

## Growth in a tough market, share price headroom

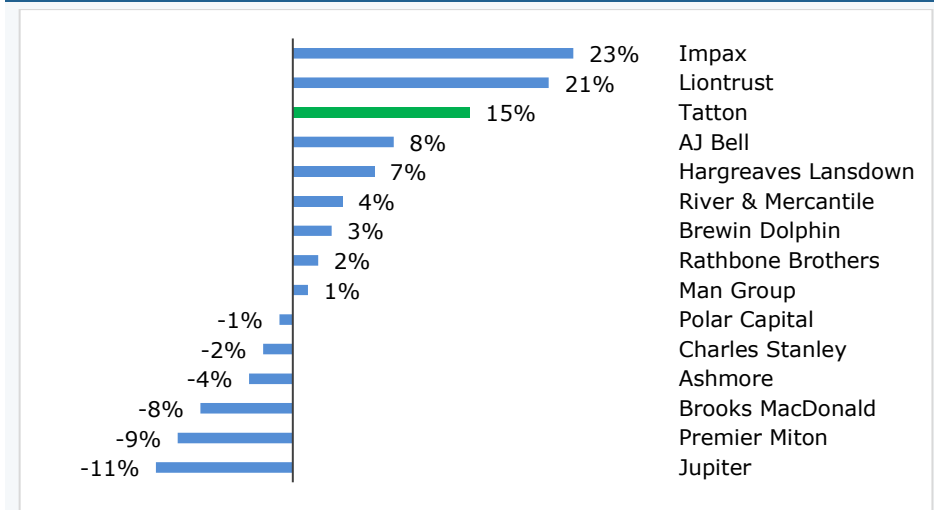
20th October 2020

The most pleasing aspect of Tatton's trading update for the six months ending 30 Sep 2020 (H1 2021) was how robust its fundamental offering to clients (financial advisers) has proven to be in highly uncertain market conditions. It continued to attract strong net inflows into its asset management business while also growing its base of IFA consulting and mortgage services clients.

The prospect of beating our previous FY21 forecasts looks promising. Longer-term growth prospects also look strong. We do, however, remain wary of the potential impact of further large market dips. For now, we maintain our fundamental valuation of 300p per share but see room for significant upside on that mark if Tatton continues to deliver.

In H1, AUM jumped by £1.16bn (+17.4%) to £7.81bn (£6.65bn on 31 March). Unsurprisingly, given the bounce-back in markets since March 2020, market movements were the largest contributor to this increase (£0.83bn). But significantly, £0.33bn came from net inflows – evidence that financial advisers continue to see Tatton as a safe pair of hands with their clients' money. Over 12 months, it has the third highest net-inflow-to-AUM ratio amongst a group of 15 peers:

### Peer Group: 12m AUM net inflows as % of opening AUM



Source: Company reports and trading updates, ED analysis  
Covers 12m period from 1 Oct 2019 – 30 Sep 2020 except for AJ Bell, River & Mercantile, and Brewin Dolphin which covers 1 July 2019 – 30 June 2020. Net inflows exclude AUMs added through acquisitions.

It is also worth zooming out to take stock of just how strong Tatton's longer-term growth trajectory is. **AUM have grown by 77% over the last three years** (£4.4bn in Sep 2017), far in excess of wider market moves over the same period: MSCI ACWI +17%; S&P 500 +34%; FTSE 100 -20%.

Outside of asset management, **Paradigm Mortgage Services**, in a very challenging market environment, grew member firms by 3% over H1 to 1,591 – up 39% over three years (1,143 member firms in Sep 2017). **Paradigm Consulting**, the IFA support business, grew its member base by 2.5% to 404 member firms – up 13% over three years (356 member firms in Sep 2017).

### Company Data

EPIC	TAM
Price (last close)	283p
52 weeks Hi/Lo	302p/180p
Market cap	£161m

### Share Price, p



Source: ADVFN

### 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 or DFM) delivered via WRAP platforms, and Adviser Support Services (regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation).

Aggregate AUM at end Sep 2020 was £7.8bn.

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## Fundamentals underpin share price, market re-rating possible

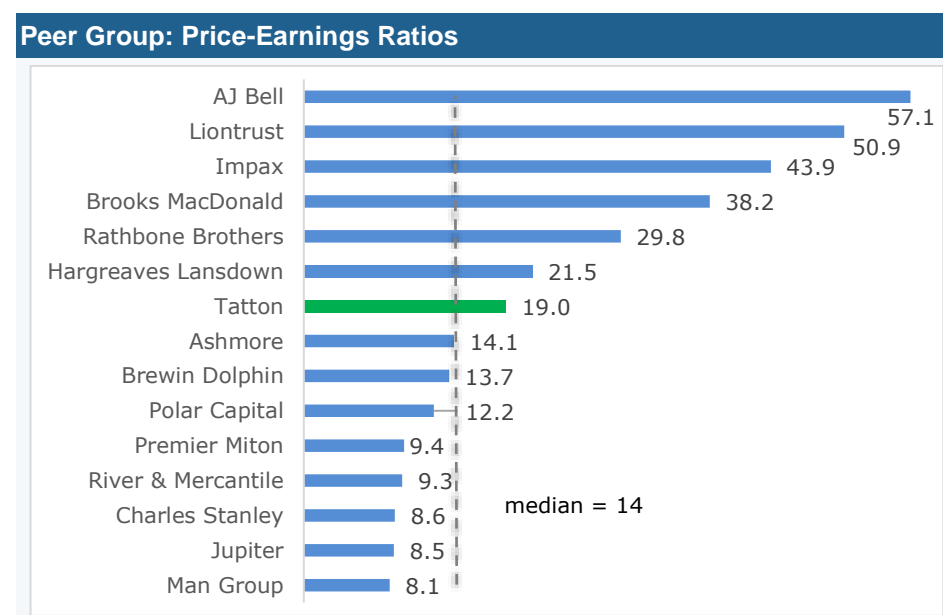
Our short-term forecasts have ticked up slightly (see table below – previous forecasts for FY 2021: AUM £8.1bn; revenue £22.0m; adjusted operating profit £9.6m; net cash £15.0m).

Key Financials					
Y/E 31 March	FY 2019A	H1 2020A	FY 2020A	H1 2021E	FY 2021E
AUM end-of-period, £bn	6.1	7.0	6.7	7.6	8.1
Revenue, £m	17.5	9.7	21.4	10.9	22.4
Operating profit (adj), £m	7.3	4.1	9.1	4.9	10.0
Operating margin (adj)	41.7%	42.4%	42.5%	44.4%	44.5%
EPS basic (adj), p	11.0	5.9	13.1	7.2	14.8
Div, p	8.4	3.2	9.6	3.5	10.4
Yield	3.0%	1.1%	3.4%	1.2%	3.7%
PER	25.8	23.9	21.6	19.6	19.1
Net assets, £m	15.3	15.3	17.8	18.2	20.5
Net cash, £m	12.2	9.2	12.8	12.8	15.3

Source: Company Historic Data, ED estimates  
PER and Yield based on share price of 283p

At the same time, we believe Tatton’s competitive positioning leaves it **well placed to capture future growth prospects**. But we are wary of volatile markets and the potential for further large market dips to negatively impact AUM levels and in turn, financial performance. **We therefore maintain our fundamental valuation of 300p per share for now**, which we believe is backed by solid fundamentals.

We can also provide context for Tatton’s apparent market undervaluation. In our June 2020 note, we highlighted that Tatton was a **1st quartile performer** on a range of metrics: AUM inflows, revenue growth, operating margin, EPS growth and ROE (financial metrics measured at last full financial year-end). But Tatton’s PE ratio of 19 is only just above its peer group median and far below the highest-rated peers (>40). Therefore, we believe **Tatton’s market valuation has the potential for a positive re-rating** on continued strong performance.



Source: ADVFN (as at 15 October 2020)



## Investor Access

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