over 2x, above its longer-term average of c 1.8x, but on our new estimates trades on prospective P/Es of below 9x for FY16 and FY17. Comparison is difficult given that some of its broking peers are not profitable currently, but this does not appear demanding.

Updating our ROE/COE-based valuation using an assumed sustainable ROE of 20% (equivalent to Numis's five-year average), would give an indicative central valuation of 339p (versus 307p previously). Other assumptions (unchanged) in this calculation are a cost of equity of 10% and growth of 5%. As set out in our [last note](#), if we allow for a return of excess capital of £25m, this could push the assumed ROE to nearly 25% and the central valuation to 383p (previously 351p).

An alternative perspective is provided by reversing the ROE/COE calculation which suggests that the current share price, all else equal, is discounting a sustainable return of c 15%, quite a cautious assumption in light of the company's performance in recent years.

Exhibit 7: Financial summary

£000s	£'000s	2014	2015	2016e	2017e
Year end 30 September					
PROFIT & LOSS					
Revenue		92,862	97,985	112,015	114,810
Cost of Sales (excl. amortisation and depreciation)		(62,427)	(64,456)	(74,837)	(74,959)
Share based payment (and associated NI) *		(6,130)	(4,666)	(4,938)	(6,249)
EBITDA		24,305	28,863	32,240	33,602
Depreciation		(384)	(882)	(1,000)	(1,000)
Amortisation		(77)	(111)	(111)	(111)
Op. profit (incl. share-based payouts pre-except.)		23,844	27,870	31,129	32,491
Net finance income		477	190	190	190
Non recurring items		0	0	0	0
Investment revenues *		49	(1,978)	856	0
Profit before tax (FRS 3)		24,370	26,082	32,175	32,681
Profit before tax (norm)		30,451	32,726	36,980	38,930
Tax		(4,311)	(4,533)	(6,021)	(6,209)
Profit after tax (FRS 3)		20,059	21,549	25,921	25,857
Profit after tax (norm)		25,761	27,628	30,246	31,481
Average diluted number of shares outstanding (m)		117.2	117.6	118.3	118.4
EPS - normalised fully diluted (p)		21.98	23.49	25.56	26.58
EPS - diluted FRS3 (p)		17.11	18.32	21.91	21.83
Dividend per share (p)		10.50	11.50	12.00	12.50
NAV per share (p)		97.7	102.0	113.0	123.2
ROE (%)		24%	24%	25%	23%
EBITDA margin (%)		26.2%	29.5%	28.8%	29.3%
Operating margin (before GW and except.) (%)		25.7%	28.4%	27.8%	28.3%
BALANCE SHEET					
Fixed assets		4,337	6,724	6,347	5,970
Current assets		425,910	279,114	292,551	304,497
Total assets		430,247	285,838	298,898	310,467
Current liabilities		(320,170)	(170,319)	(170,319)	(170,319)
Long term liabilities		0	0	0	0
Net assets		110,077	115,519	128,579	140,148
CASH FLOW					
Operating cash flow		21,164	6,467	31,154	32,190
Net cash from investing activities		323	(3,632)	(275)	(275)
Net cash from (used in) financing		(17,958)	(17,510)	(17,442)	(19,969)
Net cash flow		3,529	(14,675)	13,437	11,946
Opening net (cash)/debt		(71,205)	(74,518)	(59,591)	(70,977)
Fx effect		(216)	(252)	0	0
Closing net (cash)/debt		(74,518)	(59,591)	(70,977)	(81,912)

Source: Company data, Edison Investment Research

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. 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 Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2016 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Numis Corporation 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 Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. 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 2016. "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.