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IG Group achieves record profits as it prepares for regulatory clampdown

IG Group Holdings PLC (LON:IGG) said it achieved record pre-tax profit and revenue in the first half and is taking action to mitigate the potential impact of a regulatory clampdown on the spreadbetting industry.

The online trading platform also announced the launch of a new subsidiary in Dusseldorf, German in response to the UK's vote to leave the European Union. It has applied to German regulator, BaFin, to set up the office, which IG said will "combine the existing German sales office with key management and control positions".

IG responds to tighter regulation

IG is facing an industry-wide crackdown from the European Union's securities watchdog, ESMA. The ESMA this month launched a consultation on plans to enforce stricter regulation on the retail online trading market.

Proposals include prohibiting the sale and marketing of binary options and restricting the amount retail customers can borrow to leverage their bets using contracts for difference (CFDs).

ESMA is also considering a ban on CFDs based on cryptocurrencies.

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"The disproportionate focus on leverage has caused consternation amongst our large number of retail clients, many of whom have traded for years and wish to continue using our product as they do today," IG's chief executive Peter Hetherington said in the group's first half results.

He added that the company offered cryptocurrency products "on a responsible basis".

About 5% of OTC leveraged revenue in the first half came from cryptocurrency trading, compared with less than 0.5% in the prior period.

Record revenue and profit

Net trading revenue rose 10% year-on-year to £268.4m in the six months to November 30 and pre-tax profit increased 29% to £136.2m.

Operating costs, excluding variable remuneration, was 7% lower than last year at £117.6m.

Revenue in the second half to date is about 25% higher than the same period a year ago.

Shares rose 2.3% to 802p each in morning trading.

Hetherington said the company will continue to engage with regulators to seek the "best possible outcomes for current and future clients of this industry, and the greatest long term value for shareholders".

Price: 788.5

Market Cap: £2.91 billion

1 Year Share Price Graph



Share Information

Code: IGG

Listing: LSE

52 week High Low
834.074 526.2

Sector: Investments and investor services

Website: www.igggroup.com

Company Synopsis:

IG Group Holdings plc is a United Kingdom-based company, which is principally engaged in running a spread betting market, trading as principal and market maker for foreign exchange, and contracts for difference and acting as a fixed odds bookmaker. During the fiscal year ended May 31, 2008, the Company began trading on a regulated futures and options exchange.

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"As the industry leader, the company is well placed to respond to regulatory change," he said.

In mid-November IG launched an online process allowing clients to request to be categorised as an elective professional investors and therefore be exempt from the proposed ESMA leverage restrictions.

"Since then, the proportion of IG's UK and EU revenue generated by professional clients has increased from 5% to over 25% and it is on track to be well over 50%, in line with company guidance," analysts at Numis said.

"We see this as hard evidence that IG will be the least impacted by the proposed regulatory changes and that most of the group revenues will ultimately not be impacted."

Numis cuts rating to 'hold'

Numis lowered its rating on the stock to 'hold' from 'add' but raised its target price to 760p from 697p following the recent strong performance of IG's shares.

"Once we have seen the impact of the regulatory changes, we believe the earnings risk of the group will reduce and this is expected to see our estimate of the COE (cost of equity) decrease, correspondingly increasing our target price," it said.

The broker said IG's trading revenue and pre-tax profit beat its expectations of £264.3mln and £131.5mln, respectively.

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