

MFG

AUD \$25.82

Core

HIGH



Fat Prophets take some profits

Magellan Financial has been a stellar performer over the years, but has plateaued over the past 12 months, despite a strong increase in funds under management over that time and a bumper set of fiscal 2018 numbers. The stock has also succumbed to the recent broad correction in equities globally, and given conditions have been close to optimal for the likes of Magellan for some time now, further selling may be on the horizon.

What's new?

Ahead of its AGM meeting in October Magellan announced that Hamish Douglass was stepping aside from his role as CEO of the local fund management giant and assumed the Chairman position, and essentially switched roles with Chairman Dr Brett Cairns who is now CEO. Mr Douglass has continued to be Chief Investment Officer (CIO) and the lead portfolio manager of Magellan's global equities strategies. As chair Mr Douglass will continue to work jointly with now CEO Brett Cairns on the strategic direction for the company. Mr Douglass stepped down from the Board of Magellan Asset Management Limited, Magellan's main operating subsidiary. There were no changes to either Dr Cairns' or Mr Douglass' remuneration.

We view the move favourably. With the growing size and complexity of the Magellan business, which has expanded into retail and acquired Airlie Funds Management and US Frontier Partners earlier in the year, we believe the separation of the chief executive role and chief investment role is appropriate and will allow more focus from both executives. And although normally we would prefer to see the chairman be a non-executive, Mr Douglass is the co-founder and a major shareholder with interests well aligned to other shareholders, and he knows the business inside out.

Both executives are well known and regarded so there were no real 'surprises,' and over the past five years or so Magellan has progressed its business strongly, while its shares have delivered an impressive combination of dividends and share price appreciation. The market viewed the announcement favourably as well, with the shares advancing roughly 8% on the news.

September 2018 FUM (funds under management) update

In September 2018, Magellan saw positive flows, with net inflows of \$86 million, comprised of \$60 million in net retail inflows and net institutional inflows of \$26 million. Total FUM (funds under management) as of 28 September 2018 hit \$74.545 billion, down marginally from the \$74.612 billion at the end of August 2018, but an impressive 44.5% increase from the \$51.576 billion at 29 September 2017. This was driven through a combination of inflows, the acquisition of Airlie and performance.

At the end of September 2018 retail FUM was \$20.114 billion, representing a 33% increase from a year earlier. Retail FUM represented approximately 27% of total FUM at the end of September 2018. Magellan's Institutional mandates are diversely split between Australia/NZ, North America and Rest of the World as shown in the table below. The bulk of funds (~76%) are deployed into global equities and Magellan also lists infrastructure as a separate category.

MAGELLAN FINANCIAL GROUP LIMITED ('MAGELLAN')
FUNDS UNDER MANAGEMENT (FUM)
AS AT 28 SEPTEMBER 2018

A\$ million	28 Sep 2018	31 Aug 2018
Retail	20,114	20,024
Institutional		
- Australia/NZ	11,804	11,915
- North America	14,995	15,303
- Rest of World	27,632	27,370
	54,431	54,588
Total FUM	74,545	74,612
Global Equities	56,885	56,773
Infrastructure Equities	11,291	11,290
Australian Equities	6,369	6,549

Source: Magellan

As touched on earlier, Magellan had a strong fiscal 2018. Revenue was up 34% to \$452.6 million, with increases across the board from bread-and-butter management and services fees, performance fees and other revenue. Profit after tax and before MGG (Magellan Global Trust) net offer costs and amortisation increased 37% year-on-year to \$268.9 million. After the substantial costs that Magellan absorbed on the Global Trust, after tax profit was still up 8% year-on-year to \$211.8 million.

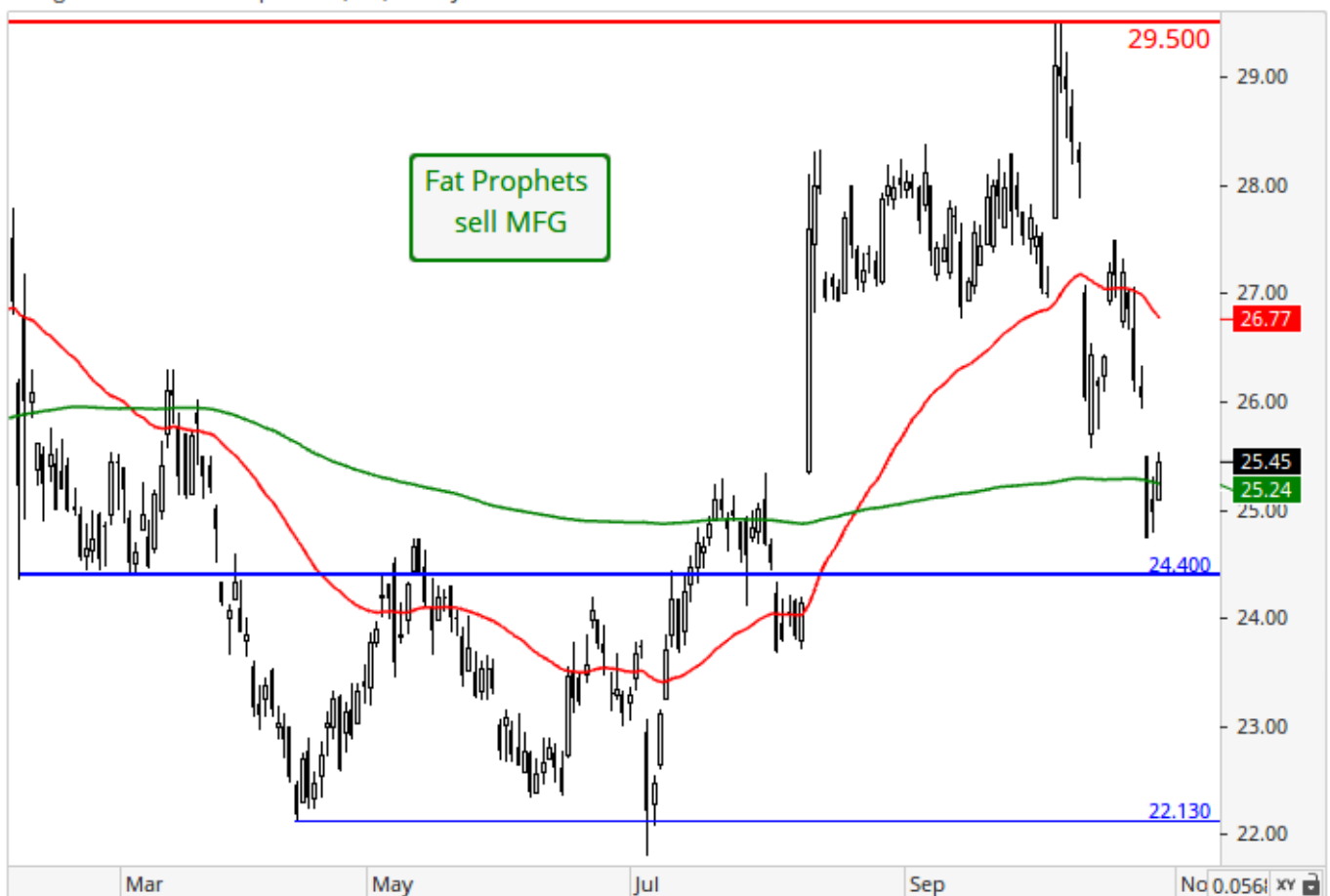
Diluted earnings per share were up 7% to 122.0 cents and total dividends were increased 57% to 134.5 cents.

\$ million	30 June 2018	30 June 2017	% change
Management and services fees	385.8	307.2	26%
Performance fees	39.8	21.7	83%
Other revenue	27.0	9.4	188%
Revenue	452.6	338.3	34%
Expenses before MGG net offer costs and amortisation	(101.0)	(82.1)	23%
Profit before tax before MGG net offer costs and amortisation	351.6	256.1	37%
Profit after tax before MGG net offer costs and amortisation	268.9	196.2	37%
MGG net offer costs and amortisation (after tax)	(57.1)	n/a	n/a
Profit after tax after MGG net offer costs and amortisation	211.8	196.2	8%
Key statistics			
Diluted EPS (cents per share)	122.0	114.1	7%
Diluted EPS before MGG net offer costs and amortisation (cents per share)	154.9	114.1	36%
Interim and Final Dividends (cents per share, fully franked)	119.6	79.9	50%
Annual Performance Fee Dividend (cents per share, fully franked)	14.9	5.7	161%
Total Dividends (cents per share, fully franked)	134.5	85.6	57%

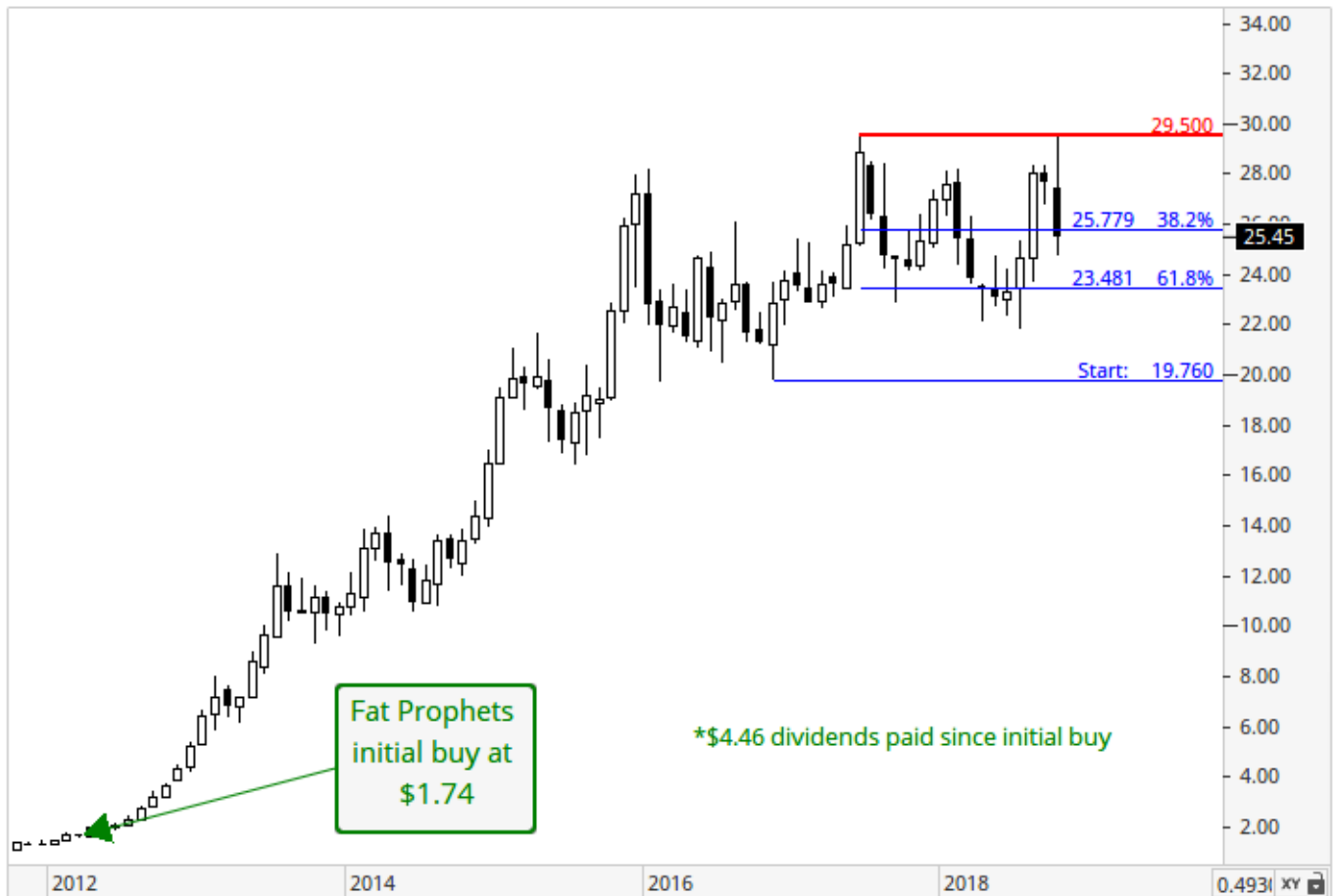
Source: Magellan

Turning to the charts and on the daily chart, the technical picture has deteriorated since our last review. Prices have dropped below the 50-day moving average (red line) at \$26.77 and 200 day moving average (green line) at \$25.24. Support at \$24.40 is now in for a strong test by the looks.

Magellan Financial Group - MFG (ASX) - 1 Day CandleStick Chart - AUD



Turning to the monthly chart, support continues to be largely respected around the 61.8% Fibonacci retracement (blue set of retracements) at \$23.48. Prices are however flirting with this level and need to hold their ground to avert a move towards the next layer of support at \$19.76.



Summary

Magellan Financial has been a stellar performer over the years, but has plateaued over the past 12 months, despite a strong increase in funds under management over that time and a bumper set of fiscal 2018 numbers. The stock has also succumbed to the recent broad correction in equities globally, and given conditions have been close to optimal for the likes of Magellan for some time now, further selling may be on the horizon.

Earnings growth assumptions are also aggressive, setting a relatively high bar for outperformance. Currently, Magellan shares trade on around 19.1 times forecast FY19 earnings, falling to 14.5 times the following year. The projected yield over the same time frame expands from 5.8% to 6.3%.

We recommend Members sell Magellan Financial Group. It will be removed from the Fat Prophets portfolio.

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ENV, EVN, FID, FMG, FPP, GJT, GMG, GOR, GPT, GXL, HUB, IAU, IFL, IGO, ILU, IMF, IPL, JHX, MAI, MFG, MGR, MHI, MML, MMS, MND, NAB, NCM, NEC, NECN, NMG, NUF, OBS, ORE, OSH, OVH, OZL, PAN, POS, PPS, PRG, PXG, QBE, RIO, RXL, RRS, S32, SAR, SDG, SFR, SGP, SHL, SLR, SPK, STO, SUN, SYD, TAM, TLS, TME, TPM, VOC, WBC, WFD, WES, WHC, WOW, WPL, WSA. International stocks: Activision Blizzard, Alibaba Group, Amadeus IT, Apple, Arcos Dorados, Bank of China, Barrick Gold, Baidu, BNP Paribas, BP, Caixabank, China Life Insurance, China Mobile, China Overseas Land & Investment, China Taiping, China Vanke, Cisco Systems, Citigroup, Coeur, Corning Inc., Country Garden, Credit Agricole, Credit Suisse, D.R. Horton, Dai-ichi Life Holdings, Daikin Industries, Danone, Dr. Reddys Laboratories, ENAV, Euronext, Fanuc, FedEx, Fresnillo, Fukuoka Financial Group, Glanbia, Google (Alphabet), Heidelberg Cement, Heineken, ICICI Bank, Inpex Corporation, James Hardie, KONE Corp., Lennar Corp., LVMH, MGM China, Mitsubishi Corp., Mitsubishi UFJ, Mitsui Fudosan, Mizuho Financial Group, Nintendo, Nippon Telegraph and Telephone, Nissha Printing Co., Nomura Holdings, Panasonic, PICC Property & Casualty, Powerhouse Energy, PPHE Hotel Group, Randgold Resources, Reliance Industries, Resona Holdings, Riverstone, Royal Dutch Shell, Sands China, Societe Generale, Sony Corporation, SPDR Gold Trust ETF, Square Enix, Sumitomo Chemical, Sumitomo Mitsui Financial Group, Tata Motors, TE Connectivity, Telepizza, Tencent, THK Co., Toyota Motor, VanEck Vectors Junior Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.

Snapshot MFG

Magellan Financial Group

Latest Closing Price: \$25.82

Magellan Financial Group Limited (Magellan) is an Australia-based company. The principal business activity of Magellan is funds management with the objective to offer international investment funds to retail investors in Australia and New Zealand, and institutional investors. The Company operates in three segments: Funds Management, Principal Investments and Unallocated-Corporate. Funds management activities are undertaken by the controlled entity, Magellan Asset Management Limited (MAM). The principal investment portfolio is consists of investments in the Magellan Flagship Fund Limited (the Flagship Fund), the Magellan Infrastructure Fund (Unlisted Funds), and in a select portfolio of Australian and international listed companies, cash and fixed interest securities and other investments. Magellan Asset Management Limited is the Company's wholly owned subsidiary.

Market Capitalisation: \$4.57b

	FY1	FY2
Price to Earnings	19.1	14.5
Dividend Yield (%)	5.8	6.3
Return on Equity (%)	39.7	47.8

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