

Forecasts up on jump in performance fees

11 January 2024

AUM grew £0.43bn or 2.2% over Q3 of FY24 (01 Oct 23 - 31 Dec 23) to £19.56bn and is now slightly above our previous £19.40bn forecast for the 31 Mar 24 FY-end. Investment performance was exceptionally strong in the quarter, contributing +£1.51bn or +7.9% of opening AUM. This was despite a currency headwind which would have depressed GBP AUM levels of USD holdings (GBP/USD +4% over Q3 from 1.22 to 1.27).

However, net outflows of -£1.09bn were recorded with Polar flagging that while some strategies attracted assets, clients continued to reduce their weighting to active equities and took profits in many cases where investment performances had been strong. More specifically:

- The highly successful Emerging Markets and Asian Stars funds recorded +£45m of net flows, while the Smart Energy fund recorded +£28m;
- The Biotechnology fund recorded net outflows of -£311m and the UK Value Fund -£238m, despite impressive absolute fund performance and strong performance relative to benchmark;
- Investors continued to reduce weightings in Tech funds which recorded -£136m of outflows.

Performance fee profits (net of staff allocations) jumped from the previous marked-to-market £1.3m, to £9.6m. As most PF's crystallise at the end of December, this increase is now secured and not merely a mark-to-market estimate. FY24 forecasts have been upgraded accordingly.

Forecasts lifted, fundamental value rises to 600p per share

We make minor upward adjustments to forecasts for end-FY24 AUM and to FY24 investment management fees, but the jump in performance fees results in our revenue forecast increasing by 11% from £169.2m to £188.4m, and our PBT forecast by 20% from £41.6m to £50.1m. Looking beyond this, we remain convinced that Polar has a highly differentiated strategic positioning (see page 2) and maintain our longer-term growth forecasts.

Our fundamental valuation rises to 600p per share (32% above the current share price) as a result of the increased FY24 forecasts, and a fall in 10Y-gilt-yields (the risk-free rate used in our DCF valuation). This gap between fundamental value and share price is supported by our view that both Polar's PER (12.3) and that of the sector (13.1) have the potential for a re-rating (see page 2).

Key Financials							
Year-end 31 Mar	FY21A	FY 22A	FY 23A	FY 24E	FY24E	FY25E	FY 25E
				prev.	new	prev.	new
AUM, £bn	20.9	22.1	19.2	19.4	19.5	21.4	21.5
Rev, £m	201.5	224.1	182.9	169.2	188.4	178.0	178.6
Management fees, £m	157.3	210.0	176.2	166.3	166.6	173.7	174.3
Performance fees, £m	43.6	14.1	6.7	3.0	21.8	4.3	4.3
PBT, £m	75.9	62.1	45.2	41.6	50.1	46.5	46.9
Core op profit*, £m	51.5	69.4	47.9	40.7	40.9	42.2	42.6
Performance fee profit	19.5	4.1	1.7	1.3	9.6	1.9	1.9
EPS basic, p	67.2	50.8	36.8	31.8	38.2	35.0	35.3
EPS adjusted diluted, p	62.3	56.0	44.3	33.1	39.5	36.3	36.5
PER	6.8	8.9	12.3	14.3	11.9	13.0	12.9
Div, p	40.0	46.0	46.0	46.0	46.0	46.0	46.0
Yield	8.8%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Net assets, £m	151.4	156.2	142.9	130.4	136.7	126.4	133.0
Net cash, £m	136.7	121.1	107.0	91.7	103.2	91.7	98.5

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

454p

Company Data

EPIC	POLR
Price (last close)	453.5p
52 weeks Hi/Lo	555p/397p
Market cap	£428m
ED Fair Value/share	600p
Net assets	£143m
Avg. daily volume	161k

Share Price, p



Source: ADVFN

Description

Polar Capital (Polar) is an active fund manager, established in 2001. It has 13 autonomous investment teams managing specialist portfolios with a thematic, sector, geographic, or financial instrument focus, including:

- Global Technology
- Global Healthcare
- Global Insurance
- Emerging Markets & Asia
- UK Value
- European Opportunities
- Financials
- Sustainable Thematic Equity

AUM 31 Dec 23: £19.6bn

Next Event: Q4 AUM update, Apr 24

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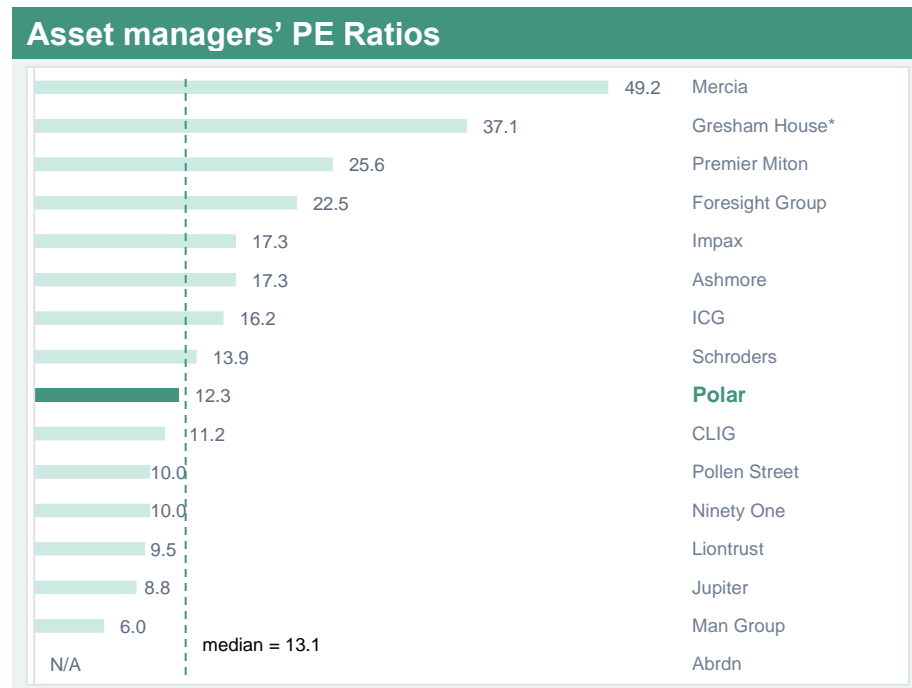
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Undervalued versus peers, with sector upside too

Given its strong recent performance and its strong, differentiated strategic positioning (see our Nov 23 interim results note [Navigating tough markets better than most](#) for a detailed analysis of this point), we don't see a justification for Polar's PER to trade below a peer group median. We think it should command a premium to most asset managers.

We would also highlight that acquirers appear to be seeing value in high-performing UK asset managers too. This is demonstrated by the recent premium paid for Gresham House. This acquisition was concluded on at a **PE multiple of 37.1**, far above most sector peers and the current peer group median of 13.1 (the acquisition price was 63% above the price on the day prior to the announcement of the acquisition).



Source: ADVFN as at 10 Jan 24, ED analysis
 De-listed on 20 Dec 2023

* excluding performance fees and performance-related costs, other income, exceptional items and tax



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