

Numis Corporation

Positive trading continues

Q321 trading update

Numis's strong third quarter reflects both a favourable market background and its strategy of improving the quality of its client base and investing in talent. Market fluctuations and seasonality are set to influence near-term revenue trends, but moves to strengthen the franchise, including developing its advisory and private markets activities and expanding the equity capital markets offering outside the UK, should diversify revenues and help support longer-term growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
09/18	136.0	31.6	23.0	12.0	16.2	3.2
09/19	111.6	12.4	8.1	12.0	46.1	3.2
09/20	154.9	37.1	26.7	12.0	14.0	3.2
09/21e	208.1	62.0	41.8	12.0	8.9	3.2

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

Q321 update signals continued strong trading

Numis has reported a further strong quarter in the period to end June with revenue of over £50m, only slightly below the H121 run rate (nearly £58m). In addition to favourable market conditions, Numis is seeing benefits across Investment Banking and Equities activities from its investment in staff and focus on enhancing the quality of its client base. Further staff additions to support the growth in the franchise are taking place in the second half. IPOs made a strong contribution in the quarter, but the group also notes that its M&A advisory and private markets (Growth Capital Solutions) businesses are making a significant contribution and have good longer-term potential to expand. Equities have seen some easing in activity levels following a very strong Q221, but the business has continued to gain market share and the trading book performance has been positive.

Outlook and estimate increase

Numis indicates that the transaction pipeline for the rest of FY21 and into next year is very strong, although it expects Q421 to be seasonally quieter. Additionally, we note that pandemic and economic developments remain a source of uncertainty. We have adjusted our revenue estimate to reflect strong Q321 trading but have assumed some seasonal softening in Q421. This results in an increase in our revenue estimate for FY21 of nearly 6% and a 13% increase in EPS.

Valuation

The shares trade on P/E multiples in line with or below those of the average for US and European investment banks and advisory firms. At a price to book ratio of nearly 2.3x, they trade above the 10-year average of 2.0x, but at a share price of 374p a ROE/COE model implies an assumed return on equity (ROE) of just below the 18% five-year average return (and well below the 28% we estimate for FY21).

Financial services

14 July 2021

Price 374p
Market cap £403m

Net cash (£m) end-March 2021	97.6
Shares in issue	107.8m
Free float	75%
Code	NUM
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.5)	(4.7)	18.1
Rel (local)	(0.6)	(7.8)	(0.7)
52-week high/low		398p	280p

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 c 290 staff in offices in London and New York, and at the end of September 2020 had 188 corporate clients.

Next events

FY21 trading update End September (estimated)

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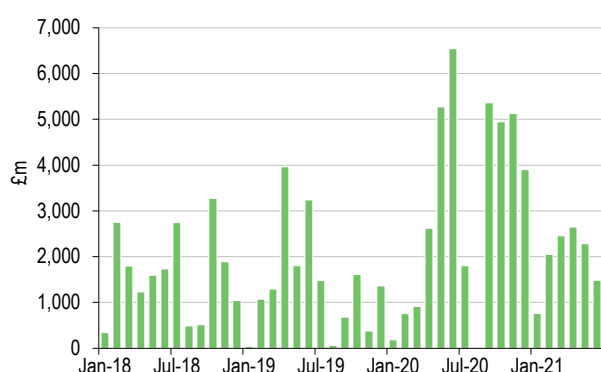
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Background and estimate changes

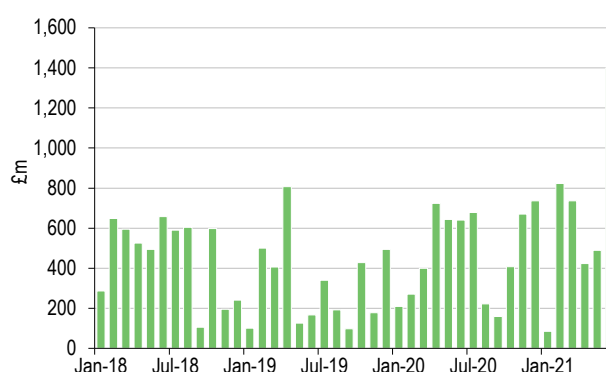
To provide background we have updated issuance data charts (new and further) for the London Stock Exchange Main and AIM markets (Exhibits 1 and 2). For the three months to end June, Main Market total issuance was down 56% compared with the exceptionally strong, pandemic influenced, prior year period, while money raised was up 22% from the March-end quarter. As can be seen, AIM enjoyed an especially strong period in June, with total issuance for calendar Q2 up 15% compared with the prior year period and 41% ahead sequentially.

Exhibit 1: LSE Main Market issuance (money raised)



Source: London Stock Exchange

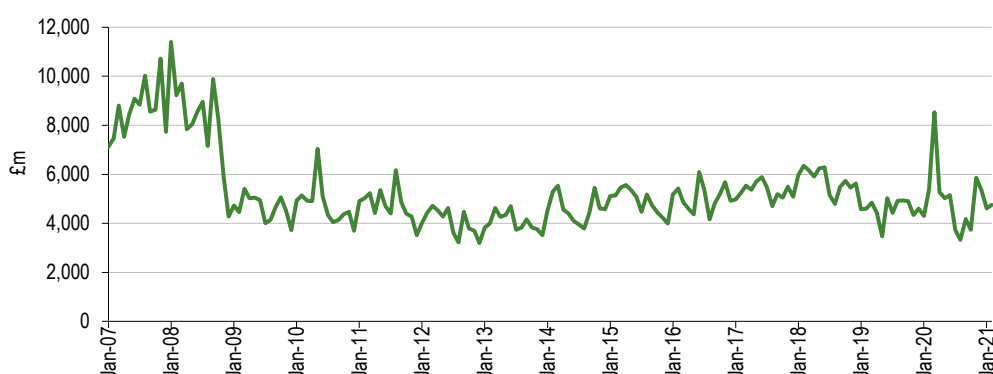
Exhibit 2: LSE AIM issuance (money raised)



Source: London Stock Exchange

The next chart shows the daily value traded on the London Stock Exchange order book. This shows the relatively short-lived spike in trading volumes in the first half of last year following the arrival of the pandemic. Subsequently activity subsided, but more recently has returned to the range seen in prior years.

Exhibit 3: LSE order book, average daily value traded



Source: London Stock Exchange (Main Market)

Exhibit 4 shows selected Numis transactions from the second half to date, continuing to show a range of mandates, as in the first half (see our [note](#) in May following the H121 results). As mentioned earlier, Numis sees a strong pipeline for the balance of the year and into FY22, although delivery will, as always, depend on market conditions and seasonal factors.

Exhibit 4: Numis – selected transactions in H221 to date

Company	Date	Role	Transaction	Money raised/ value (£m)
Keywords Studio	Apr-21	Sole bookrunner	Placing	84
JTC	Apr-21	Joint bookrunner and corporate broker	Placing	66
Accsys Technologies	May-21	Nomad, joint broker and financial adviser	Placing and open offer	c 31
Lyst	May-21	Financial adviser	Private fund raise	61
Draper Esprit	Jun-21	NOMAD, Joint global coordinator, bookrunner and broker	Placing	111
Victorian Plumbing	Jun-21	Joint global coordinator	IPO	850
The Gym Group	Jul-21	Joint bookrunner and corporate broker	Placing	31
International Public Partnerships	Jul-21	Broker, financial adviser and bookrunner	Placing	135

Source: Numis, Edison Investment Research

We have adjusted our estimates to reflect the strong Q321 performance reported in the update while allowing for a seasonally quieter final quarter. Exhibit 5 shows a segmental analysis of our revenue assumptions for H221 and FY21 with prior full-year comparatives. Our total revenue estimate for FY21 is increased by nearly 6%.

Exhibit 5: Revenue analysis

£000	2018	2019	2020	H121	H221e	2021e
Net trading gains	9,594	4,008	16,003	11,507	7,493	19,000
Institutional income	37,866	33,317	37,192	21,879	19,121	41,000
Equities	47,460	37,325	53,195	33,386	26,614	60,000
Corporate retainers	12,430	13,357	13,536	6,293	6,290	12,583
Advisory	17,335	12,576	11,146	12,428	13,572	26,000
Capital markets	58,822	48,352	77,022	63,319	46,181	109,500
Investment banking	88,587	74,285	101,704	82,040	66,043	148,083
Total revenue	136,047	111,610	154,899	115,426	92,657	208,083

Source: Edison Investment Research

On expenses, the only change we have made is to allow for the signalled increase in staff numbers in the second half, estimating that the year-end headcount is 315 versus 292 at end FY20. FY22 will see the full inclusion of the additional cost.

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). An indication of the sensitivity of profitability to changes in revenue can be seen in the scenario analysis included in our December 2020 [note](#).

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	196.6	208.1	5.8%	55.1	62.0	12.4%	37.0	41.8	13.1%	12.0	12.0	0.0%

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 similar to or below the averages for the US investment banks and its ROE (based on the strong H121 period) 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	374	404	14.0	8.9	3.2	36.0	2.3
Arden Partners	19	6	2.7	N/A	0.0	N/A	1.1
Cenkos	81	46	24.5	N/A	4.3	8.0	1.5
FinnCap	38	67	8.5	N/A	4.0	29.1	2.3
WH Ireland	58	36	37.2	N/A	0.0	7.7	3.3
UK brokers average			17.4	8.9	2.3	20.2	2.1
US, European IB and advisory							
Bank of America	40.6	348,171	21.7	13.3	1.8	6.8	1.4
Evercore	136.9	6,363	14.2	11.8	1.7	43.8	4.5
Goldman Sachs	380.5	129,280	15.4	8.3	1.3	10.2	1.4
Greenhill	14.7	288	10.8	9.5	1.4	N/A	N/A
Jefferies Financial	32.4	7,994	12.2	6.7	1.8	8.1	0.9
JP Morgan	158.0	478,286	17.8	12.0	2.3	12.0	1.9
Moelis	56.0	3,707	19.2	15.9	2.5	N/A	6.8
Morgan Stanley	92.8	172,570	14.1	13.4	1.5	13.3	1.8
PJT Partners	72.6	2,605	14.7	15.2	0.3	N/A	11.2
Stifel Financial	66.7	7,007	14.6	12.0	0.7	N/A	1.9
Credit Suisse	9.2	24,538	8.7	9.7	1.1	5.9	0.5
Deutsche Bank	10.6	21,921	15.8	12.0	0.0	2.6	0.4
UBS	15.1	58,124	8.4	9.0	1.1	11.5	0.9
US, European IB and advisory average			14.4	11.4	1.3	12.7	2.8

Source: Refinitiv. Note: Priced at 12 July 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 2.3x, above the 10-year average of 2.0x. Using an ROE/COE model to infer the ROE required to match the share price (374p) shown gives a value of 17.6%. This is just below the five-year historical average of 18% and markedly lower than our estimate for the current year of 28%. This implies a significant margin for disappointment in prospective results and, it may be argued, 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	2015	2016	2017	2018	2019	2020	2021e
Year end 30 September							
PROFIT & LOSS							
Revenue	97,985	112,335	130,095	136,047	111,610	154,899	208,083
Administrative expenses (excl. amortisation and depreciation)	(65,018)	(76,120)	(83,626)	(94,603)	(85,432)	(105,327)	(131,742)
Share based payment	(4,104)	(6,229)	(10,454)	(10,583)	(10,914)	(9,961)	(9,000)
EBITDA	28,863	29,986	36,015	30,861	15,264	39,611	67,341
Depreciation	(882)	(1,126)	(1,226)	(1,113)	(1,124)	(3,016)	(5,293)
Amortisation	(111)	(125)	(89)	(49)	(44)	(105)	(110)
Operating Profit	27,870	28,735	34,700	29,699	14,096	36,490	61,938
Net finance income	190	37	188	212	550	263	(1,941)
Other operating income	(1,978)	3,759	3,431	1,733	(2,210)	310	1,974
Profit before tax	26,082	32,531	38,319	31,644	12,436	37,063	61,971
Tax	(4,533)	(6,132)	(7,942)	(4,967)	(3,110)	(5,713)	(13,851)
Profit after tax (FRS 3)	21,549	26,399	30,377	26,677	9,326	31,350	48,120
Average diluted number of shares outstanding (m)	117.6	118.0	117.2	115.8	114.9	117.3	115.1
EPS - basic (p)	19.5	23.5	27.4	25.1	8.8	29.9	45.9
EPS - diluted (p)	18.3	22.4	25.9	23.0	8.1	26.7	41.8
Dividend per share (p)	11.50	12.00	12.00	12.00	12.00	12.00	12.00
NAV per share (p)	102.0	113.5	125.0	135.0	131.3	149.8	166.5
ROE (%)	19%	22%	23%	19%	6.6%	21.2%	28.1%
EBITDA margin (%)	29.5%	26.7%	27.7%	22.7%	13.7%	25.6%	32.4%
Operating margin (%)	28.4%	25.6%	26.7%	21.8%	12.6%	23.6%	29.8%
BALANCE SHEET							
Fixed assets	6,724	5,522	6,147	8,215	6,832	12,639	57,881
Current assets	279,114	312,462	407,850	533,033	326,641	509,034	581,247
Total assets	285,838	317,984	413,997	541,248	333,473	521,673	639,128
Current liabilities	(170,319)	(188,895)	(280,371)	(398,112)	(195,319)	(361,397)	(417,956)
Long term liabilities	0	(12)	0	0	0	(2,643)	(36,873)
Net assets	115,519	129,077	133,626	143,136	138,154	157,633	184,299
CASH FLOW							
Operating cash flow	6,467	48,735	43,369	45,830	(2,748)	65,953	19,804
Net cash from investing activities	(3,632)	84	(198)	(1,014)	(77)	(474)	(12,816)
Net cash from (used in) financing	(17,510)	(19,580)	(36,359)	(29,035)	(24,646)	(24,451)	(35,730)
Net cash flow	(14,675)	29,239	6,812	15,781	(27,471)	41,028	(28,742)
Opening net (cash)/debt	(74,518)	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)
FX effect	(252)	172	38	40	0	(13)	27
Closing net (cash)/debt	(59,591)	(89,002)	(95,852)	(111,673)	(84,202)	(125,217)	(96,502)

Source: Company data, Edison Investment Research

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