

Numis Corporation

Diversification mitigates lower activity

H122 trading update

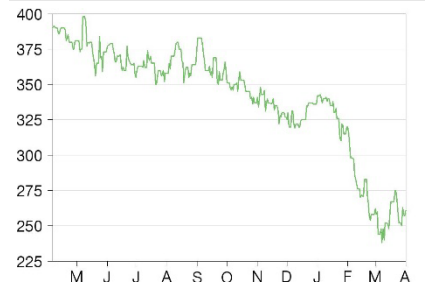
Financial services

4 April 2022

Price 262p
Market cap £299m

Net cash (£m) at end September 2021	134.1
Shares in issue	114.4m
Free float	75%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.4)	(23.7)	(30.8)
Rel (local)	(3.2)	(23.5)	(36.5)
52-week high/low		398p	238p

Business description

Numis Corporation is one of the UK's leading independent investment banking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. At the end of September 2021, it employed 319 staff in offices in London, Dublin and New York, and had 182 corporate clients.

Next events

H122 results 6 May 2022

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The combination of rising macroeconomic concerns and the outbreak of a war in Europe has had a chilling impact on equity capital markets activity, emphasising the potential volatility in these revenues. We have reduced our estimates for Numis accordingly. As a test of Numis's work to diversify its business by developing M&A advisory and private markets strands, H122 has been a success, with these revenues proving resilient. On a longer view, the strength of the overall franchise remains a key attraction for investors.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/19	111.6	12.4	8.1	12.0	32.3	4.6
09/20	154.9	37.1	26.7	12.0	9.8	4.6
09/21	215.6	74.2	49.1	13.5	5.3	5.2
09/22e	147.5	25.1	17.2	13.5	15.3	5.2

Note: *PBT and EPS are on a reported basis and EPS is fully diluted.

Equity capital markets soft, other areas resilient

Numis reports that within Investment Banking, weaker market conditions for equity issuance affected transaction volumes in its first half to end March 2022.

Fortunately, the group's investment in developing M&A advisory and private markets (Growth Capital Solutions) capabilities has reduced the impact, with both activities matching the level of revenue achieved in H121. The company expects Equities revenues to be 20% lower than the prior year period, with institutional and research income resilient but trading income lower than the strong H121 performance. Group revenues are expected to be in the region of £74m which compares with £115.4m in H121 and £100.2m in H221.

Outlook and estimates

Numis indicates that the outlook for the M&A advisory activity remains positive despite market volatility, with visibility for fees from transactions already announced and a strong pipeline. The capital market outlook is less clear given the geopolitical and macroeconomic background. However, resilience in equity markets is seen as potentially supporting some recovery of activity here in H222, albeit IPOs may remain muted. We have factored this into our second half assumptions, together with continued strength in M&A and Growth Capital Solutions, and resilience in Institutional revenue, resulting in FY22e revenue of £147m compared with our previous forecast of £181m. Variable compensation moderates operational gearing and the reduction in our pre-tax profit estimate, which moves from £44m to £25m.

Valuation

The Numis share price is down nearly 25% over the last three months reflecting the tough trading conditions evidenced in the trading update. On our revised estimate the P/E multiple would be 15.3x, but this is set to be a relatively muted year and, looking at a more stable measure, price to book, the shares trade on a multiple of 1.6x, significantly below the 10-year average of 2.1x. The yield, at over 5%, is also supportive.

Background

In this section we show data for issuance on the London Stock Exchange Main Market and AIM, the level of average daily value traded and movements in all-companies and small-cap equity indices.

The first two charts show how the first quarter of Numis's current financial year, starting in October 2021, saw generally high levels of activity in both the Main Market and AIM with a mixture of new and further issuance. In the last two months shown (January and February 2022) growing concern over the prospect of rising policy rates and inflation dampened confidence and issuance, particularly new issues. While not captured on the charts, the additional uncertainty introduced by the war in Ukraine has acted as a further brake on new issue activity.

Exhibit 1: Main Market money raised

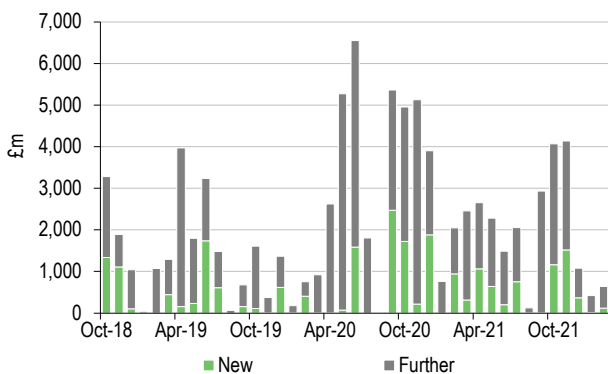
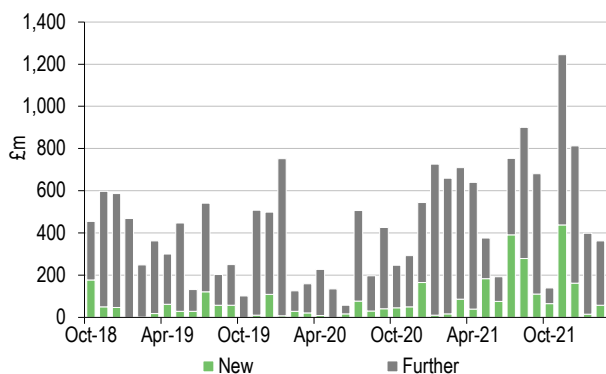


Exhibit 2: AIM money raised

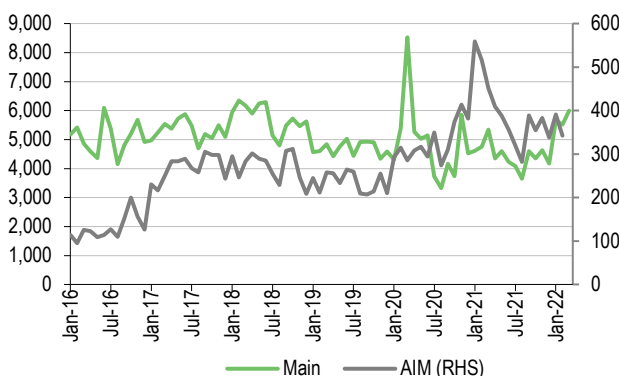


Source: London Stock Exchange (last data February 2022)

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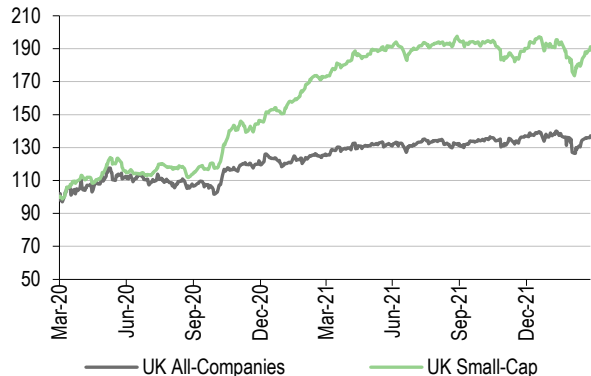
Trading activity (Exhibit 3) had previously peaked with the onset of the pandemic in March 2020 (Main Market) and subsequently on AIM when there was a rotation into higher risk/small-cap stocks. That rotation is also evident in the relative performance of the All-Companies and Small-cap indices. Most recently Main Market trading has increased with heightened volatility. The equity indices dipped as an immediate reaction to the attack on Ukraine but have subsequently recovered. Further volatility seems quite likely given the uncertain duration and outcome of the conflict and its economic ramifications.

Exhibit 3: LSE average daily value traded (£m)



Source: London Stock Exchange (Main Market order book and AIM)

Exhibit 4: UK equity indices



Source: Refinitiv, CBOE indices

Estimate changes

Exhibit 5 shows an analysis of our revenue assumptions for FY22 with prior-year comparatives. The considerable uncertainty over revenues in any particular period should be borne in mind when viewing the estimates.

Exhibit 5: Revenue analysis

£000s	2018	2019	2020	2021	2022e
Net trading gains	9,594	4,008	16,003	19,754	14,800
Institutional income	37,866	33,317	37,192	40,957	38,000
Equities	47,460	37,325	53,195	60,711	52,800
Corporate retainers	12,430	13,357	13,536	12,471	12,690
Advisory	17,335	12,576	11,146	30,884	31,400
Capital markets	58,822	48,352	77,022	111,516	50,600
Investment banking	88,587	74,285	101,704	154,871	94,690
Total revenue	136,047	111,610	154,899	215,582	147,490

Source: Numis, Edison Investment Research estimates

As an indication of the sensitivity of profitability, taking into account variable compensation and holding other assumptions in our model stable, a £10m change in our revenue assumption would move pre-tax profit by roughly £4m. On another calculation we estimate that even if revenue fell to around £110m, the business would still break even while maintaining its capabilities to service clients and execute transactions when market conditions improved. We note that since revenue was last at that level, in 2019, the head count has risen by 15% to 319 at end FY21 and the group has a new London office.

Changes in the key numbers from our forecasts are shown below, with further detail from the new forecast given in the financial summary table (Exhibit 8).

Exhibit 6: Estimate changes

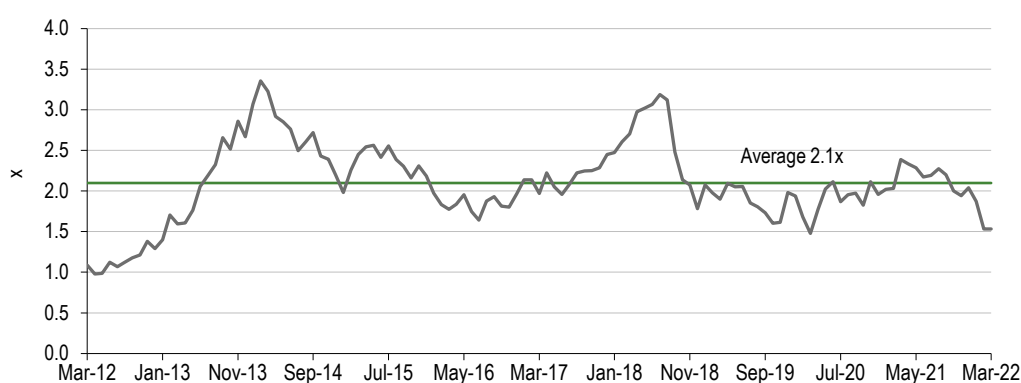
	Revenue (£m)			PBT (£m)			Fully diluted EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/22e	181.4	147.5	-18.7%	44.3	25.1	-43.4%	30.2	17.2	-43.3%	13.5	13.5	0.0%

Source: Edison Investment Research

Valuation

The chart below shows a 10-year history of the price to book ratio for Numis. Following a period of share price weakness the current value is 1.6x, well below the 10-year average of 2.1x.

Exhibit 7: 10-year history of the price to book value ratio for Numis



Source: Refinitiv, Edison Investment Research

Using an ROE/COE model to infer the ROE required to match the share price at the time of writing (262p) gives a value of under 13.5%: above the 11% suggested by our estimate for FY22 but below

the three, five and 10-year averages of 22%, 18% and 19% respectively (calculated including the relatively depressed FY22 estimate). Following the increase in dividend for FY21 (from 12p to 13.5p) the shares yield over 5%.

Exhibit 8: Financial summary

£'000s	2016	2017	2018	2019	2020	2021	2022e
Year end 30 September							
PROFIT & LOSS							
Revenue	112,335	130,095	136,047	111,610	154,899	215,582	147,490
Administrative expenses (excl. amortisation and depreciation)	(76,120)	(83,626)	(94,603)	(85,432)	(105,327)	(133,651)	(109,280)
Share based payment	(6,229)	(10,454)	(10,583)	(10,914)	(9,961)	(9,634)	(7,000)
EBITDA	29,986	36,015	30,861	15,264	39,611	72,297	31,210
Depreciation	(1,126)	(1,226)	(1,113)	(1,124)	(3,016)	(4,416)	(5,020)
Amortisation	(125)	(89)	(49)	(44)	(105)	(158)	(70)
Operating Profit	28,735	34,700	29,699	14,096	36,490	67,723	26,120
Net finance income	37	188	212	550	263	(2,288)	(1,050)
Non recurring items	0	0	0	0	0	0	0
Other operating income	3,759	3,431	1,733	(2,210)	310	8,715	0
Profit before tax	32,531	38,319	31,644	12,436	37,063	74,150	25,070
Tax	(6,132)	(7,942)	(4,967)	(3,110)	(5,713)	(16,303)	(4,763)
Profit after tax (FRS 3)	26,399	30,377	26,677	9,326	31,350	57,847	20,307
Average diluted number of shares outstanding (m)	118.0	117.2	115.8	114.9	117.3	117.7	118.3
EPS - basic (p)	23.5	27.4	25.1	8.8	29.9	54.2	18.6
EPS - diluted (p)	22.4	25.9	23.0	8.1	26.7	49.1	17.2
Dividend per share (p)	12.00	12.00	12.00	12.00	12.00	13.50	13.50
NAV per share (p)	113.5	125.0	135.0	131.3	149.8	168.3	171.3
ROE (%)	22%	23%	19%	6.6%	21.2%	33.6%	10.9%
EBITDA margin (%)	26.7%	27.7%	22.7%	13.7%	25.6%	33.5%	21.2%
Operating margin (%)	25.6%	26.7%	21.8%	12.6%	23.6%	31.4%	17.7%
BALANCE SHEET							
Fixed assets	5,522	6,147	8,215	6,832	12,639	52,641	47,905
Current assets	312,462	407,850	533,033	326,641	509,034	683,319	685,236
Total assets	317,984	413,997	541,248	333,473	521,673	735,960	733,141
Current liabilities	(188,895)	(280,371)	(398,112)	(195,319)	(361,397)	(509,654)	(509,654)
Long term liabilities	(12)	0	0	0	(2,643)	(39,580)	(37,376)
Net assets	129,077	133,626	143,136	138,154	157,633	186,726	186,111
CASH FLOW							
Operating cash flow	48,735	43,369	45,830	(2,748)	65,953	58,329	35,433
Net cash from investing activities	84	(198)	(1,014)	(77)	(474)	(9,190)	(3,390)
Net cash from (used in) financing	(19,580)	(36,359)	(29,035)	(24,646)	(24,451)	(39,857)	(30,126)
Net cash flow	29,239	6,812	15,781	(27,471)	41,028	9,282	1,917
Opening net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(134,125)
FX effect	172	38	40	0	(13)	(374)	0
Closing net (cash)/debt	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(134,125)	(136,042)

Source: Company data, Edison Investment Research

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