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Jupiter Fund Management: 5x FCF enables buffer in difficult times

Company:	Jupiter Fund Management (JUP)	Market Cap:	£460mio
Industry:	Fund Management	Net Cash:	£177mio (excess capital)
Country:	UK	Revenue:	£369mio
Date:	8 th May 2024	Operating cash flow:	£88mio
Dividend:	8%	Free cash flow:	£88mio
Entry:	£445mio	Target:	£650mio (+41%)

Why Jupiter Fund Management?

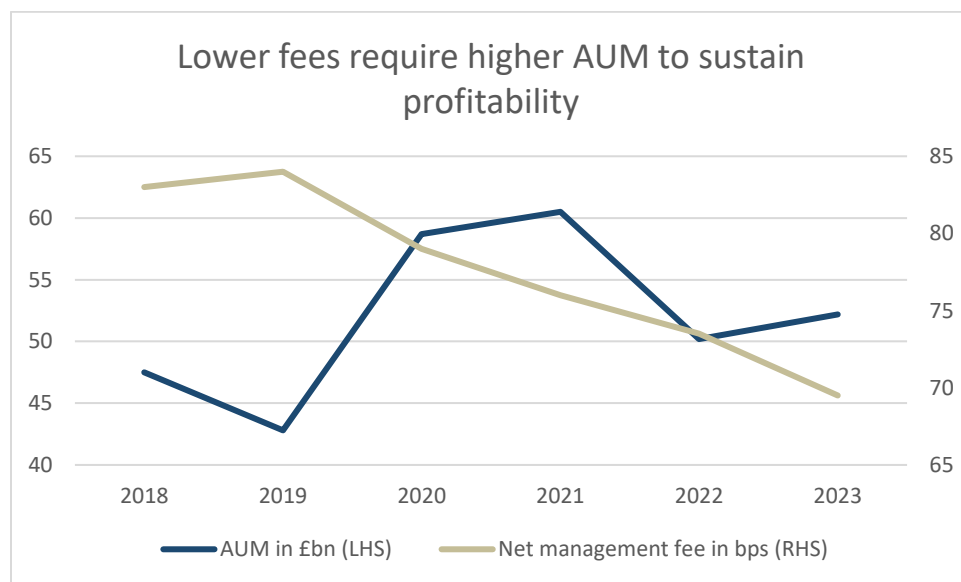
- Rock bottom valuation
- AUM has remained stable amidst asset appreciation and operating cash flows have doubled as a ratio over market capitalization
- Redemptions have decelerated from (£4.5bn) in 2019 to (£1.6bn) in 2023
- Excess cash is to be returned to shareholders

Risks

- Management fees have gradually declined from 84bps in 2019 to 70bps in 2023
- Redemptions continue
- Largest shareholder objects a share buyback programme of more than 3% of shares outstanding
- Fund manager individuals are leaving

Jupiter Fund Management

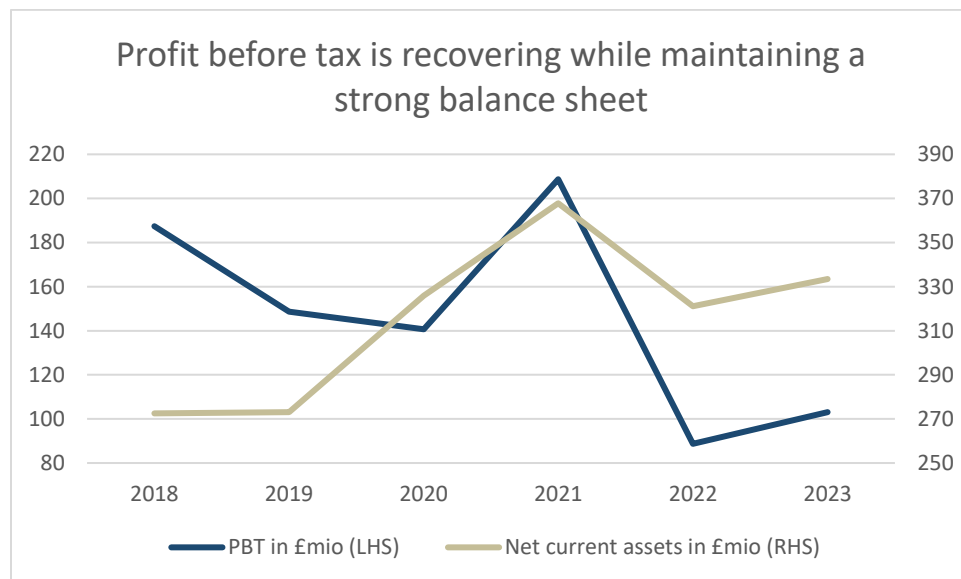
Jupiter Fund Management is a UK focused fund manager that offers retail and institutional clients advisory (44%) and discretionary fund management services (56%). Over 80% of Jupiter's clients are classified as retail compared to nearly 20% being institutional. 2/3 of the AUM is in the UK, 22% in EMEA, 6% in Asia and the remaining 6% in the Americas. Jupiter stands out as an asset manager by managing concentrated, high-conviction portfolios, which performance highly depends on individual fund managers. Over the last year, a number of top managers have left the firm, with Ben Whitmore the latest example, who managed £8.5bn of the £53bn book. The risk of such departure and resulting redemption is one reason why the share price of Jupiter has suffered so much recently. The other reason is the pressure on management fees, which have been declining continuously over the last five years. However, the redemptions are often offset by asset appreciation, which means that AUM is actually higher compared to 2018/19. At the same time, the company increased their institutional client base from zero a few years ago to nearly £10bn AUM in 2023. While institutional clients pay much lower fees (28bps in 2023 compared to 78bps from Retail), they tend to stick around much longer with an average 7 years before redemption compared to 2.5-3 years for retail clients. Institutional clients are also often charged performance fees. The company guides for £10-15mio in performance fees for 2024. This makes the returns of institutional clients nearly identical to retail.



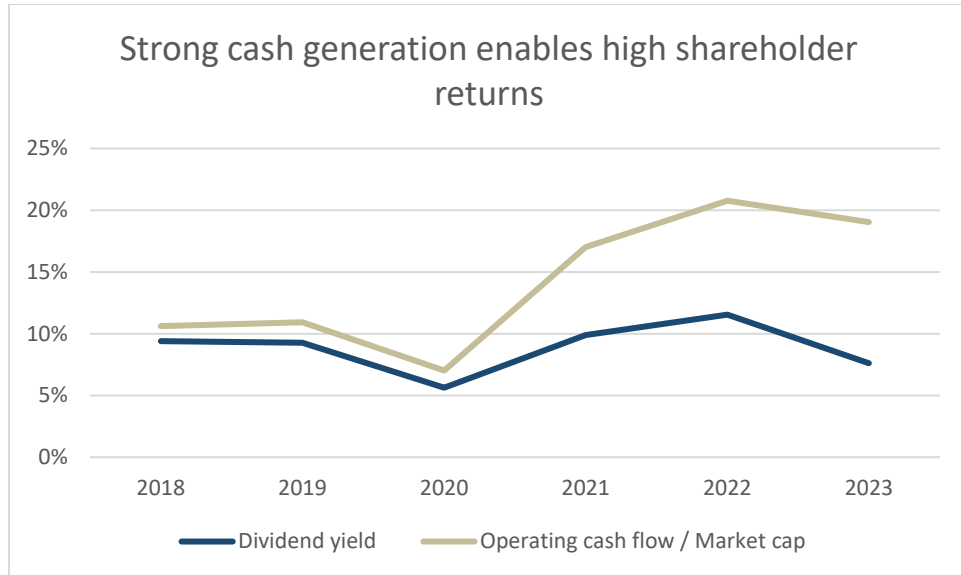
Source: Jupiter Fund Management

Attractive cash flows

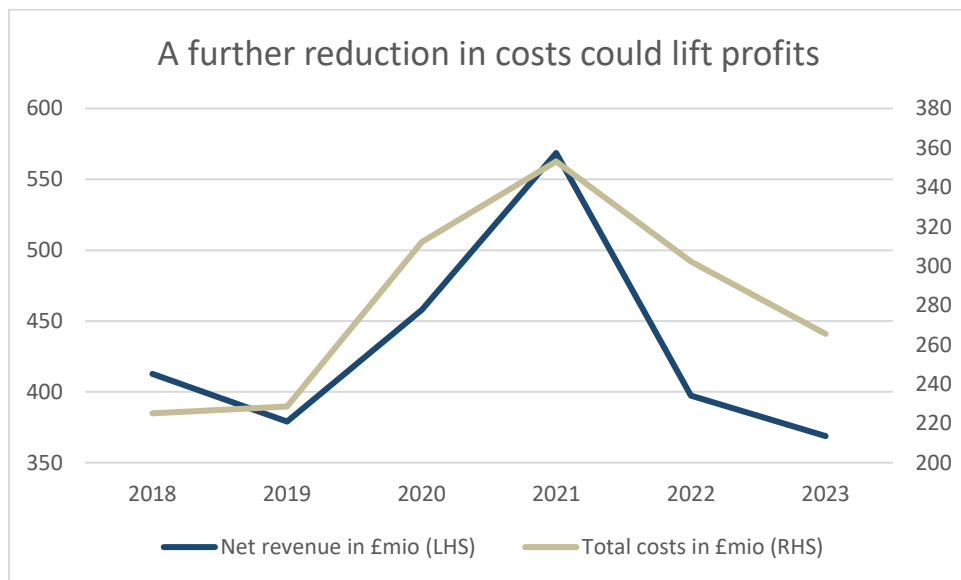
While profits before taxes have roughly halved over the last 5 years, net current assets have climbed by over 20%. The cash-generative nature of the business has enabled strong dividends over the years, with dividend yields often exceeding 10%. What strikes me is that the valuation suffered much more than the drop in profits. The operating cash flow to market cap ratio has jumped from 10% to 20% since the pandemic. Another reason for the decline in the valuation of Jupiter is likely the trend of retail clients managing their portfolio themselves, hence redeeming their funds from Jupiter. However, the shift towards institutional clients should provide much stickier capital and also enables to charge performance fees. In addition, if the historic correlation continues, there is more room for cost cutting, which would offer further returns – although this seems unlikely due to inflation and comments from management.



Source: Jupiter Fund Management



Source: Jupiter Fund Management



Source: Jupiter Fund Management

Excess capital

Given that the company trades at around 5x FCF, a lot of negatives are being priced in. However, this completely ignores the excess capital the firm has on its balance sheet. Excess capital that can be returned to shareholders. Jupiter's excess capital target is set at 1.5-2x of requirement compared with its current 3.5x excess capital. This means, in theory, as much as £107.7mio could be distributed to shareholders – or 4.5x market cap. While a shareholder buyback programme would make sense, the largest shareholder, Silchester International Investors, objects this due to their holdings not wanting to exceed 20%, as it would require additional regulatory requirements. For this reason, Jupiter has asked shareholders to approve a smaller share buyback, which would not bring Silchester over the 20% hurdle, which was approved at its AGM yesterday. The remaining funds could be paid out via special dividends or seed capital for some of the new fund managers. In effect, this makes the valuation even more compelling, as one could view this as an enterprise value of £350mio – compared with over £80mio in free cash flow.

Jupiter Fund Management: Excess Capital to be distributed

Excess capital target	Capital in £mio	Requirement in £mio	Excess in £mio	To distribute in £mio
1.5-2x	248.90	71.8	177.1	107.7

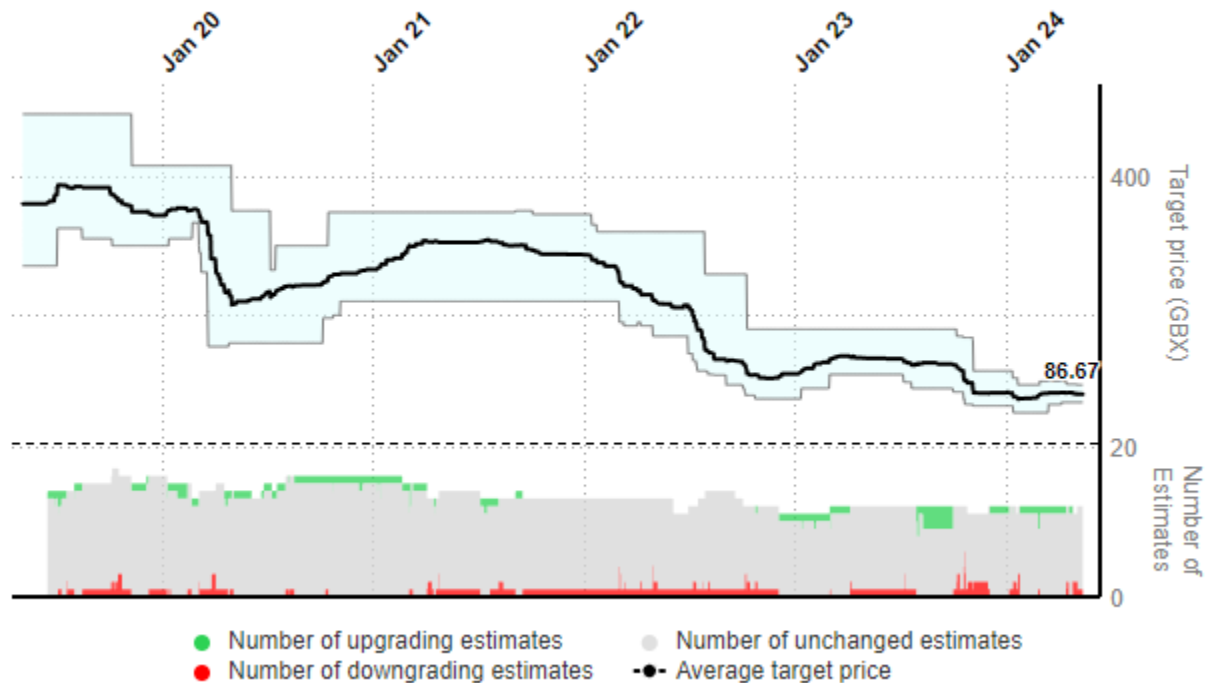
Source: Jupiter Fund Management as of 31 Dec 2023

Analysts are not convinced (yet?)

The average price target of 12 analysts covering Jupiter is only 87p, which is close to its current valuation. While I generally don't pay attention to analysts given their poor forecasting success rate, it struck me how little upside analysts see. The Q1 2024 trading update showed that the £800mio Chrysalis Investment Trust has been closed and fully redeemed, while over £1.1bn has been redeemed from Ben Whitmore's value strategy. With Ben expecting to leave by around July this year, more redemptions could follow. The key, however, is that apart from these two specific outflows, Jupiter actually generated £0.3bn in net inflows, and £0.7bn of the £1.1bn outflows relating to Ben's Value strategy were from institutional clients. It is expected that most outflows will come from institutional clients, who are paying only around 1/3 of retail clients' management fees. Hence, even in my very worst-case scenario where from the £7bn remaining in the Value strategy around £4.5bn institutional and £2.5bn retail money is leaving + lower

fees, I believe that Jupiter could still generate over £50mio in net profits, which would result in a 8.2 P/E. This would not take into account the new hires Jupiter made, management actions, potential positive performance in light of rate cuts and lower inflation and the £100mio excess capital Jupiter has on its balance sheet. Overall, this could lead analysts to reviewing their pessimistic views and cause upgrades.

Price target over the last 5 years



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Source: MarketScreener

