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Rathbone Brothers

Investment management

30 July 2015

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

Price	2,277p
Market cap	£1,093m

Share price graph

Share details

Code	RAT
Listing	LSE
Shares in issue	48.01m

Business description

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.

Analysts

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