

Record

AUME now over \$70bn

Q321 trading update

Record's assets under management (AUME) reached over \$70bn for the first time at the end of December, reflecting a combination of net flows and market, foreign exchange and scaling moves in Q321. The pattern of flows has increased the diversity of revenues while the benefits of initiatives to increase the breadth of product offering are yet to come; the launch of the Currency Impact Fund is due soon and a pipeline of other potential products is in development, supported by technology investment.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/19	25.0	8.0	3.25	2.30	15.1	4.7
03/20	25.6	7.7	3.26	2.30	15.1	4.7
03/21e	25.5	6.3	2.61	2.30	18.8	4.7
03/22e	30.1	10.4	4.29	2.30	11.4	4.7

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

Q321 update

Record's end-Q321 AUME stood at \$74.6bn (£54.6bn), growth of 13% (7%) since end September. This reflected a \$5.1bn AUME net inflow, an increase of \$2.4bn from FX moves and scaling to match mandate volatility targets, and a \$1.2bn uplift from market movements affecting underlying assets. Within the \$5.1bn inflow, the largest movement was \$4.7bn from the large dynamic hedging mandate announced in September (a balance of c \$2.3bn is likely to be included over the next two quarters). On a like-for-like basis, the level of management fee rates remained broadly unchanged during the third quarter while, subject to other changes, the increase in higher fee margin dynamic hedging and multi-product AUME would increase the average fee margin for the group prospectively.

Outlook

The increase in AUME in Record's third quarter confirms a rapid build-up in the large dynamic hedging mandate (c \$7bn), which accounts for a large part of the 18% increase in revenue we estimate for FY22. Revenue in that year will also benefit from the Currency Impact Fund, with further upside potentially added by additional tactical mandates and other new products. Deployment of new software and technology services is making progress and will both enable new product offerings and deliver efficiency savings. Our revenue estimates are increased modestly (2% and 3% for FY21 and FY22) reflecting the increase in AUME, while operational gearing and the assumption of greater efficiency benefits results in EPS estimate increases of 8% and 17% for the two years respectively.

Valuation: P/E below peers on FY22 estimate

Record shares trade above and slightly below an asset manager peer group based on calendarised P/E and EV/EBITDA ratios for 2020, but for 2021, when its earnings benefit more fully from the large dynamic hedging mandate and cost efficiencies, they trade on a P/E of 12.7x versus the peer average of 15.9x.

Financial services

26 January 2021

Price 49.1p

Market cap £98m

Net cash (£m) at end-September 2020 excluding seed fund cash 15.5

Shares in issue 199.1m

Free float 53%

Code REC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.2 26.2 24.9

Rel (local) 0.6 11.4 40.3

52-week high/low 49.1p 26.3p

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

Q421 trading update 23 April 2021

FY21 results 17 June 2021

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Changes in AUME and investment performance

Exhibit 1 shows the progression in AUME since the end of FY20 with net flows, market and other changes for the third quarter and first nine months of FY21.

Looking at third-quarter net flows, we have already highlighted the \$4.7bn arising from the large dynamic hedging mandate announced in September (a balance of c \$2.3bn is likely to be included over the next two quarters). In addition, there was a \$1.2bn inflow in the multi-product category comprising a \$0.4bn short-term tactical mandate and \$0.8bn from a tactical mandate that was previously not included in AUME, with income allocated to other investment services; this element of AUME will not therefore affect expected total revenue. Finally, there was a (relatively small) outflow of \$0.8bn from passive hedging.

Markets, foreign exchange movements and scaling for mandates with a volatility target added \$3.6bn in Q321 and \$11.2bn in 9M21.

Exhibit 1: AUME progression Q420 to Q321

\$bn Year-end March	AUME				Net flows and other moves	
	Q420	Q121	Q221	Q321	Q321	9M21
Dynamic hedging	2.5	2.9	3.2	8.0	4.7	5.2
Passive hedging	50.3	53.9	55.6	57.9	(0.8)	(1.6)
Currency for return	2.6	3.1	3.4	3.6	0.0	0.0
Multi-product	3.0	3.2	3.5	4.9	1.2	1.2
Cash and futures	0.2	0.2	0.2	0.2	0.0	0.0
Total	58.6	63.3	65.9	74.6	5.1	4.8
Markets					1.2	5.3
FX and scaling for mandate volatility targeting					2.4	5.9
Total change					8.7	16.0

Source: Record

Performance in the currency for return strategies saw dynamic macro currency in negative territory (-2.68%) in the quarter (the strategy blends discretionary and systemic allocations and has a record of outperforming in weak markets). However, the multi-strategy composite was positive (+3.64% and +0.75% per year since inception). Currency for return mandates account for less than 8% of revenues.

Estimate changes

Headline figures from our revised estimates are shown in Exhibit 2. The modest revenue increases reflect the AUME movements described above, with the main changes compared with our previous expectation being a somewhat faster build up in the large dynamic hedging mandate together with the market-related changes. We have conservatively assumed the \$0.4bn short-term tactical mandate is only in place for one quarter and, as usual, our estimates do not include any assumed performance fees so any that are crystallised would represent upside from our estimates.

The greater diversity of revenues referred to earlier is evident within our forecast for FY22. The proportion of management fees accounted for by passive hedging is an estimated 39% compared with 52% for FY20. Dynamic hedging contributes 27% in FY22e versus 17% in FY20.

We have assumed somewhat greater efficiency benefits from investment in technology in FY22 and, together with operational gearing in both years, this results in increases of 8% and 17% in pre-tax profit and earnings per share for FY21 and FY22 respectively.

Exhibit 2: Estimate changes

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)*		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
03/21e	24.8	25.5	3%	5.8	6.3	8%	2.42	2.61	8%	2.30	2.30	0%
03/22e	29.5	30.1	2%	8.9	10.4	17%	3.67	4.29	17%	2.30	2.30	0%

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

Valuation

An updated version of our comparative valuation table, which puts Record in the context of a group of UK asset managers, is shown in Exhibit 3. Record is differentiated by its role as a specialist currency manager but its fees are primarily based on the size of AUME so, like the asset managers, it is exposed to movements in underlying equity and fixed-income markets and flows.

Our table shows calendarised figures for 2020 and 2021 P/E and 2020 EV/EBITDA. Record shares trade above and in line with the average 2020 P/E and EV/EBITDA multiples respectively. Record's earnings and EBITDA for calendar year 2020 benefit from a quarter of the performance fee earned in FY20 although, more significantly, the three-quarters contribution from FY21 only includes a partial benefit from the new dynamic hedging mandate. For calendar year 2021 the P/E on our estimate is 12.7x compared with a peer average of 15.9x. The dividend yield of 4.7% is above the peer average and there is the potential for this to be enhanced with a special dividend in due course (on our estimate the FY22 yield would be 6.1%). The board's dividend policy is that the dividend should be at least covered by earnings, after allowing for anticipated increases in costs and regulatory capital requirements.

Exhibit 3: Comparing valuation with UK fund managers

	Price (p)	Market cap (£m)	P/E 2020e (x)	P/E 2021e (x)	EV/EBITDA 2020e (x)	Dividend yield (%)
Ashmore	443	3,160	17.5	16.2	11.7	3.8
City of London Investment Group	478	242	9.8	N/A	N/A	6.3
Impax Asset Management	852	1,112	41.3	34.6	30.7	1.0
Jupiter	294	1,625	12.2	11.4	6.8	5.8
Liontrust	1,280	781	14.1	11.8	9.2	2.6
Man Group	152	3,025	11.9	10.2	8.3	5.1
Polar Capital	666	658	11.3	10.8	7.9	5.0
Schroders	3,460	9,149	17.1	16.3	11.7	3.3
Average			16.9	15.9	12.3	4.1
Record	49.1	97	17.7	12.7	12.3	4.7

Source: Refinitiv, Edison Investment Research. Note: P/E and EV/EBITDA on a calendar-year basis. Record's dividend yield excludes the special dividend. Priced at 25 January 2021.

Exhibit 4: Financial summary

£'000s	2018	2019	2020	2021e	2022e
March					
PROFIT & LOSS					
Revenue	23,834	24,973	25,563	25,545	30,071
Operating expenses	(16,735)	(17,089)	(17,996)	(19,265)	(19,715)
Other income/(expense)	173	(8)	82	(36)	0
Operating Profit (before amort. and except.)	7,272	7,876	7,649	6,244	10,356
Finance income	56	113	88	40	42
Profit Before Tax	7,328	7,989	7,737	6,284	10,398
Taxation	(1,182)	(1,559)	(1,365)	(1,194)	(1,976)
Minority interests	0	0	48	60	30
Attributable profit	6,146	6,430	6,420	5,150	8,453
Revenue/AuME (excl. perf fees) bps	5.1	4.9	4.9	4.8	5.2
Operating margin (%)	30.5	31.5	29.9	24.4	34.4
Average Number of Shares Outstanding (m)	206.5	198.1	197.1	197.1	197.1
Basic EPS (p)	3.03	3.27	3.26	2.62	4.30
EPS - diluted (p)	2.98	3.25	3.26	2.61	4.29
Dividend per share (p)	2.30	2.30	2.30	2.30	2.30
Special dividend per share (p)	0.50	0.69	0.41	0.00	0.70
Total dividend (p)	2.80	2.99	2.71	2.30	3.00
BALANCE SHEET					
Non-current assets	2,339	2,161	4,868	4,492	3,827
Intangible Assets	228	288	470	455	440
Tangible Assets	910	761	751	601	451
Investments	1,115	1,112	2,472	2,759	2,759
Other	86	0	1,175	677	177
Current Assets	29,737	31,427	31,149	27,891	32,168
Debtors	6,775	7,562	8,704	8,425	9,229
Cash	12,498	12,966	14,294	6,818	10,291
Money market instruments	10,198	10,735	7,958	12,491	12,491
Other	266	164	193	158	158
Current liabilities	(5,525)	(6,158)	(6,955)	(5,514)	(5,282)
Creditors	(2,630)	(2,736)	(3,009)	(2,804)	(3,072)
Financial liabilities	(2,467)	(2,621)	(2,191)	(1,800)	(1,800)
Other	(428)	(801)	(1,755)	(910)	(410)
Non-current liabilities	0	(29)	(901)	(353)	(353)
Net Assets	26,551	27,401	28,161	26,516	30,360
Minority interests	0	60	132	72	42
Net assets attributable to ordinary shareholders	26,551	27,341	28,029	26,444	30,318
No of shares at year end	199.1	199.1	199.1	199.1	199.1
NAV per share p	13.3	13.7	14.1	13.3	15.2
CASH FLOW					
Operating Cash Flow	2,746	7,026	6,543	5,283	8,799
Capex	(236)	(72)	(243)	(140)	(140)
Cash flow from other investing activities	7,899	(561)	1,513	(5,381)	(108)
Dividends	(6,810)	(5,517)	(5,888)	(5,357)	(4,578)
Other financing activities	(10,367)	(613)	(943)	(2,026)	(500)
Other	146	205	346	145	0
Net Cash Flow	(6,622)	468	1,328	(7,476)	3,473
Opening cash/(net debt)	19,120	12,498	12,966	14,294	6,818
Closing net (debt)/cash	12,498	12,966	14,294	6,818	10,291
Closing net debt/(cash) inc money market instruments	22,696	23,701	22,252	19,309	22,782
AUME					
Opening (\$'bn)	58.2	62.2	57.3	58.6	76.3
Net new money flows	(1.2)	(4.5)	4.6	6.5	0.6
Market/other	5.2	(0.4)	(3.3)	11.3	0.4
Closing (\$'bn)	62.2	57.3	58.6	76.3	77.3

Source: Record accounts, Edison Investment Research

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