Tatton Asset Management

Inflows remain strong despite market crash

21st April 2020

Tatton Asset Management continued to attract new client assets through the recent market turmoil: a notable achievement at a time when many investors flocked to cash and fled equity and even some bond funds at the fastest pace in decades[1].

Tatton attracted net inflows of £1.13bn for the FY ending 31 Mar 2020, £688m (61%) of this coming in H2 and £86m in March '20 alone. But it wasn't immune to the impact of COVID-19. AUM peaked in February at £7.8bn, well ahead of forecasts, but then dropped £1.2bn – mostly because of the market crash - to end the year on £6.7bn. March inflows were only slightly down on the FY monthly average of £94m.

However, bucking broader trends, Tatton expects FY20 results (expected mid-June) to be in line with analysts' estimates. With such resilience, TAM shares at 248p, 16% down on their Feb peak, will seem attractive to many.

Another important positive during such economic and market uncertainty will be Tatton's strong balance sheet. The company has reported a net cash position of £12.8m, £0.6m up on the £12.2m at the end of FY19, despite laying out £2.0m in cash on the Sinfonia Asset Management acquisition during H1. **Tatton has no debt.**

Key Financials

	2017A	2018A	2019A	2020E
AUM end-of-period, £bn	3.9	4.9	6.1	6.7
Revenue, £m	11.9	15.5	17.5	19.7
Revenue growth, y-o-y	30%	31%	13%	12%
Operating profit (adj), £m	4.5	6.5	7.3	8.5
Operating margin (adj)	38.0%	42.1%	41.7%	43.2%
EPS basic (adj), p	6.4	9.3	11.0	12.9
Div, p	4.8	6.6	8.4	9.0
Yield	1.9%	2.7%	3.4%	3.6%
PER	38	27	23	19
Net assets, £m	3.1	13.6	15.3	17.5
Net cash, £m	0.7	10.6	12.2	12.6

Source: Company Historic Data, ED estimates

Company Data

EPIC	TAM
Price (last close)	248p
52 week Hi/Lo	296p/170p
Market cap	£139m

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 March 2020 was £6.7bn.

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1 Refinitiv Lipper (U.S. Mutual Funds & ETPs Q1 2020 Snapshot): "Assets Under Management Plunge $3.2 Trillion." Morningstar Research, US Fund Flows: "In March, long-term funds suffered record monthly outflows. Investors pulled $326 billion from mutual funds and exchange-traded funds. In contrast, during the global financial crisis monthly outflows peaked in October 2008 at $104 billion. Money market funds—perceived as safe havens but often short-term parking spaces for cash as well—gathered a record $685 billion."

Paradigm, the consulting and mortgages business (which made up 27% of group revenue in H1) **also showed some encouraging growth trends**. Paradigm Consulting (IFA support services) reversed a down-tick in member firms (from 390 on 31 Mar ’19 to 385 on 30 Sep ’19) and closed the FY with 394 members. Mortgage services continued its steady growth trend, ending the FY with 1,544 member firms, up 11% from 1,392 at the end of FY19 and 1,220 at the end of FY18. Gross mortgage lending rose 17.5% year-on-year to £9.9bn, up from £8.4bn in FY19 and £6.8bn in FY18.

Outlook encouraging, with obvious caveats

Tatton has been frank with investors, saying that the full implications of the impact of COVID-19 on the financial performance of the Group in the future remain uncertain. It will be updating guidance when full results are released in June.

We believe this approach makes sense, and in a similar vein, with respect to our own forecasts, in the middle of the current economic and financial-market storm, it would simply not be credible to conduct a detailed assessment of the implications of a post-corona world on our previous financial projections and valuation. We will also be doing this in June, when we will gain further guidance from the company into current trading conditions, the full impact of the downturn on results, and hopefully, when there is some modicum of visibility coming into economic forecasts and how markets might react.

However, it is worth commenting on some of the drivers behind our previous fundamental valuation of 313p, underpinned primarily by Tatton reaching £13bn in AUM by 2024.

With respect to **Tatton Investment Management** (or **TIML**, the asset management business which made up 73% of group revenue in H1), **we believe its long term growth prospects remain solid,** albeit its year-end AUM has taken a hit from the recent market crash and there remains scope for muted flows.

TIML is the market-leader in a high-growth segment (IFAs moving more of their client assets onto discretionary fund management platforms). It has strong momentum in winning new IFA clients and capturing a higher share of existing clients’ AUM. Moreover, these clients have clearly demonstrated confidence in TIML through volatile and rapidly declining markets.

With respect to Paradigm, we believe the consulting business should be relatively stable, with nothing to suggest that IFAs would reduce their reliance on quality compliance outsourcing and consulting. Indeed, with heightened cost-consciousness, some IFAs may even look to Paradigm for efficiency increases.

However, the residential mortgage market, and hence Paradigm’s mortgage services business look set, in the short term at least, for a negative market shock. A recession, a jump in unemployment, a large cohort of workers placed on furlough with reduced incomes, and a fall in property prices will hurt, and visibility on any potential recovery is limited at this stage. This will, however, have a fairly limited impact on the overall group - as mortgage services made up less than 15% of group revenue in H1.

All-combined, the above evidence suggests that the recent drop in the TAM share price may now be reflecting a significant discount to fundamental value.

Investor Access

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