

21 April 2010

Event Q4 trading update

Investment summary: Weary waiting

Record's Q4 trading statement (to March 2010) confirmed that market profit expectations would be met despite the continued out-flow of funds. The historically predominant Absolute Return operation suffered as its investment strategy, based on long-term trends, underperformed as recent market conditions continued to vary from such experience. Record is developing new income streams from an expanded range of currencies (including emerging markets), and active and (much-lower-margin) passive hedging strategies. Through its performance fee structure, there will be further, materially geared, upside on a return to more normal currency patterns. The yield of c 7% is covered by consensus earnings and the group has c £20m net cash.

What's new

The Q4 trading statement indicated that the Absolute Return fund assets managed fell to \$7.6bn (March 2010) from \$9.3bn (December 2009) and management commentary warns of further outflows. Total client numbers reduced from 102 to 93 over the same period. The "problem" continues to be that this fund's main driver is the 30-year plus trend for higher-interest rate currencies to deliver outperformance and, since the credit crunch developed, this has not occurred.

Company response

In addition to ongoing dialogue with clients (and changing the fee structure so that it is now more performance fee geared), Record has aggressively developed its passive and active hedging products – funds managed in both grew over Q4. The margin on the active product is close to the Absolute Return fund level. It has also invested c £1m in an emerging market product, although liquidity in, and client (typically pension fund) appetite for, this currency product means it will take time to be a meaningful contributor to group earnings.

Valuation/consensus: Yield of c 7%

Group earnings will increase dramatically in normal currency market conditions, and the valuation at that stage will be low. However, forecasting that now is premature. The P/E of c 11/12x appears fair, but the dividend yield of c 7% is highly attractive.

Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/08	66.2	40.3	12.6	13.07	5.1	20.2
03/09	46.8	26.8	8.7	4.59	7.4	7.1
03/10e	32.9	15.9	5.2	4.59	12.5	7.1
03/11e	36.1	18.0	5.9	4.59	11.0	7.1

Price 64.75p
Market Cap £143m

Share price graph



Share details

Code REC
Listing FULL
Sector Financials
Shares in issue 221m

Business

Record is a leading currency management firm with \$34.0bn, at 31 March 2010, and mainly pension fund clients globally. Record was founded in 1983. Services include currency alpha strategies, and active and passive hedging.

Bull

- Strong gearing to normal markets
- New business lines being developed
- Near 7% yield

Bear

- Falling Absolute Return fund assets
- Falling client numbers
- Pain until markets normalise

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