

## O/W: Acquisition on track

EQT Holdings held its AGM today and provided a 1Q23a trading update. Positively, EQT's underlying business is performing well due to solid execution on pipeline and onboarding of new clients. However, parts of EQT's broader business (CTS) have been negatively impacted by volatile global equity markets, whilst client mandate losses and the withdrawal of a large wholesale trustee client also culminated in 1Q23a. Looking forward, the acquisition of AET remains on track and management believes its balance sheet provides stability with the current back-drop. O/W.

### Key Points

**Valuation:** TP of \$28.30/share (DCF), which reflects 3yr EPS CAGR of 11.3%, supported by organic and market based FUMAS growth. Our DCF is based on FUMAS of \$160.1b in FY27e and TGR of 2.5%. While our valuation implies a FY23e PE of 25.1x, +55.9% above peers, a quality premium is warranted and we note a dividend yield of 3.5% (FY23e).

**Model changes:** Underlying NPAT forecasts -4.5% and -6.1% to \$24.4m and \$29.2m in FY23e and FY24e respectively. Downgrades are driven by the resetting of EQT's FUMAS base. Positively, STS and TWS FUMAS was flat to up, benefiting from client outperformance and onboarding of new clients. CTS was negatively impacted by weaker global equity markets and client mandate losses.

**Guidance:** No quantitative guidance provided. However, group FUMAS -6.4% qoq, with organic growth offset by weak equity markets. Strategically, the acquisition of AET hasn't completed but timing remains on track and integration planning and synergies expectations are unchanged. Some concern was highlighted on elevated expenses (employee) for FY23e and FY24e, which we believe we already adequately accounted for in previous forecasts.

**Acquisition:** On 22<sup>nd</sup> August 2022, EQT announced the proposed acquisition of Australian Executor Trustees Limited (AET) for \$135.0m reflecting 12.0x EBITDA, or 9.2x including synergies. It will be funded through an equity raise (\$125.0m) and debt (\$10.0m) and is expected to be mid to high single digit EPS accretive (WILSe 8.8%). The proposed transaction fits well with EQT's public growth strategy, broadens its service offerings, increases its geographic exposure and should improve cross sell across its verticals (TWS, STS and CTS). Completion is expected by November 2022.

### Recommendation

**OVERWEIGHT**

12-mth target price (AUD)	\$28.30
Share price @ 20-Oct-22 (AUD)	\$25.30
Forecast 12-mth capital return	11.9%
Forecast 12-mth dividend yield	3.5%
<b>12-mth total shareholder return</b>	<b>15.4%</b>

Market cap (\$m)	532.7
Enterprise value (\$m)	465.4
Shares on issue (m)	21.1
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.4

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### 12-mth price performance (\$)



	1-mth	6-mth	12-mth
<b>Abs return (%)</b>	(4.6)	(10.4)	(8.7)
<b>Rel return (%)</b>	(4.2)	0.7	0.8

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	99.6	110.5	108.6	113.3	119.3
NPAT norm (\$m)	22.4	24.4	24.4	29.2	31.2
Consensus NPAT (\$m)			29.4	36.6	40.7
NPAT growth (%)	5.5	8.9	0.1	19.7	6.7
P/E (x)	23.7	21.8	21.8	18.2	17.1
FCF yield (%)	3.6	6.3	4.0	6.0	6.4
Dividend yield (%)	3.6	3.4	3.5	4.3	4.7

Source: Company data, Wilsons estimate, Refinitiv.  
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Key changes		23-Aug	After	Var %
Sales	FY23E	113.4	108.6	-4%
(\$m)	FY24E	120.1	113.3	-6%
	FY25E	126.5	119.3	-6%
NPAT	FY23E	25.6	24.4	-5%
norm	FY24E	31.1	29.2	-6%
(\$m)	FY25E	33.2	31.2	-6%
<b>Price target</b>		<b>30.00</b>	<b>28.30</b>	<b>-6%</b>
<b>Rating</b>		<b>O/W</b>	<b>O/W</b>	

## Business Description

Equity Trustees (EQT) is a leading specialist trustee services provider. EQT offers financial and fiduciary services for private and corporate clients under their three main business units of Trustee Wealth Services (TWS), Superannuation Trustee Services (STS) and Corporate Trustee Services (CTS).

## Catalysts

Loss of key mandates by competitors, faster than expected growth in UK/Ireland, improved pricing outcomes

## Investment Thesis

The attractive growth in total Funds Under Management, Administration, Advice and Supervision (FUMAS) achieved in recent years will continue to be driven by market gains, gradual expansion in the United Kingdom and Ireland and organic growth in Corporate Trustee Services and should lead to gradual margin expansion.

## Risks

Loss of key mandates, restrictions on international travel, volatile equity markets.

P&L (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	99.6	110.5	108.6	113.3	119.3
EBITDA norm	38.9	44.1	39.9	47.5	51.2
EBIT norm	33.7	39.7	35.6	43.0	46.4
PBT norm	32.1	37.4	34.2	41.6	45.0
NPAT norm	22.4	24.4	24.4	29.2	31.2
NPAT reported	21.5	24.2	24.4	29.2	31.2
EPS norm (cents)	106.8	115.9	116.0	138.9	148.2
DPS (cents)	91.0	85.5	89.6	109.1	118.0

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	5.1	11.0	(1.7)	4.3	5.3
EBITDA norm	6.1	13.3	(9.5)	19.1	7.6
NPAT norm	5.5	8.9	0.1	19.7	6.7
EPS norm (cents)	4.5	8.5	0.1	19.7	6.7
DPS (cents)	1.1	(6.0)	4.7	21.7	8.2

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	39.1	39.9	36.7	42.0	42.9
EBIT margin	33.8	35.9	32.7	38.0	38.9
PBT margin	32.2	33.8	31.5	36.7	37.7
NPAT margin	22.5	22.1	22.5	25.8	26.2
ROA	9.5	10.7	9.5	11.2	11.8
ROIC	15.6	18.6	16.5	20.1	21.8
ROE	8.2	8.7	8.6	10.1	10.5

Interims (\$m)	2H21A	1H22A	2H22A	1H23E	2H23E
Sales	51.8	54.9	55.6	54.2	54.4
EBITDA norm	21.4	23.2	20.9	20.5	19.4
EBIT norm	18.9	20.7	19.0	18.3	17.2
PBT norm	18.1	19.8	17.6	17.4	16.8
NPAT norm	12.5	13.4	11.0	12.4	12.0
NPAT reported	11.7	14.0	10.2	12.4	12.0
EPS norm (cents)	59.7	63.7	52.4	59.0	57.0
DPS (cents)	47.0	48.0	37.5	45.6	44.0

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
TWS FUMAS (\$b)	9.8	9.1	9.3	10.1	11.0
CTS FUMAS (\$b)	100.8	105.1	99.1	99.5	100.0
STS FUMAS (\$b)	33.6	34.7	37.4	39.4	41.6

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	92.2	108.3	109.8	118.1	126.0
Current receivables	19.5	15.0	21.2	22.1	23.3
Current inventory	11.9	15.0	15.0	15.0	15.0
PPE	4.9	5.4	6.5	7.9	9.6
Intangibles	206.3	205.3	201.0	198.4	195.9
Other assets	18.9	22.1	21.7	21.7	21.8
Total assets	353.8	371.2	375.3	383.4	391.6
Current payables	2.5	2.4	2.7	2.8	3.0
Total debt	33.3	41.0	41.0	41.0	41.0
Other liabilities	43.9	46.4	46.6	48.6	50.3
Total liabilities	79.6	89.8	90.4	92.4	94.3
Minorities	(2.6)	(3.9)	(3.9)	(3.9)	(3.9)
Shareholders equity	276.8	285.3	288.9	294.9	301.3

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	19.3	33.3	21.5	32.0	33.9
Maintenance capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	19.3	33.3	21.5	32.0	33.9
Growth capex	(0.3)	(1.6)	(1.9)	(2.2)	(2.5)
Acquisitions/disposals	(0.3)	0.0	0.0	0.0	0.0
Dividends paid	(14.5)	(17.9)	(18.9)	(23.0)	(24.8)
Other cash flow	(0.1)	(4.2)	1.4	1.4	1.4
Cash flow pre-financing	4.0	9.6	2.2	8.3	7.9
Funded by equity	0.0	0.0	0.0	0.0	0.0
Funded by cash/debt	(8.2)	(9.6)	(2.2)	(8.3)	(7.9)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	63.3	91.5	54.0	67.4	66.2
Net debt (\$m)	(58.9)	(67.3)	(68.8)	(77.1)	(85.0)
Net debt / EBITDA (x)	(1.5)	(1.5)	(1.7)	(1.6)	(1.7)
ND / ND + Equity (%)	(27.4)	(31.5)	(31.8)	(36.1)	(40.1)
EBIT / Interest expense (x)	21.8	17.0	25.5	30.8	33.2

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	4.8	4.2	4.3	4.0	3.8
EV / EBITDA (x)	12.2	10.6	11.6	9.6	8.8
EV / EBIT (x)	14.1	11.7	13.0	10.6	9.7
P / E (x)	23.7	21.8	21.8	18.2	17.1
P / BV (x)	1.9	1.9	1.9	1.8	1.8
FCF yield (%)	3.6	6.3	4.0	6.0	6.4
Dividend yield (%)	3.6	3.4	3.5	4.3	4.7
Payout ratio (%)	85.2	73.8	77.2	78.5	79.6
Franking (%)	100.0	100.0	100.0	100.0	100.0
Weighted shares (m)	21.0	21.1	21.1	21.1	21.1

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