

Charles Stanley

Q116 IMS

Over the year to 30 June 2015, total client funds under management and administration (AUMA) were up 3.3% year-on-year to £20.8bn. Within managed funds, the shift towards discretionary funds is clearly evident, while in administered funds the 9.7% growth in execution-only assets more than offset the decline in advisory dealing funds. During the last quarter, modest net inflows of £0.14bn (£0.20bn into discretionary funds) were offset by market movements (£0.42bn) so that total AUM declined 2.3%. Positive net fund flows, especially discretionary, are one of the elements, combined with less volatile markets and further efficiency measures, required for management to meet its 15% operating margin target.

Positive signs on asset flows

Discretionary net inflows of £0.2bn during the quarter represented 2% of opening discretionary funds under management. It is worth noting that the suitability review, a significant additional undertaking for both staff and clients over the past year, closed during the quarter. In aggregate, managed fund net inflows were £0.14bn in the quarter and were more than offset by negative market movements (3.4% of opening funds, slightly better than a 3.7% quarterly decline in the FTSE 100). Quarterly revenue from continuing business was ahead 5% year-on-year and 1% ahead of the average of the past four quarters at £36.3m. Fee revenues were 64% of the total.

Strategic reorganisation nears completion

The significant refocusing of the business on its core activities is near completion. The sale of Charles Stanley Securities was finalised on 15 July for up to £1.5m, with the potential for a further £5m. It appears that a disposal of Charles Stanley Financial Services may be close. This has been aimed at creating a vertically integrated wealth management business, built around an investment-led, bespoke service. The ambition is to be a leading UK wealth manager by 2020, but more immediately to lift profitability. It is targeting a 15% operating margin by 2018, a substantial uplift from an underlying c 4% in the year to 31 March 2015. As well as looking to grow AUMA, management is reviewing its pricing structures and service levels, and is also looking at ways to optimise its compensation and incentivisation arrangements.

Valuation: AUMA and margin-driven

At 1.6% of AUM, the shares are roughly in line with the peer group average of 1.8%. Continued growth in AUMA and future margin improvement, anticipated by consensus forecasts, are the key drivers to an improvement in the rating.

Consensus estimates

| Year end | Revenue (£m) | PBT (£m) | Diluted EPS (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|----------|-----------------|---------|---------|-----------|
| 03/15 | 144.3 | (4.4) | N/A | 5 | N/A | 1.3 |
| 03/16e | 148.0 | 7.8 | 12 | 6 | 31.5 | 1.6 |
| 03/17e | 158.5 | 14.7 | 22 | 10 | 17.2 | 2.6 |
| 03/18e | 170.0 | 22.2 | 34 | 15 | 11.1 | 4.0 |

Source: Bloomberg

Investment management

4 August 2015

Price* **378p**
Market cap **£191m**

*Closing price 31 July 2015

Share price graph



Share details

| | |
|-----------------|-------|
| Code | CAY |
| Listing | LSE |
| Shares in issue | 50.6m |

Business description

Charles Stanley offers investment management, advisory and administration services to private clients, charities and corporates. It has £12bn of assets under management and £8.8bn under administration. The company operates from 28 UK offices and is listed on LSE.

Bull

- Established provider with substantial recurring revenues.
- Business refocused to improve margins.
- Trend towards more secure fee revenue away from declining commissions.

Bear

- Cyclical and generational pressure on wealth management industry.
- Industry regulatory burden.
- Strong competition for fund advisers.

Analysts

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