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3/23/2015

Anchor Group Holdings



YE price target of 1200c attained...+68%. Where too now?

JSE: ACG

1200 cents

Mcap: R1,595m

52 wk Hi/Lo: 1200c /300c

I selected Anchor Group in my Top 5 for 2015 on January 2<sup>nd</sup> when it was at 715 cents and set a bold year-end target price of 1200 cents (+68%). That price was recently attained. So where now?

I was somewhat derided at my selection of Anchor and my ambitious growth target, but my selection rationale was as simple as the asset management model. A pretty fixed cost base increasing lower than revenue growth + good AUM performance leads to more AUM = increasing profit + fast rising HEPS

CEO Armitage painted a pretty simple picture at recent results indicating that the 30.1cps earnings for FY14 was achieved from an (average) AUM over the period of R5.7bn to the end of 2014. So 'thumb sucking' FY15 HEPS is not too hard.



At the end of February 2015, AUM stood at R11bn and was increasing via new fund inflows by +R400m per month; this could bring YE15 AUM to @R15bn – with an average over the @R11bn, double the level of FY14.

With a slew of new products being launched from unit trusts and an entry into the corporate pension fund management arena, where Anchor aimed to secure mandates to administer 'smaller' funds that the (big boys) deemed too small to make a difference but to a nimble player like Anchor gaining a slew of mandates in the R100m – R1bn fund size arena would have a material benefit. With expense costs pretty much set in stone and managed (below) revenue growth, even allowing for staff bonuses, the simple growth model for this 'smaller' asset management business remains pretty compelling.

Yes, the juicy yield on average funds managed that Anchor attained of 1.6% will be diluted from the new initiatives in more competitive areas...but the overall 'blend' should remain attractive for some time to come.

It is too early to 'gauge' a FY15 HEPS but I have a number of a (minimum) of 50cps pencilled in with a strong suspicion that 60cps and thus a dividend of 30cps could be attained if current growth, performance and the benefit of acquisitions come to fruit. That could bring the FPE down to 20x to December 2015...generous but for a past growing business with a strong likelihood of accelerated AUM growth in FY16 as new initiatives take hold and build from a low base. Anchor is thus not a stock I would likely sell. My 1200 cent target has been met and I await news of the cautionary. If it is accretive above and beyond my assumptions on the 'core' business, I could easily justify revising my YE target price from the (attained) 1200 cents to 1500 cents.