

## Solid H1 amidst sharp sector share price falls

12 October 2023

AUM was slightly down (-0.4%) to £19.14bn over H1-24 (to 30 Sep 23), with a -2.9% fall in Q2 (Jul-Sep) following the +2.6% gain of Q1 (Apr-Jun). Investment performance was positive at +£546m (-£154m in Q2, and +£700m in Q1), net flows negative at -£581m (Q2: -£380m; Q1: -£201m), while fund closures reduced AUM by £50m.

Polar's technology strategy drove most of the investment gains (in Q1), with insurances indices also up over the half-year. But most other sectors relevant to Polar's larger strategies saw declines.

It reported continued demand and inflows into its Artificial Intelligence, Japan Value, Emerging Market Stars, Asia Stars and Smart Energy Funds, which combined had net inflows of £225m. Pleasingly, **the rate of outflows from open-ended technology funds continued to decline**, with Polar positioned to benefit from sentiment turning more positive (albeit slowly and cautiously) in the sector.

### Company Data

EPIC	POLR
Price (last close)	438p
52 weeks Hi/Lo	555p/395p
Market cap	£428m
ED Fair Value/share	575p
Net assets	£143m
Avg. daily volume	164k

### 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
- North America
- Global Convertible
- Sustainable Equity

**AUM 30 Sep 23: £19.1bn**

Next Event: H1-24 results, Nov 23

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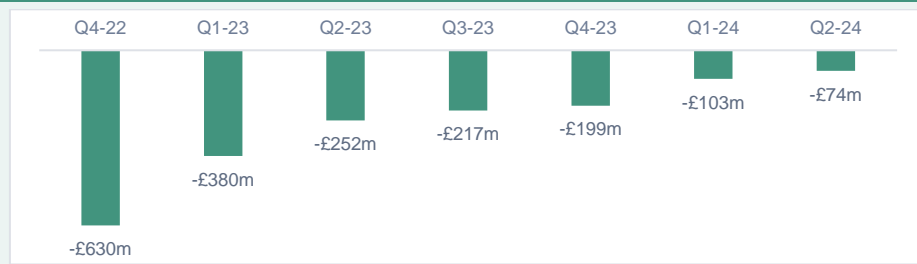
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### Net flows: Polar open-ended technology funds



Source: Company (FY quarters shown, not calendar quarters)

## Forecasts reduced, but Polar and sector looking undervalued

We reduce our FY24 & FY25 forecasts due to AUM and marked-to-market performance fees being lower than prior forecast: end-FY24 AUM f'cast is now £19.4bn (prev. £20.7bn), FY24 revenue £169.2m (£178.4m), and core operating profit £40.7m (£44.1m). **We reduce our fundamental valuation from 625p per share to 575p, although this is still 31% above the current share price.**

Additionally, on page 2 we elaborate on **why the recent sharp falls in asset management valuations look over-done to us**, especially in light of recent M&A activity in the sector.

### Key Financials

Year-end 31 Mar	FY20A	FY21A	FY 22A	FY 23A	FY24E	FY 25E
AUM, £bn	12.2	20.9	22.1	19.2	19.4	21.4
Rev, £m	151.7	201.5	224.1	182.9	169.2	178.0
Management fees, £m	130.8	157.3	210.0	176.2	166.3	173.7
Performance fees, £m	22.3	43.6	14.1	6.7	3.0	4.3
PBT, £m	50.9	75.9	62.1	45.2	43.1	45.2
Core op profit*, £m	41.6	51.5	69.4	47.9	40.7	42.2
Performance fee profit	8.8	19.5	4.1	1.7	1.3	1.9
EPS basic, p	43.5	67.2	50.8	36.8	32.9	34.0
EPS adjusted diluted, p	40.7	62.3	56.0	44.3	34.3	35.3
PER	10.0	6.5	8.6	11.9	13.3	12.9
Div, p	33.0	40.0	46.0	46.0	46.0	46.0
Yield	7.5%	9.1%	10.5%	10.5%	10.5%	10.5%
Net assets, £m	116.1	151.4	156.2	142.9	136.7	131.7
Net cash, £m	107.8	136.7	121.1	107.0	97.8	95.9

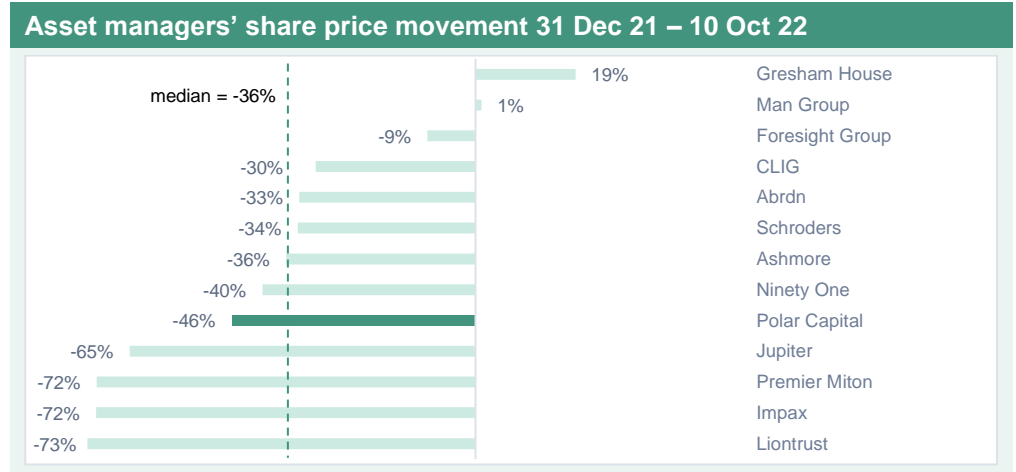
Source: Company Historic Data, ED estimates. PER and Yield based on share price of:

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

438p

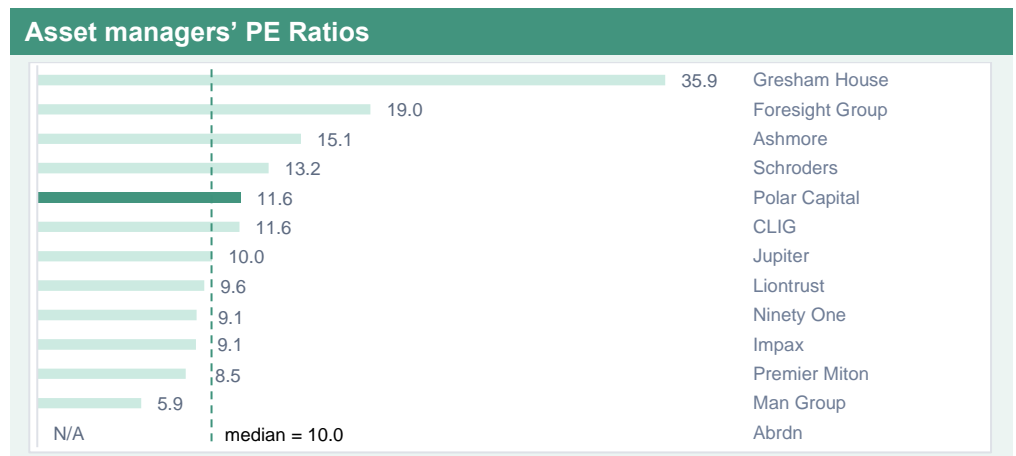
## Asset managers' share prices have declined sharply...

Unsurprisingly, because asset managers' earnings are linked to financial market valuations, their share prices have fallen sharply since the end of the bull market in late 2021/early 2022 (median fall 36%).



## ... with indications the decline is overdone

But while valuations may very well have become stretched at the end of the bull market, we would highlight that the acquisition of Gresham House (announced 15 Jul 23) is currently **in process at a PE multiple of 35.9**, far above the next highest valuations in the sector and the current peer group median of 10.0. This somewhat negates that argument and demonstrates that significant value is being seen in the sector by some (the acquisition price is 56% above the price on the day prior to the announcement of the acquisition).



We think asset managers' valuations have fallen too far and suspect that share prices may recover quite sharply should markets stage a recovery or the market outlook turns more positive.

**But for Polar specifically, we think there is an argument for its share price to outperform the sector. There exists a compelling 'deep value' argument, given its solid net cash position of £107m on 31 Mar 23 (25% of its market cap), a forecast core margin of 27.4% (which excludes any potential boost from performance fees) and a forecast dividend yield of 10.5%.**

**Moreover, with highly specialised active management units, it is well positioned to capitalise on market opportunities and grow its AUM faster than many other asset managers, through both investment gains and higher inflows (as clients seek to allocate more capital to these specialist teams - we can already see this happening in a range of Polar teams).**



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