

Numis Corporation

Tough H1 background but strong market share gains

H119 trading update

Financial services

2 April 2019

Price 250p

Market cap £266m

Net cash (£m) at end September 2018 111.7

Shares in issue 106.0m

Free float 75%

Code NUM

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.3) 7.5 (29.5)

Rel (local) (6.4) (1.2) (31.3)

52-week high/low 440.0p 221.5p

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 over 270 staff in offices in London and New York, and at the end of September 2018 had 210 corporate clients.

Next events

H219 results 3 May 2019

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As would be expected, Numis's first-half trading has been affected by the uncertain UK political background, but it has seen a pick-up in corporate transactions in March and the pipeline of potential deals has also increased. This should provide an encouraging starting point once greater certainty and business confidence return. On this basis, we still look for a stronger second half but have reduced our estimates to reflect conditions in the first half.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/16	112.3	32.5	22.4	12.0	11.2	4.8
09/17	130.1	38.3	25.9	12.0	9.6	4.8
09/18	136.0	31.6	23.0	12.0	10.9	4.8
09/19e	119.7	22.3	15.8	12.0	15.8	4.8

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

H119 trading update

The weak equity market in the last quarter of calendar 2018 and the political difficulties over Brexit in the first quarter of the current year cast a pall over capital market activity during H119. Numis reports that this has resulted in a 26% reduction in revenues compared with the strong H118 performance: this is equivalent to an 11% sequential reduction compared with H218. Positively, against a much reduced level of transactions in the market, Numis has gained market share and benefited from higher average deal fees. It has also seen a pick-up in transactions in March, including deals for Just Group and Randall & Quilter, and the merger of Primary Health Properties and MedicX, which provided a strong end to the period.

Adjusting our estimate

Divisionally, Numis signals that corporate broking and advisory revenues for the first half matched H218, slightly ahead of our estimate. As a result, we have maintained our full year estimate here on the basis that the recent improved momentum is broadly maintained. For equities, continued depressed activity and the marginally loss-making period for market-making reported at the time of the AGM in February warrants a reduction in estimate. At the group level, this results in a 4% reduction in estimated revenue and a 12% reduction at the earnings per share level. Clearly there is scope for substantial variation from this estimate in both directions subject to the development of corporate and market confidence.

Valuation: Still reasonable given longer-term returns

The uncertain near-term outlook and lack of immediately comparable prospective peer P/Es make standard earnings multiple comparisons difficult. However, using an ROE/COE model to infer the ROE which the current share price assumes indicates a figure of c 15%. While this is above our current year estimate (c 13%), it is well below the five-year historical average of c 20%, which appears conservative given the strength of the Numis franchise.

Estimate changes

The changes in headline numbers for our FY19 estimates, as discussed above, are set out in Exhibit 1.

Exhibit 1: Estimate revisions												
	Revenue (£m)			PBT (£m)			EPS (p)			DPS (p)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
09/19e	124.9	119.7	-4.2%	25.4	22.3	-12.2%	18.0	15.8	-12.2%	12.0	12.0	0.0%
Source: Edison Investment Research												

Beyond the revenue changes shown in Exhibit 2, we have assumed a small reduction in the percentage of variable remuneration of pre-bonus profit providing some mitigation of the operational leverage evident in the profit and EPS reduction. The increase in cost/income ratio is limited to a move from 79% to 81%. The group's investment in staff to support its longer-term growth (see our [January note](#)) has a negative impact on near-term profits but should support longer-term growth, and the relative resilience of the Corporate Broking and Advisory division is an encouraging indicator of the strength of the franchise as it stands.

Exhibit 2: Revenue analysis					
£000s	2018	2019e	Change	Old 2019e	New vs old
Net trading gains	9,594	3,500	-64%	7,900	-56%
Institutional commissions	37,866	35,000	-8%	35,800	-2%
Equities	47,460	38,500	-19%	43,700	-12%
Corporate retainers	12,430	13,000	5%	13,000	0%
Advisory fees	17,335	17,200	-1%	17,200	0%
Placing commissions/capital markets	58,822	51,000	-13%	51,000	0%
Corporate broking and advisory	88,587	81,200	-8%	81,200	0%
Total revenue	136,047	119,700	-12%	124,900	-4%
Source: Edison Investment Research					

Valuation

For reference, we have updated the comparative valuation table that we have included in previous notes (Exhibit 3). The absence of published estimates for UK peers and the particularly uncertain background limits the usefulness of P/E comparisons currently. Numis offers a higher yield than the averages for the UK or US/European comparators shown. It trades on a higher price to book ratio than the UK peers but also has a higher return on equity. On our revised estimates, the prospective return on equity would be c 13%, but the five-year historical average has been 20%. At a share price of 250p, an ROE/COE model suggests the market is discounting a return of c 15%: above our current year estimate but still conservative in the context of historical returns and the potential for significant improvement in a more favourable environment.

Exhibit 3: Peer comparison

	Price (local)	Market cap (£m)	Last reported P/E (x)	Current P/E (x)	Yield (%)	ROE (%)	Price to book (x)
UK brokers							
Numis	250	266	10.9	16.8	4.8	19.3	1.9
Arden Partners	26	8	Loss	N/A	0.0	N/A	0.8
Cenkos	69	38	16.3	N/A	6.6	25.3	1.4
Shore Capital	220	47	17.6	N/A	4.5	4.8	0.8
WH Ireland	39	17	Loss	N/A	0.0	N/A	1.1
UK average			14.9	N/A	3.2	16.5	1.2
US, European IB and advisory							
Bank of America	27.6	265,939	10.5	9.6	2.0	10.5	1.0
Evercore	91.0	4,366	10.1	11.4	2.1	69.7	4.8
Goldman Sachs	192.0	70,415	7.6	8.1	1.6	12.3	0.9
Greenhill	21.5	445	N/A	N/A	0.9	29.7	7.0
JP Morgan	101.2	331,451	11.2	10.4	2.4	13.0	1.3
Moelis	41.6	2,332	13.9	13.9	4.5	60.4	5.8
Morgan Stanley	42.2	72,111	8.9	8.7	2.6	11.8	1.0
Stifel Financial	52.8	3,792	10.0	9.4	0.9	14.2	1.2
Credit Suisse	11.6	30,532	10.7	8.5	2.3	NULL	0.7
Deutsche Bank	7.3	15,009	16.6	12.2	1.5	NULL	0.2
UBS	12.1	47,697	9.6	9.3	5.8	5.3	0.9
US, European IB and advisory average			10.9	10.1	2.4	25.2	2.3

Source: Refinitiv. Note: Priced at 1 April 2019, P/Es are for financial years therefore not all same period end.

Exhibit 4: Financial summary

£'000s	2015	2016	2017	2018	2019e
Year end 30 September					
PROFIT & LOSS					
Revenue	97,985	112,335	130,095	136,047	119,700
Administrative expenses (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(94,603)	(86,248)
Share based payment	(4,104)	(6,229)	(10,454)	(10,583)	(10,600)
EBITDA	28,863	29,986	36,015	30,861	22,852
Depreciation	(882)	(1,126)	(1,226)	(1,113)	(1,200)
Amortisation	(111)	(125)	(89)	(49)	(50)
Operating Profit (before amort. and except.)	27,870	28,735	34,700	29,699	21,602
Net finance income	190	37	188	212	210
Other operating income	(1,978)	3,759	3,431	1,733	500
Profit before tax	26,082	32,531	38,319	31,644	22,312
Tax	(4,533)	(6,132)	(7,942)	(4,967)	(4,239)
Profit after tax (FRS 3)	21,549	26,399	30,377	26,677	18,073
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	115.8	114.1
EPS - basic (p)	19.5	23.5	27.4	25.1	17.3
EPS - diluted (p)	18.3	22.4	25.9	23.0	15.8
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	135.0	136.4
ROE (%)	19%	22%	23%	19%	12.7%
EBITDA margin (%)	29.5%	26.7%	27.7%	22.7%	19.1%
Operating margin (before GW and except.) (%)	28.4%	25.6%	26.7%	21.8%	18.0%
BALANCE SHEET					
Fixed assets	6,724	5,522	6,147	8,215	7,565
Current assets	279,114	312,462	407,850	533,033	531,673
Total assets	285,838	317,984	413,997	541,248	539,238
Current liabilities	(170,319)	(188,895)	(280,371)	(398,112)	(398,112)
Long term liabilities	0	(12)	0	0	0
Net assets	115,519	129,077	133,626	143,136	141,126
CASH FLOW					
Operating cash flow	6,467	48,735	43,369	45,830	24,533
Net cash from investing activities	(3,632)	84	(198)	(1,014)	(210)
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(29,035)	(30,682)
Net cash flow	(14,675)	29,239	6,812	15,781	(6,360)
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(111,673)
FX effect	(252)	172	38	40	0
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(105,313)

Source: Company data, Edison Investment Research

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