

Managed Accounts Holdings (MGP)

Rating: Buy | Risk: High | Price Target: \$0.38

Re-instating coverage. On track.

Key Information

Current Price (\$ps)	0.22
12m Target Price (\$ps)	0.38
52 Week Range (\$ps)	0.18 - 0.40
Target Price Upside (%)	76.7%
TSR (%)	76.7%
Reporting Currency	AUD
Market Cap (\$m)	54.9
Sector	Financials
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

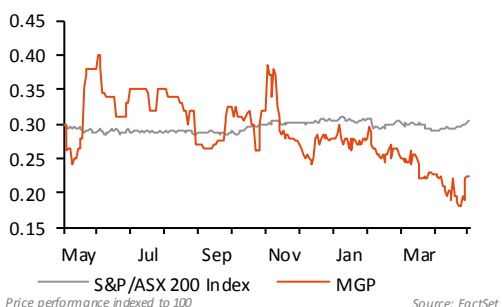
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales (\$m)	6.9	14.9	23.8	32.9
NPAT (\$m)	0.8	0.6	5.5	7.7
EPS (cps)	0.6	0.2	1.8	2.6
EPS Growth (%)	11.1%	(68.5%)	842.2%	41.6%
DPS (cps) (AUD)	0.8	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	57.1	nm	11.8	8.3
EV/EBITDA (x)	36.4	33.3	6.6	3.8
Div Yield (%)	2.3%	0.0%	0.0%	0.0%
Payout Ratio (%)	130.5%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(10.9%)	(15.5%)	(25.4%)	(29.4%)
Absolute (%)	(6.5%)	(14.0%)	(27.1%)	(28.3%)
Benchmark (%)	4.4%	1.5%	(1.7%)	1.1%



Major Shareholders

Argo Investments Ltd. (Investment Manage)	9.3%
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Shaw and Partners acted as joint lead manager to a recent placement for MGP for which it received a fee.

Event

We review our estimates and investment thesis for MGP following change of analyst coverage and following the March quarter update. MGP is on track to meet EBITDA guidance for 2018 and 2019 following the acquisition and integration of the Linear platform. The key risk to our forecasts lies in the renewal of key account contracts within the Linear business.

Highlights

	New	Previous	Change
Price Target (\$A)	\$0.38	\$0.38	0.0%

	FY2018E			FY2019E			FY2020E		
	New	Previous	% Chg	New	Previous	% Chg	New	Previous	% Chg
Revenue (\$m)	14.9	13.9	7.5%	23.8	21.9	8.8%	32.9	32.2	2.1%
EBITDA (\$m)	1.8	1.7	7.6%	8.1	7.5	8.4%	11.5	11.3	1.8%
NPAT (\$m) adj	0.6	0.4	45.1%	5.5	4.8	13.9%	7.7	7.6	1.9%
NPAT (\$m) reported	(0.7)	(0.8)	-13.9%	5.5	4.8	14.2%	7.8	7.6	2.1%
EPS (\$cps, adj)	0.2	0.1	93.1%	1.8	1.6	13.7%	2.6	2.5	3.1%
DPS (\$cps)	-	-	n/a	-	-	n/a	-	-	n/a

- The company issued EBITDA guidance for 2018 of \$1.5m-\$2.3m and \$7.5m-\$8.5m for 2019 at the half year results. Whilst the latter is dependent on the timing of synergy benefits - particularly around third party expenses - salary and occupancy savings as well as solid funds inflow suggest a result toward the top end of the 2018 guidance. The company remains on track to generate \$3.5m in cost synergies and we think that revenue synergies from greater use of scale and greater distribution footprint should increase confidence regarding FY19 guidance.
- FUM inflow of \$237.8m brought total funds under administration to \$12.83bn at the end of March. Whilst MGP has a large dependency on a small number of key accounts as to be expected with a smaller player, our numbers assume retention and we think that the demand for independent platform services is only going to grow.
- MGP offers a competitive Managed Discretionary Account offer via the SS&C technology platform and will utilise the core technology of the Linear platform to develop a WRAP offering later this year. We have not forecast any fund flow for this but recognise the potential uplift in both FUM and profitability if this can be successfully implemented. Recent hires at MGP have a strong background in WRAP development and distribution.
- The fall-out from the Bank Royal Commission is likely to see an acceleration in the exodus of financial advisers from the big four banks and AMP to smaller, independent groups such as those serviced by MGP. It is likely to be a beneficiary of this trend.
- We set our target price at \$0.38 as an equal blend of discounted cash flow ($\beta = 1.4$, $R_f = 5\%$, $ERP = 6\%$, \$0.45), PE (15x 2019E = \$0.37) and EV/EBITDA (12x 12m forward = \$0.32).

Recommendation

BUY. MGP has been under pressure following the capital raise to fund the Linear acquisition. The latest FUM flow and March quarter business update provide greater confidence that the business is on track to meet guidance. At 6.6x EV/EBITDA on our FY19 forecasts, MGP trades at a steep discount to its platform peer group. Whilst it carries higher risk due to the concentrated client base, we think the current valuation more than fully reflects this and we re-instate coverage with a BUY and a \$0.38 price target.

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Managed Accounts Holdings

Financials

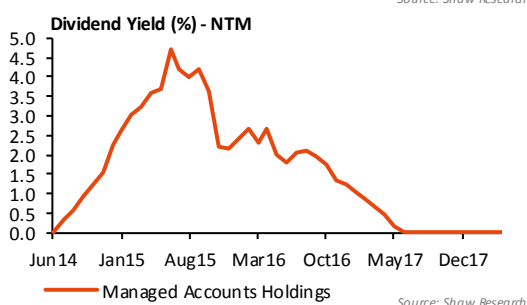
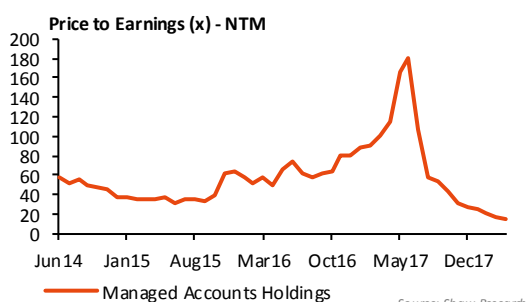
Diversified Financials

FactSet: MGP-AU / Bloomberg: MGP AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.22
Target Price (\$ps)	0.38
52 Week Range (\$ps)	0.18 - 0.40
Shares on Issue (m)	255.3
Market Cap (\$m)	54.9
Enterprise Value (\$m)	60.9
TSR (%)	76.7%
Valuation NPV	Data
Beta	1.40
Cost of Equity (%)	13.4%
Cost of Debt (net) (%)	7.6%
Risk Free Rate (%)	5.0%
Terminal Growth (%)	3.0%
WACC (%)	13.4%

Company Description

Managed Accounts Holdings Ltd. engages in the development and distribution of managed accounts to licensees and their clients. It provides Managed Discretionary Account (MDA) service which offers to independent financial advisory practices and their clients to the industry. It also enables financial planning groups to manage their own portfolios, or mandate to their choice of professional managers across security types including Australian equities, hybrid securities, term deposits, managed funds, government bonds, exchange traded funds cash, and other selected assets. The company was founded by Paul Collins in 2004 and is headquartered in Sydney, Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY16A	FY17A	FY18E	FY19E	FY20E
EPS (Reported) (cps)	0.5	0.5	(0.2)	1.8	2.6
EPS (Underlying) (cps)	0.6	0.6	0.2	1.8	2.6
EPS (Underlying) Growth (%)	33.0%	11.1%	(68.5%)	842.2%	41.6%
PE (Underlying) (x)	81.6	57.1	nm	11.8	8.3
EV / EBIT (x)	61.4	40.0	336.2	9.8	4.8
EV / EBITDA (x)	59.5	36.4	33.3	6.6	3.8
DPS (cps) (AUD)	0.8	0.8	0.0	0.0	0.0
Dividend Yield (%)	1.8%	2.3%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	145.0%	130.5%	0.0%	0.0%	0.0%
Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	5.5	6.9	14.9	23.8	32.9
Sales Growth (%)	26.3%	25.4%	116.7%	59.4%	38.0%
EBITDA	1.0	1.2	1.8	8.1	11.5
EBITDA Margin (%)	18.0%	18.0%	12.2%	34.1%	35.0%
Depreciation & Amortisation	0.0	(0.1)	(1.6)	(2.7)	(2.4)
EBIT	1.0	1.1	0.2	5.5	9.1
EBIT Margin (%)	17.4%	16.4%	1.2%	23.0%	27.6%
Net Interest	0.2	0.1	0.0	0.0	0.2
Pretax Profit	1.1	1.2	0.2	5.5	9.3
Tax	(0.4)	(0.4)	0.4	0.0	(1.5)
Tax Rate (%)	(33.4%)	(32.2%)	221.6%	0.0%	(16.5%)
NPAT Underlying	0.7	0.8	0.6	5.5	7.7
Significant Items	0.0	(0.1)	(1.3)	0.0	0.0
NPAT Reported	0.7	0.7	(0.7)	5.5	7.8
Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	1.0	1.1	0.2	5.5	9.1
Tax Paid	0.0	0.0	0.4	0.0	0.0
Net Interest	0.1	0.1	0.0	0.0	0.2
Change in Working Capital			(1.4)	(0.8)	(1.7)
Depreciation & Amortisation	0.0	0.1	1.6	2.7	2.4
Other	0.1	0.3	(2.0)	0.0	0.0
Operating Cashflow	1.3	1.6	(1.2)	7.3	10.0
Capex	(0.9)	(1.7)	(0.6)	(0.1)	(0.1)
Acquisitions and Investments	0.0	0.0	(23.1)	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	0.9	1.1	0.2	0.2	0.2
Investing Cashflow	(0.1)	(0.5)	(23.5)	0.1	0.1
Equity Raised / Bought Back	(0.2)	(0.3)	35.2	0.0	0.0
Dividends Paid	(1.1)	(1.1)	(0.3)	0.0	0.0
Change in Debt	0.0	0.0	(5.4)	0.0	0.0
Other	0.0	0.0	(2.7)	0.0	0.0
Financing Cashflow	(1.3)	(1.4)	26.9	0.0	0.0
Net Change in Cash	(0.1)	(0.3)	2.2	7.5	10.1
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	1.9	1.6	3.8	11.2	21.4
Accounts Receivable	1.3	1.0	4.2	5.2	7.3
Inventory	0.0	0.0	0.0	0.0	0.0
Other Current Assets	3.0	1.2	1.0	1.0	1.0
PPE	0.0	0.1	0.2	0.1	0.1
Goodwill & Intangibles	1.1	2.6	42.2	39.7	37.4
Investments	0.0	0.5	0.6	0.6	0.6
Other Non Current Assets	0.7	0.6	3.7	3.7	3.7
Total Assets	8.2	7.6	55.7	61.6	71.4
Accounts Payable	0.6	0.6	2.7	3.0	3.4
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	0.3	0.4	2.6	2.7	4.3
Total Liabilities	0.9	1.0	5.3	5.7	7.7
Ratios	FY16A	FY17A	FY18E	FY19E	FY20E
ROIC (%)	(4.7%)	(3.9%)	0.6%	9.8%	12.2%
Gearing (%)	(35.9%)	(32.2%)	(8.1%)	(25.1%)	(50.5%)
Net Debt / EBITDA (x)	(1.9)	(1.3)	(2.1)	(1.4)	(1.9)

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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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