

# Small Talk Daily Page

12/9/2014

Anchor Group



Issues trading update 20% - 30% better than YE14 pro-forma

JSE: ACG

700 cents

Mcap: R930m

52 wk Hi/Low: 774c /350c

Recently listed Alt-X asset manager Anchor Group having issued sparkling, above expectation maiden interim results, yesterday on SENS issued a trading update for its year end to December 2014.

The trading update does not take into account then recent share placement at 620 cents which added a further 40m shares to the issued capital and thus uses a weighted number of shares of 74m versus the total 133m in issue.

At the time of its IPO, Anchor stated it would earn HEPS of 21.7cps and pay a 10cps dividend to YE14.

In yesterday's trading update, Anchor stated that it plans to issue adjusted HEPS to YE14 which would be 20% - 30% higher than the prop-forma HEPS giving an indicative range of 26.1cps – 28.2cps; extrapolating out the same 2,17x dividend cover would see a payout of 12cps – 13cps versus the 3cps paid at the interim stage on HEPS of 13.73cps.

At the time of the IPO, I stated in several notes & Tweets that the listing was 'under-priced' and that a more reflective opening valuation for Anchor was between 250c-305c; the initial opening at 300c was within my range and the share has not stopped since.

The book build of a newly listed business soon after an IPO is unusual, but drew significant institutional demand. Anchor planned to raise a modest R50m but it became clear upon the SENS announcement that demand was substantive and some R550m of demand was seen at the 620 cent issue price with R249,95m eventual raised via the issue of 40.315m new shares; this took Anchor's cash balance to @R300m.

I recently had an update meeting with Anchor CEO Peter Armitage in Johannesburg to discuss the business.

At the time of the pre-listing, Anchor forecast HEPS of 21.7cps in 2014 and 27.7cps in 2015; I thought (both) these numbers were too conservative at the time of the IPO and my assumption proved correct given the H1 2014 results and recent YE14 trading update.

The effect of net cash on hand, the publicity of the listing and subsequent uplift in Assets Under Management (AUM) via natural organic growth and selected bolt-on acquisition has taken the AUM (from interim stage at R4.6bn at June 2014) to R6bn by September to R9bn currently; that uplift and the tight containment of costs led to the revised trading update. Anchor continues to attract @R300m of net new monthly inflow with a predominance of higher net worth clients. Further, the acquisition of the minority of its Cape Town operation and the acquisition of a R1bn managed book for R4m (set to make @R2.5m in profit this year) all aided the upbeat trading statement.



On a median HEPS for YE14, Anchor is trading at a PE of 25.8x – hardly a bargain. Further in FY15 the effect of the shares in issue sharply increasing to 132m will have an impact on HEPS, though the benefit of interest earned should only see dilution of <5%. But Anchor is currently trading under a cautionary and indications are with cash on hand of R300m – that can acquire a great deal of AUM.

With cash on hand earning a modest return and agreeable acquisition will be immediately earnings accretive to Anchor and I understand a series of small bolt-on R1bn book IFA type deals are in discussion as well as a more substantive acquisition.

From my general update with CEO Peter Armitage;

- Post the IPO (and pre the book build) Anchor had net R40m cash on hand having acquired some small businesses and paying of some loads. Post the R249m book build NAV (in cash) sits at 250cps.
- The listing has achieved a number of goals and fast-tracked the growth of the business;
  - Accelerated access to expansion capital
  - Incentivised staff...all have shares or options
  - Allowed higher media presence and visibility...thus drawing in new clients
  - The share price and fund performance has given credibility to Anchor in the important IFA segment...this has seen many approach Anchor to 'join the fold' thus further swelling AUM.
- Anchor plans to expand its unit trust offering as well as expand its AUM within the corporate pension fund segment (currently they manage a modest R500m). With critical mass via the capital raise now being attained and a market value near R1bn and AUM approaching R10bn, Anchor is being evaluated by multi-managers for consideration as a panel asset manager for third-party funds. A new three-man team has been established to drive growth in this segment.
- Armitage remains confident that within 3 – 5 years Anchor via organic growth of 20% - 30% aligned to acquisition and the inclusion of IFA books that the business could have an AUM of R40bn – R50bn.

With a strong centralised cost base backed up by excess dealing & research capabilities, Anchor is easily able to leverage its base to undertake substantially more AUM at minimal incremental cost. Further, much like PSG Konsult, 'plugging in' new IFA's could add some extra AUM clout to their base alongside new product offerings, accessing the institutional pension fund management sector via multi-managers and launching an extending the unit trust platform.

**At 700 cents, based on FY14 pro-forma HEPS, Anchor on a FPE of 25.8x looks fully priced. However, if growth in AUM and the leverage effect is as I expect, this FPE will rapidly unwind. Anchor is a stock I'd want to have some exposure too in a long-term small cap growth portfolio. I said rather brazenly at IPO "that I thought the stock with be 2000 cents in three years" ....at 700c after a few months I'm a third of the way there. Fortune favour the bold.**



Anthony Clark

Financial & Industrial Small & Medium Market Cap Analyst  
 Food Producers & Agriculture Analyst  
 (office) +27-21-481-6225 (Mobile) +27-83-300-7009  
 anthony@vunanisecurities.co.za

 Follow me on Twitter - SmallTalkDaily

# VUNANI

SECURITIES

## Institutional Team

<b>Johan Rossouw</b>	<b>MD / Economics / Strategy /Bonds</b>	<b>021 481 6205 011 384 2909</b>	<b>johan@vunanisecurities.co.za</b>
----------------------	---	--------------------------------------	-------------------------------------

### Research

<b>Hurbey Geldenhuys</b>	<b>Head of Research / Platinum</b>	<b>011 384 2912</b>	<b>hurbey@vunanisecurities.co.za</b>
Anil Ramjee	Property	011 384 2906	aramjee@vunanisecurities.co.za
Anthony Clark	Small Caps / Food producers	021 481 6225	anthonyc@vunanisecurities.co.za
Arnold Werbeloff	Diversified Industrials	011 384 2916	arnold@vunanisecurities.co.za
Hugo Pienaar	Economist & Bonds (BER)	021 887 2810	hugop@sun.ac.za
Ernest Kaplan	Information Technology	083 325 7799	ernest@KaplanEquity.com
Maureen Williams	Technical Analyses	011 263 9569	mwilliams@vunanisecurities.co.za
BGL Securities Limited	Nigerian Research	+234 1 462 2601	peter.adebola@bglgroupng.com

### Trainee Analysts

Lungile Luvuno	Construction	011 263 9590	lungile@vunanisecurities.co.za
Sejal Mistry	Healthcare	011 384 2938	sejal@vunanisecurities.co.za

### Support Staff

Dijana Wasserfall	Personal Assistant / Research co-ordinator	021 481 6206	dijana@vunanisecurities.co.za
-------------------	---	--------------	-------------------------------

### Dealing

<b>Simon Hobday</b>	<b>Head: Equities Dealing</b>	<b>011 263 9546</b>	<b>simon@vunanisecurities.co.za</b>
Anthony Hughes	Dealing	011 263 9546/7	anthony@vunanisecurities.co.za
Ruan van der Merwe	Dealing/Derivative Trader	011 263 9546/7	ruan@vunanisecurities.co.za
Lincoln O'Shea	Sales Trading	011 263 9546/7	lincoln@vunanisecurities.co.za
Lindiwe Khalaki	Sales Trading	011 263 9546/7	Lindiwe@vunanisecurities.co.za
<b>Sarel Pretorius</b>	<b>*Head: Fixed Income Sales &amp; Trading</b>	<b>011 326 5198</b>	<b>sarel@vunanicm.co.za</b>
Dan du Toit	Senior Bonds Dealer	011 326 5198	dan@vunanicm.co.za
Cathy Hlungwani	Junior Bonds Dealer	011 326 5198	cathy@vunanicm.co.za
George Shaw	Money Market Trader	011 326 5198	george@vunanicm.co.za
Raymond Papenfus	Money Market Trader	011 326 5198	raymond@vunanicm.co.za

\*Fixed interest and money market trading conducted in Vunani Capital Markets (Pty) Ltd

#### Disclaimer

Vunani Securities (Pty) Ltd is a registered financial services provider. The above material was produced by one of the companies in the Vunani Group. A Group Company and/or persons connected with it may effect or have effected a transaction for their own account in the investments referred to in the above material or any related investments before the material is published to any Group Company's customers. A Group Company, persons connected with it and their respective directors and/or representatives and/or employees may have a position in the securities or any related investment and may make a purchase and/or sale, or offer to make a purchase and/or to buy any securities. The information and opinions contained in this document have been compiled or arrived at by the relevant Group Company's judgment as of the date of this document and are subject to change without notice. The information contained in this document is published for the assistance of recipients, but is not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient. No Group Company accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.