

Small Talk Daily Page

8/7/2015

Anchor Group Holdings

Full steam ahead as H1 earnings at top end of guidance



JSE: ACG

1370 cents

Mcap: R1,964m

52 wk Hi/Lo: 1390c /300c

Interim earnings came in at top end of guidance at 20.8cps (+52%). With the benefits of rapid AUM growth and the impending announcement of a large offshore acquisition allied to continued scale benefits, Anchor is probably on target to attain the 50cps I believe they could make.

The counter is not cheap, but is a 'darling' with the retail market and I'd be happier with a period of lethargy. However, with aggressive growth plans involving increased AUM accretion, new product launches (CIS, institutional pension funds and offshore products) and a push to punch up its distribution ability, both locally and offshore, all should aid Anchor's accelerated earnings growth thus supporting its current lofty PE.

I placed a buy on Anchor at 715 cents on January 2nd, it's gained 91.6%. It's a stock I would want to own (currently) in a small-cap growth fund.



7 day change	+13.0%
30 day change	+37.3%
90 day change	+35.9%
6 month change	+39.9%
1 year change	+300.0%
Year to date change	+94.4%

Small Talk Recommendation

YE Target price 2015 **1500 cents**

June 5 th 2015 @ 1080 cents	Buy
January 2 nd 2015 @ 715 cents	Buy
September 3 rd 2014 @ 200 cents	Buy

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 attained on March 23rd and I then revised my target for the stock to 1500 cents based on my expectations of strong earnings growth driven by firm assets under management (AUM) expansion alongside the probable extrapolated benefits from the cautionary that Anchor was/is under.

In my last note on Anchor (SmallTalk June 5th 1080 cents) I reiterated my BUY recommendation and my 1500 cent target price. My faith in the counter has been justified by recent announcements from Anchor and from the interim results released late yesterday.

In the past days, Anchor hit an intra-day high of 1490 cents closing yesterday at 1370 cents; a gain of 13.3% since my last note on July 20th (1210 cents) and a return of 91.6% since my original January 2nd buy recommendation.

The trading update issued on July 13th gave an interim HEPS guidance range of 19cps – 21cps. Anchor reported that its actual adjusted HEPS was at top end of guidance, increasing by 52% to 20.8cps and an 11cps dividend was declared. Key features in the first six months were;

Anthony Clark

Financial & Industrial Small & Medium Market Cap Analyst

Food Producers & Agriculture Analyst

(office) +27-21-481-6225 (Mobile) +27-83-300-7009

anthonyc@vunanisecurities.co.za



Follow me on Twitter - SmallTalkDaily

- Assets under management ended at R15bn (R13.5bn under management and R1.5bn under advice) this was an R6.4bn increase like-on-like of which R3.8bn emanated from the Robert Cowen deal. Anchor has average net R300m of new inflow monthly for the past eight quarters.
- Turnover rose +184% to R80.1m with an expenses rising 146% to R44.2m; this positive cost leverage saw Operating Profit rise by +251% to R35.8m. PBT was R40.1m (+314%) and Adjusted Headline Earnings R29.2m (+244%).
- Underlying yield in the period marginally declined from 1.6% to 1.5%.
- Cash on hand was R218m – more than enough to fund (presumably) the current and imminently due cautionary.
- Growth plans for the 2H and into FY16 involve;
 - Anchor has gained its first mandates into the institutional pension fund market. They aim to target the SMME business pension fund sector where their accretive and accumulative nature should see ‘smaller’ mandates quickly add up to a material sum under management.
 - The Collective Investment Schemes (CIS) has seen excellent inflows into Anchor’s top performing equity unit trusts. In the period under review, AUM rose by +106% from R838m to R1.7bn. I understand the (current) figure, after an excellent July, is @R2.5bn in the CIS platforms.
 - CEO Peter Armitage wants to expand the asset management engine across geographies. Currently under an on-going cautionary, I have speculated in past noted it may involve Anchor augment and expand its offshore asset management platform to clients. In the interim results commentary, Anchor makes mention of wishing to expand and acquire a UK-domiciled asset management and administration business.

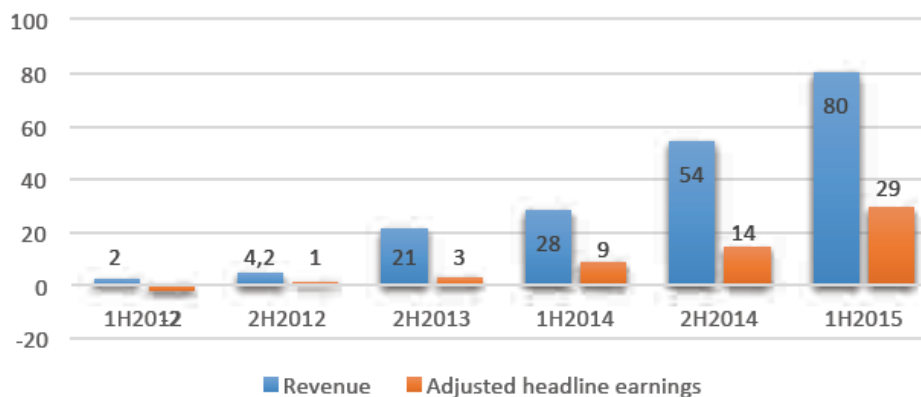
Further expansion will be undertaken to add to Anchor’s distribution platform. As has been seen locally, large (modestly performing asset managers) with excellent distribution platforms have bolstered their AUM via this marketing network. Anchor intends to have a sales force of some 25 employees that will power this strategy in the coming year as Anchor focuses on increasing its coverage into financial advisors as well as further bolt-on acquisitions in this space.

Given the cash on hand (R218m) and the high rating of Anchor paper, it may be opportune for Anchor to utilise this rating to acquire a couple of businesses and much like the Cowen deal offer part cash and (lock-in) paper to acquire further asset managers and financial advisors businesses to add to its Johannesburg, Pretoria, Durban and Cape Town offices.

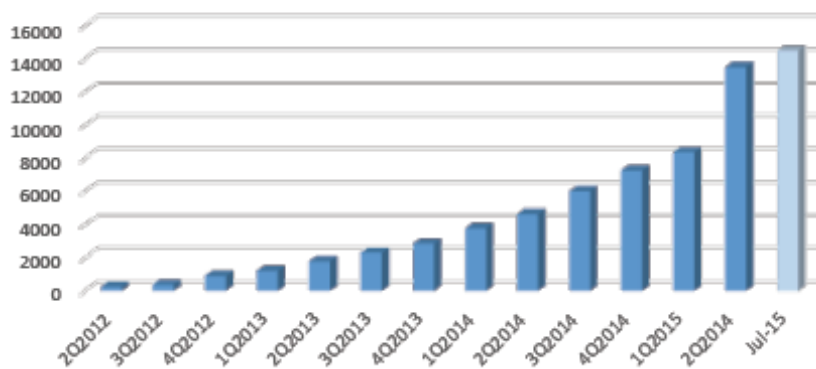
- New product areas within fixed interest, hedge funds and an offshore investment vehicle for SA domiciles investors are all in the pipeline I understand.

		6 months to 30 June 2015	6 months to 30 June 2014	12 months to 31 Dec 2014
	% ch	R'm	R'm	R'm
Revenue	184%	80,1	28,2	82,4
Costs	147%	44,3	18,0	53,8
Op profit	251%	35,8	10,2	28,6
Comprehensive income	317%	29,6	7,1	24,3
Headline earnings	311%	29,2	7,1	21,5
Adjusted headline earnings	244%	29,2	8,5	22,8
Op margin	23%	44,7%	36,2%	34,7%
Average AUM (R'bn)	138%	8,8	3,7	5,1
Yield on avg assets		1,5%	1,3%	1,6%
Earnings per share (cents)	81%	20,8	11,5	32,0
Headline earnings per share (cents)	81%	20,8	11,5	28,3
Adjusted headline earnings per share (cents)	52%	20,8	13,7	30,1
Diluted adjusted headline earnings per share (cents)	51%	20,7	13,7	29,2

Income statement progression (R'm)



Anchor Group AUM (R'm)



Source: Anchor Group H1 2015 results presentation

VUNANI

SECURITIES

Institutional Team

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

Research

Hurbey Geldenhuys	Head of Research / Platinum	011 384 2912	hurbey@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	irnest@KaplanEquity.com
Sejal Mistry	Healthcare	011 384 2938	sejal@vunanisecurities.co.za

Trainee Analysts

Jennifer Enele	Retail	011 384 2906	jennifer@vunanisecurities.co.za
Tabea Mosime	Travel & Leisure	011 384 2905	tabea@vunanisecurities.co.za

Support Staff

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

Dealing

Lincoln O'Shea	Head: Equities Dealing / Transition / Sales Trading	011 263 9546/7	lincoln@vunanisecurities.co.za
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
Jonathan Feigin	Senior Corporate Trader	011 263 9546/7	jonathan@vunanisecurities.co.za
Oupa Madonsela	Corporate Trader	011 263 9546/7	oupa@vunanisecurities.co.za
Lindiwe Khalaki	Sales Trading	011 263 9546/7	Lindiwe@vunanisecurities.co.za
Zizo Maraule	Trainee Dealer	011 263 9546/7	zizo@vunanisecurities.co.za
Sarel Pretorius	*Head: Fixed Income Sales & Trading	011 326 5198	sarel@vunanicm.co.za
Dan du Toit	Senior Bonds Dealer	011 326 5198	dan@vunanicm.co.za
Percy Matebula	Junior Bonds Trader	011 326 5198	percy@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.