

Record

Financials

12 June 2013

Investment summary: Return to client growth

In FY13, Record showed clear evidence of increasing client inflows and once again began to broaden its client base. AUME in sterling increased 19% and client numbers improved by three to 44. Previous year outflows and a weaker revenue mix were still negatively affecting FY13 profitability, but with costs well contained and renewed fund inflows, profits are expected to return to growth in FY14e. The CY14e P/E of 13.5x is in line with peers, while FY13 cash of £29m is c 40% of market cap.

Return to AUME and client growth

For this first time in five years, Record experienced growth in both assets under management equivalents (AUME) and growth in client numbers. AUME increased 19% to £22.9bn due to strong flows into more passive currency products, while the number of clients increased by three to 44. This growth has continued since year end with the announcement of a \$1.7bn passive and dynamic mandate in April. The company also expects an \$8-10bn passive mandate in Q413, which would add £2-3m to revenues. The focus remains on the Swiss and US markets, where management believes existing relationships and strengthening exchange rates should help drive inflows. Furthermore, recent currency volatility may create opportunities for AUME inflows as investors look to moderate the effects of FX movements.

Stabilising margins supporting future revenue growth

Although management fee rates remain broadly unchanged, average blended fee rates decreased from 11.2bp to 8.8bp due to increased flows into lower-margin passive currency strategies and away from higher-margin currency for return and dynamic hedging products. Management believes a strengthening US dollar would be favorable for winning new, higher-margin, dynamic hedging mandates as US investors look to hedge gains previously made from the falling dollar. Operating margins remain unchanged as continued cost controls offset lower revenues.

Valuation: In line with peers

Record's CY14e calendarised P/E of 13.5x is in line with the larger UK asset management sector (c 13.4x). This is supported by Record's strong capital position, FY13 cash of £29m is equivalent to c 40% of the market capitalisation, and an attractive yield, with the consensus forecasting growing dividend cover.

Consensus estimates						
Year End	Revenue (£m)	PBT (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/12	20	7	2.2	1.5	14.5	4.7
03/13	18	6	2.0	1.5	16.3	4.7
03/14e	21	8	2.6	1.5	12.3	4.7
03/15e	24	9	3.1	1.8	10.3	5.6

Source: Bloomberg.

Price 32p
Market cap £72m

Share price graph



Share details

Code	REC
Listing	LSE
Shares in issue	221m

Business description

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

Bull

- Strong cash balance.
- Stabilising asset mix.
- Recent significant client wins.

Bear

- Customer concentration risk.
- Market correction.

Analysts

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