Ninety One

Ninety-One Asset Managers was established in 1991 and was previously known as Investec Asset Management before being spun out of its parent company and listing on both the Johannesburg and London Stock Exchanges in 2020.

The company is a global active investment manager offering a broad range of strategies to its regionally diverse client base. Since its first institutional mandate in 1994, Ninety-One has grown its assets under management (AUM) to approximately R2.83 trillion, managed by a team of 251 investment professionals.

Ninety-One navigated through a particularly challenging period in 2023 as the company grappled with falling asset prices, increasing interest rates, and an environment where investors adopted a risk-averse sentiment. In its latest Assets Under Management (AUM) update for the second quarter of 2023, reported as of September 30, 2023, the figure came in at £123.1 billion. This represented a slight decrease from the first quarter's figure of £124.8 billion, with a noticeable decline of -£9.2 billion from the September 2022 figure.

Management had previously faced a challenging flow environment but demonstrated their ability to maintain a positive track record, as seen in their reported half-year results in 2022 where net outflows from the previous period were corrected. This improvement was partly due to good performance in equity markets but, more importantly, a solid showing in the ongoing effort to grow the business and attract new flows across all asset classes.

Nevertheless, the company's share price experienced a decline during 2023, reaching lows of R36 per share. However, Ninety-One benefited from the global market rally towards the end of the year and has since recovered to a more favorable R42 per share. Despite this, Umthombo still views the counter as being relatively inexpensive with a particularly enticing margin of safety. Furthermore, Ninety-One benefits from a robust and unstretched balance sheet as well as being in a strong net cash position.

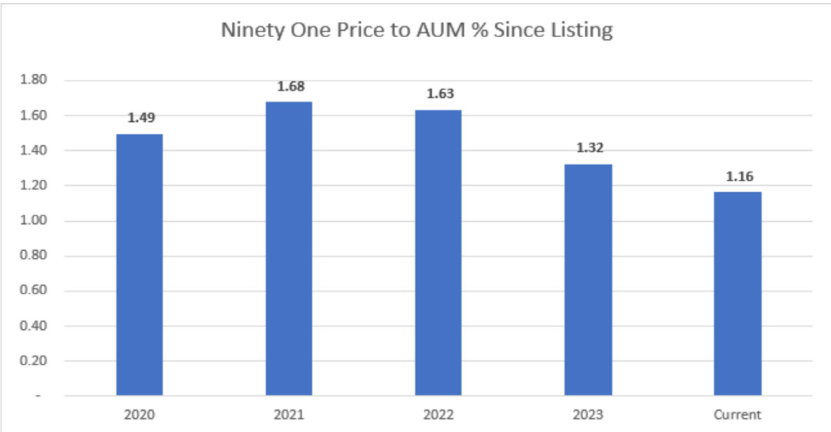
We provide an illustration of the counter's valuation against comparable global peers, with a particular focus on the Enterprise Value to AUM ratio. Umthombo assessed the below counters' EV/AUM over a time period, demonstrating that unfavorable market conditions had resulted in a broad-based de-rating across the sector. For example, British peer AJ Bell plc showed a substantial de-rating from highs of 3.15% in 2020 to 1.81% in July 2023. As per the below table, Ninety-One registered an EV/AUM of 1%, owing to its net cash position. This is a common practice in the industry, as high beta businesses like asset management prefer surplus cash positions, well ahead of their regulatory requirements, resulting in the enterprise value being lower than their market capitalization. Regardless, and more importantly, the table displays Ninety One's relative attractiveness on a valuation basis against its peers.

Asset Managers Valuation – July 2023

Asset Managers	Market cap (USD)	AUM (USD)	EV / AUM %
NINETY ONE PLC	2 070	159 660	1.00
AJ BELL PLC	1 750	91 130	1.81
IMPAX ASSET MANAGEMENT GROUP	961	49 520	2.47
MAN GROUP PLC/JERSEY	3 640	143 300	1.24
JANUS HENDERSON GROUP PLC	4 850	310 500	1.37
ABRDN PLC	5 750	604 900	0.89
ANIMA HOLDING SPA	1 240	198 360	1.03
AZIMUT HOLDING SPA	3 260	62 280	5.21

Source: Umthombo Wealth, Bloomberg

The counter's dividend has historically increased in line with earnings, allowing for a payout ratio of 70% and above, which management has the further capacity to increase to 100%. In the event of this happening, a further re-rating opportunity for the stock would likely be initiated. Though the potential is there, management has been candid about their desire to recycle capital into growth initiatives, which would provide better long-term value creation for the company and investors alike.



Source: Umthombo Wealth, Bloomberg. May 2023

Looking toward the future, management has set an ambitious growth strategy to penetrate an addressable market of approximately GBP 7 trillion in AUM, the majority of which they believe sits in the Americas. As a mid-sized player in the asset management space, Ninety-One has been described as an 'insurgent' rather than an 'incumbent' and, in its quest to expand, needs to invest in customer satisfaction and attraction through the creation of an impenetrable global brand and reputation. With this in mind, we believe giving management the benefit of the doubt to execute on their plan is a constructive way forward.

Umthombo views the investment case as particularly compelling, and management's ability to execute the business strategy is convincing given the institutional knowledge and track record of the Ninety-One team. Despite the continued market volatility, it is anticipated that the counter has the capability to grow company earnings in a flat or increasing market environment. As Benjamin Graham so succinctly put it, "The Margin of Safety is always dependent on the price paid," and at a Price to AUM at historic (since listing) lows, we view Ninety-One as a particularly enticing opportunity at these levels.