

Solid year despite market dip paring AUM in Q4

14th April 2022

The market turbulence of the first quarter of 2022 (Q4 of Polar's FY22) has taken some of the shine off an otherwise strong year. But only some of the shine. While Q4 saw a £1.9bn or 8% drop in AUM from £24.0bn on 31 Dec 21 to £22.1bn on 31 Mar 22, over the full FY22 (Apr 21 to Mar 22) AUM grew £1.3bn or 6% (end-FY21: £20.9bn).

Market movements and investment performance were responsible for most of the AUM drop during Q4 (-£1.5bn, or -6.5% of average AUM, vs +£2.4bn over Q1-Q3). This is not surprising given the falls in equity markets generally and Polar's key benchmark indices. The MSCI ACWI was down 5.4%, the Dow Jones Global Technology Index was down 11.4% (technology strategies made up ~46% of AUM on 31 Dec 21); and the MSCI World Healthcare Index was down 3.2% (healthcare ~14% of AUM).

As is often the case in asset management, outflows pick up during market dips and Polar recorded net outflows of £0.4bn during the quarter (Q1-Q3: +£0.8bn), breaking a 7-quarter long positive net flow streak. **This resulted in full-year net inflows of +£0.4bn.**

Standout strategies were: *Polar Capital Sustainable Emerging Market Stars* with +£0.87bn of net inflows; *segregated mandates* (where Polar manages a dedicated pool of funds for a client with a bespoke mandate), with +£0.75bn of net inflows; and *Healthcare*, with +£0.56bn. However, the rotation away from high-growth stocks resulted in £1.3bn of net outflows from Technology funds.

Forecasts trimmed but share price far below fundamental value & peers

The dip in AUM makes only a small difference to our FY22 projections. As revenue is mostly a function of average AUM throughout the year, it is not hugely sensitive to a drop at the end of the year. And Polar's performance fees mostly crystallise on 31 Dec, so those were largely 'locked in' before Q4. We now estimate **revenue to grow by 8.5% in FY22 to £219m**, and **core operating profit to grow by 26% to £65m** (profit before tax, performance fees and exceptional items).

With FY23 starting off from a lower AUM base than previously projected, our estimates going forwards have been reduced a little more significantly, and **our fundamental valuation is now 1,000p per share, still 64% above the current share price**, but down from 1,400p. We also highlight that Polar trades on a **PE ratio of just 9.1, around half of the peer group median of 18.0**, which we do not think is justified given its track record, strategic positioning, and growth prospects (see page 2).

Key Financials						
Year-end 31 Mar	FY19A	FY20A	FY21A	FY 22E	FY 23E	FY24E
AUM, £bn	13.8	12.2	20.9	22.1	23.7	25.3
Rev, £m	177.5	151.7	201.5	218.6	210.0	228.0
Management fees, £m	126.2	130.8	157.3	208.6	204.4	217.2
Performance fees, £m	51.7	22.3	43.6	9.9	5.6	10.9
PBT, £m	64.1	50.9	75.9	64.4	65.0	73.7
Core op profit*, £m	42.2	41.6	51.5	65.0	62.3	68.8
Performance fee profit	24.0	8.8	19.5	4.3	2.4	4.7
EPS basic, p	57.8	43.5	67.2	53.5	53.2	55.0
EPS adjusted diluted, p	51.5	40.7	62.3	53.2	49.1	50.9
PER	10.5	14.0	9.1	11.4	11.5	11.1
Div, p	33.0	33.0	40.0	40.2	40.4	42.2
Yield	5.4%	5.4%	6.6%	6.6%	6.6%	6.9%
Net assets, £m	109.7	116.1	151.4	178.5	203.8	228.3
Net cash, £m	111.7	107.8	136.7	136.1	161.4	191.3

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: **610p**
* excluding performance fees and performance-related costs, before tax

Company Data

EPIC	POLR
Price (last close)	610p
52 weeks Hi/Lo	951p/504p
Market cap	£612m
ED Fair Value/share	1000p
Net assets	£147m
Avg. daily volume	217k

Share Price, p



Source: ADVFN

Description

Polar Capital (Polar) is an active fund manager, established in 2001. It has 16 autonomous investment teams managing specialist portfolios with a thematic, sector, geographic, or financial instrument focus, including:

- Global Technology
- Global Healthcare
- Global Insurance
- UK Value
- North America
- Global Convertible
- Emerging Markets & Asia.
- Sustainable Equity

AUM 31 Mar 2021: £22.1bn

Next Event FY22 results: early Jul 22

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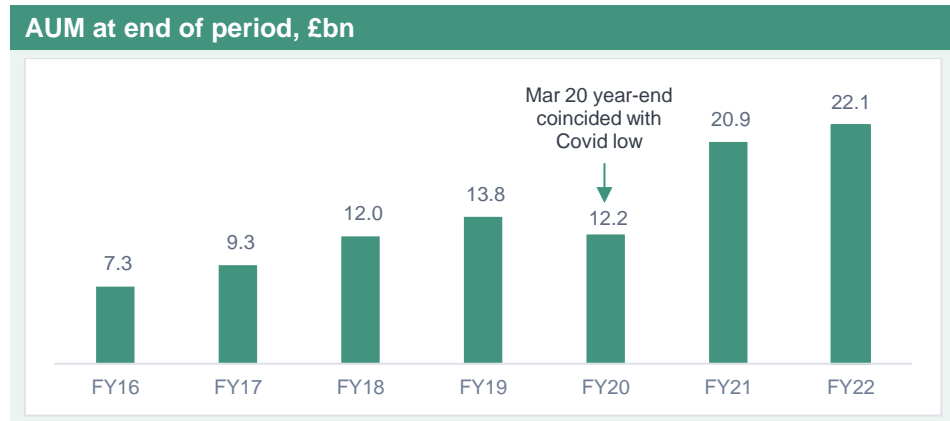
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Polar maintains its longer-term growth record...



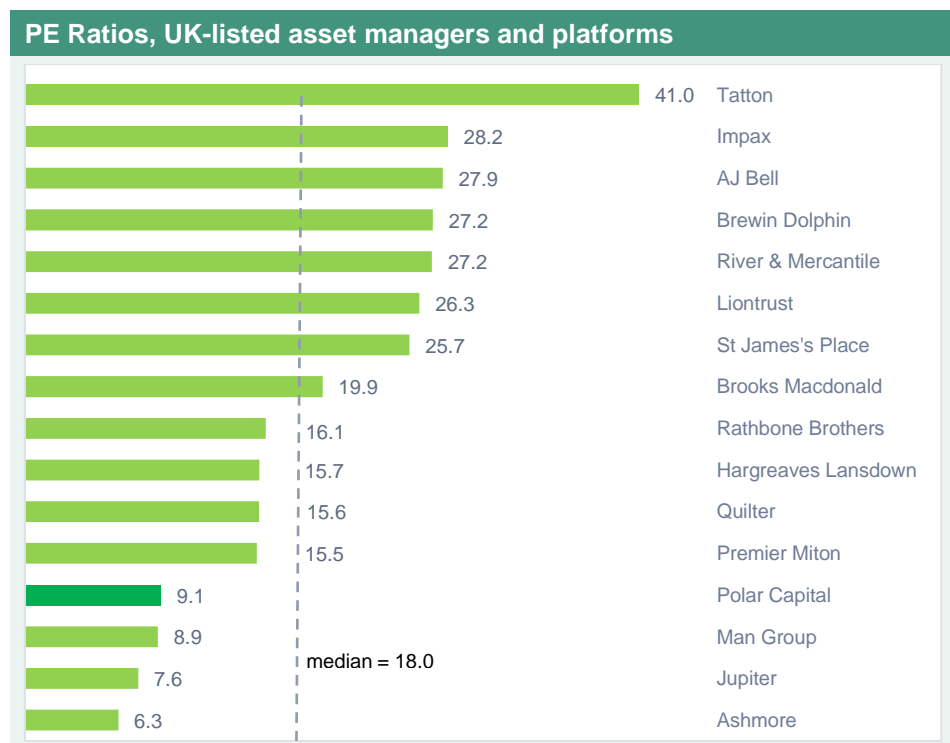
Source: Company.

...and has ample opportunities for further growth...

It has **strong growth prospects from its current products**, for example, Polar has significant AUM capacity in high-growth areas such as healthcare and sustainable equities (where Polar has a highly experienced team which joined in 2021 to run smart energy and smart mobility strategies, and should be well positioned to capitalise on the global fundamental shift to sustainable investing).

Polar also continues to seek growth opportunities from acquisitions, team lift-outs, and team extensions, where it has a proven deal-making record.

...but remains lowly rated compared to peers



Source: ADVFN, ED analysis
 Data as at 13 Apr 2022

While Polar's revenue and profitability are exposed to slightly more volatility than most peers (due to the significance of performance fees), and Polar has heavy exposure to the technology sector, we do not think this justifies its lowly rating.



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