

Share

Update

Adding accounts and firmly in profit

Share has completed the acquisition and transfer of accounts from J.P. Morgan Asset Management and in August reported its first H1 operating profit since 2014. This followed a return to profit in H218 and was achieved against a more challenging background for trading volumes and despite bearing some costs associated with the approach from Interactive Investor. Prospectively, a revival of investor confidence and benefits from adding further customer accounts could provide upside from our maintained normalised earnings estimates.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	18.7	0.4	0.27	0.40	106.7	1.4
12/18	21.0	0.7	0.45	0.55	65.4	1.9
12/19e	22.3	1.3	0.75	0.70	39.3	2.4
12/20e	23.0	1.5	0.86	0.75	34.1	2.6

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

Account acquisition and H119 results

Share has reported the successful transfer of over 13,000 accounts acquired from J.P. Morgan extending its track record of book acquisitions and partnerships with major institutions. H119 results showed revenue up by 9% compared with H118 to £11.1m despite an 18% decline in trading volumes in the period. Growth was provided by account fees and interest income. Cost growth was held to 3% allowing an operating profit of £0.1m against a loss of £0.5m. Statutory pre-tax profit was £0.2m versus a loss of £0.3m, while normalised pre-tax profit was £0.5m compared with £0.1m. Adding back the effect of lower trading volumes and a change in the timing of the Euroclear dividend would have given a normalised profit of over £1m, underlining the turnaround in profitability that has been achieved. Assets under administration increased +5% to £5.3bn in a period when the UK equity market fell by 3%.

Outlook

The background for equity market trading remains uncertain and a Share customer survey confirmed a recognition of the likely negative impacts of a hard Brexit but also a preference for a resolution. If delivered, this could generate higher activity as deferred decisions on allocation are taken. For its own part Share is set to benefit from the new accounts from J.P. Morgan and an increase in its fixed fees. In the longer term, further acquisitions of books of business and organic growth will be facilitated by the investment in technology that has taken place during Share's three-year digital transformation, improving the customer experience and the scope to deliver operational leverage with greater scale.

Valuation: Estimates and valuation maintained

Our revenue and normalised earnings estimates are unchanged (page 4) and our DCF-based central value of 32p is maintained. The operational gearing of the business means earnings estimates are particularly sensitive to revenue growth assumptions.

Financial services

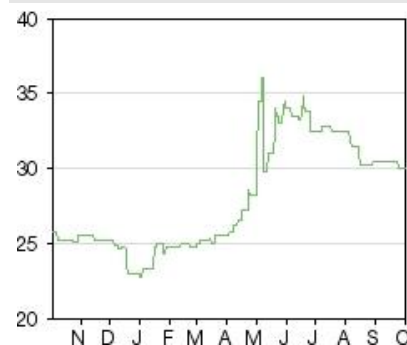
2 October 2019

Price **29.3p**

Market cap **£41m**

Net cash (£m) at end June 2019	9.3
Shares in issue	138.9m
Free float	31%
Code	SHRE
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.6)	(7.7)	16.5
Rel (local)	(2.8)	(6.4)	19.0
52-week high/low		36.0p	22.8p

Business description

Share's main subsidiary is The Share Centre, which is a self-select retail stockbroker that also offers share services for corporates and employees.

Next events

FY19 results	March 2020
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Acquisition of accounts

The acquisition of accounts from J.P. Morgan Asset Management has been completed with the transfer over a weekend of more than 13,000 accounts and, we estimate, c £490m of assets. Successful implementation of the transfer provides tangible evidence of the benefit of the IT investments it has made in addition to its experience of such operations. These are mainly investment trust savings schemes with some accounts also holding OEICs. The prospective retention rate and level of activity from these accounts is difficult to predict. They seem likely to be buy-and-hold investors (like most of Share's existing customers) but the additional assets should give rise to incremental activity as well as account fees. The latest book acquisition follows existing partnerships which include those with Henderson, Barclays and Computershare.

H119 results

The profit and loss figures for H119 highlighted Share's return to profitability on both a reported and normalised basis. An analysis of the profit and loss account is shown in Exhibit 1 and we pick out key points below, comparing with H118 unless stated.

- Group **revenue** increased by just over 9%. Both fee and interest income increased substantially while dealing commissions were 9% lower, reflecting a more difficult market background. Compared with H118 interest income nearly doubled, benefitting from higher rates and a higher average level of cash held on behalf of customers (although the period end level was 4% lower at £423m). Fee income was up 19% mainly because of a rise in customer numbers (to c 300,000) following acquisitions made in 2018.
- **Costs** increased by 3% with the largest contributor a 9% increase in staff costs. The headcount rose to 257 at end-June compared with 252 and 236 at end-FY18 and H118 respectively. Further increases are expected to be more limited following enhancements made to the IT platform. Transaction and marketing costs fell in a period of lower trading volumes.
- **Normalised pre-tax profit** increased from £0.07m to £0.53m, while there was a swing from a reported loss of £0.28m to a profit of £0.15m. The reported profit was lower sequentially but adding back the c £0.16m of advisory costs associated with the Interactive Investor merger approach would have meant profits increased. Also, if we adjust the normalised pre-tax profit for lower trading activity (+£0.4m according to Share) and for the timing of the dividend from the group's Euroclear investment moving to H2 (+£0.2m) then profits would have been over £1m.

Exhibit 1: Half-yearly profit and loss analysis

Year-end 31 December (£000s)	H118	H218	H119	% change
Account fees	3,613	4,187	4,300	19
Dealing commissions	5,714	5,186	5,200	(9)
Interest and other income	847	1,492	1,617	89
Revenue	10,175	10,864	11,117	9.3
Total costs	(10,695)	(10,659)	(11,013)	3.0
Operating profit	(520)	205	104	
Investment revenues	245	48	68	
Other losses and gains	0	0	19	
Non-recurring items	0	0	0	
Pre-tax profit	(275)	253	151	
Normalising adjustments				
Other gains and losses	0	0	(19)	
Non-recurring items incl. FSCS	171	207	283	
One-off/restructuring	13	130	177	
Share-based payments	267	284	221	
Profit share impact of above	(94)	(106)	(104)	
Normalised pre-tax profit	69	638	532	671.0
Tax	(4)	(43)	(20)	400.0
Post-tax profit	(279)	210	131	
Normalised post-tax profit	50	166	482	864.0

Source: Share plc, Edison Investment Research. Note: Half-yearly revenue segmental analysis approximate as based on stated percentage changes.

In tandem with an increase in the number of customers, the level of assets under administration (AUA) increased from £5.0bn to £5.3bn, an increase of 5% over a period in which the UK equity market fell by 3%.

Contributing to the growth in AUA was the transfer of the final tranche of accounts from Beaufort Securities and at the end of June 60% of accounts had been retained, ahead of the group's own expectation and a high level considering the difficulties these investors had faced previously.

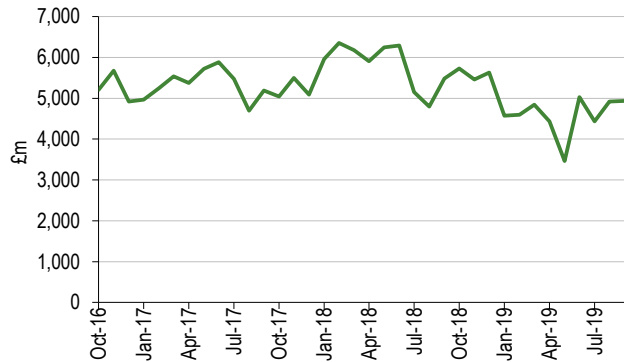
As noted, the Interactive Investor potential merger approach was made public during the first half and the group incurred advisory costs while it was under consideration. Interactive Investor subsequently withdrew for its own reasons. Looking forward, the board has indicated it will consider any further serious approaches from third parties but there is no 'for sale' sign over the business and it has the ambition to grow in scale substantially in its own right.

Background and outlook

UK equity market performance is shown in Exhibit 2 with features including the Q418 market dip followed by a recovery, which has only recently seen a marked setback despite continuing macro uncertainties. Trading activity, however, has been affected by the background and H119 London Stock Exchange order book average daily trading was down 24%. There has been a modest revival in trading in the most recent readings (Exhibit 3) but this may not be sustained depending on political developments. The Brexit process appears likely to remain a key driver of market sentiment for some time.

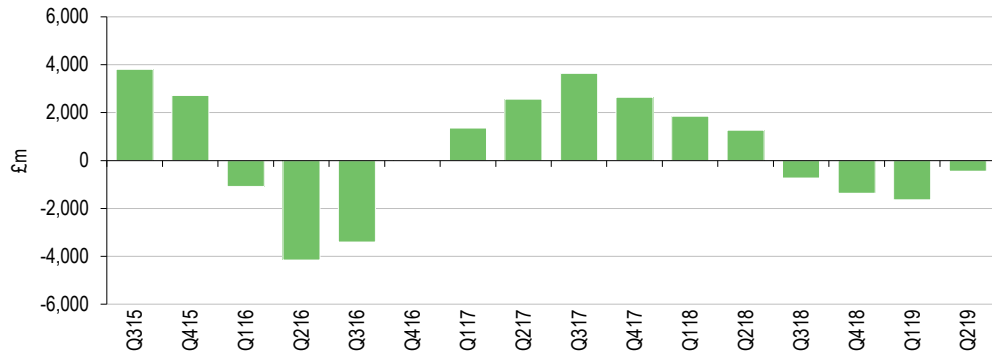
Exhibit 2: FTSE All-Share Index (total return)


Source: Refinitiv

Exhibit 3: London Stock Exchange order book trading


Source: London Stock Exchange (Main Market)

As an indicator of retail investor confidence and appetite for investment, Exhibit 4 shows the level of UK retail equity fund sales, as reported by the Investment Association.

Exhibit 4: Quarterly equity fund sales in the UK


Source: Investment Association

This shows a negative balance in flows since Q318 although the outflow moderated between Q119 and Q219. This again ties in with subdued investor appetite while uncertainty prevails.

Share introduced tariff changes from 6 July with the main changes shown below. From a client perspective (including VAT) the absolute and percentage changes are not substantial but with HMRC having confirmed that VAT is not chargeable, the benefit for Share is more significant (+33% for the Share Account, for example). The full benefit is unlikely to flow through to profit, however, as an offset in the form of irrecoverable VAT is likely. Dealing charges are unchanged with the standard dealing charge being £7.50 for trades of under £750 and 1% for £750 and above. For £24 per quarter (£8 per month) the frequent dealing option provides a flat fee of £7.50.

Exhibit 5: The Share Centre fixed account management fees

£, monthly fees	Old including VAT	Old ex-VAT	New	Change (%)
Share Account	1.80	1.50	2.00	33
ISA	4.80	4.00	5.00	25
Junior ISA	1.20	1.00	1.50	50
SIPP	14.40	12.00	15.00	25

Source: Share plc

Looking ahead, near-term dealing commissions are likely to be sensitive to political developments in the UK and delivery of further certainty could encourage greater activity even if investor confidence remains fragile. On a longer view the need for individuals to take greater responsibility for saving for retirement and the increased flexibility in drawdown should create opportunities for a self-select platform such as the Share Centre. In addition to organic growth, the acquisition of

further books of business could help build scale, further leveraging the investment already made. The enhancements made to the platform should be positive both in terms of winning new business and retaining existing clients.

Financials

Share indicated that it expects its financial performance to continue to improve in line with market expectations and our estimates for revenue, normalised pre-tax profit and EPS are unchanged. Within revenues we have increased our estimate for account fees and reduced dealing commission and interest income assumptions by an equivalent amount. Our estimate for FY19 reported pre-tax profit is lower at £0.50m versus £0.63m, mainly reflecting the advisory costs incurred in the first half.

At the end of June cash and cash equivalents stood at £9.3m compared with £9.1m at end-H118 and £9.0m at end-FY18. In addition the group has investments in the London Stock Exchange and Euroclear valued at £9m at the period end. Share's Pillar 3 [disclosure](#), which is based on the end 2018 financial position, shows a regulatory capital requirement of £3.9m for FY19 and Tier 1 (and total) capital after deductions of £8.6m, meeting Share's target cover of two times the requirement with a further surplus of £0.8m.

Valuation

We have updated the comparative table used in our previous notes (Exhibit 6) comparing a number of measures for Share, Hargreaves Lansdown and AJ Bell. We have set the surplus capital adjustment to allow for 2x coverage (Share's target level). This shows Share trading at an adjusted value of 1.8x revenue compared with 20.0x and 16.0x for Hargreaves Lansdown and AJ Bell, respectively. Similarly, for value as a percentage of AUA, Share is significantly lower at 0.8% versus 9.7% and 3.2%, respectively.

Exhibit 6: Peer comparison			
£m unless stated	Share	Hargreaves Lansdown	AJ Bell
Market capital	41	9,529	1,636
Surplus capital (at 2x requirement)	1	(88)	31
Adjusted value	40	9,617	1,606
Revenue	22	481	100
Assets under administration (AUA)	5,300	99,300	50,700
Accounts (number of active clients for HL)	300,000	1,224,000	224,644
Adjusted value/revenue (x)	1.8	20.0	16.0
Adjusted value/AUA (%)	0.8	9.7	3.2
Descriptive metrics			
Revenue/average AUA (bps)	44	52	22
Market value per account	136	7,785	7,285
AUA per account (£)	17,667	81,127	225,690
Revenue per account (£)	78	415	553
Adjusted value per account (£)	133	7,857	7,148

Source: Edison Investment Research, companies' disclosure. Note: Share AUA and revenue H119, Hargreaves Lansdown, FY19 and AJ Bell, H119 and Q319 update. Priced on 1 October 2019.

We have also updated our DCF valuation using assumptions that include long-term growth of 4%, a discount rate of 10% and a terminal multiple of 10x. With estimates largely unchanged, our central value (see sensitivity in Exhibit 7) remains 32p.

Exhibit 7: Discounted cash flow valuation sensitivity (pence per share)

Long-term growth	Discount rate				
	8%	9%	10%	11%	12%
2%	32.9	31.6	30.4	29.3	28.3
3%	33.8	32.4	31.1	30.0	28.9
4%	34.8	33.3	32.0	30.7	29.6
5%	35.8	34.2	32.8	31.5	30.3

Source: Edison Investment Research

Exhibit 8: Financial summary

£000	2014	2015	2016	2017	2018	2019e	2020e
Year end 31 December							
PROFIT & LOSS							
Account fees	6,610	6,400	6,784	7,200	7,800	8,887	9,069
Dealing Commissions	6,610	6,400	7,040	10,600	10,900	10,355	10,769
Interest and other income	1,822	1,250	786	926	2,339	3,054	3,208
Revenue	15,042	14,050	14,610	18,726	21,039	22,296	23,046
Administrative expenses (exc amortisation and depreciation)	(14,579)	(14,812)	(15,727)	(19,169)	(20,536)	(20,847)	(21,240)
EBITDA	463	(762)	(1,117)	(443)	503	1,449	1,806
Depreciation	(104)	(111)	(121)	(127)	(120)	(140)	(140)
Amortisation	(11)	(21)	(108)	(223)	(698)	(1,050)	(1,100)
Operating profit (pre exceptional)	348	(894)	(1,346)	(793)	(315)	259	566
Exceptionals	0	0	0	900	0	0	0
Other	60	1,479	2,119	51	0	(61)	(80)
Investment revenues	308	276	248	225	293	305	305
Profit Before Tax (FRS 3)	716	861	1,021	383	(22)	503	791
Profit Before Tax (norm)	1,615	584	(46)	351	707	1,287	1,486
Tax	(109)	(196)	(284)	(73)	(47)	(96)	(142)
Profit After Tax (FRS 3)	607	665	737	310	(69)	408	649
Profit After Tax (norm)	1,416	555	4	383	626	1,050	1,211
Average Number of Shares Outstanding (m) - exc treasury	143.5	139.2	139.3	139.4	139.8	140.9	140.9
EPS - normalised (p)	0.99	0.40	0.00	0.27	0.45	0.75	0.86
EPS - FRS3 (p)	0.42	0.48	0.53	0.22	(0.05)	0.29	0.46
Dividend per share (p)	0.62	0.74	0.25	0.40	0.55	0.70	0.75
EBITDA Margin (%)	3.1%	(5.4%)	(7.6%)	(2.4%)	2.4%	6.5%	7.8%
Normalised operating margin (%)	8.3%	2.2%	(2.0%)	0.7%	2.0%	4.8%	5.5%
BALANCE SHEET							
Fixed Assets (mainly Investments)	9,405	8,083	8,341	9,986	12,516	14,295	13,337
Current Assets	21,316	19,716	23,883	35,300	26,064	28,287	29,679
Total Assets	30,721	27,799	32,224	45,286	38,580	42,582	43,016
Current Liabilities	(8,450)	(7,681)	(13,384)	(25,942)	(17,671)	(19,670)	(20,315)
Long term Liabilities	(1,594)	(1,418)	(1,096)	(1,155)	(1,442)	(2,608)	(2,040)
Net Assets	20,677	18,700	17,744	18,189	19,467	20,304	20,660
CASH FLOW							
Operating Cash Flow	199	(2,104)	492	1,147	415	1,937	2,316
Net cash from investing activities	(434)	1,990	483	(1,293)	(1,075)	(395)	(245)
Net cash from (used in) financing	(736)	(878)	(1,217)	(735)	(886)	(1,424)	(1,554)
Net Cash Flow	(971)	(992)	(242)	(881)	(1,546)	118	517
Opening net (debt)/cash	13,626	12,655	11,663	11,421	10,540	8,994	9,112
Closing net (debt)/cash	12,655	11,663	11,421	10,540	8,994	9,112	9,629

Source: Company accounts, Edison Investment Research

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