

Record

Q422 update

Positive flow and muted market impact Q422

For FY22 as a whole, Record's assets under management equivalent (AUME) increased by 3.7% and were only slightly lower in Q422 on market movements. The group is seeing the benefits of diversification and new products, both in terms of AUME and average fee rates. Increased investment in staff and technology have tempered short-term expected earnings growth, but operational gearing benefits should become more evident once new products gain further traction.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield (%)
03/20	25.6	7.7	3.26	2.30	23.0	3.1
03/21	25.4	6.2	2.73	2.30	27.5	3.1
03/22e	35.2	11.0	4.40	3.80	17.0	5.1
03/23e	39.3	11.6	4.77	4.40	15.7	5.9

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

Q422 update

Record's Q422 trading update showed (March) year-end AUME at \$83.1bn, up 3.7% over 12 months and down 2.6% in the quarter. There was a \$0.8bn net inflow in Q422 and \$2.4bn for the full year (3.0% of opening AUME). Other moves in Q422 were a 2.7% or \$2.3bn negative market move and a \$0.7bn reduction, resulting from foreign exchange movements and scaling in mandates with a volatility target. We calculate that average AUME in sterling terms increased by 17.4% for FY22. Record earned performance fees of £0.5m in the quarter, reflecting increased interest rate differentials in the market, which create better opportunities for enhanced passive hedging mandates to add value.

Background and outlook

The resilience in Record's AUME in a period of weakness in some markets reflects the diversity of market exposures of underlying client portfolios. Likewise, the diversity of client types may have contributed to a positive quarter for flows, with no indication of a weaker trend since the period end. Indeed, since end March an existing dynamic hedging client has allocated a further \$1bn to its mandate, with a further \$1bn expected to follow in H123. Record notes that, because of the scale of this mandate, the marginal fee rate will be below the existing average in this product segment. Record continues work to diversify its product range and in January, announced the launch of the KOMMUNALIS+ private debt fund in Germany, an example of working with distributor and client partners.

Estimates adjusted for increased AUME and costs

Reflecting the crystallisation of a performance fee in Q422, our FY22 pre-tax and EPS estimates are increased by 5%. FY23 benefits from the likely \$2bn in additional dynamic hedging AUME in H123, but increased staff and IT costs mean our pre-tax profit and diluted EPS estimates are reduced by 5%. The shares, therefore, trade on prospective multiples of 17.0x and 15.7x for FY22 and FY23. Including an assumed special dividend, the FY22 estimated yield is 5.5%.

Financial services

27 April 2022

Price 75p
Market cap £142m

Net cash (£m) at end-September 2021	17.3
Shares in issue	199.1m
Free float	53%
Code	REC
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	4.2	2.7	(10.7)
Rel (local)	5.7	4.9	(13.4)
52-week high/low	102p	65p	

Business description

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

Next events

FY22 results	21 June 2022
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Changes in AUME

Exhibit 1 shows the progression in AUME since the end of FY21 with net flows, market and other changes for each quarter, and the whole of FY22 and FY21.

Looking at fourth-quarter net flows, the changes were relatively small, with an inflow in passive hedging and outflows in multi-product and dynamic hedging (the latter reflected profit-taking by a client, a process that has usually been followed by a gradual rebuilding of the position subject to market conditions). Weakness in markets, increased volatility and foreign exchange moves produced a combined negative move of \$3bn (or 3.5% of opening AUME). Overall AUME was 2.6% lower in the quarter.

For FY22, the net inflow was 3.0% of opening AUME or \$2.4bn, including a net \$1.3bn increase in the higher-fee rate segments (dynamic hedging, currency for return and multi-product). Market and foreign exchange movements together with scaling for mandates with a volatility target added \$0.6bn. This gave a \$3.0bn (or 3.7%) overall increase in AUME.

Exhibit 1: AUME progression Q422 and FY22

\$bn	AUME			Net flows and other moves					
Year end March	Q421	Q322	Q422	Q122	Q222	Q322	Q422	FY21	FY22
Dynamic hedging	9.3	11.5	10.6	0.0	0.6	1.1	(0.3)	6.6	1.4
Passive hedging	61.5	63.8	62.8	0.9	(0.6)	(0.5)	1.3	2.1	1.1
Currency for return	3.9	4.9	5.0	0.9	0.1	(0.6)	0.0	0.0	0.4
Multi-product	5.2	4.9	4.5	0.0	0.0	(0.3)	(0.2)	1.0	(0.5)
Cash and futures	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total	80.1	85.3	83.1	1.8	0.1	(0.3)	0.8	9.7	2.4
Markets				1.3	0.5	0.8	(2.3)	8.4	0.3
FX and scaling for mandate volatility targeting				1.3	(1.0)	0.7	(0.7)	3.4	0.3
Total change				4.4	(0.4)	1.2	(2.2)	21.5	3.0

Source: Record

Estimate changes

As a reminder, there are four main drivers of change when looking at our estimates for FY22 and FY23, compared with FY21. These are:

- The addition of a large dynamic hedging mandate that began in H221 (see \$6.6bn inflow in Exhibit 1). Because of its size, it has a lower fee rate than the previous dynamic hedging average, but nevertheless pushes up the group average fee rate. As noted, a total dynamic hedging inflow of \$2bn is expected for H123. We assume the average fee rate in this segment will drop from an estimated c 13.6bp in FY22 to 12.0bp in FY23.
- The Record EM Sustainable Finance Fund began to contribute from Q222. Its AUM has increased from c \$0.75bn to c \$1.2bn and it seems reasonable to factor in some further allocations of assets to the fund going forward. We have assumed \$0.4bn for FY23. This number is indicative with risks in both directions.
- The KOMMUNALIS+ private debt fund launched in Q422. We assume AUM builds progressively from \$0.25bn to \$1.5bn by the end of FY23. Again, this is an indicative estimate, but at this stage in the fund's development the fee contribution would remain modest in a group context (c £0.7m FY23e), given the level of AUM assumed.
- As the group continues to invest in the pursuit of its growth agenda, costs are expected to increase strongly in FY22 and FY23, with total operating expenses up 24% and 16% respectively. Variable compensation (the group profit share scheme) and increases in fixed

salaries are factors here. Non-personnel costs, including the cost of IT projects and data licences, are assumed to rise by 19% for FY22 and 30% for FY23.

For the remaining elements of AUME, we have not assumed any positive or negative net flows in our estimates. We have also assumed there are no further performance fees over the forecast period, following the £0.5m crystallised in Q422. With greater interest rate differentials prevailing in markets, the background for enhanced passive hedging mandates is more favourable than previously, but in the currency for return category the multi-strategy product still has some ground to catch up before earning performance fees.

As shown in Exhibit 2, our estimates for FY22 and FY23 revenue are increased with factors, including the performance fee recorded in Q422 and inflows into dynamic hedging expected in H123 respectively. We have allowed for higher than previously assumed costs in FY23 (particularly relating to IT projects and data licences), which results in reductions of 5% in our pre-tax profit and EPS estimates. We have made a similar reduction in our FY23 dividend assumption (including special payment).

Exhibit 2: Estimate changes

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)*		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
03/22e	34.4	35.2	2%	10.6	11.0	5%	4.21	4.40	5%	3.80	3.80	0%
03/23e	38.2	39.3	3%	12.3	11.6	-5%	5.05	4.77	-5%	4.60	4.40	-4%

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

Valuation comparison

Exhibit 3 shows an updated version of our comparative valuation table, with a selection of quoted UK fund managers. Year-to-date, the comparator asset managers share prices are down 24% on average, while Record shares are 9% lower, presumably reflecting its lower sensitivity to equity market volatility. It continues to trade at a premium to the average calendarised P/E and EV/EBITDA multiples for the comparators, although the P/E premium may narrow as the potential benefits of the new product introductions outpace the increase in costs. On our estimates, Record's prospective yield (including special dividend) would be 5.5% for FY22 and 6.1% for FY23.

Exhibit 3: Comparing valuation with UK fund managers

	Price (p)	Market cap (£m)	P/E 2022e (x)	EV/EBITDA 2021e (x)	Dividend yield (%)
Ashmore	224	1,618	11.0	4.7	7.5
City of London Investment Group	462	237	9.6	N/A	7.1
Impax Asset Management	840	1,129	19.1	15.4	2.5
Jupiter	185	1,037	10.2	4.6	9.2
Liontrust	1,170	770	10.0	6.6	4.0
Man Group	232	3,970	9.2	6.7	2.9
Polar Capital	557	566	10.7	6.0	7.2
Schroders	2,868	7,946	12.3	8.1	4.3
Average			11.5	7.4	5.6
Record	75.00	142	16.0	11.3	3.1

Source: Refinitiv, Edison Investment Research. Note: P/E and EV/EBITDA on a calendar-year basis. Record's (FY21) dividend yield excludes the special dividend. Priced at 26 April 2022.

Exhibit 4: Financial summary

Year end 31 March	£000s	2018	2019	2020	2021	2022e	2023e
PROFIT & LOSS							
Revenue		23,834	24,973	25,563	25,412	35,241	39,307
Operating expenses		(16,735)	(17,089)	(17,996)	(19,333)	(23,944)	(27,695)
Other income/(expense)		173	(8)	82	41	(284)	(40)
Operating Profit (before amort. and except.)		7,272	7,876	7,649	6,120	11,014	11,572
Finance income		56	113	88	33	17	16
Profit Before Tax		7,328	7,989	7,737	6,153	11,031	11,588
Taxation		(1,182)	(1,559)	(1,365)	(802)	(2,316)	(2,202)
Minority interests		0	0	48	0	0	0
Attributable profit		6,146	6,430	6,420	5,351	8,714	9,386
Revenue/AUME (excl. perf fees) bps		5.1	4.9	4.9	4.8	5.6	5.9
Operating margin (%)		30.5	31.5	29.9	24.1	31.3	29.4
Average Number of Shares Outstanding (m)		206.5	198.1	197.1	196.2	198.0	196.8
Basic EPS (p)		3.03	3.27	3.26	2.75	4.56	4.95
EPS - diluted (p)		2.98	3.25	3.26	2.73	4.40	4.77
Dividend per share (p)		2.30	2.30	2.30	2.30	3.80	4.40
Special dividend per share (p)		0.50	0.69	0.41	0.45	0.30	0.20
Total dividend (p)		2.80	2.99	2.71	2.75	4.10	4.60
BALANCE SHEET							
Non-current assets		2,339	2,161	4,868	5,153	4,724	4,274
Intangible Assets		228	288	470	420	370	320
Tangible Assets		910	761	751	683	473	268
Investments		1,115	1,112	2,472	3,046	3,178	3,178
Other		86	0	1,175	1,004	703	508
Current Assets		29,737	31,427	31,149	28,045	27,313	27,736
Debtors		6,775	7,562	8,704	8,006	10,180	10,946
Cash		12,498	12,966	14,294	6,847	11,258	10,915
Money market instruments		10,198	10,735	7,958	12,932	5,875	5,875
Other		266	164	193	260	0	0
Current liabilities		(5,525)	(6,158)	(6,955)	(5,992)	(6,093)	(6,239)
Creditors		(2,630)	(2,736)	(3,009)	(3,426)	(4,537)	(4,878)
Financial liabilities		(2,467)	(2,621)	(2,191)	(1,696)	0	0
Other		(428)	(801)	(1,755)	(870)	(1,556)	(1,361)
Non-current liabilities		0	(29)	(901)	(407)	(77)	(77)
Net Assets		26,551	27,401	28,161	26,799	25,867	25,694
Minority interests		0	60	132	0	0	0
Net assets attributable to ordinary shareholders		26,551	27,341	28,029	26,799	25,867	25,694
No of shares at year end		199.1	199.1	199.1	199.1	199.1	199.1
NAV per share p		13.3	13.7	14.1	13.5	13.0	12.9
CASH FLOW							
Operating Cash Flow		2,746	7,026	6,543	6,798	10,489	9,691
Capex		(236)	(72)	(243)	(230)	(140)	(145)
Cash flow from other investing activities		7,899	(561)	1,513	(6,210)	5,074	(134)
Dividends		(6,810)	(5,517)	(5,888)	(5,290)	(6,672)	(8,559)
Other financing activities		(10,367)	(613)	(943)	(2,368)	(4,378)	(1,195)
Other		146	205	346	(147)	38	0
Net Cash Flow		(6,622)	468	1,328	(7,447)	4,411	(342)
Opening cash/(net debt)		19,120	12,498	12,966	14,294	6,847	11,258
Closing net (debt)/cash		12,498	12,966	14,294	6,847	11,258	10,915
Closing net (debt)/cash inc money market instruments		22,696	23,701	22,252	19,779	17,133	16,790
AUME (\$bn)							
Opening		58.2	62.2	57.3	58.6	80.1	83.1
Net new money flows		(1.2)	(4.5)	4.6	9.7	2.4	3.9
Market/other		5.2	(0.4)	(3.3)	11.8	0.6	0.9
Closing		62.2	57.3	58.6	80.1	83.1	87.9

Source: Record accounts, Edison Investment Research

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