

Record

Business update

Reduction in size of a bespoke mandate

Record has announced that a client has reduced the size of a tactical bespoke currency for return mandate that it was managing by \$2.8bn with immediate effect. Consequently, we have lowered our FY16 and FY17 PBT forecasts by £1.3m and £2.0m (17% and 25%) respectively. Record had previously warned that the size of this particular mandate could prove volatile. The company reports a continued high level of client engagement on its passive and dynamic hedging strategies, although it cautions that there are long lead times to transform interest into new mandates.

Year end	Revenue* (£m)	PBT* (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/14	20.3	6.9	2.48	1.50	12.8	4.7
03/15	20.9	7.5	2.66	1.65	11.9	5.2
03/16e	20.5	6.7	2.42	1.65	13.1	5.2
03/17e	19.9	6.2	2.23	1.65	14.2	5.2

Note: *Revenue and PBT are normalised, excluding intangible amortisation and exceptional items.

Nature of tactical bespoke mandate

When Record announced that it had increased the size of a tactical bespoke currency for return mandate by \$1.75bn in Q1 15, it warned that the mandate size was likely to prove volatile. Record was effectively managing currency positions on behalf of a client who could at any time alter their size and direction, which has now happened. Record's other currency for return mandates are less transactional than this mandate, so tend to be less volatile.

Currency volatility is a positive

Record continues to report that it has experienced elevated levels of engagement with existing and potential clients on its hedging and currency for return products due to increased currency volatility. We share management's optimism that new mandates are likely, but our base case forecasts do not include these and management cautions that lead times between engagement and new contracts are frequently long. Its multi-strategy currency for return product had a three-year track record in July 2015, which is the time period that many consultants require before recommending products to clients. Record hopes that it will prove attractive to clients seeking positive returns in a market not so closely correlated with equities.

Valuation: Discount on earnings with yield premium

Record offers investors an attractive yield of over 5% and has a strong balance sheet. The volatile market conditions tend to reduce inflows into traditional asset managers, but for Record, volatility should be beneficial and increase demand for its services. Cash and marketable securities amount to just over 40% of its current market capitalisation.

Financial services

26 August 2015

Price **31.75p**

Market cap **£70m**

US\$1.55/£

Net cash and marketable securities (£m) at 31 March 2015 30.1

Shares in issue 221.4m

Free float 52%

Code REC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (17.0) (8.6) 3.3

Rel (local) (10.8) 4.3 11.7

52-week high/low 39.8p 30.5p

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 event

Q2 trading update 16 October 2015

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Earnings revisions

We have lowered our revenue forecasts for the loss of \$2.8bn of AUME (assets under management equivalent, Record's equivalent of assets under management for a traditional manager) from 25 August. The revenue earned from this mandate is in line with its other currency-for-return strategies, around 16bp per year. The revenue lost from the remaining seven months of FY16 is £1.7m and £2.9m for the 12 months of FY17. We have assumed that the costs associated with managing this mandate are around 30% of revenue – mainly staff-related costs – so that profits fall by £1.3m in FY16 and £2.0m in FY17.

Exhibit 1: Earnings revisions

	Revenue* (£m)			PBT* (£m)			EPS (p)			DPS (p)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
03/15	20.9	20.9	0	7.5	7.5	0	2.66	2.66	0	1.65	1.65	0
03/16e	22.2	20.5	(8)	8.0	6.7	(17)	2.89	2.42	(16)	1.65	1.65	0
03/17e	22.8	19.9	(13)	8.2	6.2	(25)	2.98	2.23	(25)	1.65	1.65	0

Source: Company data, Edison Investment Research. Note: *Normalised.

Exhibit 2: Financial summary

	£000s	2011	2012	2013	2014	2015	2016e	2017e
Year-end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		28,196	20,535	18,552	19,922	21,057	20,487	19,873
Operating expenses		(15,843)	(13,981)	(12,632)	(13,498)	(13,521)	(13,964)	(13,862)
Operating profit		12,353	6,554	5,920	6,424	7,536	6,523	6,011
Finance income		184	155	158	113	146	140	140
Profit before tax		12,537	6,709	6,078	6,537	7,682	6,663	6,151
Taxation		(3,603)	(1,803)	(1,450)	(1,494)	(1,708)	(1,399)	(1,292)
Minority interests		(27)	7	(294)	364	(192)	0	0
Attributable profit		8,907	4,913	4,334	5,407	5,782	5,264	4,859
Normalised revenue (underlying)		28,169	20,542	18,098	20,266	20,865	20,487	19,873
Operating expenses (excl. dep'n and amortisation)		(15,652)	(13,875)	(12,349)	(13,190)	(13,206)	(13,649)	(13,547)
Normalised EBITDA		12,517	6,667	5,749	7,076	7,659	6,838	6,326
Depreciation and amortisation		(191)	(106)	(283)	(308)	(315)	(315)	(315)
Normalised Operating profits		12,326	6,561	5,466	6,768	7,344	6,523	6,011
Finance income		184	155	158	113	146	140	140
Normalised Profit before tax		12,510	6,716	5,624	6,881	7,490	6,663	6,151
Normalised revenue/AuME (excl. perf fees) bps		14.0	11.2	8.8	8.0	6.1	5.9	5.7
Normalised Operating Margin norm. (%)		43.8	31.9	30.2	33.4	35.2	31.8	30.2
Average Diluted Shares Outstanding (m)		221.0	220.3	219.1	218.7	218.4	218.5	218.5
Basic EPS (p)		4.03	2.23	1.98	2.48	2.66	2.42	2.23
Diluted EPS (p)		4.03	2.23	1.98	2.47	2.65	2.41	2.22
Dividend per share - proposed (p)		4.59	1.50	1.50	1.50	1.65	1.65	1.65
BALANCE SHEET								
Fixed Assets		1,382	1,323	1,108	3,732	3,273	3,079	2,852
Intangible Assets		1,085	1,140	963	734	504	274	44
Tangible Assets		227	183	140	86	129	132	135
Investments		0	0	0	2,754	2,567	2,600	2,600
Deferred tax assets		70	0	5	158	73	73	73
Current Assets		34,654	30,750	34,637	32,835	37,053	39,100	40,797
Debtors		6,904	5,070	5,569	5,646	6,324	6,500	6,650
Cash		24,728	24,572	29,025	11,503	12,010	13,500	14,047
Money market instruments			0	0	15,488	18,100	18,500	19,500
Other		3,022	1,108	43	198	619	600	600
Current Liabilities		(5,938)	(3,457)	(3,457)	(3,660)	(4,522)	(4,700)	(4,900)
Creditors		(4,089)	(2,494)	(2,672)	(2,706)	(2,949)	(3,100)	(3,300)
Other		(1,849)	(963)	(785)	(954)	(1,573)	(1,600)	(1,600)
Net Assets		30,098	28,616	32,288	32,907	35,804	37,479	38,749
Minority interests		952	2,263	3,646	3,667	3,876	3,876	3,876
Net assets attributable to ordinary shareholders		29,146	26,353	28,642	29,240	31,928	33,603	34,873
No of shares at year end		221.3	220.3	219.1	217.5	217.5	217.5	217.5
NAV per share p		13.2	12.0	13.1	13.4	14.7	15.4	16.0
CASH FLOW								
Operating cash flow		8,241	2,393	5,609	5,167	6,472	5,460	5,084
Capex		(85)	(52)	(63)	(25)	(128)	(88)	(88)
Cash flow from investing activities		(679)	(65)	0	0	0	0	0
Dividends		(5,723)	(7,371)	(1,645)	(4,898)	(3,266)	(3,589)	(3,589)
Other financing activities		1,113	942	552	(17,766)	(2,571)	(293)	(860)
Other		0	3,997	0	0	0	0	0
Net Cash Flow		2,867	(156)	4,453	(17,522)	507	1,490	547
Opening cash/(net debt)		21,861	24,728	24,572	29,025	11,503	12,010	13,500
Other		0	0	0	0	0	0	0
Closing cash/(net debt)		24,728	24,572	29,025	11,503	12,010	13,500	14,047
Closing net debt/(cash) inc money market instruments		24,728	24,572	29,025	26,991	30,110	32,000	33,547
AUME								
Opening (\$bn)		34.0	31.4	30.9	34.8	51.9	55.4	52.6
Net new money flows		(3.6)	0.2	1.9	14.1	2.9	(2.8)	0.0
Performance		1.0	(0.7)	2.0	3.0	0.6	0.0	1.5
Closing (\$bn)		31.4	30.9	34.8	51.9	55.4	52.6	54.1

Source: Record, Edison Investment Research

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