

H1 AUM in line, capital headroom up, outlook slows

10 October 2022

AUM ended H1 of FY23 (30 Sep 22) on £2.43bn, 33% up y-o-y (30 Sep 21: £1.83bn) and 13% up over the half-year (31 Mar 22: £2.15bn). While market data is not yet available to 30 Sep, it is obvious that LendInvest is continuing to rapidly gain market share: the total value of residential mortgages in the UK grew 2.9% in the 9-months from 30 Sep 21 to 30 Jun 22¹.

Its lending products also continued to prove attractive to institutional investors. Funds under management (capital committed by investors) stood at £3.44bn on 30 Sep, up 17% over H1, which provides ample lending capital 'headroom' of £950m to fuel future growth. JP Morgan (additional £250m) and Lloyds Bank (£180m) were among the providers of new lending capital.

However, LendInvest is not immune to a weaker macro-economic environment, nor recent dislocations in the mortgage market. The company has stated that it is experiencing weaker demand, has tightened credit appetite to protect investor returns, and is reducing growth in operational expenditure accordingly. More specifically, it expects buy-to-let growth in particular to slow in H2, and for full-year PBT to be in line with FY-22 (our previous forecast was for +30% PBT growth).

Fundamental valuation falls to 180p, but still well above share price

Our forecasts reduce as a result of these macro-economic headwinds and in line with company guidance, with AUM for end-FY23 now forecast to be £2.6bn (previously £3.1bn), revenue for FY23 £105m (£117m) and PBT £14m (£18.5m). From FY24 we assume growth returns to a similar trajectory as previously forecast (essentially 'pushing-out' growth by one year). We will re-assess these forecasts again in Nov 22 with the release of H1-23 interim results and further market insights.

The lower growth trajectory, coupled with a further jump in the UK 10-year Gilt yield the risk-free rate used in our DCF valuation (from 2.3% at the time of our previous forecast in Jun to 4.3%), has driven our valuation downwards. Conversely, the scrapping of the planned increase in corporation tax rate has a positive impact, but much lower than the two negative drivers above. Thus, our fundamental valuation falls to 180p per share from 280p, but still stands **85% above the current share price**.

Despite current headwinds, our long-term outlook is bullish, and we highlight that LendInvest still has a tiny, but rapidly growing, share of huge markets with new product launches on track (page 2).

Key Financials					
Year-end 31 Mar	FY20A	FY21A	FY 22A	FY 23E	FY 24E
AUM, £bn	1.26	1.57	2.18	2.63	3.20
Rev, £m	65.5	79.1	97.6	104.7	118.3
Adj admin expenses (opex)	21.9	20.5	25.0	30.0	29.9
Adj EBITDA*	5.5	10.7	20.3	18.7	21.2
Operating margin*	8.4%	13.5%	20.8%	17.8%	17.9%
PBT, £m	-1.8	4.9	14.2	14.2	16.7
EPS basic, p	-1.0	3.5	8.3	8.0	8.9
Dividend, p	0.0	0.0	4.4	4.4	4.8
Dividend yield	0.0	0.0	4.5%	4.5%	4.9%
PER	-	28.3	11.7	12.2	10.9
Price/book	-	27.0	13.8	13.0	12.0
Net assets, £m	10.0	49.9	97.5	104.0	112.1

Source: Company Historic Data, ED estimates. PER and Price/book based on share price of 98p

* Profit or loss before finance income, finance expense, income tax, depr, amortisation, & exceptional items

¹ Bank of England. Total value of residential loans to individuals was £1,602bn on 30 Sep 21 and £1,648bn on 30 Jun 22.

Company Data

EPIC	LINV
Price (last close)	97.5p
Hi/Lo	220p/97.5p
Market cap	£134m
ED Fair Value/share	180p
Net assets	£98m
Avg. daily volume	36k

Share Price, p



Source: ADVFN

Description

LendInvest was established in 2012 to capitalise on the opportunity to modernise UK property finance. It mostly sources capital from large institutional investors (and some HNW private investors) and deploys this to provide loans for landlords and developers, including:

- Bridging loans,
- Development loans, and
- Buy-to-let mortgages.

AUM on 30 Sep 22: £2.43bn.

Next event: Interim results 30 Nov 22

Paul Bryant (Analyst)

0207 065 2690

paul.bryant@equitydevelopment.co.uk

Andy Edmond

0207 065 2691

andy@equitydevelopment.co.uk

LendInvest has only scratched the surface of its opportunity
Current markets
Bridging loans

 Market: £6bn
 LendInvest: £0.4bn

Development loans

 Market: £24bn
 LendInvest: £0.2bn


LendInvest: £1.5bn

Professional buy-to-let mortgages

Market: £120bn


Short-medium-term planned market entries
Specialist homeowner mortgages

Market: £100bn

 LendInvest
 planned entry:
 2023

Consumer buy-to-let mortgages

Market: £105bn


Long-term fixed-rate homeowner mortgages

Market: £150bn


Potential longer-term market entry
Mainstream homeowner mortgages

Market: £1,100bn

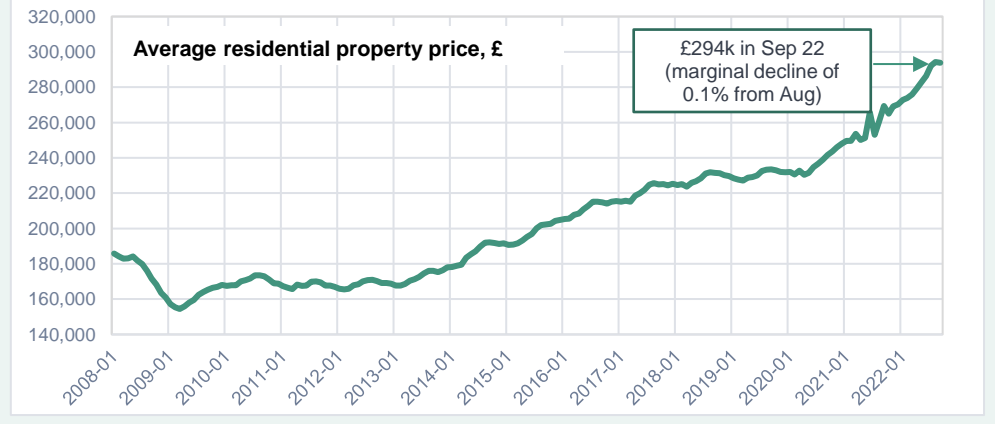

Total market debt outstanding: ~£1.6trn*
Annual originations: ~£300bn*

Source: LendInvest

 Sub-sector market sizing based on LendInvest privately commissioned market report; *Bank of England, 2020
 LendInvest figures represent approximate AuM as of 31 Mar 22

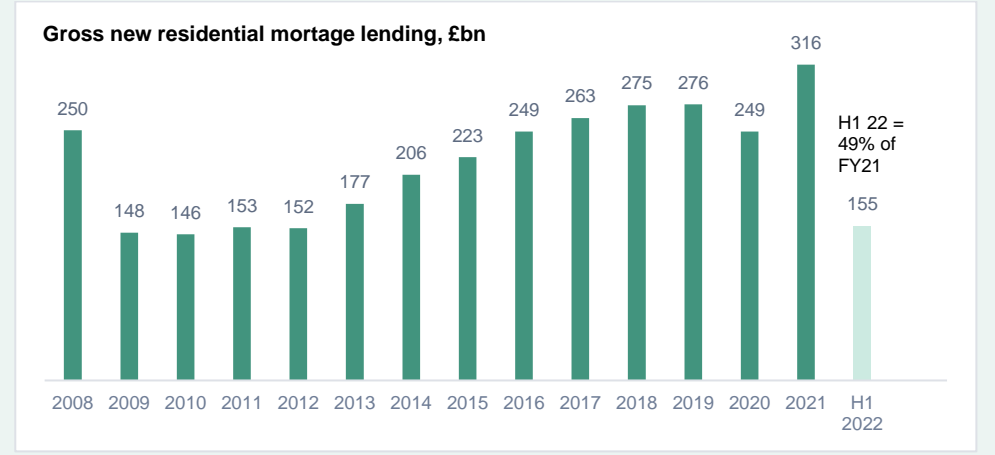
Appendix: Latest housing and mortgage market data

House prices have continued to rise during 2022



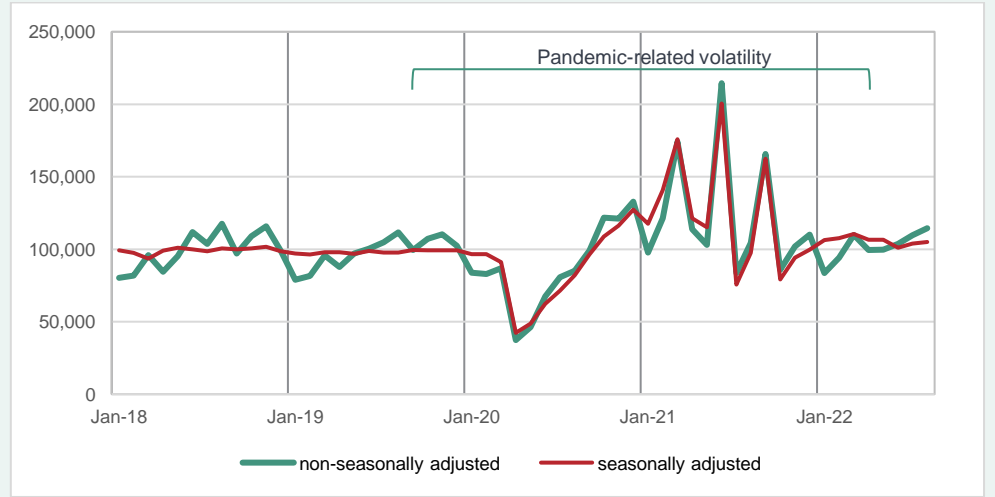
Source: HM Land Registry (up to Jul 22), Halifax (Aug & Sep 22)
 *HM Land Registry data lags Halifax data

Mortgage lending was still strong in H1-22



Source: Bank of England.

Housing transactions returned to pre-pandemic levels through Aug-22



Source: HMRC, Aug 2022
 *Jun, Jul, Aug 22 provisional numbers



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

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

Contact: info@equitydevelopment.co.uk | 020 7065 2690