

Small Talk Daily Page

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Anchor Group Holdings



Announces 1st deal. Buys Robert Cowen's R3.8bn AUM on PE of 8x

JSE: ACG

1080 cents

Mcap: R1,515m

52 wk Hi/Lo: 1220c /300c

I selected Anchor Group in my Top 5 Portfolio for 2015 on January 2nd when it was at 715 cents and set a bold year-end target price of 1200 cents (+68%). I was widely derided at the time.

That YE target price was recently attained on March 23rd and I revised my target for the stock to 1500 cents based on my expectation of AUM and earnings growth alongside the probable extrapolated benefits from the cautionary that Anchor was under. This morning on SENS, in a long standing cautionary, one of Anchor's acquisitions (they remain under cautionary) was announced.

Anchor has acquired the respected high net worth business of Johannesburg-based Robert Cowen paying R91.4m for an initial 66% stake (R72.8m in cash and R18.6m in Anchor shares issued at 1000 cents) with an earn-out on the remaining 34% payable equally over four years of the earn-out at an 8x PE.

Robert Cowen has R3.8bn of Assets under Management (AUM) principally for 200 wealthy families offering a gamut of financial services products and services including portfolio management services, wills and trusts. The business is highly profitable and (I understand) has grown its annual profits by 30% per annum for several years with the latest PAT reported of R12.1m. The acquisition consumes 25% of Anchor's cash war chest and if the Robert Cowen deal was included in Anchor's FY14 results (to December) would have added 20% to earnings or @6cps to the 30.1cps reported at the time.

Robert Cowen is a standalone business and key management will continue to run the unit. In chatting this morning to Anchor CEO Peter Armitage on the transaction he stated that Robert Cowen "broadens the AUM of Anchor....gains additional access to a high margin asset base...gains Anchor stewardship of a great quality business...and there were great synergies to cross sell products and enhance Cowen's distribution platform, capture more in-house business as well as the potential to expand the AUM locally and into the offshore market – where Anchor intends to grow.

The Robert Cowen deal adds R3.8bn to Anchor's fast growing AUM (R11bn as at start of February) as well as 20% to its HEPS all for usage of only 25% of cash in hand at a fair 8x PE. Anchor remains under cautionary and Anchor's main aim is to (1) grow its AUM and (2) expand and augment its local and international distribution to have more AUM offshore. The second acquisition, I'm sure, will have a high offshore element and if one was to extrapolate the latest deal into any latter deal – assuming Anchor management are as savvy - the remaining 75% cash, on a similar multiple and earnings, could add a further 15cps-18cps to Anchor's earnings taking it near to the 50cps HEPS that I forecast the business could earn in FY15. **I maintain my BUY.**



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

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