

Aberdeen Asset Management (ADN.L)

Alert: Q3 – Strong Equity Flows, Investment Returns

- **Overall** — Better AUM than forecast. Gross inflows (£8.8bn) slowed from Q2, but this is not a surprise given GEM Equity capacity constraints and difficult markets. Net fund flows held up better than we expected, and crucially did so in the highest margin area (Equities). Margin improvement story continues. We reiterate Buy. At 10.1x CY 2013e PE, Aberdeen trades in line with peers despite superior near-term EPS growth and potential capital returns.
- **Q3 June AUM Beat** — £182.7bn AUM, only -1% in the quarter (vs. Citi forecast -5% fall to £176.1bn). Beat in flows (+£0.3bn vs. Citi -£0.4bn) but especially investment returns (-£2.3bn vs. Citi -£8.2bn). See Figure 1 for details by asset class.
- **Better-than-Expected Fund Flows** — +£0.3bn vs. Citi -£0.4bn net flows reflects benefit of continued strong equity flows (£2.5bn, down from +£4.0bn Q2 but much better than Citi forecast £0.9bn), offsetting net outflows elsewhere.
- **Superior Performance** — Equity AUM saw negative returns of -£1.9bn, only -2% despite market backdrop of -8% falls in Emerging Markets equities.
- **Revenue Margin Expansion** — Net flows in Q3 add approx £15m in annualized fee income, i.e. around 0.8bp to last reported (H1) revenue margin of 43.9bp. Citi forecast is for 44.5bp in FY Sep 12E, rising to 45.8bp FY Sep 13E.
- **Question on Fixed Income** — Fixed Income flows continue positive in EM Debt, but we look to the conference call for explanation of the big spike in Asia Pacific outflows, and its bearing on the Asia fund growth story flagged in previous results statements. Equity net inflows evenly split APAC, GEM and Global Equities.
- **Outlook** — “Remains confident can continue organic growth of revenue and profit”. Also, Aberdeen will open an office in New York later this year to aid distribution.
- **EPS Estimates Up** — We expect consensus EPS to rise 2%-3% on this statement.
- **8am Conference Call** — Aberdeen will host a conference call for analysts and investors at 8am on 23 July. Dial in number 01296 480 100, passcode 511 075.

Figure 1. Q3 June 2012 AUM moves in the quarter

£bn	Equity	Fixed Income	Alternatives	Property	Money Market	Total
31 Mar AuM:	92.9	39.1	24.8	19.5	8.4	184.7
Net Fund Flows	2.5	-1.6	-0.6	0.1	-0.1	0.3
Performance & FX	-1.9	0.6	-0.4	-0.6	0.0	-2.3
30 Jun AuM	93.5	38.1	23.8	19.0	8.3	182.7
Citi forecast	86.4	38.8	23.3	19.5	8.1	176.1

Source: Citi Research

Company Update

Buy	1
Price (20 Jul 12)	£2.51
Target price	£3.00
Expected share price return	19.4%
Expected dividend yield	6.0%
Expected total return	25.4%
Market Cap	£2,887M
	US\$4,510M

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



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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 299p per share.

We then make the following adjustments to this value:

1) We add forecast Sep-13E net cash per share (21p). 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 (18.0p), as well as the value of the group's pension fund deficit (2.7p).

In this way, we obtain a 298p fair value, which we use to derive our rounded 300p 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

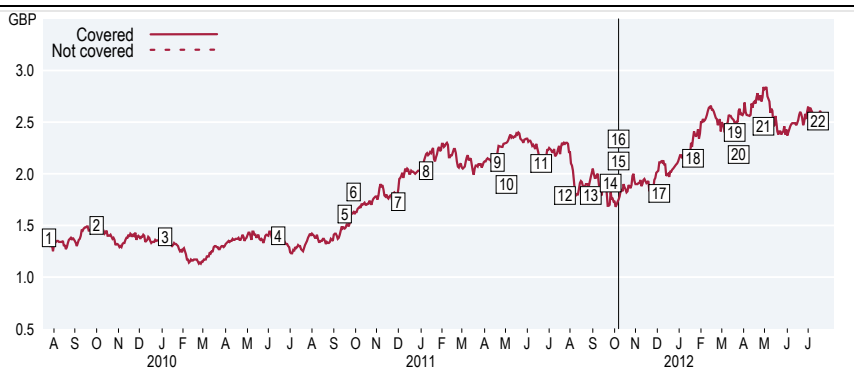
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Ratings and Target Price History Fundamental Research

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



Date	Rating	Target Price	Closing Price
1 27-Jul-09	2H	*1.50	1.35
2 1-Oct-09	2H	*1.55	1.49
3 6-Jan-10	2H	*1.52	1.39
4 15-Jun-10	2H	*1.50	1.38
5 16-Sep-10	*2M	1.50	1.47
6 29-Sep-10	2M	*1.75	1.63
7 1-Dec-10	*1M	*2.20	1.85
8 10-Jan-11	1M	*2.40	2.19

* Indicates change

Date	Rating	Target Price	Closing Price
9 20-Apr-11	1M	*2.50	2.21
10 3-May-11	1M	*2.60	2.30
11 21-Jun-11	1M	*2.50	2.16
12 25-Jul-11	1M	*2.60	2.29
13 30-Aug-11	1M	*2.30	1.97
14 27-Sep-11	1M	*2.20	1.82
15 7-Oct-11	Stock rating system changed		
16 7-Oct-11	*1	2.20	1.75

Date	Rating	Target Price	Closing Price
17 5-Dec-11	1	*2.45	2.11
18 20-Jan-12	1	*2.55	2.34
19 20-Mar-12	1	*2.80	2.49
20 26-Mar-12	1	*2.90	2.61
21 30-Apr-12	1	*3.10	2.84
22 16-Jul-12	1	*3.00	2.58

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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12 Month Rating

Relative Rating

Data current as of 30 Jun 2012

	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	44%	43%	40%	48%	43%	45%

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