

Share

Making good progress

Q3 trading update

Financial services

Share's third quarter update confirmed the positive trends reported in August, with further market share gains and continuing work on its digital transformation providing evidence of the fruits of the investment already made and signalling continued measures to improve the customer experience to underpin further, profit-enhancing growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	14.1	0.6	0.40	0.74	65.0	2.8
12/16	14.6	0.0	0.00	0.25	N/A	1.0
12/17e	18.0	0.5	0.29	0.30	89.7	1.2
12/18e	19.0	0.8	0.43	0.50	60.5	1.9

Note: *PBT and EPS are normalised, excluding exceptional items and share-based payments.

Strong revenues and market share

Share's Q3 update indicated that trading has been in line with its own expectations, upgraded following the half year results announcement in August. Revenues, excluding interest, were up 29% compared with Q316 led by commission revenue. This was up 54% in the period, benefiting from the full inclusion of Computershare services in the quarter, including certificated and nominee dealing. Market share of revenue (ex-interest) against a Compeer-collected peer group has shown a marked increase, standing at 13.9% for the quarter against 10.0% in Q316. Assets under administration at the end of the period stood at £4.5bn, up 24% y-o-y or 6% q-o-q. An encouraging milestone in the continuing digital investment programme was the addition of functionality to The Share Centre's app this month allowing clients to fund their accounts and trade within the app. (See Exhibits 1 and 2 overleaf for charts providing an analysis of revenue changes and market share history.)

Outlook

The UK equity market has experienced a period of significant strength since early 2016 and recent volatility has been subdued, so there is a risk of correction against an uncertain macro background. Indeed, Share notes that peer trading volumes in Q3 were down 6% y-o-y (its own volumes were up 4%) and investor sentiment appears to have softened somewhat (Exhibit 4). On a longer view, Share's focus on customer experience, investment in IT and flat fee structure should mean it is well placed to retain and extend its market share gains through market cycles.

Valuation

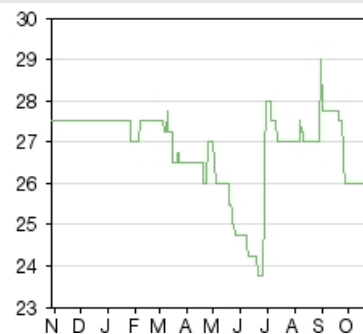
A DCF valuation allows us to take account of near-term muted profitability while capturing the potential gains from operational gearing and growing scale. Our estimates have not changed since our last [note](#) in September and therefore, with other assumptions as before, our indicative DCF valuation is also unchanged at 30.5p.

27 October 2017

Price 26p
Market cap £37m

Net cash (£m) at end June 2017	7.8
Shares in issue	143.7m
Free float	31%
Code	SHRE
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.9)	(3.7)	(7.1)
Rel (local)	(4.6)	(4.5)	(14.8)
52-week high/low		29.0p	23.8p

Business description

Share plc's principal business is The Share Centre, which is a self-select retail stockbroker that also offers share services for corporates and employees. Commission and account fees account for the majority of income.

Next events

FY17 results March 2018

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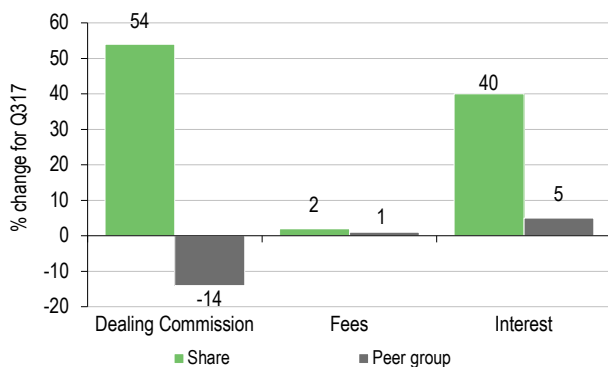
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Industry developments and further background

Two interesting announcements have come from competitor, Interactive Investor (II). The first related to the new fee structure it will adopt following its takeover of the TD Direct platform. The new fee basis includes a flat fee, as at The Share Centre, with no percentage platform fee for holding funds as at TD Direct, but is slightly higher than II's previous tariff (£90 per annum versus £80 with the dealing cost (£10) unchanged or £6 for frequent traders versus £5). From a Share perspective this would appear to be neutral or encouraging in that the enlarged company has not chosen to be more aggressive with its pricing. The second announcement was the purchase of Trustnet Direct's platform, which II already runs on a white label basis. II has also reached agreements with other partners that white label II's platform to transfer customers to the II brand. The partners include Telegraph Investor, The Motley Fool, and SharePrice. This can be seen as increasing competitive pressure in terms of brand profile and scale, but it will be difficult to separate this effect from other factors that are likely to come into play.

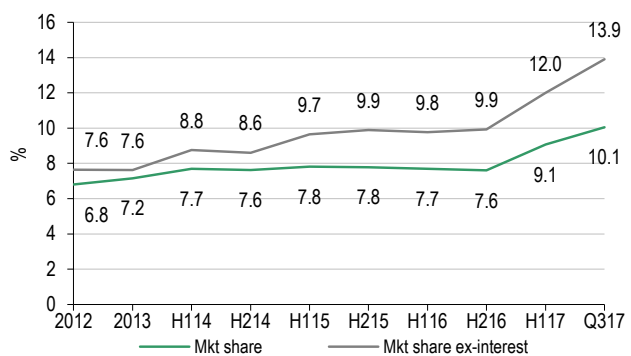
Exhibit 1 shows the y-o-y percentage changes in revenue for Share and a Compeer-collected peer group.¹ The jump in interest income for Share follows a period of decline and primarily reflected the Direction from the FCA allowing The Share Centre to deposit up to 60% of client money balances for up to 95 days. Exhibit 2 highlights the upward trend in Share's revenue market share.

Exhibit 1: Q3 % changes in revenue, SHRE and peers



Source: Share plc, Compeer. Note: Versus Q316.

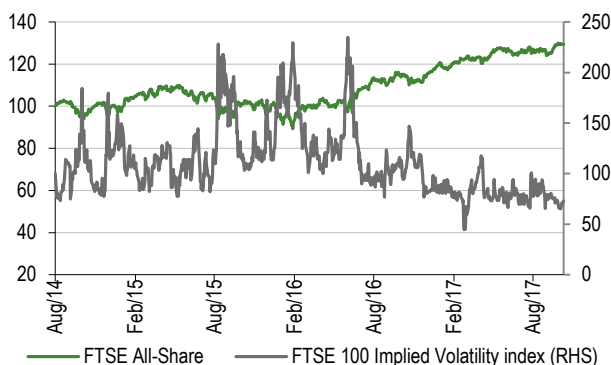
Exhibit 2: Share plc revenue market share progress



Source: Share plc, Compeer

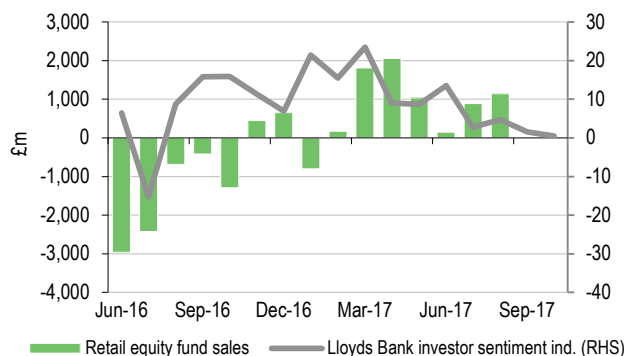
The next two charts show trends in the UK equity market, retail fund sales and investor confidence.

Exhibit 3: FTSE All-Share and FTSE 100 Volatility



Source: Thomson Datastream

Exhibit 4: Fund sales and investor sentiment index



Source: Investment Association, Lloyds Bank

¹ Alliance Trust Savings, Barclays Stockbrokers, Equiniti, Halifax Share Dealing (Lloyds Bank), HSBC Stockbrokers, Saga Personal Finance, Selftrade and TD Direct Investing. Industry leader Hargreaves Lansdown is excluded because it does not submit monthly information to Compeer.

Exhibit 5: Financial summary

£000	2014	2015	2016	2017e	2018e
Year end 31 December					
PROFIT & LOSS					
Account fees	6,610	6,400	6,784	7,530	7,831
Dealing Commissions	6,610	6,400	7,040	9,786	10,373
Interest and other income	1,800	1,250	786	711	769
Revenue	15,042	14,050	14,610	18,027	18,973
Cost of Sales (exc amortisation and depreciation)	(14,579)	(14,812)	(15,727)	(18,003)	(18,725)
EBITDA	463	(762)	(1,117)	23	248
Depreciation	(104)	(111)	(121)	(131)	(150)
Amortisation	(11)	(21)	(108)	(390)	(400)
Operating profit (pre-exceptional)	348	(894)	(1,346)	(498)	(302)
Exceptionals	0	0	0	900	0
Other	60	1,479	2,119	67	0
Investment revenues	308	276	248	220	198
Profit Before Tax (FRS 3)	716	861	1,021	689	(104)
Profit Before Tax (norm)	1,615	584	(46)	516	768
Tax	(109)	(196)	(284)	(133)	0
Profit After Tax (FRS 3)	607	665	737	557	(104)
Profit After Tax (norm)	1,416	555	4	409	602
Average Number of Shares Outstanding (m) - exc treasury	143.5	139.2	139.3	139.7	139.7
EPS - normalised (p)	0.99	0.40	0.00	0.29	0.43
EPS - FRS3 (p)	0.42	0.48	0.53	0.40	(0.07)
Dividend per share (p)	0.62	0.74	0.25	0.30	0.50
EBITDA Margin (%)	3.1%	(5.4%)	(7.6%)	0.1%	1.3%
Normalised operating margin (%)	8.3%	2.2%	(2.0%)	(3.4%)	3.0%
BALANCE SHEET					
Fixed Assets (mainly Investments)	9,405	8,083	8,341	9,753	9,903
Current Assets	21,316	19,716	23,883	21,980	22,509
Total Assets	30,721	27,799	32,224	31,733	32,412
Current Liabilities	(8,450)	(7,681)	(13,384)	(11,830)	(12,430)
Long term Liabilities	(1,594)	(1,418)	(1,096)	(1,158)	(1,158)
Net Assets	20,677	18,700	17,744	18,745	18,824
CASH FLOW					
Operating Cash Flow	199	(2,104)	492	1,092	250
Net cash from investing activities	(434)	1,990	483	(1,495)	(502)
Net cash from (used in) financing	(736)	(878)	(1,217)	(590)	(419)
Net Cash Flow	(971)	(992)	(242)	(993)	(671)
Opening net (debt)/cash	13,626	12,655	11,663	11,421	10,428
Closing net (debt)/cash	12,655	11,663	11,421	10,428	9,757

Source: Company accounts, Edison Investment Research

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