

21 November 2011

Event	Interim results
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## Investment summary: Record not broken

The loss of an important client has been a knock to Record, due to high operational leverage (revenue losses cannot easily be offset with cost cuts). That knock should be separated from the decline in earnings and the share price since flotation in 2007; the company was then very dependent on the management of high-margin absolute return funds, invested in a strategy that stopped working with the financial crisis. To do otherwise is to overlook what appears very much to be the right strategy of a broadening product range, increasing marketing reach, and deepening customer penetration. Success would see operational gearing working in the company's favour. Balance sheet strength gives Record the time to build track records for new product launches and benefit from its distribution investment.

### In line with recent guidance

PBT of £3.7m and an interim dividend of 0.75p are in line with guidance given the loss of its second-largest dynamic hedging client, the source of some £2.6m in annual revenue, which cannot be matched by cost reduction. Near term the shares and consensus earnings are adjusting to this (we expect consensus for this year to settle closer to £6.0m PBT). Longer term, the success of strategic moves is key.

### Strategy

Record is well advanced on its strategy of product broadening, supported by an infrastructure that aims to sell more product and more products per customer. Building a track record for the expanded suite of absolute return products, giving "multi-strategy" capability, will take time; meanwhile, management remains confident of winning new hedging mandates.

### Valuation: Don't throw the baby out with the bathwater

The trend in earnings and dividends reflects the shift in the group's position since flotation. Given the strategic investment in the business, the near-term outlook could quickly change. The forecast pay-out ratio is high on consensus earnings, but earnings, while still at risk from customer concentration, are much less exposed to the trend shifts of recent years and factor in no optimism for strategic success.

## Consensus estimates

Year End	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/10	33.4	16.6	5.38	6.16	2.6	44.8
03/11	28.2	12.5	4.03	2.59	3.4	18.8
03/12e	20.3	6.8	2.05	1.50	6.7	10.9
03/13e	18.1	3.9	1.30	1.50	10.6	10.9

Price 13.75p  
Market Cap £30m

Share price graph



### Share details

Code	REC
Listing	FULL
Sector	Financial services
Shares in issue	221m

### Business

Record is a specialist currency manager, providing both absolute return and currency hedging mandates to institutional clients. Services include currency alpha strategies via either currency funds or segregated accounts, active and passive hedging.

### Bull

- Extended product range yet to impact.
- Increased focus on distribution.
- High yield/strong balance sheet.

### Bear

- Customer concentration risk.
- Limited cost flexibility.
- Lack of clear trend in asset returns.

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