Professional's Pick: Kelly Partners (KPG)

by David Keelan

What is the stock?

Kelly Partners (KPG AU)

How long have you held the stock?

Kelly Partners listed on 21 June 2017.

What do you like about it?

Kelly Partners is a recent IPO, however it has been operating as a private business for the last 11 years. While the market has seen a number of accountancy practices over the decades, we believe KPG offers a differentiated business model. KPG typically owns 51% of the partnership, which ensures that the equity structure creates long-term alignment and retention of partners, and also provides a much-needed succession plan for the industry. This structure, coupled with KPG's single reputable brand, centralised services and IP should enable the group to drive superior business performance and client services. In our view KPG remains attractively priced given its 1) strong margins (c35%); 2) organic growth profile which provides both defensive and recurring revenue; and 3) its ability to consolidate a highly-fragmented industry. As such, we can see numerous years of both organic and inorganic growth driving returns for KPG shareholders over the longer term.

How is it better than its competitors?

Kelly Partners' main focus is on high net worth's and SME clients. In our view this is the area of the market where clients rank experience before fees. The model is very similar to Austbrokers and Steadfast, which means the partners are fully incentive to continue to grow and service its customer base, which is key to a people business.

What do you like about its management?

The founder Brett Kelly still owns 51% of the business and is highly aligned with new shareholders post IPO. Brett and his management team have grown this business from the ground up in what we believe is a sustainable manner. We feel an IPO was a natural progression for the business, which should allow the group to access growth capital if and when needed.

What is your target price?

We generally take a three-year view on all investments. In regards to Kelly Partners, we look at the organic EPS growth and the possibility of new sites (both green and brown field) combined with a strong dividend yield. Taking this into account, we view current fair value at $1.72 per share.

At what point would you sell it?

We are strong believers in management delivering on its articulated strategy. If the story changes and does not make strategic sense we would look to exit the position.

How much has it added (subtracted) to your overall portfolio over the last 12 months?

The stock has performed nicely as it continues to gain recognition by the market, rising 40% since IPO.

Where do you see value?

In small business, we see value in founders and management. The business franchise must be strong, but at the end of the day we are backing a management team to deliver on its growth ambitions and ensure it maintains the appropriate capital structure.

Ellerston Capital and Associates own 16.82% of Kelly Partners.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*