

Numis Corporation

Another strong quarter and positive outlook

FY21 year-end update

Financial services

1 October 2021

Price **360p**

Market cap **£386m**

Net cash (£m) at end March 2021 97.6

Shares in issue 107.3

Free float 75%

Code NUM

Primary exchange AIM

Secondary exchange N/A

Share price performance



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. It employs over 300 staff in offices in London and New York, and at the end of September 2020 had 188 corporate clients.

Next events

FY21 results 8 December 2021
AGM 8 February 2022

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A strong end to FY21 means that Numis expects revenues of c £215m and prompts a further increase in our estimate. The near-term outlook is also very positive, with a number of IPOs in the pipeline. Market cycles will mean less favourable conditions at some point, but the success Numis has had in growing and broadening its franchise puts it in a good position to make further progress through these fluctuations.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/19	111.6	12.4	8.1	12.0	44.4	3.3
09/20	154.9	37.1	26.7	12.0	13.5	3.3
09/21e	215.2	66.4	44.9	12.0	8.0	3.3
09/22e	181.4	44.2	29.8	12.0	12.1	3.3

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

A strong end to the year and investing for the future

In its year-end update, Numis has reported a further strong quarter in the period to end September and expects FY21 revenue in the region of £215m (FY20: £155m), including Investment Banking revenue of over £150m (FY20: £102m). Pre-tax profits are expected to be significantly higher than the £37.1m reported for FY20. In Investment Banking, a summer pause in IPO activity and more subdued markets were offset by several significant M&A transactions. During the year, market share gains in UK capital markets were also augmented by private markets transactions and deals for non-UK issuers, which point to the development of the franchise. To further this development, additional recruitment has taken place and is planned. The second half performance for Equities was strong, although revenue did not match an exceptional H121 (£33.4m). FY21 Institutional income was ahead of the prior year and Trading produced consistent profits through the year, benefiting from a favourable market and a higher capital allocation.

Positive outlook

Looking ahead, Numis expects to launch a number of IPOs in the coming weeks and has a very strong pipeline including private markets. UK M&A activity is also seen as likely to remain high. This creates a very positive backdrop for the start of Numis's FY22. As ever, maintenance of high activity levels will depend on market sentiment remaining favourable and, after a period of strong recovery from the initial impact of the pandemic, the potential for a quieter period is clear. On a longer view, Numis's success in strengthening its business by investing to support its clients, developing private markets activities and broadening its franchise to non-UK clients, bodes well for its ability to grow further through market cycles.

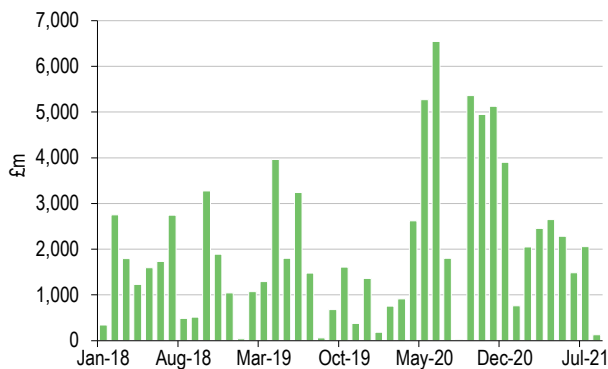
Valuation

We have increased our FY21 EPS forecast by 7.5% and introduced an indicative FY22 estimate, which factors in some normalisation of activity levels (see Exhibit 5). This gives prospective P/Es of 8.0x and 12.1x respectively. The FY21 multiple places it below the average for US and European investment banks and its yield and ROE are relatively high (see Exhibit 7).

Background and estimate changes

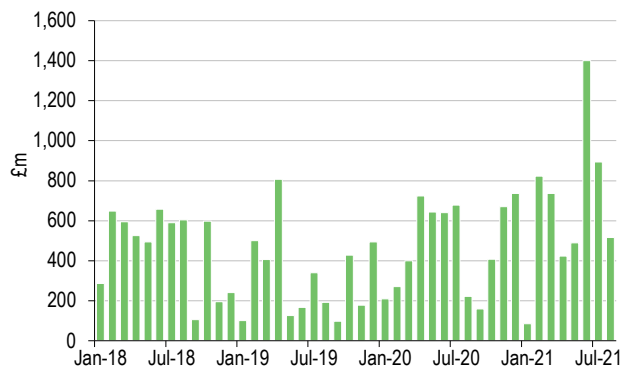
Exhibits 1 and 2 show the trends in total issuance for the London Stock Exchange Main and AIM markets. For the five months to end August, Main Market total issuance was down 47% compared with the exceptionally strong, pandemic-influenced, prior year period when funds were being raised to support company balance sheets. However, within the lower overall total, new issue money raised was up 60%, reflecting more favourable market conditions. Over the same period, AIM total money raised was up 14% and, as with the Main market, new issuance was much stronger at more than 7x the depressed prior year level.

Exhibit 1: LSE Main Market issuance (money raised)



Source: London Stock Exchange

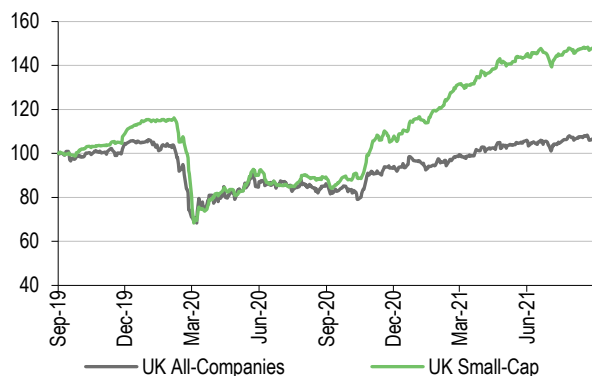
Exhibit 2: LSE AIM issuance (money raised)



Source: London Stock Exchange

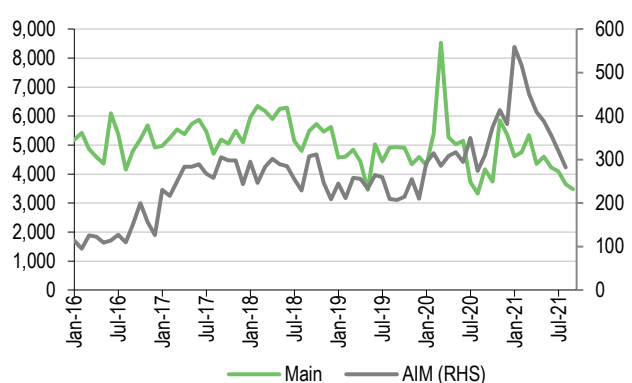
Exhibit 3 illustrates the recent performance of UK equity indices. The strong recovery from the pandemic-induced fall last year is clear with a more marked pick-up for smaller-cap stocks evident since late 2020 as a rotation towards higher-risk/more economically sensitive stocks took place. Both indices have seen a flatter performance more recently. The next chart shows the daily value traded on the London Stock Exchange order book and on AIM. Here there is difference evident between the pattern of activity for the two markets, with the Main Market showing a sharp spike as the pandemic impacted but AIM activity following later as interest rotated towards smaller-cap or riskier stocks. Both have seen a more recent (partly seasonal) decline towards more normal levels.

Exhibit 3: UK equity indices



Source: Refinitiv, CBOE indices

Exhibit 4: LSE average daily value traded (£m)



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

We have adjusted our estimates to reflect the strong final quarter performance reported in the update. Exhibit 5 shows a segmental analysis of our revenue assumptions for H221, FY21 and newly introduced estimates for FY22 with prior full-year comparatives. Our total revenue estimate for FY21 is increased by 3.4%. At this stage our assumptions for FY22 are tentative given the normal uncertainties about fluctuations in market sentiment and hence capital markets activity levels. We have assumed a strong start to the year given Numis's comments about its pipeline, but have then allowed for some normalisation on the basis that there may be a quieter phase in activity.

Exhibit 5: Revenue analysis

£000s	2019	2020	H121	H221e	2021e	2022e
Net trading gains	4,008	16,003	11,507	9,493	21,000	14,500
Institutional income	33,317	37,192	21,879	19,121	41,000	38,000
Equities	37,325	53,195	33,386	28,614	62,000	52,500
Corporate retainers	13,357	13,536	6,293	6,290	12,583	12,910
Advisory	12,576	11,146	12,428	15,572	28,000	31,000
Capital markets	48,352	77,022	63,319	49,281	112,600	85,000
Investment banking	74,285	101,704	82,040	71,143	153,183	128,910
Total revenue	111,610	154,899	115,426	99,757	215,183	181,410

Source: Edison Investment Research

On expenses, we have allowed for a further increase in staff numbers in H221 and also in FY22 to support client service levels in investment banking and the new Dublin office. Some double running costs will drop out in FY22 following the recent move to the new headquarters, but non-staff costs are likely to be pushed up by increased depreciation following IT updates with the move, costs related to the Dublin office and higher travel and entertainment spending following the end of lockdown restrictions.

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 9).

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
09/21e	208.1	215.2	3.4%	62.0	66.4	7.2%	41.8	44.9	7.5%	12.0	12.0	0.0%
09/22e		181.4	N/A		44.2	N/A		29.8	N/A		12.0	N/A

Source: Edison Investment Research

Valuation

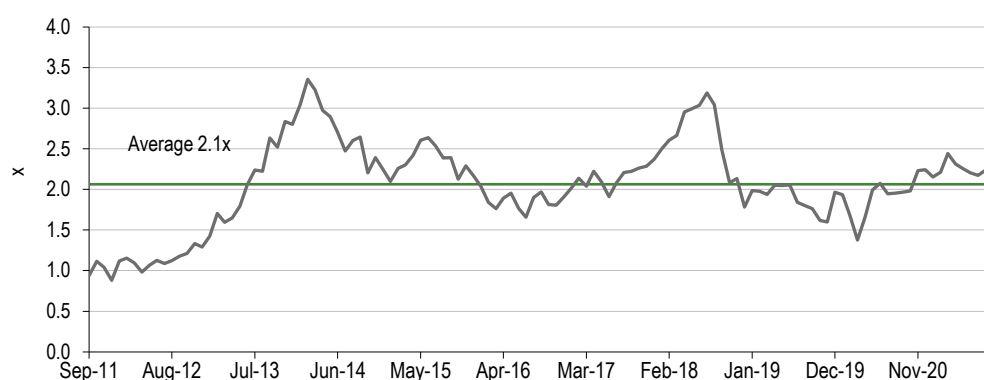
We have updated our peer comparison table showing UK investment banks/brokers and US and European investment banks and advisory firms in Exhibit 7. Comparison is limited by the fact that other UK companies lack consensus estimates and that there are different reporting points across the peers. Nevertheless, we note that Numis offers a relatively high yield, its P/E ratios are below the averages for the US investment banks and its ROE is high in the range.

Exhibit 7: 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	360	386	13.5	8.0	3.3	21.0	2.2
Arden Partners	22	6	3.1	N/A	0.0	N/A	1.3
Cenkos	83	47	24.9	N/A	4.2	8.0	1.6
FinnCap	36	64	8.0	N/A	4.2	29.1	2.2
WH Ireland	53	33	25.6	N/A	0.0	7.7	3.0
UK brokers average			15.0	8.0	2.4	16.5	2.0
US, European IB and advisory							
Bank of America	43.1	362,430	23.0	13.2	1.7	6.8	1.5
Evercore	136.4	6,166	14.2	10.7	1.7	43.8	4.5
Goldman Sachs	384.9	129,745	15.6	7.2	1.3	10.2	1.4
Greenhill	14.6	279	10.7	11.8	1.4	N/A	N/A
Jefferies Financial	37.7	9,316	14.2	7.2	1.5	8.1	1.0
JP Morgan	166.0	495,884	18.7	11.8	2.2	12.0	2.0
Moelis	63.2	4,160	21.7	15.4	2.2	N/A	7.6
Morgan Stanley	99.6	181,635	15.1	13.6	1.4	13.3	1.9
PJT Partners	79.7	2,847	16.2	16.1	0.3	N/A	12.3
Stifel Financial	69.1	7,237	15.1	10.7	0.7	N/A	1.9
Credit Suisse	9.3	24,929	8.8	9.7	1.1	5.9	0.5
Deutsche Bank	11.0	22,899	16.4	10.2	0.0	2.6	0.4
UBS	16.1	59,687	9.0	8.8	1.1	11.5	1.0
US, European IB and advisory average			15.3	11.3	1.3	12.7	3.0

Source: Refinitiv. Note: Priced at 29 September 2021. P/Es are for financial years therefore not all same period end.

The chart below shows a 10-year history of the price to book ratio for Numis. The current value is 2.2x, just above the 10-year average of 2.1x. Using an ROE/COE model to infer the ROE required to match the share price (360p) shown gives a value of 17.0%: below the 18% five-year historical average, our FY22 estimate, also 18%, and well below our estimate for FY21 of 30%. Arguably, this does not give sufficient weight to the strengthening in the franchise that has been achieved in recent years.

Exhibit 8: 10-year history of the price to book value ratio for Numis


Source: Refinitiv, Edison Investment Research

Exhibit 9: Financial summary

£'000s	2016	2017	2018	2019	2020	2021e	2022e
Year end 30 September							
PROFIT & LOSS							
Revenue	112,335	130,095	136,047	111,610	154,899	215,183	181,410
Administrative expenses (excl. amortisation and depreciation)	(76,120)	(83,626)	(94,603)	(85,432)	(105,327)	(134,389)	(124,060)
Share based payment	(6,229)	(10,454)	(10,583)	(10,914)	(9,961)	(9,000)	(7,000)
EBITDA	29,986	36,015	30,861	15,264	39,611	71,794	50,350
Depreciation	(1,126)	(1,226)	(1,113)	(1,124)	(3,016)	(5,293)	(5,000)
Amortisation	(125)	(89)	(49)	(44)	(105)	(110)	(70)
Operating Profit	28,735	34,700	29,699	14,096	36,490	66,391	45,280
Net finance income	37	188	212	550	263	(1,941)	(1,050)
Other operating income	3,759	3,431	1,733	(2,210)	310	1,974	0
Profit before tax	32,531	38,319	31,644	12,436	37,063	66,424	44,230
Tax	(6,132)	(7,942)	(4,967)	(3,110)	(5,713)	(14,697)	(8,404)
Profit after tax (FRS 3)	26,399	30,377	26,677	9,326	31,350	51,726	35,826
Average diluted number of shares outstanding (m)	118.0	117.2	115.8	114.9	117.3	115.1	120.4
EPS - basic (p)	23.5	27.4	25.1	8.8	29.9	49.4	32.2
EPS - diluted (p)	22.4	25.9	23.0	8.1	26.7	44.9	29.8
Dividend per share (p)	12.00	12.00	12.00	12.00	12.00	12.00	12.00
NAV per share (p)	113.5	125.0	135.0	131.3	149.8	169.8	174.4
ROE (%)	22%	23%	19%	6.6%	21.2%	29.9%	18.3%
EBITDA margin (%)	26.7%	27.7%	22.7%	13.7%	25.6%	33.4%	27.8%
Operating margin (%)	25.6%	26.7%	21.8%	12.6%	23.6%	30.9%	25.0%
BALANCE SHEET							
Fixed assets	5,522	6,147	8,215	6,832	12,639	57,881	52,053
Current assets	312,462	407,850	533,033	326,641	509,034	584,853	603,429
Total assets	317,984	413,997	541,248	333,473	521,673	642,734	655,482
Current liabilities	(188,895)	(280,371)	(398,112)	(195,319)	(361,397)	(417,956)	(417,956)
Long term liabilities	(12)	0	0	0	(2,643)	(36,873)	(33,251)
Net assets	129,077	133,626	143,136	138,154	157,633	187,905	204,275
CASH FLOW							
Operating cash flow	48,735	43,369	45,830	(2,748)	65,953	23,410	50,544
Net cash from investing activities	84	(198)	(1,014)	(77)	(474)	(12,816)	(1,890)
Net cash from (used in) financing	(19,580)	(36,359)	(29,035)	(24,646)	(24,451)	(35,730)	(30,078)
Net cash flow	29,239	6,812	15,781	(27,471)	41,028	(25,136)	18,576
Opening net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(100,108)
FX effect	172	38	40	0	(13)	27	0
Closing net (cash)/debt	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(100,108)	(118,684)

Source: Company data, Edison Investment Research

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