

Record

Q120 trading update

FX, inflow and mix changes prompt earnings upgrade

After three quarters with outflows in assets under management equivalent (AUME), Record reported a modest inflow in its first quarter (\$0.3bn) and the number of clients also ticked up. Competitive pressures remain a feature but the group is countering this with its focus on innovation and service enhancement. The breadth of new business opportunities is encouraging. A combination of sterling weakness and mix changes has led us to revise estimates, with EPS increases of 9% and 8% for this year and next.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/18	23.8	7.3	2.98	2.30	10.8	7.2
03/19	25.0	8.0	3.25	2.30	9.9	7.2
03/20e	22.2	5.8	2.38	2.32	13.5	7.3
03/21e	23.0	6.0	2.46	2.34	13.0	7.3

Note: *EPS are diluted. **DPS excludes special dividends.

Q120 update

Record reported AUME of \$58.3bn at the end of Q120 (30 June), an increase of 1.7% or 4.0% in dollar and sterling terms respectively in the quarter. Market-related movements were neutral, while FX and volatility targeting related moves added \$0.7bn. The \$0.3bn inflow mainly arose from the partial reversal of an earlier \$1.1bn reduction when Record took a tactical profit on behalf of certain dynamically hedged mandates. The number of clients increased from 65 to 68, with the flow movements implying that the new mandates are relatively small. However, where these are new relationships or for funds, there is the scope for growth over time. There were no performance fees crystallised during the period and fee rates were broadly unchanged. For further details see overleaf.

Outlook

The macro backdrop, with significant tail risks, continues to provide a favourable background for Record's discussions with potential clients and it reports an encouraging range of new business opportunities diversified by geography and product. Our estimates exclude potential AUME inflows (or outflows) and do not include performance fees until crystallised. For FY19, performance fees of £2.3m were earned (9% of revenue or 0.5bp of average AUME compared with the 5bp average management fee rate). Weakness in sterling, together with the inflow reported and mix changes, have resulted in increases in our estimates with EPS up by 9% for FY20 and 8% for FY21.

Valuation: Multiples below asset manager peers

The shares bounced following the full year figures, but have been stable subsequently and, following our forecast increases, the P/E and EV/EBITDA multiples for calendar 2019 (12.3x and 7.6x respectively) are clearly below the asset manager comparators that we show in Exhibit 3 (15.6x and 11.0x).

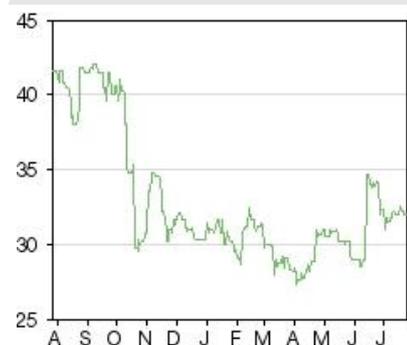
Financial services

25 July 2019

Price 32.00p
Market cap £63m

Net cash (£m) at 31 March 2019	23.7
Shares in issue	199.1m
Free float	32%
Code	REC
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(6.6)	4.9	(22.6)
Rel (local)	(7.8)	4.8	(20.1)
52-week high/low		42.05p	27.30p

Business description

Record is a specialist independent currency manager that provides a number of products and services, including passive and dynamic hedging, and a range of currency for return strategies, including funds and customised segregated accounts.

Next events

AGM	25 July 2019
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Q120 trading update

The quarterly update to the end of June 2019 showed AUME of \$58.3bn, an increase of 1.7% in dollar terms, as noted above. AUME and net flow details for Q120 are shown in Exhibit 1.

Exhibit 1: AUME changes					
Year-end March	Q118	Q418	Q119	FY19	Q119
\$bn	AUME	AUME	AUME	Net flows	Net flows
Dynamic Hedging	4.3	3.1	3.4	(0.7)	0.3
Passive Hedging	52.0	48.2	48.9	(4.6)	0.1
Currency for Return	2.3	2.7	2.6	0.9	(0.1)
Multi-product	3.0	3.0	3.1	0.0	0.0
Cash and futures	0.3	0.3	0.3	(0.1)	0.0
Total	61.9	57.3	58.3	(4.5)	0.3
Markets				2.3	0.0
FX and scaling effect (for mandates with volatility targets)				(2.7)	0.7
Total change				(4.9)	1.0

Source: Record, Edison Investment Research

Investment performance was broadly positive. While the FTSE Currency FRB index excess return was negative (-0.61%) in the quarter, the Emerging Market product (ungeared) generated a return of +3.04% and the Multi-Strategy composite, targeting 4% volatility, recorded a three-month return of +0.90% and has an annualised performance since inception of +1.37% per annum.

Estimate changes

Exhibit 2 shows the changes in key figures from our forecasts following the trading update. As mentioned, sterling weakness was the main driver, augmented by the inflow to Dynamic Hedging and modest mix changes. Exhibit 4 shows a full financial summary with our new estimates.

Exhibit 2: Estimate changes												
	Revenue (£m)		% chg.	PBT (£m)		% chg.	EPS (p)		% chg.	DPS* (p)		% chg.
	Old	New		Old	New		Old	New		Old	New	
03/20e	21.6	22.2	3%	5.3	5.8	9%	2.19	2.38	9%	2.32	2.32	0%
03/21e	22.3	23.0	3%	5.5	6.0	8%	2.28	2.46	8%	2.34	2.34	0%

Source: Edison Investment Research. Note: *Dividend excludes any special payment.

Valuation

We have updated the table showing Record's valuation in the context of a group of UK asset managers. While Record is differentiated by its role as a specialist currency manager, it does earn fees largely based on the size of AUME so, like the asset managers, is exposed to movements in underlying equity and fixed income markets as well as flows.

Record trades on below average P/E and EV/EBITDA ratios (calendar 2019) and an above average yield. The calendarised P/E figure shown here does include a portion of FY19 earnings which benefited from a performance fee, but even on our FY20 estimate (no performance fee assumed) the multiple would be 13.5x: still below average.

Exhibit 3: Comparing valuation with UK fund managers

	Price (p)	Market cap (£m)	P/E 2019e (x)	EV/EBITDA 2019e (x)	Dividend yield (%)
Ashmore	529	3,778	19.9	13.7	3.1
City of London Investment Group	436	116	12.1	9.5	6.2
Impax Asset Management	260	340	22.1	17.3	1.6
Jupiter	379	1,736	13.7	8.8	4.5
Liontrust	790	402	15.3	10.5	3.4
Man Group	170	3,258	12.8	8.6	5.4
Polar Capital	584	565	13.7	8.2	5.7
Schroders	2,978	8,107	15.1	11.3	3.8
Average			15.6	11.0	4.2
Record	32	64	12.3	7.6	7.2

Source: Refinitiv, Edison Investment Research. Note: P/Es and EV/EBITDA on a calendar year basis. REC dividend yield excludes special dividend (0.69p) and including this the FY19 dividend was 2.99p. Priced as at 23 July 2019.

Exhibit 4: Financial Summary

Year end March	£'000s	2017	2018	2019	2020e	2021e
PROFIT & LOSS						
Revenue		22,952	23,834	24,973	22,231	22,962
Operating expenses		(15,365)	(16,735)	(17,089)	(16,547)	(17,067)
Other income/(expense)		157	173	(8)	0	0
Operating Profit (before amort. and except.)		7,744	7,272	7,876	5,684	5,895
Finance income		112	56	113	114	108
Profit Before Tax		7,856	7,328	7,989	5,798	6,003
Taxation		(1,540)	(1,182)	(1,559)	(1,102)	(1,141)
Minority interests		0	0	0	0	0
Attributable profit		6,316	6,146	6,430	4,696	4,862
Revenue/AuME (excl. perf fees) bps		5.2	5.1	4.9	4.8	4.7
Operating margin (%)		33.7	30.5	31.5	25.6	25.7
Average Number of Shares Outstanding (m)		218.0	206.5	198.1	197.5	197.5
Basic EPS (p)		2.91	3.03	3.27	2.40	2.48
EPS - diluted (p)		2.90	2.98	3.25	2.38	2.46
Dividend per share (p)		2.00	2.30	2.30	2.32	2.34
Special dividend per share (p)		0.91	0.50	0.69	0.00	0.00
Total dividend (p)		2.91	2.80	2.99	2.32	2.34
BALANCE SHEET						
Fixed Assets		1,228	2,339	2,161	2,156	2,151
Intangible Assets		245	228	288	363	438
Tangible Assets		881	910	761	681	601
Investments		0	1,115	1,112	1,112	1,112
Deferred tax assets		102	86	0	0	0
Current Assets		44,247	29,737	31,427	29,940	30,205
Debtors		6,972	6,775	7,562	6,963	7,063
Cash		19,120	12,498	12,966	12,078	12,244
Money market instruments		18,102	10,198	10,735	10,735	10,735
Other		53	266	164	164	164
Current Liabilities		(8,644)	(5,525)	(6,187)	(5,970)	(6,006)
Creditors		(3,013)	(2,630)	(2,736)	(2,519)	(2,555)
Financial liabilities		(4,779)	(2,467)	(2,621)	(2,621)	(2,621)
Other		(852)	(428)	(830)	(830)	(830)
Net Assets		36,831	26,551	27,401	26,126	26,350
Minority interests		0	0	60	60	60
Net assets attributable to ordinary shareholders		36,831	26,551	27,341	26,066	26,290
No of shares at year end		221.4	199.1	199.1	199.1	199.1
NAV per share p		16.6	13.3	13.7	13.1	13.2
CASH FLOW						
Operating Cash Flow		7,107	2,746	7,026	5,260	4,986
Capex		(899)	(236)	(72)	(140)	(140)
Cash flow from investing activities		(189)	(82)	(134)	(150)	(150)
Dividends		(3,592)	(6,810)	(5,517)	(5,972)	(4,638)
Other financing activities		(5,163)	(2,386)	(1,040)	114	108
Other		136	146	205	0	0
Net Cash Flow		(2,600)	(6,622)	468	(888)	166
Opening cash/(net debt)		21,720	19,120	12,498	12,966	12,078
Other		0	0	0	0	0
Closing net (debt)/cash		19,120	12,498	12,966	12,078	12,244
Closing net debt/(cash) inc money market instruments		37,222	22,696	23,701	22,813	22,979
AUME						
Opening (\$'bn)		52.9	58.2	62.2	57.3	58.6
Net new money flows		3.1	(1.2)	(4.5)	0.3	0.0
Market/other		2.2	5.2	(0.4)	1.0	1.1
Closing (\$'bn)		58.2	62.2	57.3	58.6	59.7

Source: Record accounts, Edison Investment Research

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