



Rathbone Brothers

Interim results: looking forward

Due to significant acquisition activity in 2014, H115 saw significant year-on-year growth in funds under management (18.4%), revenues (19.1%) and underlying PBT (27.0%). H115 inorganic and organic growth has slowed, the latter reflecting market volatility, uncertainty over the UK election and a concentration on bedding-in acquired business. However, margins have remained strong (although may be affected in H2 by ongoing strategic investments). Management's outlook is cautiously optimistic; greater focus on organic growth will come in H2 and £20m debt raised will allow further inorganic growth. The interim dividend was raised to 21p.

Growth continues despite headwinds

Investment management net inflow was £0.6bn: half organic and half acquired. The underlying rate of organic growth was 2.8%, down from 4.0% in FY14. Aside from market factors, the 3.2% underlying growth in pre-acquisition assets indicates the H1 focus on retaining rather than growing recently acquired funds. Net inflows from unit trusts fell noticeably to £0.1bn, although this compares well with aggregate industry outflows from similar funds. With an operating margin of 31.9% (H114: 29.9%), underlying PBT increased 27% to £37.2m although statutory PBT grew modestly, absent last year's £5.9m gain on the sale of LSE shares. The balance sheet remains solid, sufficient to fund modest acquisitions, and the interim dividend was increased by 2p to 21p. Nevertheless, with an eye to larger acquisitions, a modest amount (£20m) of Tier 2 debt capital was raised, taking advantage of low interest rates.

Cautiously optimistic

Management expects a c 3bp benefit to the investment management revenue margin (H115: 76.3bp) on c £12bn of assets from an alignment of fees between new and existing clients, effective from 1 July. Greater focus on growing the acquired businesses and the ramp-up of new offices should support H2 growth, irrespective of market conditions or inorganic growth initiatives. The option to buy the remainder of Vision (RAT bought 19.9% in 2012) expires at the end of September. Rathbone is lobbying against being caught by the proposed 8% bank profits surcharge.

Valuation: Mix and profitability support premium

Rathbone is rated more highly than its peers at 3.6% of AUM, compared to an average of 1.8%. This reflects a high share of discretionary AUM and a high operating margin. Management's strategic investments are aimed at maintaining this advantage while continuing to grow.

Consensus estimates									
Year end	Revenue (£m)	PBT (£m)	Diluted EPS (p)	DPS (p)	P/E (x)	Yield (%)			
12/14	219.1	45.7	102.4	52	22.2	2.3			
12/15e	233.0	72.0	117.9	55	19.3	2.4			
12/16e	255.4	79.9	132.5	59	17.1	3.0			

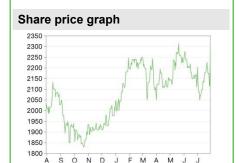
Source: Bloomberg

Investment management

30 July 2015

48.01m





Share details Code RAT Listing LSE

Business description

Shares in issue

Rathbone Brothers (RAT) is a leading provider of investment management services to private clients, charities and professional advisers. It has £28.9bn under management and operates from 14 offices across the UK and the Channel Islands. It is a constituent of the FTSE 250 index.

Bull

- Scale provider with high level of recurring fee income.
- Solid balance sheet and profitability support inorganic growth.
- High share of discretionary assets.

Bear

- Cyclical and generational pressure on wealth management industry.
- Industry regulatory burden.
- Post-budget tax uncertainty.

_	_		
Δı	nal	VC.	te

 Julian Roberts
 +44 (0)20 3077 5748

 Martyn King
 +44 (0)20 3077 5745

financials@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.



Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial advise revrices only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison AUs and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers" exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) o