

Positive trading, discount-to-NAV being addressed

30th September 2024

In its AGM statement of 26 Sep 24, Mercia has confirmed that trading has been positive to date in FY25 (1 Apr 24 – 31 Mar 25), it is encouraged by current deal pipelines, and it is “*optimistic for continuing profitable progress*” in H2. We remind readers that Mercia is scaling rapidly, with FUM more than doubling over two years to >£1.6bn. This was boosted by record net inflows in FY24 of >£0.5bn, including a string of new mandates from British Business Bank.

Mercia has also confirmed a net cash position of over £43m (30% of its market cap), a few days before the end of H1-25. With no debt, its balance sheet remains exceptionally strong.

Reclassification to trading company may benefit shareholders

In our initiation note of 2 Jul 24, [A deeply undervalued specialist in private markets](#), we stressed the significance of: 1) the recent strategic shift to focus on highly profitable and fast-growing fund management and to stop making new direct on-balance-sheet investments, while still supporting existing investments; and 2) the related intention to reclassify from an *investment company* to a *trading company* under AIM rules, which was proposed and passed at the AGM. The significance is:

First, as the £117m (NAV) direct portfolio is converted into cash through future exits of direct investments (CEO Mark Payton envisages that c80% could be realised within three years), the (huge) discount to portfolio NAV implied in Mercia’s share price should reduce. Note that the portfolio NAV is c82% of Mercia’s market cap of £142m (on 27 Sep 24), and that Mercia has £43m of free cash, as well as a substantial fee-earning fund management business, which we value at c£55m.

Second, the reclassification, which was approved by shareholders, will do no harm in supporting Mercia’s existing belief that its shares should be IHT-exempt (under certain conditions).

Fundamental value 55% above share price

We remind readers of our sum-of-the-parts valuation (as at 31 Mar 24) presented in our initiation note:

- Value of ‘standalone’ fee-earning fund management business: 13p per share
- Cash on balance sheet: 11p per share
- Direct investment portfolio: 27p per share
- **Total fundamental value: 51p per share.**

We maintain our position that there is potential for a significant share-price rerating.

Company Data	
EPIC	MERC
Price (last close)	33p
52 weeks Hi/Lo	36p/21p
Market cap	£142m
ED Fair Value / share	51p
Net cash	£43m
Avg. daily volume	747k

Share Price, p



Source: ADVFN

Company Description

Mercia Asset Management (Mercia) was founded in 2010 and listed on the AIM market of the London Stock Exchange in Dec 2014.

It provides venture capital, debt and private equity to mostly regional (ex-London) UK businesses, investing between £100k and £20m.

It manages c.£1.6bn of funds for third parties and has net assets of c.£189million of its own.

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Key Financials

Year-end 31 Mar	FY21A	FY 22A	FY 23A	FY 24A	FY 25E	FY 26E
AUM, £bn	0.94	0.96	1.44	1.82	1.97	1.98
Third-party FUM, £bn	0.76	0.76	1.23	1.63	1.77	1.78
Direct investments, £m	96.2	119.6	136.6	116.9	128.9	136.9
Rev (excl. perf. fees), £m	19.2	20.6	25.9	30.4	34.5	35.5
Performance fees, £m	4.2	2.6	0.0	0.0	0.0	0.0
EBITDA, £m	3.3	4.0	5.2	5.5	6.2	6.2
EBITDA margin	17.1%	19.2%	20.0%	18.2%	18.0%	17.5%
PBT, £m	34.0	27.4	2.4	-8.2	2.8	2.8
EPS basic, p	7.8	5.9	0.6	-1.7	0.7	0.7
Div, p	0.40	0.80	0.86	0.90	0.95	0.99
Yield	1.2%	2.4%	2.6%	2.7%	2.9%	3.0%
Net assets, £m	176.0	200.6	202.9	189.2	187.3	187.4
Net cash, £m	54.5	56.0	37.6	46.9	33.2	28.4

Source: Company Historic Data, ED estimates. Yield based on share price of: 33p



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