EDISON

Shore Capital Group

2016 results

Navigating uncertainty

Financial services

2016 saw revenue progress in both of the core operating divisions of Capital Markets and Asset Management. Stripping out the inevitable volatile items with Principal Finance (radio spectrum licence sale in 2015 and asset write-downs in 2016), adjusted group revenue grew 21% and adjusted earnings at 13.4p (2015: 12.1p) were more than double the reported level. The progress illustrates the benefits of diversification and continuing investment in additional staff to strengthen the research franchise and support growth in asset management.

Year end	Revenue (£m)	PBT (£m)	EPS** (p)	DPS (p)	P/E (x)	Yield (%)
12/14	40.6	8.3	20.8	10.0	11.9	4.0
12/15*	42.0	11.7	26.1	0.0***	9.5	N/A
12/16	39.4	2.4	5.8	5.0	42.7	2.0
12/17e	41.8	5.5	13.1	10.0	18.9	4.0

Note: *2015 figures include radio spectrum sale. **Fully diluted. *** There was a £10m buyback.

2016 results

Revenue growth of 21%, excluding the radio spectrum sale from 2015, is a creditable performance given periods of uncertainty around the EU referendum vote and the US elections during the year. Further excluding the £2.7m of asset write downs in 2016 adjusted PBT increased by 18% and, despite a significant minority interest in the profit growth, adjusted EPS advanced by 11% (adjusted ROE 5%). Capital Markets grew revenues by 21%, pre-tax profits by 45%, and the margin increased from 20.1% to 24.0%. Asset Management revenues grew 10% but PBT of £2.0m was 25% lower as a result of investment to increase growth capacity. A dividend of 5p per share has been declared.

Market background and outlook

Markets have maintained a positive tone in recent months, although as always uncertainties abound (Brexit negotiations, new US administration) both from an economic and political perspective. Shore Capital successfully navigated uncertainties in 2016 and views the current year with optimism. For the Capital Markets business, management seeks to benefit from intermediation between corporates that it sees as being willing and eager to invest to grow their businesses, and institutions that remain sufficiently confident about investment prospects. For Asset Management the group seeks further substantial growth in AUM, for which investments in capacity have already been made.

Valuation: Positive trends but still below book

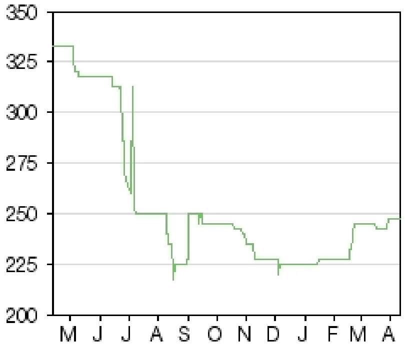
The current (c 5%) ROE, dampened by the strong balance sheet, is below our cost of equity assumption (8%). Assigning a sustainable ROE for our ROE/COE valuation is made difficult by the potential swings in stock market-related earnings and the occasional but substantial contributions from principal investments, but on a longer view we would expect this to be above the current level. Assuming a 9% return gives a value of c 359p (was 360p) compared with the 270p book value.

11 April 2017

Price	**247.50p**
Market cap	**£54m**

Net cash (£m) as at 31 December 2016	12.9
Shares in issue	21.8m
Free float	46.6%
Code	SGR
Primary exchange	AIM
Secondary exchange	Bermuda

Share price performance



%	1m	3m	12m
Abs	1.0	10.0	(25.6)
Rel (local)	0.6	8.2	(36.8)
52-week high/low		332.5p	217.5p

Business description

Shore Capital Group is an independent investment group with three main areas of business: Capital Markets, Asset Management and Principal Finance (on-balance sheet investments). It has offices in Guernsey, London, Liverpool, Edinburgh and Berlin, and has over 140 staff serving more than 60 corporate broking clients.

Next events

H117 results	September 2017

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Edison profile page

Shore Capital Group is a research client of Edison Investment Research Limited

Company description

Shore Capital is an independent investment group with three main areas of business: Capital Markets, Asset Management, and Principal Finance. Capital Markets and Asset Management provide recurring revenue streams that have averaged c 90% of total group revenues over the past five years.

Capital Markets is the larger of the two (an average 69% of group revenues over five years) and comprises four elements: market making, research-led broking, corporate finance and, since the end of 2015, a fixed income team previously at Edmond de Rothschild.

The Asset Management segment has two parts: private client and institutional funds. The private client area is a specialist in tax efficient funds and products including limited-life venture capital trusts (VCTs), Enterprise Investment Schemes (EIS) and products intended to provide shelter from inheritance tax through business property relief. The institutional side of the activity advises Puma Brandenburg and Brandenburg Realty (both real estate companies investing in German properties), St Peter Port Capital (a fund now focused on realising liquidity or value from its remaining holdings), and a recently launched joint venture with two family offices in the US that will focus on real estate opportunities in the supported living sector, called Puma Social Care Investments Ltd (see page 5).

Principal Finance invests the group's own capital on an opportunistic basis seeking attractive longer-term returns but with higher volatility in reported contribution from year to year. Its potential to generate substantial profits was demonstrated in 2015 when the sale of German radio frequency spectrum licences generated net revenue of £9.2m. The group's 32 remaining regional licences have a book value of £2.1m.

Having founded the group in 1985 and subsequently led its growth and development, Howard Shore has announced that he will step back from his operational duties as chief executive. He will remain as executive chairman but will be focused on the group's international strategy and developing new relationships as well as investment opportunities. His replacements as joint chief executives, Simon Fine (chief executive of Shore Capital Markets) and David Kaye (chief executive of Asset Management), have both been closely involved with the development of the group over a number of years.

2016 results and divisional summary

Despite the year spanning periods of uncertainty around the EU referendum vote and the US elections, Shore Capital achieved revenue progress in both of the core operating businesses of Capital Markets and Asset Management. In both businesses, management invested to position them for improving market conditions and further expected growth. At the group level the Principal Finance division, lumpy by nature from one period to another in the pursuit of attractive long-term returns on capital invested, creates considerable noise in reported profits. Exhibit 1 shows the adjusted position, before the impact of last year's radio spectrum realisation (£9.4m) and this year's asset impairments (£2.7m). On this adjusted basis, group revenues increased 21% on the year and adjusted pre-tax profits rose by 18% from £4.3m to £5.1m. Adjusted earnings per share also increased, by 11% to 13.4p. The smaller increase in EPS compared with adjusted PBT reflects the minority share in both the Spectrum gain and, to a lesser extent, this year's asset impairments. A dividend of 5p per share (2015 nil) has been declared.

Exhibit 1: Results summary

£000s unless otherwise stated	2016	2015	Change
Revenues			
Capital Markets	28,286	23,350	21%
Asset Management	10,446	9,500	10%
Principal Finance - exc Spectrum	676	(298)	N/A
Adjusted revenues	**39,408**	**32,552**	**21%**
Principal Finance - Spectrum		9,400	
Reported total revenues	**39,408**	**41,952**	**-6%**
PBT			
Capital Markets	6,787	4,693	45%
Asset Management	1,980	2,653	-25%
Central costs	(2,119)	(788)	N/A
Principal Finance - exc Spectrum & impairment	(1,579)	(2,261)	N/A
Adjusted PBT	**5,069**	**4,297**	**18%**
Principal Finance - Spectrum & impairment	(2,664)	7,400	
Reported total PBT	**2,405**	**11,697**	**-79%**
PBT margin %			
Capital Markets	24.0%	20.1%	
Asset Management	19.0%	27.9%	
EPS (p)			
Basic	6.0	27.1	-78%
Diluted	5.8	26.1	-78%
Adjusted	13.4	12.1	11%

Source: Shore Capital, Edison Investment Research

Capital Markets

Capital Markets grew revenues by 21% and pre-tax profits by 45% with the margin increasing from 20.1% to 24.0%. Given uncertain market conditions during much of the year (reviewed in detail in the following section) this is a very strong performance in a sector context as well as in absolute terms.

Exhibit 2 lists selected transactions and brokership appointments during 2016 and 2017 to date. A total of 11 new retained corporate clients were added during 2016 (including Dairy Crest plc, Chesnara plc, Motorpoint Group plc, Stride Gaming plc, and Earthpoint plc) taking the year-end number to 66. The team was active on a range of capital markets transactions including four IPOs, 20 secondary fund-raisings, and a number of significant transactions including acting as co-lead manager on the £370m placing and open offer equity element of a $1.2bn financing by Sirius Minerals plc, and co-lead manager on a £329m placing by Playtech plc. Advisory work included acting as corporate broker to Poundland Group plc in connection with its £610m takeover by Steinhoff International, and acting as joint financial adviser and joint broker to Market Tech Holdings Ltd in connection with its move from AIM to the Main Market.

Exhibit 2: Corporate finance selected recent transactions and appointments

Company	Transaction/event	Value	Role	Date
2017				
TLOU Energy	Appointment	Mkt cap £18.4m	As joint broker	Mar-17
Ultimate Products	Main market listing	Mkt cap £105.2m	As sponsor, global co-ordinator, joint bookrunner	Mar-17
Union Jack Oil	Placing	£1.4m	Nomad and joint broker	Feb-17
Staunton Holdings Ltd	Recommended offer	£37.3m	Financial adviser	Feb-17
NetPlayTV	Recommended offer	£26.4m	Joint financial adviser	Feb-17
Kennedy Ventures plc	Placing	£1.25m	Sole broker	Jan-17
2016				
Richland Resources Ltd	Appointment	Mkt cap £1m	Sole broker	Dec-16
Chesnara	Placing & open offer	£160m	Sponsor and joint bookrunner	Nov-16
Sirius	Placing as part of capital raise	£370m	Co-lead manager	Nov-16
Inspired Energy	Placing	£5m	Nomad and joint bookrunner	Oct-16
Ironveld	Placing	£1.8m	Nomad and sole broker	Oct-16
Poundland	Recommended offer	£610m	Broker	Sep-16
Applegreen	Placing	£23m	Joint bookrunner	Sep-16
Victoria Oil & Gas	Appointment	Mkt cap £42m	As joint broker	Aug-16
Stride Gaming	Placing	£27m	Joint bookrunner	Jul-16
Kennedy Ventures	Placing	£2m	Sole bookrunner	Jul-16
SYS Group	Placing	£5m	Nomad and sole bookrunner	Jul-16
NextEnergy Solar Fund	Placing	£43m	Joint bookrunner	Jul-16
Aminex	Placing	$22m	Sole bookrunner	Jul-16
Daily Internet	Placing/acquisition	£5m	Broker	Jun-16
Motorpoint Group	Main Market IPO/placing	£100m	Co-bookrunner	May-16
Canadian Overseas petroleum	Appointment	Mkt cap £18.7m	UK broker	May-16
Chesnara	Appointment	Mkt cap £385m	As joint broker	May-16
Vernalis	Placing	£40m	Joint bookrunner	Apr-16
Stride Gaming	Appointment	Mkt cap £120m	As joint broker	Apr-16
Amryt Pharmaceuticals	Placing and AIM IPO	£10m	Lead manager, Nomad, joint broker	Apr-16
Eden Research	Placing	£2.6m	Lead manager	Mar-16
Yu Energy	Placing and AIM IPO	£10m	Nomad and sole broker	Mar-16
Cerillion	Placing and AIM IPO	£10m	Nomad and sole bookrunner	Mar-16
Daily Internet	Appointment	Mkt cap £9m	Nomad and joint broker	Feb-16
Earthport	Appointment	Mkt cap £125m	As joint broker	Feb-16
Dairy Crest	Appointment	Mkt cap £830m	As joint broker	Feb-16
Market Tech	Move to Main Market	Mkt cap £850m	As joint broker	Jan-16

Source: Shore Capital Group

Additional resources were added to the research and distribution capability, adding stock coverage in building materials, healthcare, industrials, media, and technology. Not directly related to research and sales, but indicative of ongoing investment, the overall Capital Markets headcount increased from an average 83 in 2015 to 88 in 2016. Management anticipates ongoing demand from portfolio managers for good quality research and seeks to position its offering where it can best add value in a post-MiFID II environment.

The fixed income team made a positive contribution in its first full year since joining from Edmond de Rothschild in late 2015.

Figures for the market-making activity within Capital Markets are not broken out, but the company indicates that in an environment marked by periods of considerable market volatility both revenues and profits increased by double-digit percentages. Shore Capital trading volumes increased by 12%, reinforcing its position as the third largest maker on the LSE. Management indicates that prudently positioned inventory enabled Shore to provide significant liquidity at key times such as the immediate aftermath of the EU referendum and the US elections. The year-end balance sheet net bull position increased from £8.4m to £11.5m.

Asset Management

Revenues in the Asset Management division grew by 10% but PBT was 25% lower at £2.0m as a result of investment that included several key hires, particularly in the private client area adding to the growth capacity of the business and investment teams. The average headcount of the division increased from 51 to 58 during the year. Total assets under management (AUM) increased from approximately £770m at 2015 year end to £825m at year end 2016.

On the institutional side of the business, the German advisory business assisted Brandenburg Realty in the completion of a second acquisition, a €32m commercial and residential portfolio in the city of Potsdam near Berlin, and continues to seek and advise on additional acquisition opportunities to the fund. The advisory team also helped Puma Brandenburg to complete a €90m refinancing during the first half of the year and continues to assist in the implementation of its strategic objectives. Advisory work for the Puma Brandenburg portfolio during the year included advice on the sale of a housing estate and development works at its flagship Hyatt Regency Hotel in Cologne. Subsequent to the full year results, Shore Capital has announced the launch of a new joint venture (Puma Social Care Investments Ltd or PSCI) with two family offices in the US to focus on real estate opportunities in the supported living sector. The partners have committed £21 million to the venture and Shore Capital's commitment of £7 million will be partly provided through the injection of £5.8 million of supported living assets already held on the Group's balance sheet (including a £2.9m of investment property acquired before the 2016 year end). PSCI intends to acquire an already identified initial pipeline of property assets with an aggregate value of £50 million but believes that a substantial opportunity exists to grow the asset base further, once the first tranche of purchases have been completed. Shore Capital will provide advisory services to the joint venture through its majority-owned subsidiary Puma Investment Management Ltd (PIML) which will earn an annual advisory fee set at 0.85% of the gross value of properties held by PSCI, and will also receive an acquisition fee on each property purchase of up to 1.0% of the purchase price.

In the private client area, AUM increased to £200m (2015: £155m). Contributing to this increase, the Puma VCT 12 (tax year 2015/16) had raised £31m at closure, accounting for more than half the total funds raised in the limited-life VCT market as a whole. Since 2005 a total of £223m has been raised for Puma VCT funds and £89m returned to investors. The first five funds have been repaid and have each returned the highest total return of their respective peer-groups. A number of changes to VCT rules were introduced with effect from April 2016. VCTs are no longer able to invest in firms that are more than seven years old with potential implications for dividend streams from investee companies; some transactions, like management buy-outs, are no longer permitted; and VCTs can no longer put more than £12m into any one company. The list of excluded activities was also broadened and now includes energy generation. In view of the rule changes, Shore decided to delay the launch of its latest Puma VCT 13 pending clarifications in guidance notes that are yet to be issued by HMRC. Management expects to launch Puma VCT 13 in the 2017/18 tax year and remains positive about market prospects. Changes to pension rules have further reduced the lifetime pension allowance and the annual tax-free contribution allowance for high earners, and seem likely to increase interest in other forms of tax efficient investment such as VCTs.

The Puma Heritage fund, which was launched in June 2013 and is designed to offer full relief from inheritance tax after two years, passed its third anniversary and has seen a notable acceleration in its NAV. Subscriptions from new shareholders combined with investment returns have increased the company's net assets to £28m as of the 2016 year end. Puma Heritage has participated in 384 loans up to the end of 2016 totalling £162m of which 38 of the loans remained live with the balance having been repaid. The investment team reports a strong pipeline of loans to deploy funds from current and future investors without weakening selection criteria and Puma Heritage expects to be able to show significant further growth.

The Puma EIS service was launched in November 2013 providing the opportunity to invest in asset-backed Enterprise Investment Scheme qualifying companies supported by the expertise, knowledge and skills built up in the management of the Puma VCTs. AUM has now reached £47m, with investments made in seven portfolio companies with a good pipeline of further opportunities. The Puma AIM Inheritance Tax Service, a discretionary portfolio service that seeks to mitigate inheritance tax by investing through AIM-listed shares, passed its two-year anniversary. Management reports a 43.9% return since launch in July 2014 to the end of 2016, outperforming the FTSE AIM All-Share Index by 36.3%.

Principal Finance

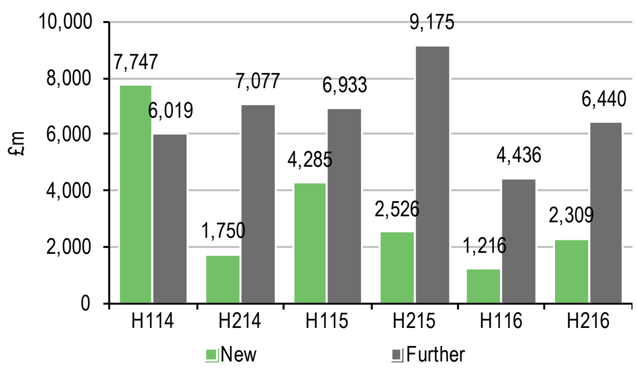
The reported PBT loss of £4.2m included a £2.7m pre-tax write down (£1.6m after tax and minority interests) relating to various assets held within the division. The balance sheet shows overall Principal Finance investments increasing by £1.9m to £8.2m during the year. Included within these assets, and not affected by the write downs, is the group's 59.94% holding in Spectrum Investments Limited, the parent company of Deutsche Broadband Dienste (DBD), which in 2015 sold one national and six regional German radio spectrum licences to Deutsche Telecom for €15.45m, generating a gain (revenue) of €12.5m/£9.2m. DBD still owns 32 regional radio spectrum licences in Germany that cover some of Germany's largest metropolitan centres including Berlin, Leipzig, Dresden, Düsseldorf and Hanover, and give the right to use the 3.5 GHz range of frequencies (which are increasingly being used to supplement data capacity for 4G services) in perpetuity. DBD has recently been given consent by the German telecoms regulator to test the LTE TDD (3.5 GHz) technology with which it seeks to support its plans for the future use of the licences, premised upon a small radio cells network concept, and a pilot scheme in Berlin is underway. Further progress is subject to the technology being incorporated into handsets and negotiation with the German regulator, which has yet to confirm its agreement for further pilot schemes and the potential rollout of services. The group's investment in Spectrum Investments Limited is recorded in the year-end balance sheet as an intangible asset with a gross value, before minorities, of £2.1m.

Market background and outlook

Trends in new and follow-on issuance on the AIM and LSE Main markets have been mixed over the last year (Exhibits 3 and 4). AIM new and further issuance was 13% lower (£4.8bn) during 2016 compared with 2015, held back in part by uncertainty surrounding the Brexit vote, but a recovery was evident in H216. The Main Market followed a broadly similar pattern but with a steeper decline and a more muted H216 recovery.

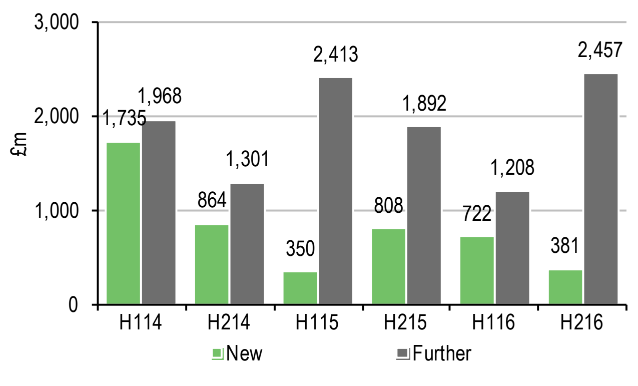
Ahead of the financial crisis, new issuance on AIM peaked at over £16bn (in 2007), followed by a dramatic slowdown in the volume of IPOs. In the subsequent recovery, the level of new issuance has so far remained comparatively muted.

Exhibit 3: LSE Main Market issuance



Source: LSE

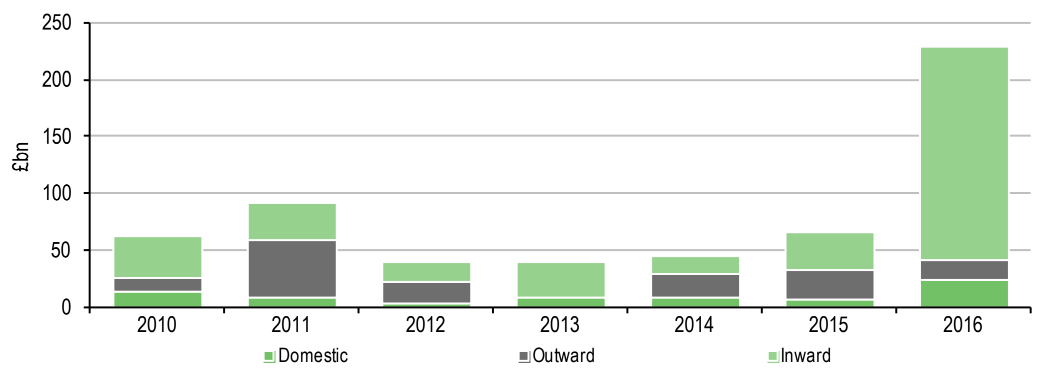
Exhibit 4: LSE AIM issuance



Source: LSE

Turning to mergers and acquisitions (M&A) activity, the value of UK transactions collected by the Office for National Statistics saw a sharp increase in 2016 with the total value (Exhibit 5) more than three times the prior year, but this was primarily the result of a few very high value inward transactions. Looking at domestic and outward deals alone there was a strong rise of 25%, but the value was within the range seen in recent years.

Exhibit 5: UK merger and acquisition activity



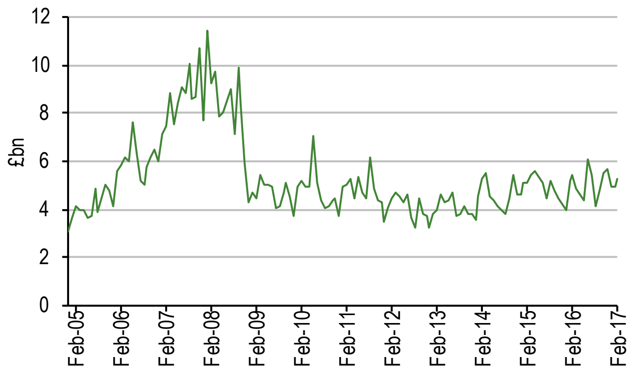
Source: Office for National Statistics

While the market environment clearly has an influence on the level of transactions activity that may be expected for Shore Capital or any other individual firm, the incidence of activity among clients and the ability to successfully win that business (Exhibit 2) are equally important.

Turning to trading activity and market levels, although the 3.6% increase in the average value traded on the LSE order book was lower than in previous years, it included a marked recovery in H216 from the 3.7% H116 decline (Exhibit 6). Equity returns as represented by the FTSE All-Share, FTSE AIM All-Share and FTSE Small Cap indices are shown in Exhibit 7. The strength of the rebound post Brexit vote and support from the 'Trump bounce' are evident. The chart also shows outperformance by small caps over the period and significant relative weakness of the AIM Index, explained in part by weakness in commodity stocks within the index.

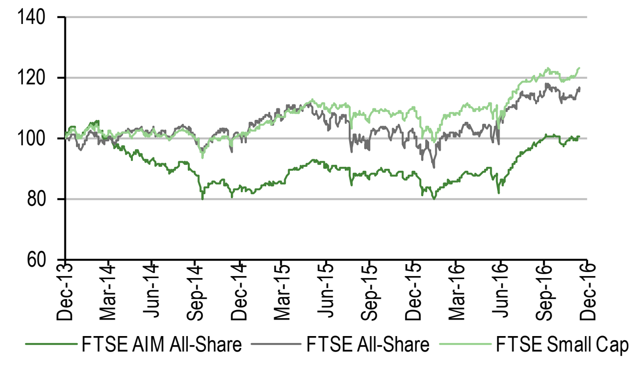
Shore Capital Chairman Howard Shore is a proponent of the benefits to be derived from the increased flexibility the UK should have outside the EU and the potential to lighten regulatory burdens.

Exhibit 6: Average daily value traded LSE order book



Source: LSE

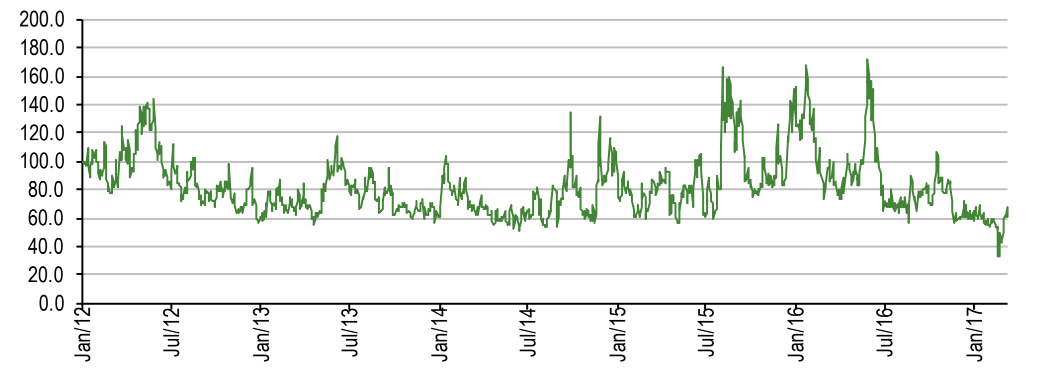
Exhibit 7: FTSE AIM, All-Share and Small Cap indices



Source: Thomson Datastream

As discussed above, Shore Capital enjoyed a successful year in its market making activities, which it attributes to prudently positioning its inventory so as to be able to provide significant liquidity at key times such as the immediate aftermath of the EU referendum and the US elections. Exhibit 8 shows the considerable spike in volatility that occurred in 2016 around the outcomes of the EU referendum and US presidential election, both of which ran counter to consensus expectations.

Exhibit 8: FTSE 100 volatility index



Source: Thomson Datastream

Uncertainties but positive signals too

Looking ahead, newsflow on the terms of Brexit could cause fluctuations in market sentiment that would in turn have an impact on market levels and corporate activity. However, while this will be a factor, the resilience shown by the UK economy and the fact that market levels are higher than might have been expected at the time of the vote creates a relatively positive backdrop for corporate activity including M&A, IPOs and follow-on issuance.

Turning to the outlook for Shore Capital, we are left with lack of clarity on the overall environment but encouragement from the progress made in terms of continuing to add new corporate clients in the Capital Markets area and expanding AUM for Asset Management. As we indicate in the next section, we look for further growth in both of these core operating divisions in the current year.

Financials

Adjusting for the £2.7m pre-tax value of asset value impairments within Principal Finance, the 2016 revenues and earnings were ahead of our estimates and the 5p dividend in line:

- Revenue £39.4m versus our estimated £35.5m.

- Adjusted pre-tax profit £5.1m versus our estimated £4.9m.
- Adjusted net attributable profit £2.9m versus our estimated £2.6m
- Dividend per share 5p, as forecast.

The balance sheet and liquidity remain strong with year end cash of £23.9m, £8.8m of gilts and bonds and a £20m working capital debt facility that was undrawn at that point. Net cash was £12.9m, slightly ahead of the £12.5m 2015 closing level and ahead of the £5.5m at the 2016 interim stage.

Our first time 2017 estimates are shown in detail in Exhibit 12. For the Capital Markets business, management views the prospects positively, seeking to benefit from intermediation between corporates that it sees as being willing and eager to invest to grow their businesses, and institutions that remain sufficiently confident about investment prospects. For Asset Management the group seeks further substantial growth in AUM for which investments have already been made.

We look for 2017 revenue growth in both Capital Markets (+6%) and Asset Management (+13%), sufficient to offset the full year cost impact of the 2016 investment and leaving margins in both businesses at a similar level compared to 2016. We have assumed no realisation events and no impairment within Principal Finance, such that a small amount of recurring revenue is more than offset by recurring divisional costs.

Given the strength of the balance sheet, we make the assumption that the majority of the 2017 earnings will be distributed by way of dividends. We look for DPS of 10p compared with fully diluted EPS of 13.1p and for net cash to increase with profit retention to £14.5m.

Valuation

Our updated peer valuation is shown in Exhibit 9 with a reminder that caution is needed when considering this comparison given quite significant differences between the companies as well as the potentially volatile and lumpy nature of earnings across the sector.

Since we last published on the interim results in late September 2016 there has been relatively little movement in the peer average price-to-book ratio or for Shore Capital, which continues to trade at a discount (0.9x) to the average (1.6x). The Shore Capital historic P/E of 42.7x is high relative to profitable peers, in part reflecting the impact on its historic earnings from asset write downs, which also affect reported ROE (2.2%). Using the adjusted EPS shown in Exhibit 1 (13.4p) the historic P/E ratio is 18.5x and the ROE increases to 5.0%, still below the ROEs reported by Cenkos and Numis, although further gains from Principal Finance remain a possibility (the 2015 gain boosted group ROE to 9.2%). Including the uplift on the acquisition of Puma Brandenburg Limited in 2009, Shore Capital's average return on equity between 2007 and 2016 was 12.3%, a period that also included the financial crisis and a small negative return in 2011.

Panmure Gordon has just reported 2016 results showing a return to profit (£1.5m PBT) after a PBT loss of £18.9m in 2015, including £13.2m in goodwill impairment. Its current rating also reflects the recent agreed bid from Atlas Merchant Capital (the private equity vehicle of Bob Diamond) and QInvest, the Qatari investment bank, which already owned a 43% stake.

Exhibit 9: Quoted UK broker comparison

	Price (p)	Market cap (£m)	Last reported P/E ratio (x)	Price to book (x)	Yield (%)	ROE (%)
Shore Capital	**247.5**	**53.9**	**42.7**	**0.9**	**2.0**	**2.2**
Arden	34	6.6		1.0	0.0	-6.3
Cenkos	97	55.0	20.6	1.9	6.2	10.0
Numis	262	297.1	11.1	2.4	4.6	21.6
Panmure Gordon	98	15.2	12.6	0.8	0.0	7.5
WH Ireland	135	37.1		3.0	0.0	-22.3
Average			**21.8**	**1.7**	**2.1**	**2.1**

Source: Bloomberg, Edison Investment Research. Note: Prices as at 7 April 2017.

We have not made any changes to the assumptions in our ROE/COE valuation model, with the central value for sustainable return (9%) set above the 8% cost of equity and growth at 5%. The result is a central value of c 359p (was 360p), very slightly reduced by the updated NAV per share. Given the difficulty of estimating earnings for a broking/investment banking business, selecting an appropriate sustainable return on equity is equally difficult. The sensitivity table below shows a range of indicated values based on different assumptions for cost of equity and return on equity.

Exhibit 10: ROE/COE valuation output variations (value per share, p)

		Cost of equity				
		7.0%	**7.5%**	**8.0%**	**8.5%**	**10.0%**
Return on equity	**6.0%**	135	108	90	77	54
	8.0%	404	323	270	231	162
	9.0%	539	431	**359**	308	216
	10.0%	674	539	449	385	270
	12.0%	943	755	629	539	377

Source: Edison Investment Research

For reference, we include a final table in this section summarising the recent performance of the peer group. Average year-to-date performance is materially affected by the bid for Panmure Gordon. Excluding Panmure Gordon shows Shore Capital very slightly ahead of the average (+10.0% vs +9.2%) and narrows but does not eliminate the gap with the peer average over one year (Shore
-27.2% versus average -18.9%). With the 2016 results somewhat ahead of our expectation, and with a confident outlook from management, this could indicate the potential for an improved sector relative performance, particularly given any catalyst from positive stock-specific news or more general market sentiment.

Exhibit 11: Share price performance comparison (%)

	1 month	3 months	1 year	YTD	From 12m high
Shore Capital	**1.0**	**10.0**	**-25.6**	**10.0**	**-25.6**
Arden	1.5	1.5	25.9	1.5	-4.2
Cenkos	3.7	22.0	-21.5	34.7	-34.9
Numis	-4.7	7.9	26.6	6.6	-9.8
Panmure Gordon	67.5	40.0	66.1	70.4	-3.4
WH Ireland	3.1	10.7	47.5	10.7	-5.9
Average	**12.0**	**15.3**	**19.9**	**22.3**	**-14.0**

Source: Bloomberg, Edison Investment Research. Note: Prices as at 7 April 2017.

Exhibit 12: Financial summary

Year end 31 December	2010	2011	2012	2013	2014	2015	2016	2017e
PROFIT & LOSS								
Capital Markets	26,268	22,545	22,653	25,796	30,129	23,350	28,286	29,850
Asset Management	9,952	8,563	6,331	7,334	8,478	9,500	10,446	11,795
Principal Finance	(737)	(1,595)	3,837	2,635	1,968	9,102	676	200
Total revenue	35,483	29,513	32,821	35,765	40,575	41,952	39,408	41,845
Costs	(25,673)	(29,163)	(28,805)	(29,262)	(31,117)	(29,086)	(35,794)	(35,204)
EBITDA	9,810	350	4,016	6,503	9,458	12,866	3,614	6,641
Depreciation and amortisation	(921)	(868)	(1,114)	(1,102)	(1,064)	(1,039)	(1,046)	(896)
Share-based payments	(161)	(52)	(54)	0	(17)	(4)	(11)	(10)
Operating profit	8,728	(570)	2,848	5,401	8,377	11,823	2,557	5,735
Net interest	(359)	(354)	(321)	8	(68)	(126)	(152)	(210)
Other	0	49	0	0	0	0	0	0
Profit before tax	8,369	(875)	2,527	5,409	8,309	11,697	2,405	5,525
Tax	(1,977)	(189)	(494)	(1,100)	(1,804)	(1,002)	(554)	(1,160)
Non-controlling interests	(1,872)	(24)	(46)	(911)	(1,297)	(4,250)	(549)	(1,400)
Profit after tax (FRS 3)	4,520	(1,088)	1,987	3,398	5,208	6,445	1,302	2,965
Average number of shares outstanding (m)	24.7	24.3	24.2	24.2	24.2	23.8	21.8	21.8
Average, fully diluted no. of shares (m)	25.5	24.8	24.3	24.5	25.1	24.7	22.6	22.6
EPS (p)	18.3	(4.5)	8.2	14.1	21.6	27.1	6.0	13.6
EPS (p) fully diluted	17.7	(4.4)	8.2	13.9	20.8	26.1	5.8	13.1
Dividend per share (p)	8.8	5.0	5.0	8.0	10.0	0.0	5.0	10.0
EBITDA margin (%)	27.6	1.2	12.2	18.2	23.3	30.7	9.2	15.9
Operating margin (%)	24.6	-1.9	8.7	15.1	20.6	28.2	6.5	13.7
NAV per share (p)	262.3	242.5	247.4	253.5	265.6	268.7	269.5	276.7
ROE (%)	6.7	-1.8	3.4	5.6	8.3	9.2	2.2	5.0
BALANCE SHEET								
Non-current assets	24,598	21,653	20,210	19,901	19,100	19,555	23,045	22,749
Intangibles and goodwill	381	4,632	4,436	4,406	4,002	2,222	2,516	2,444
Property, plant and equipment	12,710	12,516	11,669	10,897	10,969	10,864	9,423	9,199
Investments and other	11,507	4,505	4,105	4,598	4,129	6,469	11,106	11,106
Current assets	113,210	98,113	100,435	111,185	95,406	103,250	88,124	90,990
Bull positions	11,201	7,048	4,058	4,557	4,636	9,344	12,290	12,510
Cash	44,249	47,305	30,443	41,395	30,658	22,113	23,937	25,655
Debtors and other	57,760	43,760	65,934	65,233	60,112	71,793	51,897	52,825
Current liabilities	(42,439)	(26,758)	(43,441)	(52,883)	(32,445)	(45,972)	(33,316)	(33,906)
Bear positions	(1,343)	(786)	(1,395)	(1,033)	(846)	(946)	(765)	(779)
Short-term borrowings	(339)	(345)	(327)	(321)	(341)	(360)	(431)	(431)
Other current liabilities	(40,757)	(25,627)	(41,719)	(51,529)	(31,258)	(44,666)	(32,120)	(32,696)
Long-term liabilities	(25,596)	(27,579)	(10,817)	(9,241)	(9,640)	(9,791)	(10,768)	(10,768)
Long-term borrowings	(25,424)	(27,264)	(10,549)	(8,892)	(9,105)	(9,256)	(10,649)	(10,649)
Other long-term liabilities	(172)	(315)	(268)	(349)	(535)	(535)	(119)	(119)
Net assets	69,773	65,429	66,387	68,962	72,421	67,042	67,085	69,065
CASH FLOW								
Net cash from operations	(2,750)	4,225	846	15,123	(7,181)	774	8,312	4,495
Fixed asset investment	(570)	(525)	(614)	(340)	(412)	(363)	(517)	(600)
Acquisitions/disposals	0	(914)	0	(1,731)	0	0	0	0
Other investing activities	(4,916)	459	93	297	211	7,121	(4,313)	145
Share issuance	484	166	0	0	0	0	0	0
Share purchases	(3,419)	(946)	0	0	0	(10,047)	0	0
Ordinary dividends	(2,154)	(2,132)	(604)	(2,175)	(2,175)	(1,208)	0	(2,395)
Other financing	(1,525)	824	(514)	230	(1,070)	(4,914)	(1,719)	0
Other	(337)	(187)	654	1,342	(574)	(530)	(1,894)	0
Net cash flow	(15,187)	970	(139)	12,746	(11,201)	(9,167)	(131)	1,646
Opening net (debt)/cash	33,637	18,486	19,696	19,567	32,182	21,212	12,497	12,857
FX	36	240	10	(131)	231	452	491	0
Closing net (debt)/cash	18,486	19,696	19,567	32,182	21,212	12,497	12,857	14,503

Source: Shore Capital accounts, Edison Investment Research

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