

Record

Trading update

Strong pipeline generating new mandate wins

New mandates helped increase AUME 36% to \$51.1bn in the three months to December, its highest level in over five years. These mandates were already in our estimates, although the favourable market movements (\$1.4bn vs our estimate \$0.3bn) and the new higher-margin \$600m mandate announced earlier this week were not. Record remains in advanced discussions relating to a 'handful' of new higher-margin dynamic hedging mandates ranging in size from \$1-10bn. In our upside scenario, we estimate AUME increments of \$2bn pa in FY14 and FY15 (including the new \$0.6bn mandate) increase our fair value to 49p (current price: 36.5p).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/12	20.5	6.7	2.2	1.5	16.6	4.1
03/13	18.3	5.8	2.0	1.5	18.3	4.1
03/14e	20.1	6.9	2.4	1.5	15.2	4.1
03/15e	21.0	7.2	2.5	1.6	14.6	4.4

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

New mandate underscores robust pipeline

Record announced earlier this week it has won a new \$600m (c £370m) dynamic hedging mandate. We estimate this will increase revenues by c £0.5m (c 2%) in its first full year of consolidation (FY16). Management is in advanced discussions for a 'handful' of other US mandates currently out to tender. These are primarily for dynamic hedging and we believe there is currently \$10-15bn up for tender. This pipeline is being reinforced by the record levels of new business enquiries, particularly in the US, where the prospect of a strengthening dollar has encouraged investors to explore ways of mitigating their large exposures to foreign currencies.

Growth in AUME expected to offset reduced fees

The \$12bn in new passive hedging mandates that started during the quarter are expected to add £2.3m in annual management fee income. This helps offset the impact on revenues (£2.6m) of the reduction in the average fee charged for dynamic mandates from c 18bp to 14bp (see previous [update note](#) published on 8 November 2013 for details). Both of these were already in our figures. The fee change is designed to support dynamic hedging AUME volume growth, where the revenue margin remains well above the group average.

Valuation: Trading at a discount

We have updated our estimates to reflect the marginally higher AUME and the new \$600m mandate. However, a strengthening of the £/US\$ exchange rate (AUME is reported in US\$) meant our sterling estimates remain largely unchanged. Record trades on a 23% CY14e P/E discount to smaller UK asset managers and a larger (45%) EV/EBITDA discount; the latter reflecting a strong balance sheet with free cash resources equivalent to c 34% of market cap. The current share price is in line with our estimated fair value of the existing business of 35p (updated from 33p), which assumes no new mandate wins.

Investment companies

20 January 2014

Price **36.5p**

Market cap **£81m**

£/US\$1.6414

Net cash (£m) at Sept 2013 27.7

Shares in issue 221.4m

Free float 47%

Code REC

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	12.9	7.2	22.6
Rel (local)	7.2	2.8	7.9
52-week high/low	38.0p	28.3p	

Business description

Record is a specialist currency manager, providing currency hedging and return-seeking mandates to institutional clients. Services include passive and dynamic hedging and return-seeking currency strategies via funds or segregated accounts.

Next events

Q4 trading update	23 April 2014
FY results	17 June 2014

Analysts

Jonathan Goslin	+44 (0)20 3077 5765
Martyn King	+44 (0)20 3077 5745

financials@edisongroup.com

[Edison profile page](#)

Exhibit 1: Financial summary

Record	£'000s	2011	2012	2013	2014e	2015e
March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue (norm)		28,169	20,542	18,258	20,147	20,950
Revenue		28,196	20,535	18,552	20,147	20,950
Operating expenses		(15,652)	(13,875)	(12,349)	(13,244)	(13,715)
EBITDA (norm)		12,517	6,667	5,909	6,903	7,235
Depreciation & amortisation		(191)	(106)	(283)	(220)	(185)
Operating profit (norm)		12,326	6,561	5,626	6,683	7,050
Goodwill and amortisation of acquired intangibles		0	0	0	0	0
Exceptionals		27	(7)	294	0	0
Other		0	0	0	0	0
Operating Profit		12,353	6,554	5,920	6,683	7,050
Net Interest		184	155	158	180	193
Other						
Profit Before Tax (norm)		12,510	6,716	5,784	6,863	7,243
Profit Before Tax (FRS 3)		12,537	6,709	6,078	6,863	7,243
Tax		(3,603)	(1,803)	(1,450)	(1,637)	(1,728)
Profit After Tax (norm)		8,915	4,911	4,404	5,226	5,515
Profit After Tax (FRS 3)		8,934	4,906	4,628	5,226	5,515
Average Diluted Shares Outstanding (m)		221.3	220.3	219.1	219.8	221.7
Basic EPS - company reported		4.0	2.2	2.0	2.4	2.5
Diluted EPS - company reported		4.0	2.2	2.0	2.4	2.5
Adjusted diluted EPS - Edison		4.0	2.2	2.0	2.4	2.5
Dividend per share - proposed (p)		4.6	1.5	1.5	1.5	1.6
Revenue Margin - AM (%)		14.3	11.3	8.5	7.4	6.5
EBITDA Margin norm. (%)		44.4	32.5	32.4	34.3	34.5
Operating Margin norm. (%)		43.8	31.9	30.8	33.2	33.6
BALANCE SHEET						
Fixed Assets		4,404	2,398	1,108	937	792
Intangible Assets		1,085	1,140	963	813	687
Tangible Assets		227	183	140	118	100
Investments		3,092	1,075	5	5	5
Current Assets		31,632	29,675	34,637	36,979	39,470
Debtors		6,904	5,070	5,569	6,048	6,289
Cash		24,728	24,572	29,025	30,888	33,138
Other		0	33	43	43	43
Long Term Liabilities		0	(15)	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	(15)	0	0	0
Current Liabilities		(5,938)	(3,442)	(3,457)	(3,685)	(3,799)
Creditors		(4,089)	(2,494)	(2,672)	(2,900)	(3,014)
Short term borrowings		0	0	0	0	0
Other		(1,849)	(948)	(785)	(785)	(785)
Net Assets		30,098	28,616	32,288	34,231	36,462
CASH FLOW						
Operating cash flow		8,241	2,393	5,609	5,194	5,574
Capex		(85)	(52)	(63)	(48)	(41)
Cash flow from investing activities		(491)	93	149	0	0
Dividends		(5,723)	(7,371)	(1,645)	(3,283)	(3,283)
Other financing activities		925	784	403	0	0
Other		0	0	0	0	0
Net Cash Flow		2,867	(4,153)	4,453	1,863	2,250
Opening unrestricted net debt/(cash)		(21,861)	(23,728)	(22,372)	(25,425)	(27,288)
Decrease / (increase) debt		0	0	0	0	0
Other		1,000	(2,797)	1,400	0	0
Closing unrestricted net debt/(cash)		(23,728)	(22,372)	(25,425)	(27,288)	(29,538)
FUM						
Opening FUM (\$bn)		34	31	31	35	51
Net new money flows		(4)	0	2	14	1
Investment performance		1	(1)	2	3	1
Other		0	0	0	0	0
Closing FUM (\$bn)		31	31	35	51	54

Source: Edison Investment Research, company data

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