

26 October 2011

Share plc

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/09	14.1	2.7	1.28	0.25	17.9	1.1
12/10	15.6	3.7	1.71	0.30	13.4	1.3
12/11e	14.6	2.4	1.18	0.36	19.4	1.8
12/12e	15.9	2.9	1.49	0.43	15.5	1.9

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Market share data

Year to date, Share plc has continued its multi-year market share gains. However, its Q311 share of benchmark revenue was 5.8% compared with 6.1% in Q310 (excluding the benefit from the now-expired interest rate hedge). Market turmoil has seen more active trading by retail investors and, compared with the peers, Share plc generates more fee and less trading commission income, so this had an adverse effect on market share. Including the interest hedge in Q310, income fell (£4.1m to £3.5m) but this reflects 3% underlying growth, excluding the hedge.

Revenue growth relative to peers

Q311 on Q211 saw dealing commissions up 7% (peers up 8%), fees down 7% (peers down 9%), and reported interest and other income up 2% (peers up 16%).

Share plc's revenue mix is split 40% dealing commission, 46% fees and 14% interest and other income (peer group 62%, 16% and 22%). In periods of rapid trading, this lower proportion of dealing means Share plc benefits less than peers. When markets weaken, Share plc is more affected than peers because of its higher dependence on value-related fees. Both factors affected market shares in Q311.

Estimates small cut

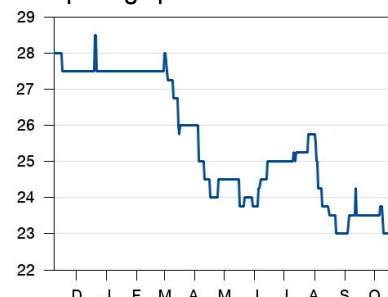
With macro uncertainties, we have modestly cut our fee assumptions, reducing normalised pre-tax profits in 2011 from £2.8m to £2.4m and in 2012 from £3.5m to £2.9m. Our statutory forecasts are now £2.0m and £2.7m respectively.

Valuation

There has been weakness in the share price since July, which we believe may have been due to market concerns combined with Share's relative illiquidity. The Q311 revenue numbers confirm the model is delivering hedge-adjusted revenue growth despite the fall in market levels. Share plc is now trading on a 2012 P/E of 15.5x and a yield approaching 2%. Our DCF and Gordon's growth models have indicative valuations of 30-34p.

Price 23.0p
Market Cap £33m

Share price graph



Share details

Code SHRE
Listing AIM
Sector Investment Services
Shares in issue 143.65m

Price

52 week High 28.5p Low 23.0p

Balance Sheet as at 30 June 2011

Debt/Equity (%) N/A
NAV per share (p) 11.0
Net cash (£m) 11.0

Business

Share plc owns The Share Centre and Sharefunds. The Share Centre is a self-select retail stockbroker that also offers share services for corporates and employees. A high proportion of income comes from fee and interest-based revenues.

Valuation

	2010	2011e	2012e
P/E relative	127%	216%	188%
P/CF	15.8	68.7	16.8
EV/Sales	1.0	1.1	1.1
ROE	15%	9%	11%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

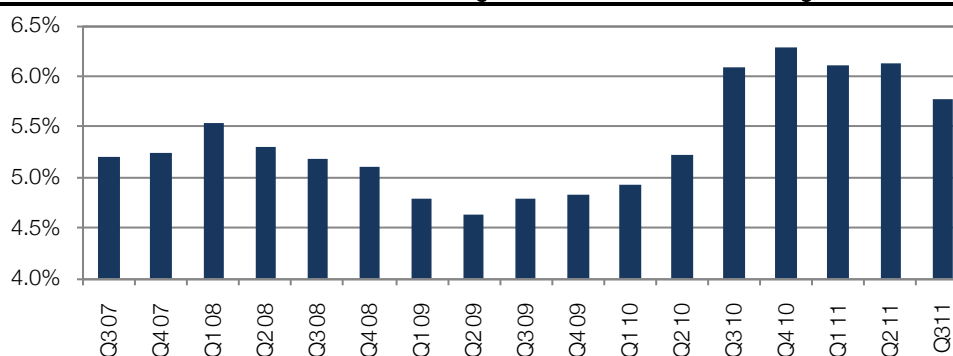
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Commentary

Share plc has a business mix that, relative to peers, was hit by both higher dealing activity (good for overall revenue, even if it was less than peers) and weaker market levels. Such trends have been seen before, most notably through 2008 when market weakness was very visible in the revenue trend. The peer group (Alliance Trust Savings, Barclays Stockbrokers, Equiniti, Halifax Sharedealing (HBoS), HSBC Stockbrokers, NatWest Stockbrokers (RBS), Saga Personal Finance, Selftrade and TD Waterhouse Investor Services Europe) comprises stockbrokers, so this mix effect should not be surprise.

Exhibit 1: Benchmarked market share excluding income from interest rate hedge



Source: Edison Investment Research, Share plc accounts

As can be seen in Exhibit 2, the market activity in Q311 has recovered materially from the slowdown in Q211. In Q311, the number of FTSE 100 shares traded increased by 25% and the value by 12% on Q310. Share plc has held its own in trading commissions in this market growth.

Exhibit 2: LSE trading volumes

Order book	2011 year to end Sept		YTD Sep 11 on Sep 10		H111 on H110		Q111 on Q110	
	Trades	Value (£m)	Trades	Value	Trades	Value	Trades	Value
FTSE 100	76,755,786	626,752	3%	(8%)	(7%)	(17%)	2%	(8%)
FTSE 250	32,867,385	87,571	14%	(10%)	5%	(13%)	12%	(5%)
FTSE Small Cap	1,681,231	4,330	42%	21%	46%	20%	69%	36%
AIM	2,799,055	9,673	109%	77%	119%	93%	168%	149%
IOB	10,577,974	150,983	196%	79%	154%	57%	156%	73%
ETFs/Structured Products	895,540	49,057	44%	45%	34%	25%	62%	45%
Other	2,488,397	16,231	2%	(5%)	(9%)	(4%)	9%	(22%)
Total order book	128,065,368	944,597	14%	2%	3%	(7%)	12%	2%
Non order book								
Equities	5,323,834	1,177,061	1%	92%	(2%)	112%	(5%)	(17%)

Source: Edison Investment Research, Share plc accounts

Support for the sensitivity of Share plc's market share to trading volumes can be seen with the impact of falling trading volumes in Q211 (Exhibit 2). This contributed to the small increase in market share that Share generated in that quarter (Exhibit 1).

While a small part of income, we believe Share plc is likely to see a more stable net interest income from here than some peers. Having put some money out on a longer duration, it is less sensitive than some to movements in short-term LIBOR (which rose 25bp in Q311). There may also be some effect from the value of settlement balances that, in periods of high trading, may see a greater proportion of revenue affected for the purer stock-broking peers.

Valuation

On our new numbers Share plc is trading on a 2012 P/E of 15.5x and yield of nearly 2%. Our fundamental valuation approaches indicate 30.1p (DCF) and 33.7p (Gordon's growth).

Financials

The market weakness has affected fees. Conservatively, we have carried the effect forward, leaving the overall fee forecast flat for 2011 (fees were up 23% H111 on H110, but down 7% in Q3 on Q211). We have modestly ticked up interest income reflecting the numbers reported today. Other forecasts are unchanged and the net effect is a modest cut to pre-tax profits.

Exhibit 3: Financials

	£'000s	2007	2008	2009	2010	2011e	2012e
Year end 31 December							
PROFIT & LOSS							
Revenue		11,721	11,973	14,128	15,591	14,609	15,863
Cost of Sales (exc amortisation and depreciation)		(10,467)	(10,578)	(11,880)	(12,430)	(12,671)	(13,290)
EBITDA		1,254	1,395	2,248	3,161	1,938	2,572
Depreciation		(75)	(73)	(76)	(96)	(101)	(106)
Amortisation		(16)	(16)	(16)	(22)	(28)	(4)
Operating profit (pre exceptional)		1,163	1,306	2,156	3,043	1,809	2,463
Exceptionals		0	(655)	0	0	0	0
Other		1,203	(55)	(114)	(6)	(6)	(6)
Investment revenues		947	859	303	217	217	217
Profit Before Tax (FRS 3)		3,313	1,455	2,345	3,254	2,020	2,674
Profit Before Tax (norm)		2,340	2,358	2,710	3,656	2,355	2,939
Tax		(867)	(588)	(639)	(978)	(566)	(749)
Profit After Tax (FRS 3)		2,446	867	1,706	2,276	1,454	1,925
Profit After Tax (norm)		1,765	1,700	2,061	2,649	1,709	2,180
Average Number of Shares Outstanding (m)							
EPS - normalised (p)		1.11	1.07	1.28	1.71	1.18	1.49
EPS - FRS3 (p)		1.54	0.55	1.06	1.47	1.01	1.31
Dividend per share (p)		0.20	0.22	0.25	0.30	0.36	0.43
EBITDA Margin (%)							
		10.7%	11.7%	15.9%	20.3%	13.3%	16.2%
Operating Margin (before GW and except.) (%)							
		9.9%	10.9%	15.3%	19.5%	12.4%	15.5%
BALANCE SHEET							
Fixed Assets		5,775	3,031	3,338	4,017	4,279	3,896
Current Assets		17,494	21,694	26,124	28,831	28,378	31,759
Total Assets		23,269	24,725	29,462	32,848	32,657	35,654
Current Liabilities		(5,919)	(5,954)	(9,387)	(16,604)	(15,262)	(16,762)
Long term Liabilities		(1,454)	(1,479)	(1,355)	(807)	(831)	(831)
Net Assets		15,896	17,292	18,720	15,437	16,564	18,061
CASH FLOW							
Operating Cash Flow		1,163	1,306	2,156	3,043	1,809	2,463
Net cash from investing activities		1,969	840	76	(424)	62	262
Net cash from (used in) financing		(2,616)	764	(348)	(4,207)	(422)	(506)
Net Cash Flow		5,499	730	2,170	(2,543)	125	1,756
Opening cash		12,053	11,642	12,372	14,542	11,999	12,124
Closing net (debt)/cash		17,552	12,372	14,542	11,999	12,124	13,880

Source: Edison Investment Research, Share plc accounts

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