

Numis Corporation

Trading update

Comfortably ahead

Numis issued an upbeat trading statement at the end of July signalling that activity has been strong since the end of March and that revenue and profit for the current year to end September are likely to be comfortably ahead of the prior year. We have increased our estimate accordingly while holding our FY18 forecast steady on a precautionary basis. The recent pick up in trading is evidence of how the strength of the franchise pays off in favourable market conditions and provides an encouraging backdrop as board changes signal further measured evolution in management.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/15	98.0	26.1	18.3	11.5	14.3	4.4
09/16	112.3	32.5	22.4	12.0	11.7	4.6
09/17e	126.0	35.1	23.8	12.0	11.0	4.6
09/18e	119.5	30.8	21.0	12.5	12.4	4.8

Note: *PBT and EPS are on a reported basis.

Trading update and board changes

Numis issued a positive trading update on 28 July indicating that, since the end of March, its Equities business has continued to perform well while Corporate Broking and Advisory has seen a marked increase in the size of equity issuance transactions with average fees substantially higher than in the first half. Hence, subject to trading in August and September, the company expects full year revenue and profit to be comfortably ahead of the prior year. Numis also announced that three executive board directors will be standing down between September this year and January 2018; this will leave a board more balanced with regard to executive and non-executive directors (see page 2).

Outlook

Reflecting the trading update we have increased our revenue estimate for FY17 by nearly 8% which results in an increase of over 15% in earnings per share. Most of the increase in forecast revenues relates to placing commissions (further detail overleaf). Given the potential for renewed market volatility and lower corporate and market activity together with uncertainty over the possible impacts as MiFID II is implemented, we are leaving our FY18 forecasts unchanged for the moment. However, if market confidence is sustained, this could prove conservative. On a longer view, Numis continues to work on developing its franchise further through initiatives such as its Venture Broking activity which addresses the opportunity to provide funding and advice to private companies.

Valuation: Still on a cautious rating

Numis shares have responded to recent more positive trading news but remain modestly rated in terms of P/E multiples compared with peers (page 4), while our central ROE/COE valuation (323p vs 318p before) points to upside of more than 20%.

Financial services

7 August 2017

Price 261.25p

Market cap £282m

Net cash (£m) at 31 March 2017 71.2

Shares in issue, excl. treasury shares 107.9m

Free float 58.5%

Code NUM

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	8.9	(5.5)	43.4
Rel (local)	6.4	(8.5)	27.5

52-week high/low 286.2p 188.2p

Business description

Numis is one of the UK's leading independent corporate advisory and stockbroking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. It employs over 200 staff in offices in London and New York, and at end March 2017 had 199 corporate clients.

Next events

Final results early December

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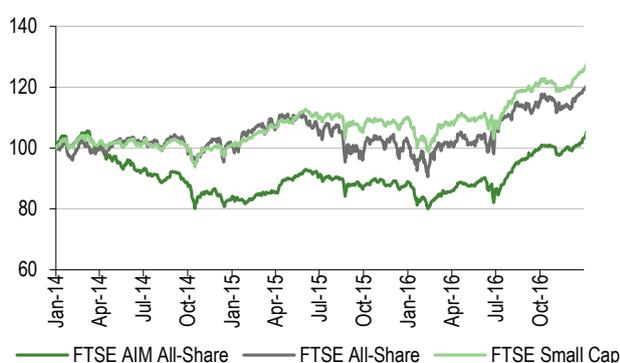
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FY17 estimates increased and board changes

Revised estimates following trading update

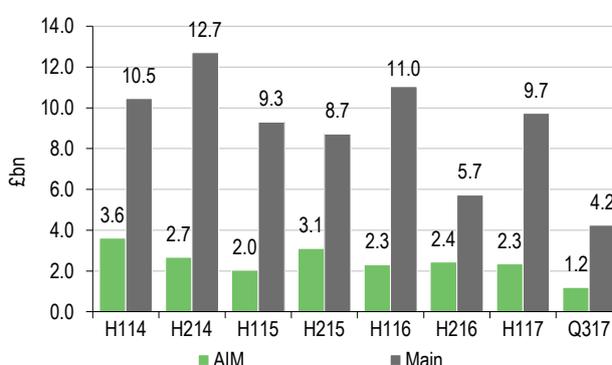
As noted above, Numis reported strong trading between end March and July with equity issuance and, to some extent, M&A activity contributing to the improved outlook for the full year. Exhibit 1 shows that UK equity market levels have shown resilience in the face of uncertainty over the political and economic outlook and (not shown) the value of trading activity on the London Stock Exchange has also demonstrated progress. Exhibit 2 shows total issuance for the AIM and Main markets and for Numis' Q3 period to end June. The value of new and follow on issuance was ahead of H216 on a pro rata basis, led by Main market activity. Compared with the H117 period, the Q3 run rate is similar.

Exhibit 1: FTSE AIM, All-Share and Small Cap indices



Source: Thomson Datastream. Note: total return series

Exhibit 2: AIM and Main market issuance



Source: LSE. Note: H1 to end Mar, Q3 to end Jun, H2 to end Sep

Numis therefore appears to have performed more strongly than the overall market in recent months. Transactions contributing to this include the recent Alfa Financial Software, Nexus Infrastructure and Sherborne Investors IPOs and secondary raises for Draper Esprit, IP Group and INPP and a significant block trade for Countryside. M&A deals pending or completed include IP's purchase of Touchstone (over £500m), the acquisition of 32 Red by Kindred (c £170m), the c £2bn offer by SNC-Lavalin for Atkins and the sale of former SVG Capital plc (Sole Realisation Company) assets (over £900m). These and other transactions appear likely to contribute to FY17 pre-tax profit c 8% ahead of the prior year (our interpretation of "comfortably ahead"). Within our revenue estimate the main increase is for placing commissions (see Exhibit 3 below), while we have allowed for a modest upgrade of advisory fees and left other segments unchanged.

Exhibit 3: Revenue and total income estimate changes

£m	Old	New	Unchanged	Change
	09/17e	09/17e	09/18e	09/17e
Net trading gains	9.0	9.0	7.0	0.0%
Institutional commissions	35.9	35.9	35.0	0.0%
Net institutional income	44.9	44.9	42.0	0.0%
Corporate retainers	11.6	11.6	12.0	0.0%
Advisory fees	15.9	16.9	18.5	6.3%
Placing commissions	44.5	52.6	47.0	18.3%
Total revenue	116.9	126.0	119.5	7.8%
Other operating income	3.0	3.0	0.7	0.0%
Total income	119.9	129.0	120.2	7.6%

Source: Edison Investment Research

Below the revenue line the main change is in our staff cost assumption with an increase in variable compensation diluted by fixed costs resulting in a sub-5% increase in overall costs allowing operational gearing to come into play and our EPS estimate to increase by over 15% (exhibit 4).

Exhibit 4: Estimate revisions												
	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/17e	116.9	126.0	7.8%	30.1	35.1	16.8%	20.6	23.8	15.4%	12.0	12.0	0.0%
09/18e	119.5	119.5	0.0%	30.8	30.8	0.0%	21.0	21.0	0.0%	12.5	12.5	0.0%

Source: Edison Investment Research

Further details of our estimates including balance sheet and cash flow figures are included in our financial summary (Exhibit 9).

Board changes

Numis also announced three prospective board changes. Finance director Simon Denyer is to step down from the board and leave in January 2018 after more than 11 years with the company. Following 16 years at Numis as a leading media analyst and more recently as head of media banking, Lorna Tilbian is to stand down and leave the company at the end of 2017. Finally, Marcus Chorley is to stand down from the board in September but will remain in his role as chairman of equities.

Andrew Holloway will succeed Simon Denyer as finance director having joined Numis in 2009 following roles in corporate finance and corporate broking at Deloitte and Dresdner Kleinwort Wasserstein. He is currently managing director and head of FIG within the Corporate Broking and Advisory department.

The changes, in part, reflect the normal process of individual directors reaching a stage at which they wish to pursue other interests. Also, following the succession planning which led to the appointment of new co-CEOs last year, the company has sought a more streamlined board with greater balance between executive and non-executive directors. The prospective board composition in Exhibit 5 shows the new shape of the board once the announced changes have taken place.

Exhibit 5: Prospective board composition and changes		
Board members	Role	Date of joining
Prospective board following announced changes		
Executive directors		
Alex Ham	Co-CEO	Sep-16
Ross Mitchinson	Co-CEO	Sep-16
Andrew Holloway	CFO	Jan-18
Independent non-executive directors		
Alan Carruthers	Chairman	Mar-17
Geoffrey Vero		Apr-03
Robert Sutton		May-14
Catherine James		May-14
Prospective and recent board departures		Date standing down
Oliver Hemsley	Founder and former CEO remains as adviser at least until May 2018	May-17
Marcus Chorley	Chairman of equities stepping down from board but remains in current role	Sep-17
Lorna Tilbian	Head of media sector - leaving company December 2017	Sep-17
Simon Denyer	Group finance director and co. secretary - leaving company	Jan-18

Source: Edison Investment Research, Numis Corporation

Valuation

In the table below we have updated our comparison with UK brokers and US/European investment banks. As a supplementary reference we also include average figures for auctioneers, interdealer brokers and estate agents on the basis that they act as intermediaries and provide advisory services. The significant differentiation of these businesses qualifies the comparison but in broad terms we can see that Numis trades below the average level of P/E's for each sector and on a higher yield. In terms of price to book it is similar to or below the averages with an above average ROE.

Exhibit 6: Peer comparison							
	Price (local)	Market cap (£m)	Last reported PER (x)	Current PER (x)	Yield (%)	Price to Book (x)	ROE (%)
UK brokers							
Numis	258.75	281	11.0	10.9	4.6	2.2	17.4
Arden	43.5	14	loss		0.0	1.4	-14.8
Cenkos	100.0	57	21.3	8.9	6.0	2.1	10.0
Shore Capital	252.5	54	42.1	19.3	2.0	0.9	2.2
WH Ireland	147.0	41	loss		0.0	3.0	-6.9
UK brokers average			24.8	13.0	2.5	1.9	1.6
US European IB and advisory							
Bank of America	24.5	182,382	15.5	13.5	1.0	1.0	7.4
Evercore	78.6	3,873	28.7	15.3	1.6	6.7	41.0
Goldman Sachs	226.2	69,936	13.7	12.3	1.1	1.2	10.6
Greenhill	18.1	405	9.5	34.2	9.9	1.9	20.3
JP Morgan	92.7	248,895	14.9	13.7	2.0	1.4	10.7
Moelis	40.2	2,030	21.9	18.3	8.4	7.9	21.6
Morgan Stanley	47.1	65,842	15.8	13.6	1.5	1.3	9.1
Stifel	50.0	2,584	43.1	14.6	0.0	1.3	4.5
Credit Suisse	14.9	29,726	loss	19.5	4.5	0.9	-3.8
Deutsche Bank	15.1	28,053	loss	14.2	1.1	0.5	-1.4
UBS	17.5	50,923	loss	12.9	0.0	1.2	7.7
US, European IB/average			20.4	16.5	2.8	2.3	11.6
Auctioneers average			33.6	22.9	1.8	3.9	14.2
Interdealer brokers average			28.9	16.6	4.7	2.8	8.7
Estate agents average			18.3	16.9	2.3	1.9	8.1

Source: Bloomberg. Note: Priced at 2 August 2017.

Our ROE/COE model, using assumptions of an ROE of 19% (equivalent to the 2014-18e average), a cost of equity of 10% and growth of 5%, applied to the H117 NAV gives central value of 323p (318p previously based on the FY16 NAV). The sensitivity of this valuation to changing growth and ROE assumptions is illustrated in Exhibit 7.

Exhibit 7: ROE/COE valuation output variations (value per share, p)					
Growth rate (right)	2.0%	4.5%	5.0%	5.5%	6.0%
Return on equity					
12%	144	157	162	167	173
16%	202	241	254	269	289
19%	245	304	323	346	375
24%	318	409	439	475	520
28%	375	493	531	577	635

Source: Edison Investment Research

Finally, Exhibit 8 compares the recent share price performance for UK brokers and US/European investment banks. Here there is significant variation but from 12 month highs Numis' performance has been similar to both the UK and investment bank averages. More recently, while the share price has bounced quite sharply in response to encouraging trading news, the three-month return remains negative, perhaps supporting the idea that there is further scope for rerating.

Exhibit 8: Share price performance (%)

	1 Month	3 Months	1 Year	YTD	From 12m high
Numis	5.7	-6.4	42.2	5.3	-10.9
Arden	6.1	27.9	77.6	29.9	-1.1
Cenkos	2.0	-12.7	-18.4	38.9	-24.8
Shore Capital	0.0	2.0	1.0	12.2	0.0
WH Ireland	4.3	13.1	50.8	20.5	-5.2
UK broker average	3.6	4.8	30.6	21.3	-8.4
US European IB and advisory					
Bank of America	1.0	4.2	73.5	10.9	-5.0
Evercore	11.5	5.3	59.9	14.4	-5.7
Goldman Sachs	1.9	0.5	44.9	-5.5	-11.3
Greenhill	-10.0	-27.9	-3.5	-34.7	-44.2
JP Morgan	1.5	7.2	45.7	7.5	-1.9
Moelis	3.3	8.7	74.9	21.6	-10.5
Morgan Stanley	5.7	8.7	68.3	11.5	-1.9
Stifel	8.7	3.2	47.0	0.1	-11.7
Credit Suisse	7.6	6.6	54.8	10.8	-2.2
Deutsche Bank	-2.5	-9.2	51.0	-1.7	-15.1
UBS	3.1	4.8	39.7	15.7	-4.4
US, European IB/advisory average	2.2	0.3	47.0	2.8	-11.5

Source: Bloomberg. Note: Priced at 2 August 2017.

Exhibit 9: Financial summary

£'000s	2015	2016	2017e	2018e
Year end 30 September				
PROFIT & LOSS				
Revenue	97,985	112,335	126,038	119,500
Other operating income	(1,978)	3,759	2,991	700
Total income	96,007	116,094	129,029	120,200
Cost of Sales (excl. amortisation and depreciation)	(65,018)	(76,120)	(81,017)	(78,247)
Share based payment	(4,104)	(6,229)	(11,675)	(10,000)
EBITDA	28,863	29,986	33,346	31,253
Depreciation	(882)	(1,126)	(1,214)	(1,214)
Amortisation	(111)	(125)	(88)	(88)
Op. profit (incl. share-based payouts pre-except.)	27,870	28,735	32,044	29,951
Net finance income	190	37	100	100
Other operating income	(1,978)	3,759	2,991	700
Profit Before Tax	26,082	32,531	35,135	30,751
Tax	(4,533)	(6,132)	(7,135)	(5,995)
Profit after tax (FRS 3)	21,549	26,399	28,000	24,756
Average diluted number of shares outstanding (m)	117.6	118.0	117.5	118.1
EPS - basic (p)	19.5	23.5	25.1	22.1
EPS - diluted (p)	18.3	22.4	23.8	21.0
Dividend per share (p)	11.50	12.00	12.00	12.50
NAV per share (p)	102.0	113.5	127.5	136.9
ROE (%)	19%	22%	20%	17%
EBITDA margin (%)	29.5%	26.7%	26.5%	26.2%
Operating margin (before GW and except.) (%)	28.4%	25.6%	25.4%	25.1%
BALANCE SHEET				
Fixed assets	6,724	5,522	5,580	4,778
Current assets	279,114	312,462	331,439	342,574
Total assets	285,838	317,984	337,019	347,352
Current liabilities	(170,319)	(188,895)	(192,835)	(192,835)
Long term liabilities	0	(12)	(11)	(11)
Net assets	115,519	129,077	144,173	154,506
CASH FLOW				
Operating cash flow	6,467	48,735	35,129	30,658
Net cash from investing activities	(3,632)	84	(119)	(100)
Net cash from (used in) financing	(17,510)	(19,580)	(25,858)	(24,423)
Net cash flow	(14,675)	29,239	9,152	6,135
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(97,979)
Fx effect	(252)	172	(175)	0
Closing net (cash)/debt	(59,591)	(89,002)	(97,979)	(104,114)

Source: Edison Investment Research, Numis Corporation accounts

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