

Portfolio

Small sector almost too hot to handle

The first of a new wave of financial planners to list is about to hit, giving investors a wider choice, writes **Jonathan Barrett**.

The niche listed financial planning sector is getting too hot for investment professionals.

Buoyed by a surging stockmarket and strong superannuation inflows, investors have pushed the handful of companies to trade at huge premiums.

Smallco managing director Rob Hopkins says the stocks are too pricey for his portfolio, which once held two of the success stories of the sector, planning and accountancy firms Count Financial and WHK Group. "None of those businesses are cheap," Hopkins says. "Count really is ridiculously expensive but it has gone very well."

Count is trading on a price to earnings ratio of 41.8 times, while

WHK is at 26.5 times, compared to the All Ordinaries average of 18.

Count stock traded sideways for two years after listing seven years ago, but has risen 650 per cent since 2003. WHK shares have risen 430 per cent in the past four years.

Other stocks in the tiny sector include Australian Wealth Management, at 33.8 times, and Snowball Group, which trades at 27.7 times.

Hopkins says the positive market environment, which includes favourable superannuation laws, are priced into the stocks, making it hard to find value even though many of the companies are well managed.

Macquarie Funds Management small companies portfolio manager Neil Carter says only a few established firms can justify high valuations as they have created strong brands and built adviser networks with scale advantages of having a parent company.

In the coming months, investors will have a greater array of planning stocks to choose from when four more adviser firms become public

companies. Perth-based Plan B Group Holdings is scheduled to list tomorrow, leading the wave of new floats. Townsville-based Storm Financial and Sydney firm Centric Wealth will follow later this year, while Professional Investment Services is slated to list in March 2008.

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listing, with Plan B closing its initial public offering last week oversubscribed, after raising \$30 million.

A spokeswoman at float manager Taylor Collison says more than 20 institutions took a stake in the company, and most requests for stock had to be scaled back.

One fact, however, is likely to be left out of the advertising material as the firms drum up support ahead of public listings — the first wave of planner and accountancy firms to

go public seven years ago resulted in a graveyard of failed attempts.

Pacific Rim Investment Corporation, which later became Deakin Financial Services, was wound up last year in a \$2.2 million write-off for parent company DKN, while accounting firm consolidators Harts Australasia and Stockford collapsed in 2001. Garrisons Accounting Group fell over in 2003.

But Plan B managing director Denys Pearce says investors backing his firm are not supporting a risky start-up. "We have our business model set and will just use the listing to expand, while others have listed and then tried to build a business model," Pearce says.

He says Plan B is protected against a bear market, as much as a planning firm can be, as client assets are invested conservatively. But he admits a change in conditions will reduce the flow of new client money.

Pearce says Plan B is also diversified, offering adviser, administration and fund manager services to investors, which helps the group

capture an average 1.8 percentage points from the 2.15 per cent clients are charged to have their portfolios attended to.

Snowball chief operating officer Carl Scarcella says some of the newer firms which have built up their businesses over a number of years before floating are in a stronger position than many of the companies that floated previously.

The Snowball stock price fell or went sideways for three years after listing, but has gone on to rise by 450 per cent since mid-2003.

Scarcella says businesses that aren't already in profit may struggle to overcome the burdens associated with listing, estimated at an annual \$500,000 in extra compliance costs.

Broker Citigroup says valuations are relatively full across the whole wealth management sector.

"Our analysis continues to suggest that, despite record flows in March and our expectation of record flows in June, most of the main wealth management stocks are fully valued," Citigroup says.