

28 October 2020

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Hub24 Limited (HUB)

Diversified Financials

BUY

HUB A\$20.97

TARGET PRICE A\$24.46

HUB24 Limited, together with its subsidiaries, provides wealth management solutions for the financial services industry in Australia. The company develops and operates HUB24, an investment and superannuation platform, which is a portfolio administration services for financial advisers, stockbrokers, accountants and their clients, and direct consumers.

Company Data

Number of shares	63.1M
Market Capitalisation	\$ 1,324.1M
Free float (%)	65.6
12-month high/low	\$22.38/\$6.4
Average Daily Turnover (\$m)	6.9925
% S&P/ASX200	0.08%
DDM Ranking	129
% All Ordinaries	0.07%
GICS Industry Group	Investment Banking & Brokerage

Source: FactSet, Barclay Pearce Capital

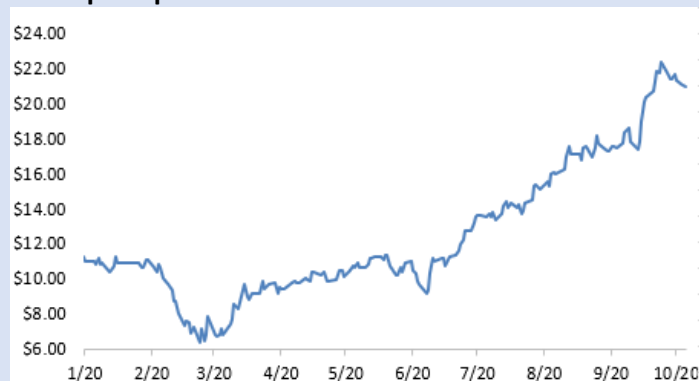
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	110.3	128.4	175.6	204.4
EBITDA (\$M)	24.1	32.4	52.1	65.6
Reported NPAT (\$M)	8.2	17.4	30.1	40.1
Adjusted NPAT (\$M)	10.1	18.9	30.6	40.4
Reported EPS (c)	12.9	26.5	45.4	60.0
Adjusted EPS (c - FD)	15.8	29.0	46.4	60.6
Adjusted EPS growth (%)	45.2	83.2	47.1	34.4
Adjusted P/E (x)	132.5	72.3	57.7	44.2
Dividend (c/sh)	7.0	11.8	20.5	30.4
Gross yield (%)	0.5	0.8	1.4	2.1
Net yield (%)	0.3	0.6	1.0	1.5
ROIC (%)	23.9	42.9	53.5	61.4

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

HUB24 announces three strategic transactions and equity raise of \$60million

Transactions Overview

The three strategic transactions are:

- The proposed acquisition of investment platform provider Xplore Wealth Limited (ASX:XPL) ('Xplore') by way of a scheme of arrangement for \$60 million via a combination of cash and HUB24 scrip consideration at an effective Xplore share price of \$0.20, which represents a premium of 203% to the closing price of Xplore shares on 27 October 2020;
- The acquisition of Ord Minnett's non-custody Portfolio Administration and Reporting Service ('PARS') for \$10.5 million upfront cash consideration; and
- The proposed subscription for new shares in Easton Investment Limited (ASX:EAS) ('Easton') for cash consideration of \$14 million and divestment of HUB24 subsidiary Paragem Pty Limited ('Paragem') to Easton for \$4 million of new Easton shares which, following a share buyback, will result in HUB24 having a shareholding of up to 40% of Easton. The Easton shares will be issued at a share price of \$1.20, which represents a 38% premium to the closing price of Easton shares on 27 October 2020.

The total investment for these transactions is approximately \$93 million.

Acquisition Funding

Acquisition funding consisting of:

- Fully underwritten placement ('Placement') of \$50 million to institutional and sophisticated investors. The Placement is expected to result in the issue of 2.5 million new shares;
- Non-underwritten Share Purchase Plan ('SPP') to eligible shareholders targeting to raise \$10 million;
- Debt facility arranged through ANZ of \$12.5m, with a floating interest rate of BBSY plus 1.95%, subject to completion of standard documentation and conditions precedent; and
- Share issue to Xplore shareholders for \$30 million.

Outlook

Underlying EBITDA is expected to benefit from the transactions through increased scale and expected synergy benefits, with \$10 million of expected synergies per annum from FY24. The transactions together are expected to deliver approximately 13% EPS accretion to HUB24 shareholders by FY22.

Earnings changes

Considering the 13% EPS accretion in FY22 and the issue of approximately 4.4 million new shares, we have derived the revised earnings summary in the opposite table. Hence, we have made positive earnings revisions of 15% for FY22-23.

We are initiating on HUB with a 12-month price target of \$24.46 and a BUY recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital provides research services to its clients. 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 2020 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.

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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.

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Buy	41.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)