

Well-flagged sluggish quarter, but price fall looks overdone

12th October 2023

FUM increased marginally over Q1 of FY24 from £16.85bn on 30 Jun 23 to £16.86bn on 30 Sep 23. As flagged in the FY23 results release of 14th Sep 23, net flows were slightly negative for the quarter at -£70m, although BM has indicated it expects positive flows for the whole of FY24.

It's important to keep this small negative quarterly net flow number in context: it follows nine consecutive quarters of positive flows (achieved despite difficult market conditions) and a period where BM recorded a higher organic growth rate than peers for 6 out of 8 quarters.

In its recent FY23 results, BM said that **sales activity and gross inflows have been solid, and it now reports level gross inflows y-o-y** (indicative of a strong competitive positioning). But outflows are above recent levels as more clients are tending to pay down debt and take advantage of higher interest paying cash deposits, as opposed to leaving funds in their investment accounts.

Although comparative data for this quarter is not yet available, given the difficult market conditions we wouldn't be at all surprised if BMs organic growth rate is again strong relative to peers [refer to our recent note [Revenue & profit beat forecast but outlook cautious](#) and to page 3 for further details].

Investment performance contributed +£79m to FUM (0.5% of opening FUM), in line with the benchmark *MSCI PIMFA Private Investor Balanced Index* (capital only) which rose 0.6%.

Both sector and BM looking undervalued

We leave our forecasts and our **fundamental valuation unchanged at 3,000p per share** which, following the recent share price fall of BM (as well as the sector more generally), is now 89% above the current share price.

It is also worth zooming out to look at sector valuations in light of recent falls. Since the end of the bull market at the end of 2021, investment/wealth managers and platforms have 'de-rated' significantly with the median PER of a tracked peer group declining 54% from 27.6 to 12.6 (page 2).

While valuations may well have 'over-run' to a degree at the end of the bull market, **we certainly see the current median PER of 12.6 as very low** (noting that this has **dropped 25% in just one month** from 17.0 when we published our most recent note on 14th September 2023).

Key Financials					
Year-end 30 Jun	FY21A	FY 22A	FY 23A	FY24E	FY 25E
FUM, £bn	16.5	15.7	16.8	18.4	20.3
Rev, £m	118.2	122.2	123.8	126.3	134.2
Underlying expenses*	87.6	87.7	93.5	95.1	101.0
Underlying PBT*	30.6	34.5	30.3	31.2	33.3
Underlying PBT margin	25.9%	28.2%	24.5%	24.7%	24.8%
Statutory PBT, £m	25.1	29.5	22.2	26.7	29.3
EPS basic, p	125.3	149.0	114.7	123.5	134.1
Underlying diluted EPS**, p	150.6	168.8	151.0	141.5	149.5
PER	12.7	10.7	13.9	12.9	11.9
Div, p	63.0	71.0	75.0	75.0	75.0
Yield	4.0%	4.5%	4.7%	4.7%	4.7%
Net assets, £m	134.0	148.4	157.3	164.6	173.8
Net cash, £m	54.9	61.3	53.4	63.6	73.7

Source: Company Historic Data, ED estimates. PER and Yield based on share price of:

Company Data	
EPIC	BRK
Price (last close)	1590p
52 weeks Hi/Lo	2250p/1590p
Market cap	£261m
ED Fair Value/share	3000p
Net cash	£53m
Avg. daily volume	22k

Share Price, p



Source: ADVFN

Brooks Macdonald (BM) was founded in 1991 and listed on AIM in 2005.

It provides investment management services to financial advisers and private clients in the UK, and to international clients via its operations in Jersey, Guernsey, and Isle of Man. Its main product offerings include:

- Bespoke Portfolio Services (tailored for individual clients)
- Managed Portfolio Services (risk-profiled 'model' portfolios)
- Funds (mostly multi-asset funds for simpler or smaller portfolios)
- Financial Planning Services
- BM Investment Services (B2B white-labelled investment proposition for IFAs)

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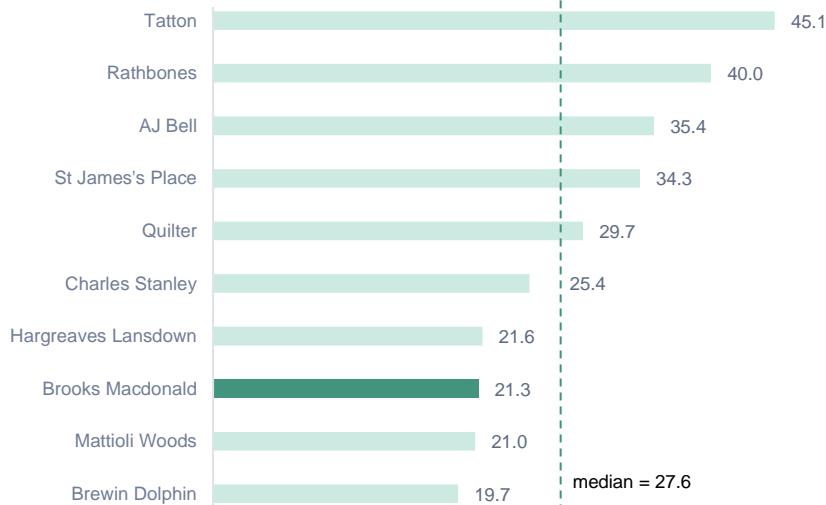
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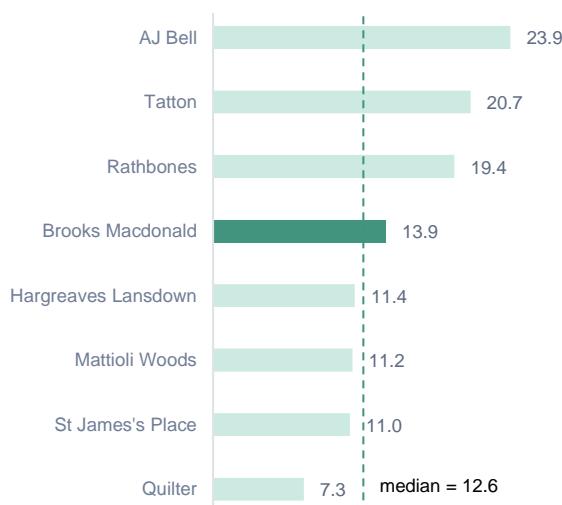
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PE Ratios: UK-listed investment/wealth managers and platforms

PERs on 31 December 2021



PERs on 11 October 2023



Source: ADVFN, as of 11 Oct 23, ED analysis.

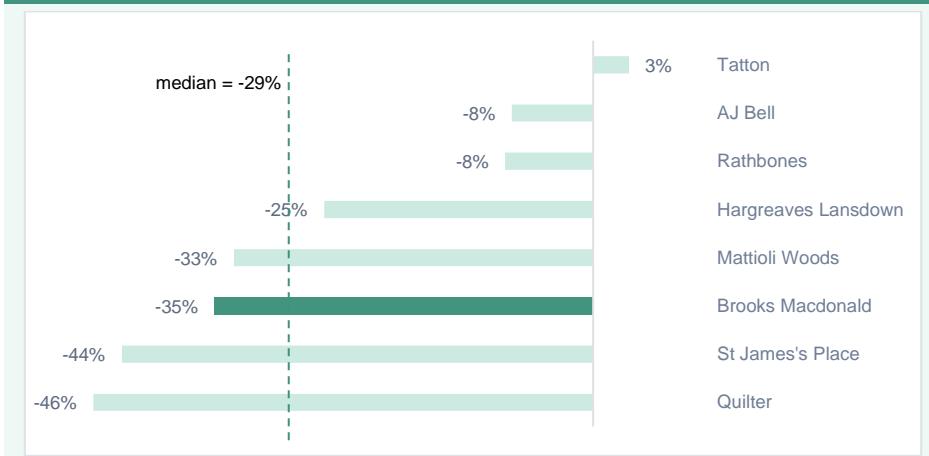
* Mattioli Woods PER calculated using 'adjusted PAT' which eliminates some of the distortions in earnings created by the statutory accounting treatment of recent large acquisitions. All other PERs calculated using statutory EPS.

Another interesting, related data point is that when the acquisition of Brewin Dolphin by RBC Wealth Management (Jersey) was announced on 31 March 2022, its PER jumped from 16.9 to 27.2, a premium of 62% to its share price the day before the deal was announced.

This suggests that large foreign wealth managers were seeing substantial value in the UK wealth management sector at that time.

With share prices in the above peer group down 29% since that date (see chart below) and considering that prices had already fallen substantially in early 2022 (because of the war in Ukraine, energy price spikes, inflation fears, and rising interest rates), they are surely seeing even more value now.

Share price moves: 30 Mar 22 (pre-Brewin announcement) to 11 Oct 23

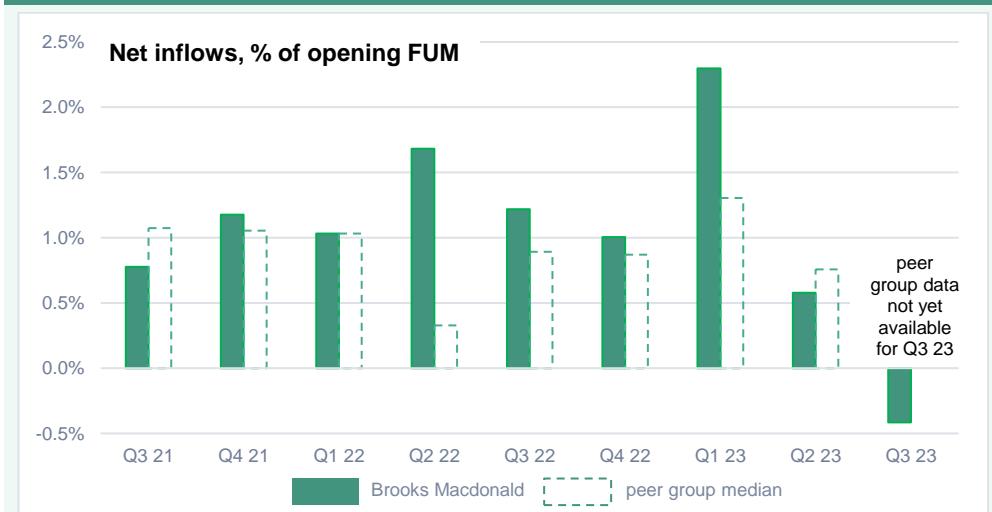


Source: ADVFN, as of 11 Oct 23, ED analysis.

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We also highlight that BM's share price fall in the above chart is one of the largest. And this occurred during a period when it demonstrated consistently higher organic growth rates than peers (net inflows/opening FUM higher than peers for 6 out of the last 8 quarters). This seems strange.

BM's organic growth rate has been strong compared to peers



Source: Company reports, ED analysis. Calendar quarters shown not FY quarters

Peer group consists of: Quilter, St James's Place, Hargreaves Lansdown, AJ Bell, Rathbones, Brooks Macdonald, Brewin Dolphin (up to Q2-22), Evelyn Partners (from Q1-22). Quarterly comparatives not available for Schroders and Abrdn.

We see potential for a significant sector re-rating and within that, for BM to command a premium rating given its outperformance compared to peers.



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