

## FUM up 4.3% in quarter, profit forecast upgraded a touch

17th January 2024

**FUM rose by 4.3% in Q2-FY24 from £16.9bn on 30 Sep 23 to £17.6bn on 31 Dec 23. This is on track to meet our end-FY24 (30 Jun 24) FUM target of £18.4bn (+9% y-o-y growth). Investment performance was strong, contributing £821m to FUM or +4.9% of opening FUM. Net flows remained subdued at -£98m (Q1: -£70m).**

The net flow performance was characterised by: 1) strong gross inflows of +£591m (up on the £582m of Q1), indicative of BM's strong competitive positioning; and 2) gross outflows being higher than the longer-term trend as clients maintained a risk-averse stance and continued to deploy funds to pay down debt and take advantage of higher-interest paying cash deposits, as opposed to leaving funds in their investment accounts.

Platform MPS, including the Group's B2B offering for financial advisers, BM Investment Solutions, was the star performer with £121m of net inflows (3.3% of opening FUM) and FUM up 7.3%. Within BPS, the recently launched gilts offering is also enjoying success, growing to £0.2bn FUM in its first year. This provides clients with higher interest rate exposure while avoiding equity risk.

BM has also disclosed some details of its private client business (clients who deal directly with the group without an intermediary), with Funds under management or Advice growing to £4.4bn (25% of total FUM).

## Fundamental value still 3,050p per share, 60% above share price

We remind readers that in Oct 23, BM announced a programme to reduce costs by around £4m per year, with one-off FY24 restructuring costs of up to £3.0m. This followed extensive technology and digitalisation investment over the last few years, enabling the group to manage the same or even higher business volumes with a reduced workforce. BM has now confirmed that the one-off restructuring cost is in line with the £3m estimate, and that some cost savings will be seen in FY24. As such, we reduce our FY24 cost estimate and increase our profit estimate as per the table below.

With net flows slightly weaker than forecast, but costs also lower, **our fundamental valuation remains 3,050p per share.** We also see BM's PER of 16.5 as too low – see page 2.

Company Data	
EPIC	BRK
Price (last close)	1895p
52 weeks Hi/Lo	2250p/1590p
Market cap	£312m
ED Fair Value/share	3050p
Net cash	£53m
Avg. daily volume	22k



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)

### Paul Bryant (Analyst)

0207 065 2690  
[paul.bryant@equitydevelopment.co.uk](mailto:paul.bryant@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692  
[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

Key Financials							
Year-end 30 Jun	FY21A	FY 22A	FY 23A	FY24E (prev.)	FY24E (new)	FY 25E (prev.)	FY 25E (new)
FUM, £bn	16.5	15.7	16.8	18.4	18.4	20.3	20.0
Rev, £m	118.2	122.2	123.8	126.3	126.3	130.4	130.3
Underlying expenses*	87.6	87.7	93.5	95.1	93.8	97.0	95.6
Underlying PBT*	30.6	34.5	30.3	31.2	32.5	33.5	34.7
Underlying PBT margin	25.9%	28.2%	24.5%	24.7%	25.7%	25.7%	26.6%
Statutory PBT, £m	25.1	29.5	22.2	23.7	25.0	29.5	30.8
EPS basic, p	125.3	149.0	114.7	109.6	115.6	134.9	140.7
Underlying dil. EPS**, p	150.6	168.8	151.0	141.5	147.4	150.2	156.0
PER	15.1	12.7	16.5	17.3	16.4	14.0	13.5
Div, p	63.0	71.0	75.0	75.0	75.0	75.0	75.0
Yield	3.3%	3.7%	4.0%	4.0%	4.0%	4.0%	4.0%
Net assets, £m	134.0	148.4	157.3	162.5	163.4	171.7	173.5
Net cash, £m	54.9	61.3	53.4	61.5	62.4	71.5	73.4

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: 1,895p

\* 'Underlying' excludes one-off expenses, mostly acquisition-related, & goodwill amortisation, gains & losses. \*\* After tax

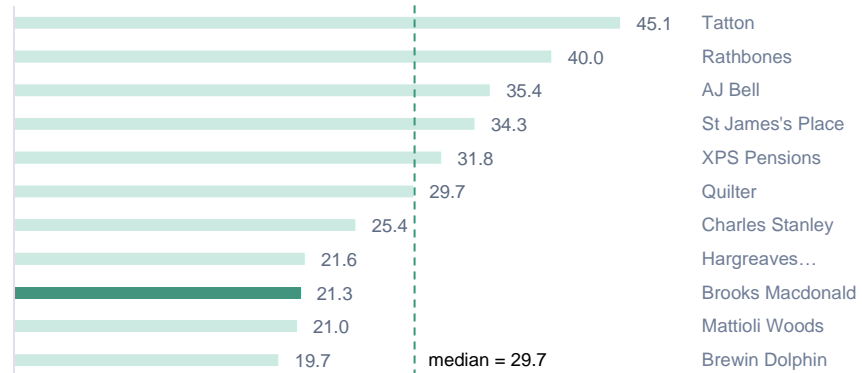
## Decline in sector & BM valuations looks overdone

Since the end of the bull market (end of 2021), investment/wealth managers and platforms have 'de-rated' significantly with the median PER of a tracked peer group declining 44% from 29.7 to 16.5.

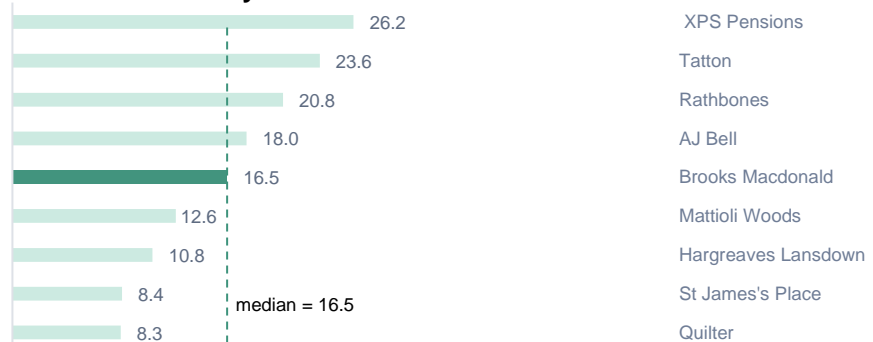
While valuations may well have 'over-run' to a degree at the end of the bull market, we certainly see the current median PER of 16.5 as being on the low side and see potential for a sector rerating. Also, with its strong competitive positioning, recent growth trajectory above that of most peers, and recent actions taken to boost profit margins, we think BM should be commanding a premium PER compared to peers.

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

#### PERs on 31 December 2021



#### PERs on 16 January 2024



Source: ADVFN, as of 16 Jan 24, 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 investment/wealth managers were seeing substantial value in the UK at that time. They are surely seeing even more value now.**



## Contacts

### Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690