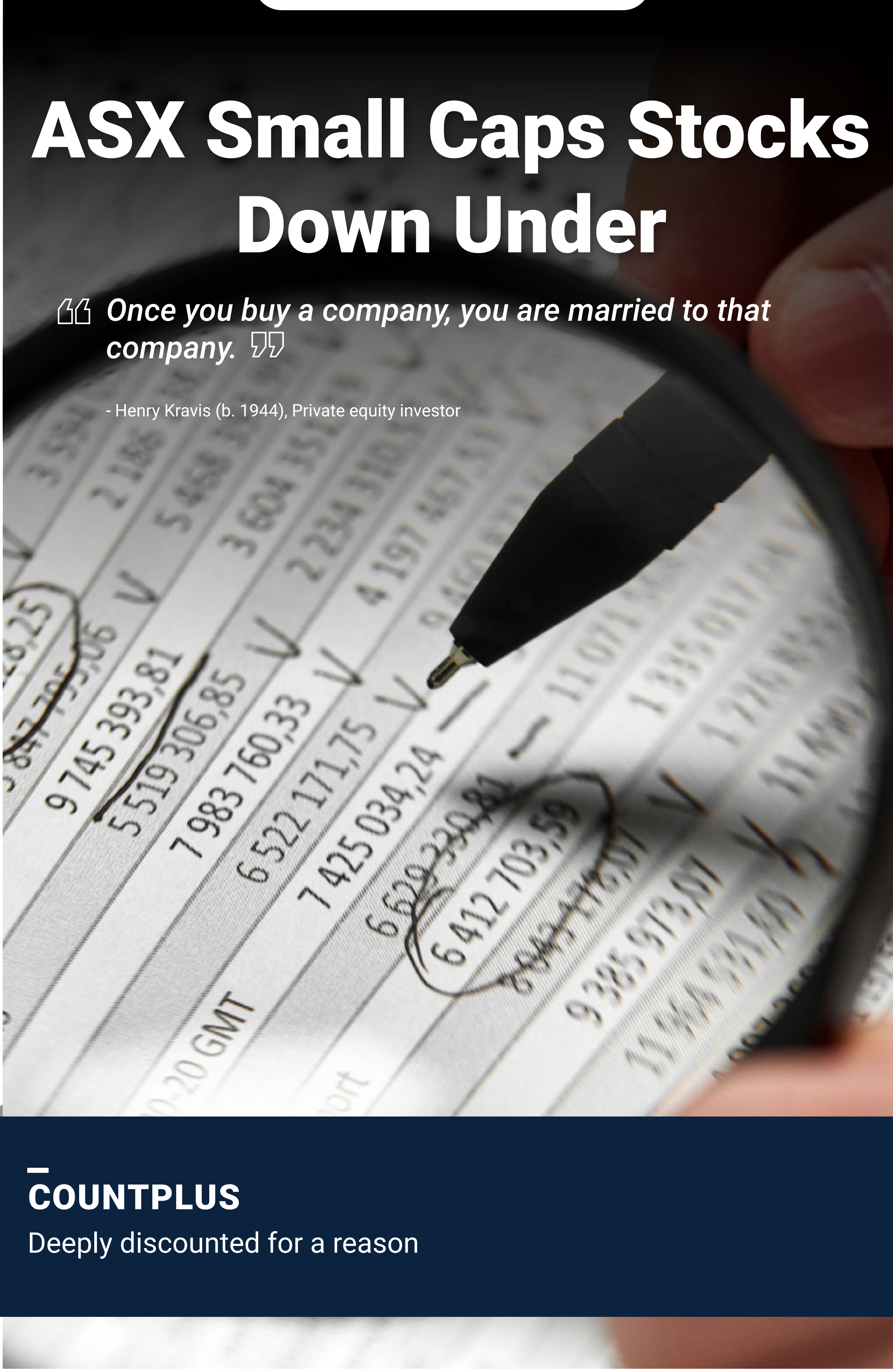
STOCKS DOWN UNDER

16 DEC 2022

ASX Small Caps Stocks Down Under

> *Once you buy a company, you are married to that company.*

- Henry Kravis (b. 1944), Private equity investor



COUNTPLUS

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Stocks Down Under rating: ★★

ASX: CUP
Market cap: A$76.5M

52-week range: A$0.56 / A$1.00
Share price: A$0.67

It has been nearly three years since we last looked at CountPlus (ASX: CUP). At the end of 2019, it appeared to be an exciting time for the company. In the aftermath of the Financial Services Royal Commission, it had bought CBA financial planning business Count Financial. On top of this, it had a solid portfolio of accounting and financial advice practices with owner-managers that were given equity in the parent company.

Share price chart

Source: Tradingview

$2.5m for $8bn in FUM. Say what?

CountPlus began in 2010 as a spin off from Count Financial. Count Financial was sold to CBA in 2011 for $373m only to be bought back 8 years later for ~$2.5m. However, we think a lot of this can be attributed to the financial advice industry and its downfall post-Royal Commission due to reputational damage and new regulation.

At the same time, Count Financial came with $8bn in FUM, a $200m indemnity from CBA from any customer remediation and 160 firms joining the group. So, it was certainly not the case that the deal was worthless. But ultimately, the deal illustrated that CBA either saw there was little money to be made or at least none that could be outweighed by risks of being in the business.

Finding its way through choppy seas

The pandemic itself had little impact on Count Plus, thanks to the work of CEO Matthew Rowe. It undertook roughly a dozen small M&A deals that brought more advisers in house. It made a $5.3m NPAT in FY21 and was able to navigate its advisers through regulatory hurdles (including exams and certification). In fact, things went so well for the company that it increased its dividend by 20% during the pandemic.

In the broader industry, there are some positive signs too. Bear in mind that even though adviser numbers are dropping, the population needs financial advice and at least 40% of consumers can afford it (according to Adviser Ratings). As we noted in our report on AMP last month, we observed that regulators are beginning to realise that things have gone too far.

Investors losing their love

But 2022 has proven to be more difficult for CountPlus and its investors. It parted ways with CEO Matthew Rowe - a move that surprised investors given his long tenure and accomplishments during his tenure. Although we noted above that the government realised things have gone too far when it comes to regulation, it is looking at making wealth management 'more accessible and more affordable'. We think investors have taken it to mean lower service fees for firms such as CountPlus. CountPlus, however, has suggested it could mean making financial advice tax deductible.

Also, remember the $200m indemnity it was given by the CBA? Well, it went up to $300m in 2020 and was hiked again, to $520m just last month. Substantive completion is expected at the end of this year and CBA has anticipated being able to meet its financial commitments. But seemingly, the mere fact that the indemnity was increased was cause for concern among investors.

Nevertheless, FY22 was another solid year for CountPlus. The company recorded $221m in revenue (up 23%), $11.4m in underlying EBITDA (up 49%) and a $7.2m underlying NPAT (up 90%). It raised its dividend again (by 33%) and its underlying EPS rose 127% to 4.5c.

A good FY22, but what does FY23 hold?

For FY23, consensus forecasts call for revenue of $93.5m (up 10%), Segment EBITDA of $16.9m (down 8%) and EPS of 6c per share. Segment EBITDA is the sum of the individual earnings in each of CountPlus' segments – Accounting, Wealth and Services. CountPlus is trading at valuation multiples of 5.2x EV/EBITDA and 11.3x P/E. In our view, these low multiples alone are difficult to resist.

But resisting becomes easier when you consider that this is an industry in a major transition that will take some time to work through. We don't know when we will reach the other side and what that other side would look like. At the very least, we would like to see what specific changes the Albanese government is going to make to the industry. Granted, the wealth management business isn't in bad shape as it currently stands, but we don't see catalysts in the immediate term.

If consensus estimates are met, that will prevent a major share price drop, but we don't think these estimates are exciting enough to trigger a substantial uplift. The company will undertake further M&A activity, but as noted above, we think its M&A deals are smaller scale acquisitions of individual practices, rather than larger companies. Until we have a clearer idea of what the future will look like for the financial industry, CountPlus gets two stars from us.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!