

Gresham House

H122 update

Good progress in H122

As a specialist alternative asset manager with a focus on sustainable investment strategies and c 85% of AUM in real assets and private equity, Gresham House is well-positioned to weather current market conditions. The H122 trading update supports this and indicates that it continues to make progress towards its five-year plan (GH25) objectives.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/21	70.4	20.2	49.3	10.0	16.4	1.2
12/22e	74.2	25.9	52.1	13.5	15.5	1.7
12/23e	84.4	30.8	58.6	17.0	13.8	2.1
12/24e	95.3	36.8	67.1	24.0	12.1	3.0

Note: *PBT and EPS (diluted) are adjusted, excluding performance fees, realised gains, amortisation and depreciation, exceptional items and share-based payments related to acquisitions.

Strong AUM growth of 11% to £7.3bn

Fund-raising in H122 proved stronger than might be expected given an uncertain market background. Assets under management (AUM) growth was £0.8bn (11%) to £7.3bn. This included organic growth of £0.5bn (+8%) within which £150m was raised for Gresham House Energy Storage Fund (GRID), £65m for Gresham House Residential Secure Income LP (ReSI LP), £70m for Baronsmead and Mobeus VCTs and net inflows of £70m for open-ended equity funds. The acquisition of Burlington Real Estate, an Irish commercial property asset management and development company, was completed in March adding c £0.3bn to AUM. Looking ahead, the group indicates that it has its strongest client pipeline since the launch of GH25 in 2020 and that GRID intends to expand internationally to capture further battery storage investment opportunities.

Profit and margin at least meeting expectations

Gresham House expects to achieve adjusted operating profit and margins at least in line with market expectations for H122 and FY22. Reflecting this we maintain our estimates ahead of the H122 results in September, with adjusted operating profit of £25.9m for FY22e (£20.2m FY21) and an operating margin of 36% (33%). (See our May initiation [note](#) for discussion of our estimates.)

Valuation

Our comparison table (see Exhibit 1) shows Gresham House trading between European and North American peer averages on P/E multiples, but noticeably lower in terms of EV/EBITDA. Share price weakness and unchanged DCF model assumptions mean that the current price now implies a discount rate of 20% (previously 17%), underlining the cautious valuation applied by the market, assuming our estimates are met.

Financial services

14 July 2022

Price 810p
Market cap £308m

Net cash (£m) at end December 2021	40.3
Shares in issue	38.0m
Free float	90%
Code	GHE
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(9.5)	(18.2)	(12.9)
Rel (local)	(8.5)	(12.4)	(9.9)
52-week high/low		1,005p	765p

Business description

Gresham House is a specialist alternative asset manager focused on sustainable investments with strategies in public and private equity and real assets including forestry, renewable energy, battery storage, housing and sustainable infrastructure. At end June 2022 AUM stood at £7.3bn.

Next events

H122 results (estimate)	15 September 2022
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Valuation

In the two exhibits below we have updated our peer-comparison table and a summary chart showing implied valuation ranges for Gresham House shares. In the last three months the shares (down 18%) have shown similar weakness to the averages for European and North American peers, and for other UK quoted asset managers (down between 16% and 20%). As Exhibit 1 shows, in terms of P/E multiples, Gresham House continues to trade between the European and North American peer averages (at 15.5x FY22 and 13.8x FY23) but above more conventional UK listed asset managers. Looking at peer EV/EBITDA multiples, Gresham House trades at a markedly lower level (10.3x FY22) than the European/North American peers (but well above the traditional UK asset manager average).

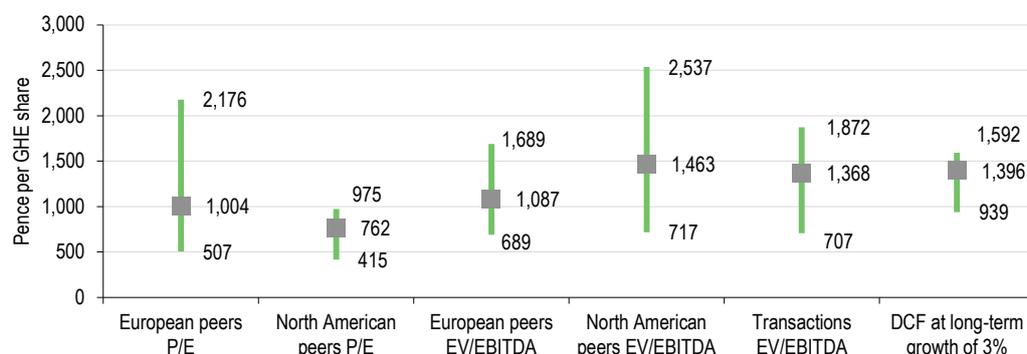
Exhibit 1: Asset management comparators

	Price (p)	Market cap (£m)	P/E 2022e (x)	P/E 2023e (x)	Dividend yield (%)	EV/EBITDA 2022e (x)
Gresham House	810	306	15.5	13.8	1.2	10.3
Antin Infrastructure Partners	23	3,457	41.7	23.4	0.3	25.9
Bridgepoint	216	1,779	17.0	12.3	N/A	13.7
EQT	20	16,918	26.2	16.2	1.4	22.2
Foresight	386	418	15.1	12.1	N/A	10.6
Impax Asset Management	567	752	14.3	13.8	3.6	10.5
Intermediate Capital	1,366	3,968	10.8	10.6	5.6	16.9
Partners	75,182	20,014	21.0	18.3	3.8	17.9
Petershill Partners	221	2,536	9.7	8.2	N/A	N/A
Tikehau Capital	1,773	3,098	17.4	12.2	2.9	15.6
Average			19.3	14.1	2.9	16.7
North American peer average*			14.6	12.7	2.1	22.4
UK asset managers average**			10.0	9.9	8.0	5.2

Source: Refinitiv, Edison Investment Research. Note: Priced at 14 July 2022. *Ares, Brookfield, Carlyle, Hamilton Lane, KKR, StepStone. **Ashmore, City of London, Jupiter, Liontrust, Man Group, Polar Capital, Schroders.

Exhibit 2 shows the range of values implied when we put Gresham House shares on peer group multiples for 2022e, those implied by transactions involving comparator companies and finally the range indicated by our discounted cash flow (DCF) model, assuming a 3% long-term growth rate and discount rates between 8% and 17%.

Exhibit 2: Valuation ranges based on peers, transactions and DCF



Source: Edison Investment Research, Refinitiv. Note: Peer multiples for 2022e. The markers show average values and, for the DCF valuation, the value at a discount rate of 10%.

Exhibit 3: Financial summary

December (£'000s unless indicated)	2018	2019	2020	2021	2022e	2023e	2024e
PROFIT & LOSS							
Asset management income	13,717	31,427	40,304	62,162	72,669	82,880	93,769
Dividend, interest and other income	781	357	1,632	2,038	1,500	1,500	1,500
Performance fees	0	1,944	0	6,163	0	0	0
Total income	14,498	33,728	41,936	70,363	74,169	84,380	95,269
Administrative overheads	(14,608)	(34,331)	(42,052)	(60,116)	(64,482)	(68,864)	(73,291)
Net operating profit/(loss) before exceptional items	(110)	(603)	(116)	10,247	9,687	15,516	21,978
Finance costs	(42)	(390)	(25)	(311)	(200)	(200)	(200)
Exceptional items	(2,001)	(1,063)	(1,775)	(3,215)	0	0	0
Share of associates' profits/(losses)	1,718	246	158	4,955	200	200	200
Gains and losses on investments held at fair value	(271)	3,048	4,599	5,842	0	0	0
Movement in fair value of contingent consideration	(209)	(2,065)	(1,163)	(1,659)	0	0	0
Other	40	0	224	461	0	0	0
Operating profit/(loss) before taxation	(875)	(827)	1,902	16,320	9,687	15,516	21,978
Taxation	218	(23)	(1,084)	(4,107)	(1,937)	(3,662)	(5,495)
Discontinued operations and FX movements	11	55	(12)	(172)	0	0	0
Total comprehensive income	(646)	(795)	806	12,041	7,749	11,853	16,484
Non-controlling interest	(53)	(55)	(229)	(264)	(250)	(250)	(250)
Net income attributable to equity holders	(699)	(850)	577	11,777	7,499	11,603	16,234
Adjusted core operating profit							
Net core income	14,709	31,724	40,774	61,609	72,124	82,041	92,618
Operating expenses (excl. dep'n and amortisation)	(11,705)	(21,047)	(28,690)	(41,128)	(45,984)	(51,078)	(55,571)
EBITDA (adjusted)	3,004	10,677	12,084	20,481	26,140	30,963	37,047
Finance costs	(42)	(390)	(25)	(311)	(200)	(200)	(200)
Adjusted operating profit/(loss)	2,962	10,287	12,059	20,170	25,940	30,763	36,847
EPS - diluted (p)	(3.9)	(3.2)	1.8	32.6	18.7	28.9	39.4
Adjusted, diluted EPS	14.7	31.2	32.9	49.3	52.1	58.6	67.1
Dividend per share (p)	3.0	4.5	6.0	10.0	13.5	17.0	24.0
BALANCE SHEET							
Non-current assets	83,353	78,165	80,339	126,143	101,753	88,381	75,400
Intangible assets	65,911	58,545	59,970	95,012	83,099	70,186	57,273
Tangible fixed assets	332	813	1,090	2,927	1,290	671	444
Investments	17,032	18,807	18,228	25,515	14,675	14,835	14,995
Other	78	0	1,051	2,689	2,689	2,689	2,689
Current Assets	21,703	46,187	46,767	94,174	120,234	138,847	160,773
Trade receivables	2,628	5,334	3,184	11,135	11,135	11,135	11,135
Cash and cash equivalents	13,958	19,432	21,886	40,252	66,312	84,925	106,851
Assets held for sale (property then battery storage projects)	0	12,188	7,363	17,545	17,545	17,545	17,545
Other	5,117	9,233	14,334	25,242	25,242	25,242	25,242
Current liabilities	6,085	24,928	20,852	50,220	44,120	44,120	44,120
Trade and other payables	4,085	15,210	18,780	42,721	36,621	36,621	36,621
Liabilities of disposal group held for sale	2,000	9,718	2,072	7,499	7,499	7,499	7,499
Non-current liabilities	19,231	8,605	8,976	22,560	22,560	17,260	12,360
Long-term borrowings	7,840	5,973	5,749	0	0	0	0
Other creditors	11,391	2,632	3,227	22,560	22,560	17,260	12,360
Net Assets	79,740	90,819	97,278	147,537	155,307	165,848	179,693
Minority interests	527	582	811	1,075	1,325	1,575	1,825
Net assets attributable to ordinary shareholders	79,213	90,237	96,467	146,462	153,982	164,273	177,868
Diluted NAV per share (p)	289.3	288.2	287.4	366.6	385.5	411.2	445.3
ROCE (%)	20.6	14.6	16.0	34.1	17.7	19.9	22.3
CASH FLOW							
Net operating cash flow	905	9,203	15,711	19,975	26,762	29,861	34,113
Acquisitions and deferred consideration	(11,855)	0	(17,887)	(1,736)	(7,100)	(5,300)	(4,900)
Purchase of management contracts	(23,000)	0	0	0	0	0	0
Net sale/(purchase) of investments	(3,906)	(797)	2,025	(1,122)	(800)	0	0
Net proceeds of sale of investment properties	4,685	0	0	0	0	0	0
Net investment in DevCo projects	0	(1,510)	4,406	(8,247)	0	0	0
Net purchase of fixed and intangible assets	(242)	(531)	(736)	(1,045)	(863)	(875)	(888)
Other	(1,768)	53	186	2,514	11,840	40	40
Cash flow from investing activities	(36,086)	(2,785)	(12,006)	(9,636)	3,077	(6,135)	(5,748)
Dividends	0	(795)	(1,351)	(1,881)	(3,780)	(5,112)	(6,438)
Share issuance (net)	25,679	6,487	7,663	20,487	0	0	0
Share warrants issued/exercised	3,841	4,859	182	0	0	0	0
Share-based payments settled	0	(833)	(7,125)	(9,734)	0	0	0
Other financing activities	1,994	(8,795)	(396)	4,904	0	0	0
Cash flow from financing activities	31,514	923	(1,027)	13,776	(3,780)	(5,112)	(6,438)
Increase/(decrease) in net cash	(3,667)	7,341	2,678	24,115	26,060	18,613	21,926
Closing net cash/(debt)	6,118	13,459	16,137	40,252	66,312	84,925	106,851

Source: company reports, Edison Investment Research. Note: *Return on capital employed (ROCE) = adjusted operating profit + net performance fees + net development gains divided by opening net assets adjusted for share issuance during the year.

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