

Fiera Capital Corporation

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Updating model for 1Q AUM and recent market volatility

The Desjardins Takeaway

In this note, we take the opportunity to true up our estimates for [1Q22 AUM](#) released last week, as well as update 2Q AUM for the recent market volatility. A few items we will focus on: (1) net flows outlook; (2) comments around its StonePine partnership; (3) updated interest rate sensitivity; and (4) drivers behind growth in private alts AUM. With the lower forecast AUM and estimates, we reduced our target price to C\$11.50 (from C\$12.50) while maintaining our Buy rating.

Highlights

For 1Q, we forecast adjusted EBITDA of C\$49.7m (in line with consensus at C\$49.6m) and adjusted EPS of C\$0.32 (vs consensus at C\$0.31). FSZ is scheduled to report 1Q results pre-market on May 4, with a call at 10am EDT (dial-in 888-390-0620). A few notable items:

- 1Q AUM.** March AUM of C\$174.5b was lower than our previous C\$183.0b estimate and decreased 7.3% vs 4Q21's C\$188.3b. For 1Q22, the S&P 500 depreciated -4.9% (-6.1% C\$-adjusted) and the S&P/TSX was up 3.1%, while the investment-grade corporate index we follow declined -8.7% (-9.8% C\$-adjusted). We have also reflected a portion of the April equity/FI return headwinds in our 2Q numbers.
- Net flows.** We now forecast a C\$1.8b net outflow for 1Q and -C\$2.4b for 2022 (down from +C\$0.6b). We will look for net flows activity through the StonePine arrangement.
- Private alts.** AUM increased 6.7% to C\$16.9b, up from C\$15.9b at the end of December and a gain of 24.6% yoy. We expect net inflows in its private alts platform.
- Repurchase of Natixis block.** With this [transaction](#), FSZ bought back 3.56m Class A shares for C\$34.9m (C\$9.80/share).
- Other.** In 1Q, acceleration of share-based comp will hit expenses above the adjusted EBITDA line.

Valuation

We apply an 8x multiple (unchanged) to our 4QF adjusted EBITDA estimate, to which we add back cash, subtract debt and divide by shares outstanding.

Recommendation

Our positive view is based on: (1) FSZ's well-diversified portfolio, with 52% in equities, 40% in FI and 8% in private alts strategies; (2) we like its growing alt assets platform—an attractive risk/return profile with steady cash flow and a growing revenue stream of base management and performance fees; (3) we see margin expansion over time; and (4) the shares provide an attractive 8.6% yield.

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Rating	Buy
Risk	Above-average
12-month target	C\$11.50↓
Symbol	FSZ, TSX
Sector	Asset Management
Closing price (\$)¹	C\$9.98
Potential return (%)	23.8
52-week range (\$)	C\$9.61–11.75
Avg daily value traded (\$m)	C\$3.3
Shares O/S (m)	101.5
Market cap (\$m FD)	C\$1,013
Net debt (\$m)	C\$525
EV (\$m)	C\$1,538
Dividend yield (%)	8.6
Year-end	Dec-31

Desjardins estimates

Annual	2020	2021	2022E	2023E
Adj EBITDA (C\$m)	210	248	208↓	221↓
EV/adj EBITDA (x)	7.3	6.2	7.4	7.0
Adj EPS FD (C\$)	1.40	1.63	1.34↓	1.44↓
P/adj EPS FD (x)	7.1	6.1	7.4	6.9

Quarterly	1Q22E	2Q22E	3Q22E	4Q22E
Adj EBITDA (C\$m)	49.7↓	48.2↓	48.1↓	62.2↓
Adj EPS FD (C\$)	0.32↓	0.31↓	0.31↓	0.40↓

Key changes	Old	New
Target (C\$)	12.50	11.50↓
Adj EBITDA 2022E (C\$m)	217	208↓
Adj EBITDA 2023E (C\$m)	231	221↓
Adj EPS FD 2022E (C\$)	1.40	1.34↓
Adj EPS FD 2023E (C\$)	1.51	1.44↓

¹ Intraday pricing

Source: Desjardins Capital Markets, Bloomberg, FactSet

Exhibit 1 shows our revised 1Q22 expectations.

Exhibit 1: Fiera Capital financial summary				
Year-end Dec-31	1Q21	4Q21	1Q22E	
			New	Old
Adjusted EBITDA (C\$m)	47.5	92.1	49.7	50.1
Adjusted EBITDA margin (%)	28.7	38.1	29.7	29.4
EPS (FD) (C\$)	0.20	0.31	0.12	0.12
Adjusted EPS (FD) (C\$)	0.32	0.58	0.32	0.33
Net flows (C\$m)	3,105	-1,689	-1,830	164
Average AUM (C\$m)	178.2	185.5	181.4	185.7
Ending AUM (C\$b)	172.9	188.3	174.5	183.0

Source: Desjardins Capital Markets, company reports

We have revised our 2022–23 estimates. Refer to Exhibit 2 for details.

Exhibit 2: Summary of estimate revisions				
Year-end Dec-31	2022E		2023E	
	Old	New	Old	New
Adjusted EBITDA (C\$m)	216.9	208.2	230.7	220.6
Adjusted EBITDA margin (%)	30.1	30.5	30.7	31.5
EPS (FD) (C\$)	0.63	0.58	0.75	0.69
Adjusted EPS (FD) (C\$)	1.40	1.34	1.51	1.44
Net flows (C\$m)	648	-2,398	671	621
Average AUM (C\$b)	188.7	181.5	193.2	178.6
Ending AUM (C\$b)	189.1	174.8	197.4	182.5
Net debt/consolidated EBITDA (x)	2.4	2.5	2.1	2.3

Source: Desjardins Capital Markets, company reports

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Top Pick

Desjardins' best investment ideas—stocks that offer the best risk/reward ratio and that are expected to significantly outperform their respective peer group* over a 12-month period

Buy

Stocks that are expected to outperform their respective peer group* over a 12-month period

Hold

Stocks that are expected to perform in line with their respective peer group* over a 12-month period

Sell

Stocks that are expected to underperform their respective peer group* over a 12-month period (includes recommendations to tender to a takeover offer)

Not Rated

Stock is being covered exclusively on an informational basis

RISK QUALIFIERS

Average Risk

Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability

Above-average Risk

Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability

Speculative

High degree of risk represented by the stock, marked by an exceptionally low level of predictability

* Peer group refers to all of the companies that an analyst has under coverage and does not necessarily correspond to what would typically be considered an industry group. Where an analyst's coverage universe is such that 'relative' performance against a 'peer group' is not meaningful, the analyst will benchmark the rating against the most appropriate market index

Distribution of ratings

Rating category	Desjardins rating	Desjardins coverage universe (# of stocks)	% distribution	Desjardins Investment Banking (# of stocks)	% distribution
Buy	Buy/Top Pick	129	77	101	75
Hold	Hold	39	23	33	25
Sell	Sell/Tender	0	0	0	0
Total		168	100	134	100

Fiera Capital Corporation Rating History as of 04-27-2022

Powered by: BlueMatrix



Chart legend: TP: Top Pick, B: Buy, H: Hold, S: Sell, NR: Not Rated, I: Company initiation, T: Transfer of coverage, S: Coverage suspended, DC: Coverage dropped

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