

4 November 2020

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Pendal Group Ltd (PDL)

Diversified Financials

Buy

PDL A\$6.48
TARGET PRICE A\$8.39

Pendal Group Limited (PDL, formerly BT Investment Management Limited) is an Australian company engaged in the provision of investment management services. The Company operates through two segments: investment management business in Australia (Pendal Australia) and outside of Australia (Pendal International).

Company Data

Number of shares	322.8M
Market Capitalisation	\$ 2224.1
Free float (%)	85.1
12-month high/low	\$9.28/\$3.44
Average Daily Turnover (\$m)	13.767
% S&P/ASX200	0.13%
DDM Ranking	99
% All Ordinaries	N/A
GICS Industry Group	Diversified Financials

Source: FactSet, Barclay Pearce Capital

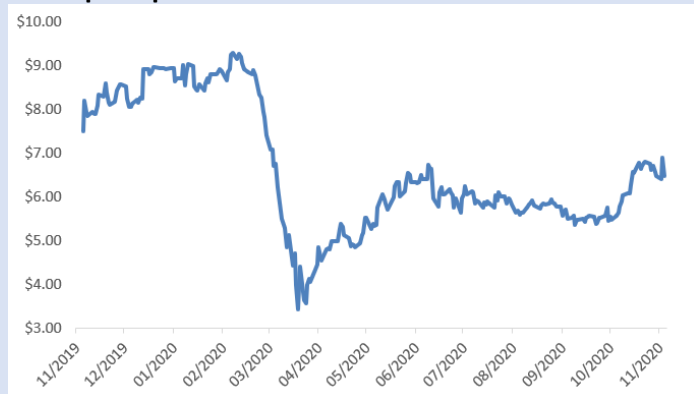
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	474.8	471.6	503.4	548.3
Reported NPAT (\$M)	116.4	137.4	150.7	192.3
Adjusted NPAT (\$M)	146.8	145.2	161.4	192.3
Adjusted EPS (c - FD)	45.5	44.4	49.8	59.1
Adjusted EPS growth (%)	(11.3)	(2.3)	12.0	18.7
Adjusted P/E (x)	15.1	15.5	13.8	11.7
Dividend (c/sh)	37.0	37.8	41.9	48.5
Gross yield (%)	7.9	8.2	9.1	10.6
Net yield (%)	5.4	5.8	6.4	7.4
ROIC (%)	18.0	18.7	20.1	24.0

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

F20 Results Announcement

On 4 November 2020, Pendal Group (PDL) announced their full year results for FY20 with the following highlights:

Results Overview:

- Statutory net profit after tax for the year ended 30 September FY20 was \$116.4m, down 2% on the prior corresponding period (pcp), significantly impacted by mark-to-market movements in seed investments;
- Cash net profit after tax (Cash NPAT) was \$146.8 million, a decrease of 10 per cent on the previous year;
- Average FUM was \$94.8 billion, down 4 per cent (pcp: \$98.8 billion);
- Operating revenue was \$474.8m, a decrease of 3 per cent (pcp: \$491.2m);
- Performance fees were \$13.4m, up from \$5.9m on pcp;
- Operating expenses were \$298.5m, up 3 per cent (pcp: \$290.2m);
- Cash earnings per share decreased by 11 per cent to 45.5 cps from 51.3 cps in pcp;
- Final dividend of 22.0 cps bringing the full year dividend to 37.0 cps, down 18 per cent, compared to 45.0 cps in pcp;
- Closing FUM as at 30 September was \$92.4 billion, down 8 per cent for the year (pcp: \$100.4 billion); and
- Pendal Australia was awarded Zenith Fund Manager of the Year 2020.

Outlook:

"The global economic and health crisis has accelerated a number of secular trends in the global asset management industry and highlighted the importance of ESG factors affecting the sustainability of businesses; a need to broaden distribution channels and to reduce costs in the operating model."

"The areas where we see the most potential are product development, particularly Impact and ESG, improved data and technology capabilities and increasing our global distribution footprint."

"Executing on this strategy will require a multi-year investment and our fixed costs for the 2021 Financial Year are expected to increase by eight to ten per cent, approximately \$12-16 million. We believe this strategy will deliver a more cost-effective model and increase FUM by around 50% by Financial Year 2025."

Earnings changes

PDL's FY20 EPS of 45.5 cents is lower than market expectations of 48 cents. Hence, we expect negative earnings revisions in the order of 5% for FY21 and future periods.

We are initiating on PDL with a 12-month price target of \$8.39 and a BUY recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.3%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	42.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
