Impax Asset Management

Inflows continue but market dip slows AUM growth

8 April 2022

Market turbulence in Q1 2022 (Q2 of Impax's FY22) has certainly been a speedbump. AUM fell £3.3bn (8.1%) from £41.4bn on 31 Dec 21 to £38.0bn on 31 Mar 22. However, we think it is just that - a speedbump, with recent developments in the world of sustainable investing and geopolitics making Impax's longer-term fundamentals even stronger. A growing backlash against greenwashing will favour the most credible sustainable investment managers such as Impax, and dramatic moves to reduce dependency on Russian fossil fuels will certainly accelerate the shift to renewable energy, which also favours Impax (see page 2 for further details of these trends).

Investment performance in Q2 accounted for a £3.8bn drop in AUM (Q1: +£2.1bn): -9.3% of opening AUM. This was in turn driven by significant market falls, especially in 'sustainable economy' and 'growth-oriented' stocks which are common in Impax's strategies (FTSE Environmental Opportunities All-Share Index: -7.2%, NASDAQ: -7.7%; MSCI AWCI: -5.4%; S&P 500: -4.9%; FTSE 100: +1.8%).

Yet, impressively, given such turbulent market conditions, net inflows of £0.5bn were recorded during Q2 (Q1: +£2.0bn). Over the full H1 of FY22 (Oct 21 – Mar 22) AUM has actually grown by 2.2% (AUM on 31 Sep 21: £37.2bn).

Forecasts and Valuation

The AUM dip has led us to trim our short-term forecasts, with **revenue estimated to grow by 'only' 28% in FY22 to £184m** (previous forecast: +35% to £193m), and adjusted operating profit to grow by 22% to £68m (previous forecast: +31% to £73m). However, given the continuing (and probably improving) longer-term prospects, we see no reason to revise the fundamental growth assumptions that underpin our valuation: that from FY23, Impax attracts between £7bn and £8bn of net inflows per annum (it recorded £10.7bn in FY21), and achieves an investment performance of +5% per annum.

Our fundamental valuation is 1,260p per share, 34% above the current share price albeit down from 1,450p per share. This is due to the dip in AUM during Q2 and lowered inflow assumptions for H2 22 (which has a knock-on effect on AUM levels beyond FY23), and an increase in the risk-free rate used in our DCF calculation (10 year gilt yields have doubled from ~0.8% in Dec 21 to ~1.6%).

Summary financials & forecasts

Year end 30 Sep	FY19A	FY20A	FY21A	FY22E	FY23E
AUM, £bn	15.1	20.2	37.2	41.1	50.2
Revenue, £m	73.7	87.5	143.1	183.7	207.0
Adj. Op. Profit*, £m	18.0	23.2	55.8	68.2	78.0
Net profit after tax	15.9	13.7	40.2	52.9	58.6
EPS basic, p	12.2	10.6	31.5	40.9	45.0
EPS adj. & diluted, p	11.5	14.5	33.9	40.8	44.7
PER	82.2	65.2	27.8	23.1	21.1
Dividend, p	5.5	8.6	20.6	25.5	27.9
Yield	0.6%	0.9%	2.2%	2.7%	3.0%
Net assets, £m	63.2	71.4	110.5	138.4	168.0
Net cash, £m	27.2	38.8	74.2	107.0	140.3

Source: Group report & accounts and ED estimates

PER and Yield calculations based on share price of: ***942p***

** Adj. eliminates one-off acquisition costs & tax credits, amort. of intangibles acquired, & mark-to-market of NI on equity awards*

Company Data

EPIC	IPX
Price (last close)	942p
52 weeks Hi/Lo	1508p/740p
Market Cap	£1.25bn
ED Fair Value/share	1260p
Proforma net cash	£74.2m
Avg. daily volume	250k

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.

AUM on 31 Mar 2022: £38.0bn

Next Event, H1 22 results: June '22

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2020

SHARES AWARDS 2021 WINNER AIM Company of the Year

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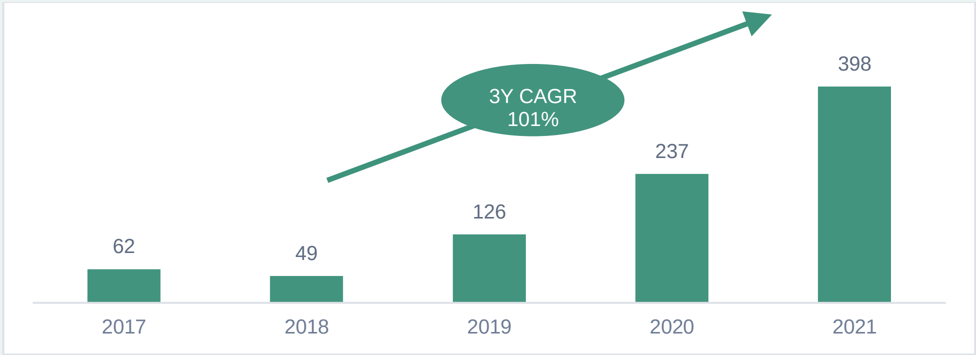
Medium- to longer- term tailwinds strengthen

Since our last note in Jan 22, new research has been published which shows **continuing, exceptionally strong momentum in sustainable investing.** Morningstar reports[1] that in 2021, European (incl. UK) sustainable funds attracted nearly €400bn of net inflows, 68% up year-on-year and eight times higher than the €50bn of net inflows of 2018 – an eye-watering **3 years compounded annual growth rate of 101%**. In fact, in Q1-Q3 21, European sustainable funds attracted **nearly half of all flows**, rising to 58% in Q4.

European Sustainable Fund* Flows, €bn



Source: Morningstar: Global Sustainable Fund Flows: Q4 2021 in Review (and prior reports)
** Open-end funds & ETFs domiciled in Europe that claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal. Excludes money market funds, feeder funds, and funds of funds.*

There is room for further growth. In Dec 21, sustainable fund assets made up around 18% of total European fund assets, with Morningstar commenting: "*We expect this percentage to keep rising over the next quarters as asset managers launch additional sustainable offerings and repurpose existing conventional ones to meet continuous investor demand for investments that align with their ESG and sustainability preferences*."

As a first-mover and arguably the most credible of all sustainable investment managers, Impax has obviously benefitted from this trend. But in recent months, an additional trend has emerged which we believe will further strengthen Impax's prospects relative to competitors. **Asset owners (clients of investment managers such as Impax) are guarding against 'greenwashing' (over-egged or false green credentials) and demanding more sophisticated sustainable investing strategies.**

While many investment managers have clamoured to grab their share of assets pouring into sustainable investing, marketing-driven green-labels, simplistic exclusionary strategies, or just complying with a regulatory-defined sustainable category is often no longer sufficient in the eyes of asset owners. In fact, Morningstar, a leading fund ratings agency, recently removed its 'sustainable' tag from over 1,000 European funds, despite these funds being defined as 'Article 8' under EU SFDR[2] regulation (simplistically, funds which promote environmental or social characteristics). It commented: "*Many funds that place themselves into Article 8, for example, are not funds we would independently classify as sustainable funds*."

Lastly, while the underlying cause is a tragedy, **a consequence of Russia's invasion of Ukraine is likely to be a more significant and faster shift towards renewable energy investments**, which will benefit the sustainable investment market and Impax specifically over the medium-to-long-term. A number of governments have already signalled significant policy shifts in this regard to diversify their energy supply (not only away from Russian-sourced fossil-fuels specifically, but away from fossil-fuel-based energy more generally, in favour of renewable energy).

[1] Morningstar: Global Sustainable Fund Flows: Q4 2021 in Review (and prior reports)
[2] Sustainable Finance Disclosure Regulation, effective 10 March 2021

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