

Equities

30 April 2012 | 7 pages

Aberdeen Asset Management (ADN.L)

Alert: 7% H1 PBT beat, Expect at least 5% consensus upgrades

Company Update

- **£413.1m revenue, £162.2m PBT, 10.4p EPS, 4.4p DPS** — Aberdeen H1 March 2012 results saw 5% revenue beat, and 7% PBT beat vs. Citi forecasts (£394m and £151m). PBT also beat the top end of consensus forecasts (£155m) by 5%. 10.4p EPS is 10% ahead of Citi 9.4p EPS. £184.7bn AUM 0.7% below Citi £186.1bn.
- **43.9bp revenue margin** — Stronger earnings than AUM growth is in line with our expectation that management fee margins would rise, but this was even better than forecast. 41.2bp FY Sep 11 has risen to 43.9bp H1 Mar 12 (Citi forecast 42.5bp).
- **40.1% operating margin** — At £413.1m, revenues were 5% better than Citi forecast, and £374m management fee revenues 4% better. In addition, 40.1% operating margin was better than Citi forecast 38.7%. We look to the results presentation for details of the compensation to revenue ratio (Citi forecast 35.2%).
- **Flows** — Aberdeen already announced £1.4bn net new business inflows in January and February at its pre-close on 26 March. Today it confirmed £2.4bn for the whole quarter (Citi forecast £1.9bn), bringing the H1 total to -£0.4bn net outflow.
- **Deviation tables** — Please see Figure 1 on page 2 for the comparison of H1 actual numbers to our forecasts and preceding periods.
- **At least 5% consensus upgrades** — Consensus FY12E EPS forecast is 20.0p. Simple doubling H1's 10.4p suggests 20.8p for FY12, 4% above consensus. With much of H1's high-margin fund flow occurring in Q2 (£2.97bn into pooled funds) we expect H2 > H1. As such, we look for at least 5% consensus EPS upgrades.
- **Outlook** — "Encouraged by the strong start to the current financial year" but expect further "periodic bouts of volatility." Confident Aberdeen is "well suited to operating successfully in such conditions."
- **10am Analyst Presentation** — Aberdeen will host a presentation and live web conference at 10am at their London office (Bow Bells House, Cheapside, London).

Buy	1
Price (27 Apr 12)	£2.74
Target price	£2.90
Expected share price return	5.8%
Expected dividend yield	3.6%
Expected total return	9.5%
Market Cap	£3,137M
	US\$5,103M

Price Performance (RIC: ADN.L, BB: ADN LN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Summary Financial History and Forecasts – Citi and Consensus

Year end: September	H1 2011	H2 2011	Citi H1 2012E	H1 2012A	% Diff	% yoy growth
Opening AUM £bn	178.7	181.2	169.9	169.9	0%	-5%
Net New Funds / Acquisitions	-0.7	-1.0	-0.9	-0.4	-56%	-43%
Market Appreciation and other	3.3	-10.3	16.3	15.2	-7%	361%
Closing AUM, £bn	181.2	169.9	186.1	184.7	-1%	2%
Revenue £m	385.6	398.4	393.7	413.1	5%	7%
Operating expenses £m	-238.7	-236.0	-241.2	-247.4	3%	4%
Net finance costs £m	-4.4	-3.3	-1.4	-3.5	150%	-20%
PBT £m	142.8	159.1	151.0	162.2	7%	14%
Fully Diluted EPS (p)	8.9	9.9	9.4	10.43	11%	17%
DPS(p)	3.8	5.2	4.0	4.4	10%	16%

Source: Citi Investment Research and Analysis

Aberdeen Asset Management

Valuation

We derive our price target using a DCF approach. We value the net operating profit after tax on a DCF basis, using an 11.7% discount rate (3.25% risk-free rate, 6.5% equity risk premium and 1.30 beta). This suggests an enterprise value of 289p per share.

We then make the following adjustments to this value:

- 1) We add forecast Sep-12E net cash per share (18.5p). We value this at par, reflecting our expectation that Aberdeen will return surplus cashflow to shareholders either late 2012 or 2013.
- 2) We subtract the value attributable to holders of Aberdeen's preference share capital (0.4p) and perpetual capital securities (17.6p), as well as the value of the group's pension fund deficit (2.6p).

In this way, we derive a 287p fair value, which we use to support our rounded 290p target price.

Risks

Aberdeen has successfully reduced its operational and financial leverage over the last 2 years, positioning it well for volatile market conditions.

We note the following company specific/industry risks which could affect the achievement of our target price:

- 1) Stronger market declines than we forecast - particularly in higher margin Emerging Market and Asian equities. This could de-rail the rising revenue margin story at Aberdeen.
- 2) Weaker or more negative fund flows than we forecast. So far, Aberdeen's institutional investor base has proven stickier in "high beta" asset classes than that of its peers. But sustained market falls / investor capitulation could end this, with negative impact on Aberdeen AUM, revenue margins and earnings progression.

3) Risk of the company re-entering 'acquisition mode' now that its balance sheet has been considerably strengthened. We see this risk as low.

If the impact of these risk factors is more negative than we anticipate, then the share price could fall significantly below our target price.

Appendix A-1

Analyst Certification

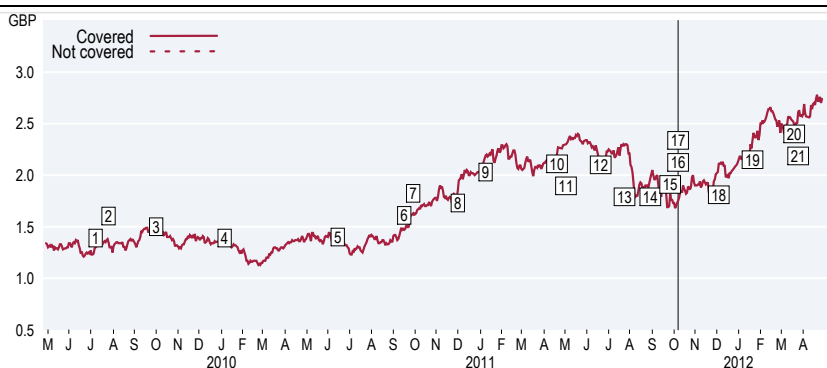
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Ratings and Target Price History Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



Date	Rating	Target Price	Closing Price
1 8-Jul-09	2H	*1.48	1.30
2 27-Jul-09	2H	*1.50	1.35
3 1-Oct-09	2H	*1.55	1.49
4 6-Jan-10	2H	*1.52	1.39
5 15-Jun-10	2H	*1.50	1.38
6 16-Sep-10	*2M	1.50	1.47
7 29-Sep-10	2M	*1.75	1.63

* Indicates change

Date	Rating	Target Price	Closing Price
8 1-Dec-10	*1M	*2.20	1.85
9 10-Jan-11	1M	*2.40	2.19
10 20-Apr-11	1M	*2.50	2.21
11 3-May-11	1M	*2.60	2.30
12 21-Jun-11	1M	*2.50	2.16
13 25-Jul-11	1M	*2.60	2.29
14 30-Aug-11	1M	*2.30	1.97

Date	Rating	Target Price	Closing Price
15 27-Sep-11	1M	*2.20	1.82
16 7-Oct-11	Stock rating system changed		
17 7-Oct-11	*1	2.20	1.75
18 5-Dec-11	1	*2.45	2.11
19 20-Jan-12	1	*2.55	2.34
20 20-Mar-12	1	*2.80	2.49
21 26-Mar-12	1	*2.90	2.61

Rating/target price changes above reflect Eastern Standard Time

Aberdeen Asset Management (ADN.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



Date	Rating	Target Price	Closing Price
1 21-Mar-11	*ADD MP	-	2.08

* Indicates change

Date	Rating	Target Price	Closing Price
2 21-Jun-11	*REM MP	-	2.16

Date	Rating	Target Price	Closing Price
3 29-Sep-11	*ADD MP	-	1.76

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