Financial News

23 June 2017

A few swallows

And it’s been baking hot.

After a long run of disappointing news, it is a pleasant relief to see some encouraging statements from stockbrokers. Charles Stanley’s swing back into profit for 2016/7 followed a significant improvement in Brewin Dolphin’s interim profits and the almost predictable report that Rathbones had continued to outperform the market in their first quarter.

Despite the drive to shed their traditional core business of advisory portfolio management and the focus on extending their services into financial planning for investment clients and the provision of discretionary asset management for IFAs and their clients, the core investment management businesses still dominate at Brewin and Charles Stanley generating over eight-ninths of the latter’s revenue and 180% of its operating profit – for Brewin it is 90% of revenue and they no longer show a divisional split of income and expenditure.

Charles Stanley

To a large extent the return to profit at Charles Stanley is a result of shedding staff while marginally increasing AUM – the departing staff took only a modest number of clients with them – although the windfall profit on selling the lease of its old head office in Luke Street more than covered the cost of moving its five offices into one new building (pity they didn’t have more low-rent leases to sell!). Other significant drivers were the continuing switch of advisory clients to the less costly (for the firm) discretionary service and the “reconstruction” of the asset management and financial planning divisions which amounted to dropping unprofitable lines of business and/or employees – the latter should result in improved profitability in 2017/8. The numbers on Financial Planning contradict the text (even after deducting revenue generated by investment managers previously working in that division) and each other but there are signs of an underlying improvement which might lead it to a break-even position by 2020.

The group continues to invest in the Charles Stanley Direct web-based dealing service which it expects to provide a quicker, hence better, and cheaper service to its execution-only clients. It is not yet at break-even, but may soon achieve that.

Brewin Dolphin

The good news at Brewin is not just a significant uplift in profit (adjusted pbt +14%, statutory pbt + 32%) as the effect of increased fees and staff cuts work through but that AUM actually increased faster than the market in the six months to end-March. This was largely thanks to the growth in the lower-cost Managed Portfolio Service that it provides to IFAs and their clients, although the past shrinkage of their (formerly vast) pool of advisory clients means that further losses now have little impact. A few years ago Brewin Dolphin managed more than 10% of all advisory client funds in the UK, now its advisory funds amount to less than 8% of its own AUM.

Companies in this issue

Charles Stanley	**CAY.L**
Brewin Dolphin	**BRW.L**
WH Ireland	**WHI.L**
Randall & Quilter	**RQIH.L**

John Borgars
0207 065 2690
johnb@equitydevelopment.co.uk

Blame for the advice gap can be laid at the feet of the FCA and, rather more so, its predecessors as regulator. Advisory services are still willingly provided to multi-millionaires by "private offices" but the risk-reward ratio for any stockbroker/asset-manager offering such services to a mass affluent client is just horrible.

WH Ireland

Following the Charles Stanley result WH Ireland has published a post-period-end trading statement prior to its 2016-8 (yes) interim results and announced a change in its year-end from 30th November to the more popular 31st March, from March 2018. The long-awaited upturn in small/mid-cap corporate finance has reached WHI ahead of rivals such as **Numis** or **Arden** and (since corporate finance profits are highly geared to revenue) they expect interim results to be *significantly* better than last year's. The private wealth management division has also done well increasing AUM to over £3 billion. Wealth Planning, which overlaps with private offices at the top end and IFAs at the bottom, is stated to have had a particularly strong first half.

It is good to see WHI share price rise to 131p, still only a little more than half our last valuation, and we look forward to reviewing some hard numbers in a month's time.

Randall & Quilter

On a different tack, another old friend, Randall & Quilter, has been busy recently with a series of transactions – mostly in the USA – to acquire portfolios in run-off that it can manage far cheaper (and better) – alternatively cheaper and far better – than the seller. R&Q's core competence is managing run-offs with additional benefits to profits if it buys rather than just manages the portfolio/company. Details are thin on the ground for the latest couple because the sellers – a Fortune 500 company and a Californian insurer – prefer not to be identified.

They are also acting on their commitment to focus on its core, high growth activities: legacy acquisitions, management and providing services to live underwriting partners. Today they have announced the sale of R&Q Managing Agency to Coverys, who are based in Boston MA and a leading player in medical professional liability insurance. The transaction is subject to approval by Lloyd's and the PRA, which should be decided upon in this calendar year. Coverys would then pay $22.6m, leaving R &Q with an estimated £13.9m once costs and incentive payments are taken into account.

Such net proceeds would be substantially (c. £12.6m) in excess of the carry cost in R&Q's 2016 audited accounts. Furthermore, the sale would be 'materially accretive' to Group EPS and to Net Tangible Assets according to the company.

Head of Corporate

Gilbert Ellacombe
Direct: 0207 065 2698
Tel: 0207 065 2690
gilbert@equitydevelopment.co.uk

Investor Access

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Ben Ferguson
Direct: 0207 065 2693
Tel: 0207 065 2690
ben.ferguson@equitydevelopment.co.uk