

Leader in Sustainable Investing moves into overdrive

8 February 2021

AUM on 31 Jan (four months into FY21) reached £26.8bn, already 33% up on FY20 closing AUM of £20.2bn. Q1 21 inflows totalled £2.8bn, compared to average quarterly inflows of £0.87bn in FY20 and £0.35bn in FY19. This step-change makes our previous inflow estimates of around £3bn per year look overly conservative. In addition, it is also almost certain to ratchet up profit margins as operational leverage kicks in.

We increase our fundamental valuation to 925p per share, based on our projections of Impax reaching £50-55bn AUM by 2025. While market swings will inevitably make AUM progression non-linear, we believe Impax is well placed to achieve this growth.

Both London-managed listed equities and Impax North America are performing well. London attracted £2.7bn of inflows in Q1 (16% of starting AUM, compared to 4% of starting AUM in Q4 20), while Impax North America attracted £0.32bn (8% of starting AUM, compared to 4% in Q4 20)¹.

Impax is undoubtedly benefitting from the unabated channelling of capital into sustainable investments. In a Feb 21 report, Morningstar reports that in Europe, calendar year 2020 saw inflows into sustainable funds reach EUR233bn, double that of 2019 and ten times higher than five years prior. A longer-term perspective is even more telling, with total assets in European sustainable funds reaching EUR1.1trn in December 2020, almost ten times higher than the EUR112bn in 2010².

Within the sustainable investing universe, we believe that Impax will continue to outperform.

While most sustainable funds are still focused on 'broad ESG' offerings (which tend to focus on individual company business practices, not targeted themes), the trend is toward the latter - which is Impax's strength. Morningstar reports that 77% (372 out of 485) of European new fund launches in 2020 were 'broad ESG' offerings. However, it noted: "Climate-change-themed funds were among the best sellers", and that: "The environment was a popular investment theme throughout 2020 but even more so towards the end of the year". We see Impax's thematic approach and over 20 years' of experience in this field as distinct competitive advantages.

Indeed, we remind readers of Morningstar's Nov 20 'ESG Commitment Level' assessment of a cohort of asset managers which placed Impax in a group of only six to achieve 'leader' status (the highest category), with 70% of the cohort - including some global giants - receiving a 'basic' or 'low' rating³.

Updated key financials

Year-end 30 Sep	2017A	2018A	2019A	2020A	2021E	2022E
AUM, £bn	7.3	12.5	15.1	20.2	28.4	35.0
Revenue, £m	32.7	65.7	73.7	87.5	122.7	141.5
Adjusted Op. Profit, £m	9.3	20.0	18.0	23.2	38.9	46.4
Adjusted EPS, diluted, p	6.2	12.4	11.5	14.5	23.8	28.7
PER	128.2	64.6	69.8	55.3	33.6	27.9
Dividend*, p	2.9	4.1	5.5	8.6	14.7	17.4
Yield	0.4%	0.5%	0.7%	1.1%	1.8%	2.2%
Net assets, £m	35.6	53.5	63.2	71.4	88.6	105.3
Net cash**, £m	20.7	16.8	27.2	38.8	60.7	80.9

Source: Group report & accounts and ED estimates * Excludes special dividend of 2.6p in FY18, **includes funds in money market & LT deposit accounts and 3rd-party interest on consolidated funds Adj. results eliminate non-recurring acquisition costs, on-going amortisation of intangibles acquired, one-off tax credits and mark-to-market charges on equity award schemes. PER, and Yield calculations based on a share price of 800p.

¹ Impax North America includes £0.2bn in Q1 21 and -£0.04bn in Q4 20 which is then removed to avoid double-counting AUM flows.

² Morningstar: European Sustainable Funds Landscape: 2020 in Review

³ The Morningstar ESG Commitment Level. Our first assessment of 100-plus strategies and 40 asset managers

Company Data

EPIC	IPX
Price	800p
52 weeks Hi/Lo	886p/191p
Market cap	£1,020m
ED Fair Value/share	925p
Proforma net cash	£38.8m
Avg. daily volume	143k

Share Price, p



Source: ADFVN

Description

Impax is a specialist asset manager, focused on the growth opportunities arising from the transition to a sustainable economy. Founded in 1998, it offers a range of thematic and unconstrained global equity strategies, real asset funds, as well as smart beta and fixed income strategies.

Aggregate AUM at end Jan 2021 was £26.8bn



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