

# Numis Corporation

Investing to underpin future growth

FY18 trading update

Financial services

28 September 2018

**Price** **374.0p**  
**Market cap** **£402m**

Net cash (£m) at 31 March 2018 82.5  
 Shares in issue 107.4m  
 Free float 89%  
 Code NUM  
 Primary exchange AIM  
 Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	(10.2)	(8.5)	33.6
Rel (local)	(9.7)	(7.3)	29.3
52-week high/low	440.0p		277.8p

## Business description

Numis is one of the UK's leading independent corporate advisory and stockbroking groups, offering a full range of research, execution, equity capital markets, corporate broking and advisory services. It employs c 270 staff in offices in London and New York, and at the end of March 2018 had 208 corporate clients.

## Next events

FY18 results 5 December 2018

## Analysts

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The timing and size of transactions falling into the second half of FY18 has meant that Numis has achieved a record level of revenue but not reached our earlier estimate for FY18. The decision to undertake a significant investment in additional senior staff has also affected earnings, but is set to underpin the franchise and could help generate positive earnings surprises in future years. The deal pipeline is described as very strong so, subject to market conditions, we look for a rebound in earnings for FY19.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	112.3	32.5	22.4	12.0	16.7	3.2
09/17	130.1	38.3	25.9	12.0	14.4	3.2
09/18e	133.7	27.9	19.8	12.0	18.9	3.2
09/19e	147.7	36.3	25.8	12.0	14.5	3.2

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

## FY18 trading update

Numis indicates that full year revenue for FY18 was approximately 3% ahead of FY17. While activity levels were strong in the second half, the timing of transactions for corporate broking and advisory, and lower average values on those completed in the period meant that second half revenues were lower than we had estimated. In H218 the equities business broadly matched its first half performance and, encouragingly, MiFID II does not appear to have had an adverse impact on the business, reflecting the strength and breadth of the service offered to institutional clients. The other area highlighted by the group is an 'unprecedented period' of senior staff hiring. The overall headcount has increased by 16% and the impact on costs is magnified by the need to match incentive packages at previous employers.

## Pipeline strong and capabilities strengthened

Looking ahead, the fluctuation in the incidence and size of deals that affected H218 is a normal feature in markets and the group points to a very strong near-term pipeline which, paired with the momentum in the equities business, should help provide a good start to FY19 and support the near-term market share gain that management looks for. On a longer view, the investment in senior staff should contribute to a broadening and deepening of the group's capabilities and hence enhance potential earnings through market cycles.

## Valuation: Potential for earnings rebound in FY19e

Reflecting the combination of a lower revenue expectation and higher assumed costs, our FY18 EPS estimate is now 24% lower but, given the indication of a very strong pipeline, the reduction is a more modest 5% for FY19. As a result, while the multiple for FY18e looks high relative to previous assumptions, on our estimates earnings are set to rebound strongly in FY19e, reducing the following year multiple with the potential for enhanced growth thereafter as the investment in staff generates income.

## Estimate revisions

We show changes in key numbers from our estimates below and further detail on the estimates is shown in the financial summary.

Within the revenue estimate, the main reduction is in corporate broking and advisory. As noted, this reflects the timing and size of transactions that completed in H218 and FY18 revenues will be ahead of the prior year. Equities revenue is also indicated to be ahead of FY18. Management reports a very strong pipeline of transactions and we assume that a number of these will have fallen into the early part of FY19 rather than FY18, potentially providing a very strong start to the year for corporate broking and advisory.

On costs, we have assumed that the 16% increase in headcount, allowing for phasing of hiring, gives rise to an increase in total staff costs of c 11% with a more moderate increase for FY19e.

The overall outcome is a 24% reduction in earnings estimate for FY18 and a 5% reduction for FY19, a number which is subject to normal market uncertainties. As noted above, the investment in senior staff should strengthen the Numis franchise, increasing the potential for future growth and the firm's value on a long view.

### Exhibit 1: Estimate revisions

	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/18e	144.5	133.7	-7.5%	37.8	27.9	-26.1%	26.2	19.8	-24.4%	12.0	12.0	0.0%
09/19e	147.7	147.7	0.0%	38.6	36.3	-5.8%	27.3	25.8	-5.4%	12.0	12.0	0.0%

Source: Edison Investment Research

**Exhibit 2: Financial summary**

£'000s	2015	2016	2017	2018e	2019e
Year end 30 September					
<b>PROFIT &amp; LOSS</b>					
Revenue	97,985	112,335	130,095	133,704	147,670
Administrative expenses (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(92,631)	(100,673)
Share based payment	(4,104)	(6,229)	(10,454)	(12,500)	(10,000)
EBITDA	28,863	29,986	36,015	28,573	36,997
Depreciation	(882)	(1,126)	(1,226)	(1,200)	(1,200)
Amortisation	(111)	(125)	(89)	(35)	(20)
Operating Profit (before amort. and except.)	27,870	28,735	34,700	27,338	35,777
Net finance income	190	37	188	50	60
Other operating income	(1,978)	3,759	3,431	500	500
Profit before tax	26,082	32,531	38,319	27,888	36,337
Tax	(4,533)	(6,132)	(7,942)	(5,195)	(7,193)
Profit after tax (FRS 3)	21,549	26,399	30,377	22,693	29,144
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	114.7	113.0
EPS - basic (p)	19.5	23.5	27.4	21.3	27.8
EPS - diluted (p)	18.3	22.4	25.9	19.8	25.8
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	127.6	137.4
ROE (%)	19%	22%	23%	17%	21.0%
EBITDA margin (%)	29.5%	26.7%	27.7%	21.4%	25.1%
Operating margin (before GW and except.) (%)	28.4%	25.6%	26.7%	20.4%	24.2%
<b>BALANCE SHEET</b>					
Fixed assets	6,724	5,522	6,147	7,188	6,658
Current assets	279,114	312,462	407,850	359,152	367,047
Total assets	285,838	317,984	413,997	366,340	373,705
Current liabilities	(170,319)	(188,895)	(280,371)	(231,146)	(231,146)
Long term liabilities	0	(12)	0	(11)	(11)
Net assets	115,519	129,077	133,626	135,183	142,548
<b>CASH FLOW</b>					
Operating cash flow	6,467	48,735	43,369	30,519	35,054
Net cash from investing activities	(3,632)	84	(198)	(990)	(380)
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(34,737)	(31,779)
Net cash flow	(14,675)	29,239	6,812	(5,208)	2,895
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(90,452)
FX effect	(252)	172	38	(192)	0
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(90,452)	(93,347)

Source: Edison Investment Research, Numis Corporation accounts

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