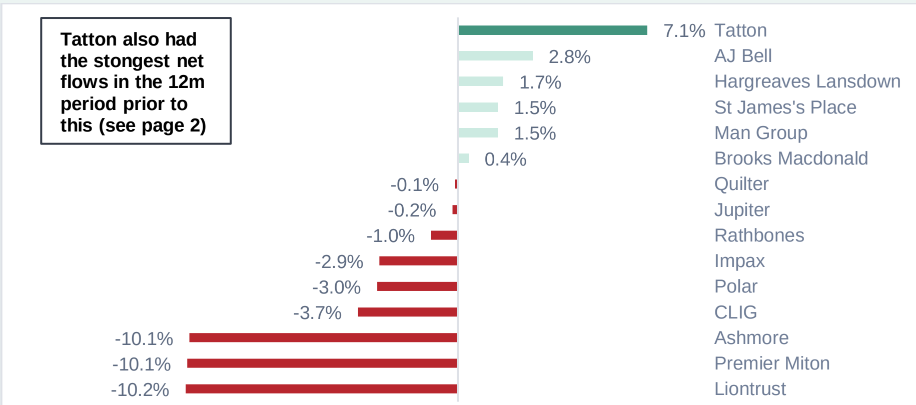
Tatton Asset Management

Growth rate head-and-shoulders above peers (again)

19th October 2023

AUM grew 8% over H1-24 (to 30 Sep 23) from £12.7bn to £13.7bn. Net inflows totalled £910m (7% of opening AUM), showing remarkable strength and consistency (H1-23: £907m, H2-23: £887m). This is even more impressive given the difficult economic and market environment which has hurt the growth of most sector peers, with some experiencing substantial outflows. Market and investment performance contributed £100m to AUM over the half-year.

Net flows* as % of opening AUM - 6 months 1 Apr 23 to 30 Sep 23



*Source: Company reports, ED analysis. *excluding acquisitions*
Peer group includes UK-listed asset managers, wealth managers and platforms (see page 2 for further analysis)

'Assets under influence' (AUI), which includes the AUM of 8AM Global Limited (£1.1bn) in which Tatton owns a 50% stake, also grew 7% to £14.8bn. This brings the group **within touching distance of its medium-term strategic AUI target of £15bn which it set out to achieve by March 2024**.

Share price well below fundamental value, sector looking over-sold

Over H1-24, 51% of our forecast full-year AUM growth has been achieved (flows ahead, markets weaker) and we have left our forecasts unchanged, as well as our **fundamental valuation of 580p, which is 22% above the current share price**. We also flag that sector valuations have declined extremely sharply, and there is **potential for a significant sector re-rating** (see page 3).

Key Financials

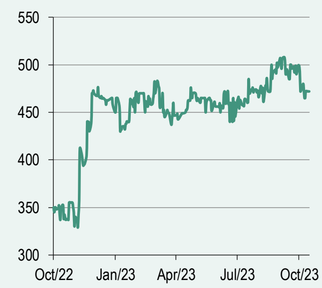
Year-end 31 Mar	FY 20A	FY 21A	FY 22A	FY 23A	FY 24E	FY 25E
AUM end-of-period*, £bn	6.7	9.0	11.3	12.7	14.7	17.0
Revenue, £m	21.4	23.4	29.4	32.3	35.9	39.8
Operating profit (adj), £m	9.1	11.4	14.5	16.4	18.2	20.4
Operating margin (adj), %	42.5%	48.8%	49.5%	50.7%	50.7%	51.3%
PBT, £m	10.3	7.3	11.3	16.0	15.2	17.4
PAT, £m	8.4	6.1	9.2	13.4	11.5	13.2
EPS basic (adj), p	13.1	16.1	19.9	21.7	22.5	25.3
EPS diluted (adj), p	12.0	14.7	18.6	20.6	21.0	23.3
Div, p	9.6	11.0	12.5	14.5	15.8	17.7
Yield, %	2.1%	2.4%	2.7%	3.1%	3.4%	3.9%
PER	30.8	42.4	28.9	20.5	23.7	20.7
Net cash, £m	12.8	16.9	21.7	26.5	30.3	35.1

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***461***
**Excludes c£1.1bn of 'Assets under Influence' (AUI) from 8AM Global*

Company Data

EPIC	TAM
Price (last close)	461p
52 weeks Hi/Lo	508p/329p
Market cap	£279m
ED Fair Value / share	580p
Proforma net cash	£27m
Avg. daily volume	52k

Share Price, p



Source: ADVFN

AUM/AUI on 30 Sep 23: £14.8bn

Description

Tatton Asset Management was founded in 2007 and serves smaller, UK-based Independent Financial Advisers via two distinct business units: *investment management* - discretionary fund management delivered via WRAP platforms (c80% of revenue), and *adviser support services* - regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (c20% of group revenue).

Next event: Interim results Nov 23

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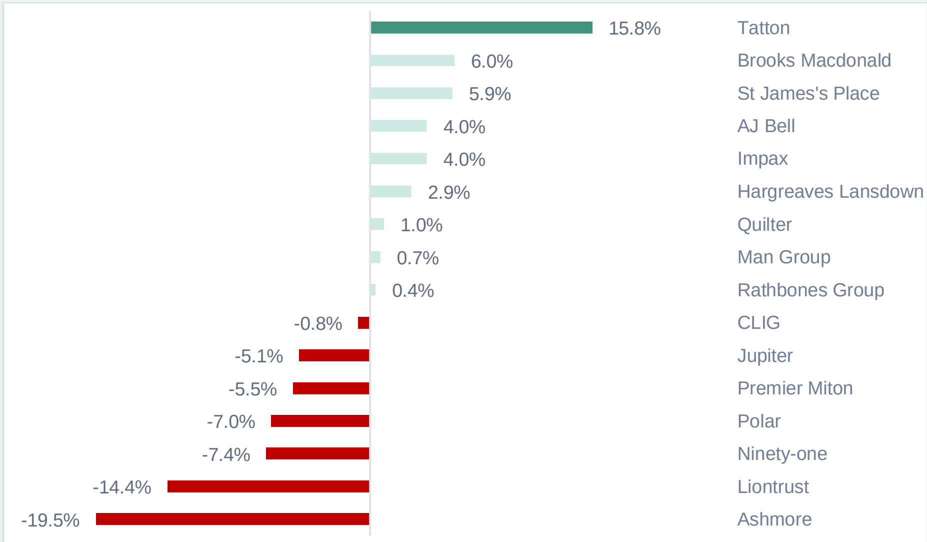
Growth leadership not a one-off

It's not only in the most recent half-year, but also in the 12-months prior to that, that Tatton has led, by some distance, in attracting and retaining client assets. This is testament to its well-designed business model, powerful offering to clients, and ability to execute on its strategy.

Net flows* as % of opening AUM - 12 months 1 Apr 22 to 31 Mar 23



*Source: Company reports, ED analysis. *excluding acquisitions*
Peer group includes UK-listed asset managers, wealth managers and platforms

We would highlight that in the above chart, and the one on page 1, there is a distinction between the net flow characteristics of *investment managers, wealth managers and platforms* (Tatton, Brooks Macdonald, St James's Place, AJ Bell, Hargreaves Lansdown, Quilter, and Rathbones) and that of *'pure-play' asset managers* (the balance of the peer group).

The first group typically houses 'portfolios' and have mostly maintained positive net flows during the last 18 months or so of market turbulence, while outflows have been much more common in the second group, which typically house individual funds.

The reason for the difference is that the first group will be impacted less by movements between asset classes or investments into or withdrawals from individual funds – such transactions would usually be a change of allocation within a portfolio housed with the wealth/investment manager or platform. In contrast, such changes would usually be a net inflow or outflow for a pure-play asset manager i.e., funds moving from one asset manager to another.

Solid half-year from Paradigm

Paradigm, the IFA support services business (around 20% of group revenue) showed solid progress. Mortgage client firms increased from 1,751 to 1,798 during H1 (+3%) with completions down 5% y-o-y from £7.3bn in H1-23 to £6.9bn in H1-24. This is unsurprising given the interest rate environment and housing market turbulence, with the fall being far less than the overall mortgage market. Indeed, Bank of England data shows a 28% drop in residential goss advances between H1-22 (£155bn) and H1-23 (£111bn).

Tatton said: "*We have continued to deliver a strong volume of completions in this challenging economic climate, although as anticipated the nature and distribution of these completions reflected the wider market and shifted towards lower margin product transfers rather than new mortgages or buy-to-let completions."*

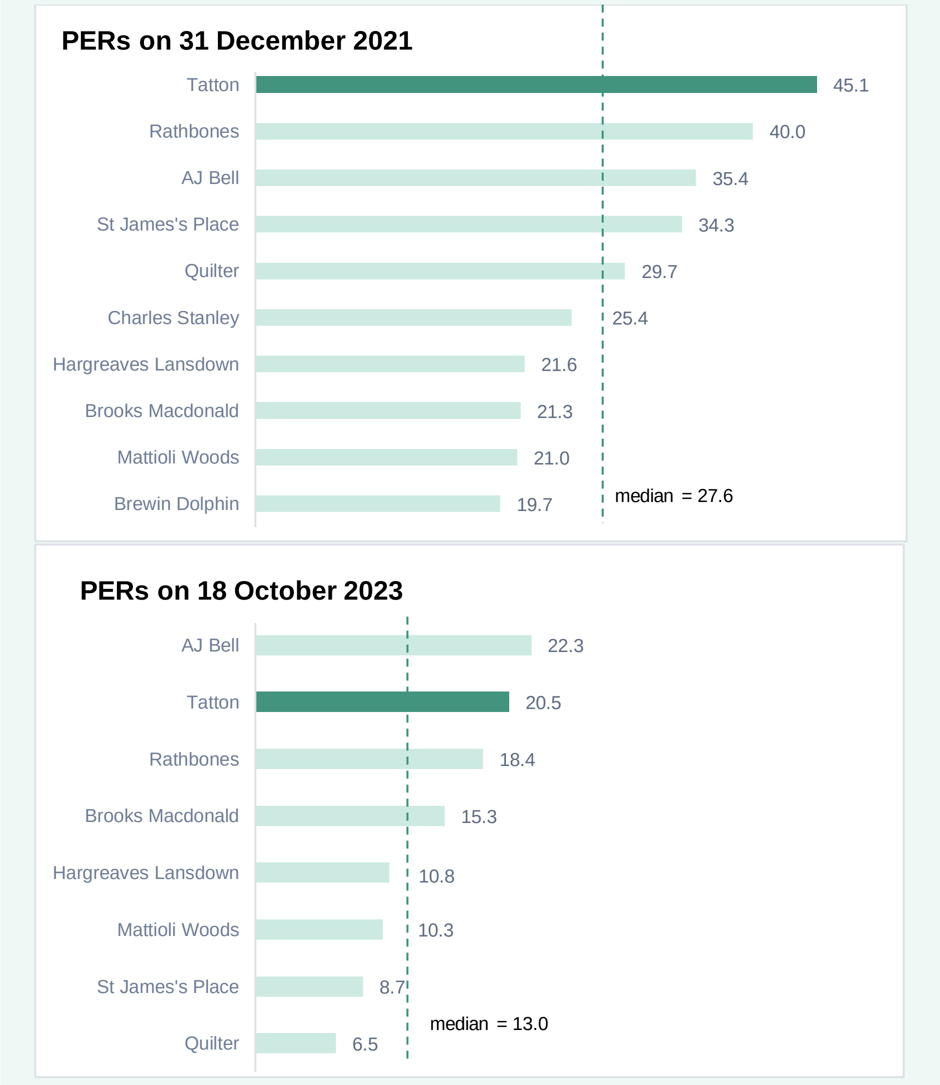
Consulting member firms also increased during the period from 431 to 437.

Sector valuation decline looking overdone

Since the end of the bull market at the end of 2021, investment/wealth managers and platforms have 'de-rated' significantly with the median PER of a tracked peer group declining 53% from 27.6 to 13.0.

While valuations may well have 'over-run' to a degree at the end of the bull market, we certainly see the current median PER of 13.0 as very low (noting that this has dropped 24% in just over a month: sector-median PER 17.0 on 14th September 2023).

PE Ratios: UK-listed investment/wealth managers and platforms



Source: ADVFN, as of 18 Oct 23, ED analysis.
** Mattioli Woods PER calculated using 'adjusted PAT' which eliminates some of the distortions in earnings created by the statutory accounting treatment of recent large acquisitions. All other PERs calculated using statutory EPS.*

While Tatton quite justifiably commands a premium rating compared to these peers, given its superior growth, high margins, and future potential, it would **surely be a beneficiary from any general sector re-rating**.

Another interesting, related data point is that when the acquisition of Brewin Dolphin by RBC Wealth Management (Jersey) was announced on 31 March 2022, its PER jumped from 16.9 to 27.2, a premium of 62% to its share price the day before the deal was announced.

This suggests that large foreign investment/wealth managers were seeing substantial value in the UK at that time. They are surely seeing even more value now.

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