

10 May 2022

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## Pendal Group Ltd

### Financials

#### BUY

**PDL A\$4.93**
**TARGET PRICE A\$6.77**

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	383.1M
Market Capitalisation	\$1,888.9M
Free float (%)	91.3
12-month high/low	\$8.96/4.04
Average Daily Turnover (\$m)	6.1
% S&P/ASX200	0.09%
DDM Ranking	109
% All Ordinaries	0.077%

GICS Industry Group Diversified Financials

Source: FactSet, Barclay Pearce Capital

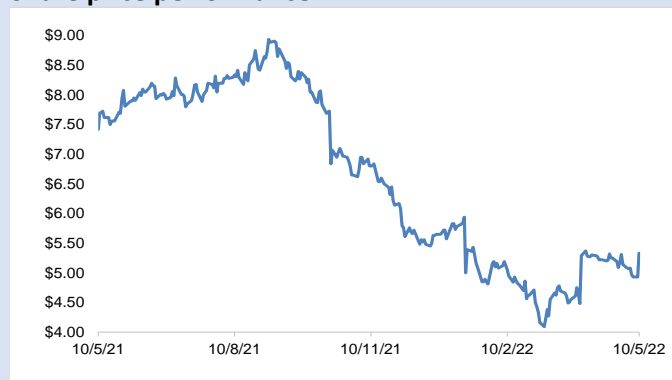
#### Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	581.9	735.0	746.1	792.9
EBITDA (\$M)	226.1	292.5	281.1	302.7
Reported NPAT (\$M)	164.7	201.7	193.8	211.5
Adjusted NPAT (\$M)	165.3	210.9	201.9	215.0
Adjusted EPS (¢ - FD)	48.2	56.3	54.8	59.2
Adjusted EPS growth (%)	5.9	1.8	-3.0	9.3
Adjusted P/E (x)	10.2	11.6	11.9	11.0
Dividend (¢/sh)	41.0	47.6	47.0	51.3
Gross yield (%)	11.9	13.8	13.6	14.9
Net yield (%)	8.3	9.7	9.5	10.4
ROIC (%)	14.8	18.5	17.8	19.1

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## FY22 First Half Year Results

On 10<sup>th</sup> May 2022 Pendal Group Ltd (PDL) announced its FY22 First Half Year Results with the following highlights:

- Average FUM \$133.3b, up 37% on H1FY21;
- Base management fee margin 48bps, down 1bps on H1FY21;
- Performance fees \$44.5m, up 8% on H1FY21;
- Fee revenue \$362.6m, up 31% on H1FY21;
- Total operating expenses \$209.6m, up 20% on H1FY21;
- Operating profit \$153.0m, up 49% on H1FY21;
- UPAT \$131.4m, up 59% on H1FY21
- Statutory NPAT \$96.7m, up 8% on H1FY21;
- Underlying EPS 34.3cps, up 34% on H1FY21;
- Effective fee margin (ex TSW) higher at 51bps;
- TSW contribution is lower margin given institutional client base;
- Institutional channel seeing improved margin as a result of asset mix;
- Fixed costs up 7% (ex TSW) versus pcp, up 5% on a constant currency basis;
- Measured approach to ongoing investment program in light of current trading conditions;
- Improved operating ratios with expansion of operating margin to 42% and compensation ratio decline to 42%
- Both ratios expected to normalise through 2H with full year expectations of 1-2% expansion in operating margin and 1-2% decline in compensation decline in compensation ratio in prior year;
- Ongoing investment to drive growth and operating efficiencies;
- Seasonality in fixed expenses skewed to second half;
- FY22 fixed cost growth revised to 3-5% on FY21 assuming stable currency in 2H;
- Interim dividend of 21cps, 24% higher than pcp;
- Interim dividend to be 10% franked;
- Full year dividend payout ratio reaffirmed at 85-90% of UPAT; and
- Current pre-tax dividend yield of 9.0%.

#### Outlook:

- Strong business foundation;
- Maintain a flexible approach to investment in light of current market conditions and client sentiment;
- Executing against a clear strategy for sustainable long-term growth;
- Leveraging global distribution footprint;
- Capitalise on expanded US institutional and wholesale footprint;
- Continue to build out presence in continental Europe;
- Deliver investment excellence in a diverse product range;
- Strengthen ESG & RI integration in core product set;
- Provide a platform to deliver exceptional client outcomes; and
- Investing to attract, develop and retain the best talent.

## Earnings changes

For 1HF22, PDL reported adjusted NPAT of \$131.4m compared to market expectations of \$109.9m. Hence, we expect positive earnings revisions of 15% for FY22 and future periods.

## Valuation

We are updating our 12-month target price from \$8.95 to \$6.77 and retaining our BUY recommendation. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. 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 2021 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.

### Conflicts of Interest

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**Buy** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

**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.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

**Barclay Pearce Capital Recommendation Proportions**

Buy	40.7%	(	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.4%	(	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.9%	(	0.0% of stocks with recommendations are Barclay Pearce clients)