

22 Aug 2013

CASH CONVERTERS INTERNATIONAL. LTD

Profit ever so slightly better than expected

Cash Converters Limited ("Cash Converters", "CCV", "Company") reported FY13 NPAT of \$32.9m (our estimate \$31.8m, guidance was >\$32.2m). The Company declared a 2cps dividend, in line with our estimate. We estimate normalised NPAT was \$35.3m (2.5% better than our normalised estimate).

Same story: Aust performing great! UK requires more patience

The Safrock loan book increased ~13% since December to ~\$125m. Safrock is the main profit driver and the loan book provides a guide to future profits, in our view, as a general rule, we estimate the loan book generates a ~40-50% return in the following year (although currently the UK performance is a lot lower).

Both countries showed growth (UK increased from ~£17.7m to ~£20.3m and Australia from \$84.2m to \$91.5m). Safrock Australia generated \$40.7m EBITDA, while the UK produced \$1.8m (\$4.6m normalised). Loan book provisions increase as the loan rise. However, in FY13, the UK provision increased substantially faster than the loan book. We estimate there was an additional ~\$2.5m in UK provisioning for old loans. Normalising for the provision, the returns on the UK book are improving.

Cash Advance profits in Australia (EBITDA \$13.4m) were better than we expected, and auger well for FY14. In the UK, the division remains just above breakeven. Corporate store profits in both countries were disappointing, and we have lowered our expectations for the segment.

Another observation, the UK division profit contribution is low (we estimate only \$5m in FY13), and while returns are okay in an absolute sense, they are highly dilutive for the group. Improving the performance is important.

Cash flow remains good; Investment has been high

Net operating cash flow (our measure) was \$22.1m for 2H13. Capex was \$3.7m. Investments and store acquisitions were ~\$35m in the half. The net cash requirement for the Safrock loans was only \$16m in 2H (down from ~\$25m in 1H). Net debt was \$50.2m, up from \$11m at December. Most of the debt (~\$70m) has been categorised in the accounts as current debt due to an accounting technicality (the facility issues notes matched against the short term loans. When customers repay the loans, the notes become due, and hence are technically current. In practice though, the facility is available for three years).

Hartleys lowers FY14 normalised NPAT to \$39.1m

We have lowered our FY14 NPAT by 4.3% to \$39.1m, implying 20% improvement on 2H13. The reduction is due mainly to assumed lower corporate store profits. We expect FY15 NPAT of \$49.8m. Our model continues to assume Carboodle is loss making (an obvious upside risk for FY14). We now expect DPS of 4.5cps and 4.75cps respectively. Our balance sheet and share capital assumes a 40% DRP participation rate for the next four years.

Retain Buy recommendation

While some divisions may disappoint from time to time, we view them all as a necessary part of the product offering/corporate risk mitigation, and, when combined as a group, generate very high returns (FY13 ROIC 23%). We believe there is upside earnings surprise potential for FY15 when we should have better confidence in improved UK margins and the Carboodle profit contribution and rollout momentum begins. We have a twelve month price target of \$1.37, implying a FY15 p/e of 12.7x. We maintain our Buy recommendation.

Share Price:	\$1.200
Valuation:	\$1.29
12mth price target:	\$1.37

Brief Business Description:

Payday lending, consumer finance & second hand retailer in UK & Aust.

Hartleys Brief Investment Conclusion:

High returns, industry tailwinds, market leader.

Chairman & CEO:

Mr Reginald Webb (Chairman)
Mr Peter Cumins (Managing Director)

Top Shareholders:

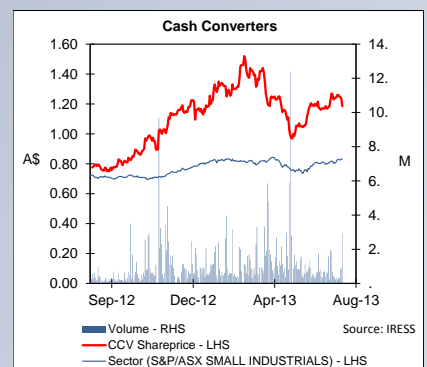
EZ Corp 32.3%
Fidelity Mgt & Res. (FMR) 5.5%

Company Address:

Level 18, 37 St. Georges Tce
Perth, WA, 6000

Issued Capital:	423.9m		
- fully diluted	462.9m		
Market Cap:	\$508.6m		
- fully diluted	\$555.5m		
Net Debt (30 Jun '13a):	\$50.2m		
	FY13a	FY14e	FY15e
Op Cash Flw	44.9	42.2	63.3
Free Cash Flw	3.5	14.9	-1.4
NPAT (A\$m)	35.3	39.1	49.8
EPS (\$, dil)	8.4	8.9	11.3
P/E (basic)	14.8x	13.5x	10.6x
P/E (diluted)	14.3x	13.4x	10.6x
EV / EBITDA	9.3x	8.0x	5.8x
DPS (\$)	4.00	4.50	5.75
Franking	100%	100%	100%
Dividend Yield	3.3%	3.8%	4.8%
N.D. / equity	20.8%	28.4%	44.2%

Source: Hartleys Research



Authors:

Trent Barnett, CFA
Head of Research / Industrial Analyst
Ph: +61 8 9268 3052
E: trent_barnett@hartleys.com.au

Hartleys was Lead Manager for a capital raising which was completed in the past 12 months for CCV, for which it earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to CCV, for which it has earned fees and continues to earn fees. The analyst has a beneficial interest in CCV shares. See disclosure on back page.

Cash Converters International Ltd (CCV)					Recommendation: Buy					
Company Information					Profit & Loss (\$m)					
Today's Date	21 Aug 2013	Level 18, 37 St. Georges Tce			AUD/GBP	6/12A	6/13A	6/14F	6/15F	
Share Price	\$1.200	Perth, WA, 6000			Safrock Loan Book	87.3	125.7	156.2	198.5	
52 Week High-Low	\$1.565 - \$0.685	Ph: (08) 9221 9111			Safrock Revenue	87.1	113.6	144.4	189.0	
Market Cap (\$m)	\$508.6	Fax: (08) 9221 9011			Safrock EBITDA	33.5	43.6	50.9	65.0	
Enterprise Value (\$m)	\$558.8	www.cashconverters.com.au			margin	38.4%	38.4%	35.3%	34.4%	
Ordinary Shares	423.9				Cash Advance Revenue	16.6	17.7	28.1	29.9	
Fully Diluted Shares	462.9				Cash Advance EBITDA	13.7	14.2	15.0	17.0	
					margin	82.3%	80.2%	53.6%	56.9%	
					Owned # (UK + Aust) - end	102	118	145	145	
Spot DCF - 9 years explicit + terminal value (Base Case)					\$1.29	Owned Stores Revenue	122.8	136.1	182.3	200.8
					Owned Stores EBITDA	8.1	7.1	10.9	12.0	
					margin	6.6%	5.2%	6.0%	6.0%	
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					\$1.36	Franchised # (UK + Aust) - end	263	273	282	282
12mth forward P/E of 14.0x					\$1.58	Franchise Revenue	23.5	24.0	24.8	25.8
Price / NTA (Jun '13a) 1x \$0.28					\$0.28	Franchise EBITDA	6.1	4.3	4.5	4.6
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)					\$1.48	margin	25.8%	17.8%	18.0%	18.0%
12mth price target					\$1.37	Carboodle fleet value (100%)	7.1	9.8	23.0	78.0
						Carboodle fleet (car leases)	246	528	1,691	6,409
						Carboodle EBIT	nm	nm	-1.1	8.9
						Group Revenue	233.5	272.2	364.2	448.5
						growth	26.2%	16.6%	33.8%	23.2%
						Divisional PBT	61.3	69.1	81.4	98.8
						Overheads	-19.9	-20.7	-22.7	-24.1
						EBITDA - Group	51.2	60.0	70.2	96.7
						growth	16.5%	17.2%	16.9%	37.8%
						EBITDA / Sales	21.9%	22.1%	19.3%	21.6%
						Depreciation/Amortisation	-4.3	-6.5	-9.1	-14.9
						EBIT	46.9	53.6	61.1	81.8
						EBIT / Sales	20.1%	19.7%	16.8%	18.2%
						Net Corporate Interest	-1.6	-2.4	-7.1	-11.6
						Pretax Profit	41.4	47.7	54.0	70.2
						Tax	-12.0	-14.8	-16.2	-21.1
						Effective Tax Rate	29.0%	31.0%	30.0%	30.0%
						Minorities	0.0	0.0	0.0	0.0
						Normalised NPAT to equity	32.2	35.3	39.1	49.8
						Norm. Net Profit / Sales	13.8%	13.0%	10.7%	11.1%
						Abnormals / discontinued	-2.8	-2.4	-1.3	-0.7
						Reported Profit to equity	29.4	32.9	37.8	49.1
						Reported EPS (basic, w'ted)	7.7	8.1	8.9	11.3
						Normalised EPS (dil, w'ted)	8.2	8.4	8.9	11.3
						DPS (\$)	0.0350	0.0400	0.0450	0.0575
						Franking	100%	100%	100%	100%
						Payout Ratio	41.3%	48.1%	49.5%	50.5%
						Cashflow Statement (\$m)	6/12A	6/13A	6/14F	6/15F
						EBITDA (inc Safrock interest)	51.2	60.0	70.2	96.7
						Working Capital Change	-8.9	4.7	-4.7	-0.8
						Cash from Operations	42.3	64.7	65.5	95.9
						Corporate Interest	-1.7	-2.5	-7.1	-11.6
						Tax Paid	-15.3	-17.2	-16.2	-21.1
						Net Operating Cash Flow	25.3	44.9	42.2	63.3
						Capital Expenditure	-11.9	-7.6	-27.2	-64.7
						Other (including loan book)	-22.7	-40.9	-30.5	-42.3
						Investments & acquisitions	-6.1	-35.9	0.0	0.0
						Net Investing Cash Flow	-40.7	-84.4	-57.7	-107.0
						Proceeds from Equity Issues	0.0	31.6	6.4	8.6
						Net Change in Debt & Leases	20.4	28.2	26.2	77.9
						Dividends Paid	-11.1	-17.4	-17.1	-22.8
						Net Financing Cash Flow	9.0	42.4	15.5	63.7
						Movement in Cash	-6.5	2.9	0.0	20.0
						HP Lease Capex (non-cash)				
						Balance Sheet (\$m)	6/12A	6/13A	6/14F	6/15F
						Cash	16.4	20.7	20.7	40.7
						Receivables	10.9	13.0	18.1	21.3
						Inventories	17.1	21.8	29.2	32.1
						Other (including loan book)	91.1	123.6	154.1	196.4
						Total Current Assets	135.5	179.1	222.0	290.5
						Property, Plant & Equipment	19.6	22.5	41.7	92.5
						Intangibles (inc. Goodwill)	92.7	121.2	120.2	119.2
						Other	14.9	24.1	24.1	24.1
						Total Non Current Assets	127.3	167.8	186.0	235.8
						Total Assets	262.7	347.0	408.1	526.3
						Accounts Payable	19.6	20.0	27.8	33.2
						Interest Bearing Liabilities	11.3	70.5	70.5	70.5
						Other	13.8	14.3	14.3	14.3
						Total Current Liabilities	44.7	104.9	112.6	118.0
						Accounts Payable	0.0	0.0	0.0	0.0
						Interest Bearing Liabilities	31.4	0.4	26.6	104.5
						Other	0.1	0.1	0.1	0.1
						Total Non Current Liabilities	31.4	0.5	26.7	104.6
						Total Liabilities	76.1	105.3	139.3	222.6
						Net Assets	186.6	241.6	268.8	303.7
						Net Asset Value / Share (\$)	0.49	0.57	0.63	0.69
						NTA / Share (\$)	0.25	0.28	0.35	0.42
						Net Debt (net cash)	26.2	50.2	76.4	134.3
Analyst: Trent Barnett					Last Earnings Estimate Changes:					
Phone: +61 8 9268 3052					22 August 2013					
Sources: IRESS, Company Information, Hartleys Research										

Explaining our FY13 NPAT normalisations

The first normalisation we apply is the non-cash provision for the Ausgroup earnout, which will be cash payable in October 2014 (we estimate total cash payment of ~\$10m). Ausgroup provides specialist training support, compliance services and franchisee establishment support in the United Kingdom and Australia. CCV will provide these services themselves from October 2014. The Company disclosed the FY13 provision to be \$1.0m (pre tax).

The second normalisation we make is an assumed writeoff/provision of some old UK loans. UK provisions increased from £2.5m at 30 June 2012 to £5.2m at December to £10.2m and 30 June 2013. This was substantially faster than the loan book growth (£12.7m to ~£17.7m to ~£20.3m). We estimate the pre-tax abnormal provision/writeoff was \$2.5m (£1.5m) in FY13.

The combination of both is a Hartleys estimated combined pre-tax abnormal of ~A\$3.5m for FY13.

Fig. 1: Half year P & L and Balance Sheet

Profit & Loss (\$m)	Jun-11a	Dec-11a	Jun-12a	Dec-12a	Jun-13a	FY14e
AUD/GBP	0.656	0.639	0.650	0.641	0.643	0.639
Safrock Loan Book	62.2	75.0	87.3	110.6	125.7	156.2
Safrock Revenue	31.8	38.0	49.1	54.7	58.9	144.4
Safrock EBITDA	13.8	14.1	19.4	22.4	21.2	50.9
<i>margin</i>	<i>43.4%</i>	<i>37.2%</i>	<i>39.4%</i>	<i>40.9%</i>	<i>36.0%</i>	<i>35.3%</i>
Cash Advance Revenue	7.3	8.0	8.6	9.1	8.6	28.1
Cash Advance EBITDA	6.4	6.6	7.0	7.3	6.9	15.0
<i>margin</i>	<i>87.4%</i>	<i>83.1%</i>	<i>81.6%</i>	<i>80.2%</i>	<i>80.1%</i>	<i>53.6%</i>
Owned Stores Revenue	52.5	60.8	62.0	68.0	68.2	182.3
Owned Stores EBITDA	2.9	4.3	3.8	4.6	2.5	10.9
<i>margin</i>	<i>5.6%</i>	<i>7.0%</i>	<i>6.2%</i>	<i>6.8%</i>	<i>3.6%</i>	<i>6.0%</i>
Franchise Revenue	14.1	12.3	11.2	11.7	12.3	24.8
Franchise EBITDA	3.1	2.9	3.2	2.3	2.0	4.5
<i>margin</i>	<i>21.7%</i>	<i>23.3%</i>	<i>28.5%</i>	<i>19.7%</i>	<i>16.0%</i>	<i>18.0%</i>
Group Revenue	97.2	111.7	121.9	134.9	137.3	364.2
<i>growth</i>	<i>10.5%</i>	<i>14.9%</i>	<i>9.1%</i>	<i>10.7%</i>	<i>1.8%</i>	<i>33.8%</i>
EBITDA - Group	22.3	22.8	28.4	31.1	29.0	70.2
<i>growth</i>	<i>3.0%</i>	<i>2.2%</i>	<i>24.7%</i>	<i>9.3%</i>	<i>-6.8%</i>	<i>16.9%</i>
EBITDA / Sales	22.9%	20.4%	23.3%	23.0%	21.1%	19.3%
Depreciation/Amortisation	-2.3	-2.0	-2.3	-2.8	-3.7	-9.1
EBIT	20.0	20.8	26.1	28.3	25.3	61.1
EBIT / Sales	20.6%	18.6%	21.4%	20.9%	18.4%	16.8%
Net Corporate Interest	0.0	-0.6	-1.0	-1.2	-1.2	-7.1
Pretax Profit	18.7	20.3	21.2	27.1	20.6	54.0
Tax	-5.3	-6.0	-6.0	-7.8	-7.0	-16.2
Effective Tax Rate	28.6%	29.7%	28.3%	28.6%	34.2%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT to equity	13.9	14.0	18.2	19.0	16.3	39.1
Norm. Net Profit / Sales	14.3%	12.5%	14.9%	14.1%	11.8%	10.7%
Abnormals / discontinued	-0.5	-0.8	-2.0	-0.6	-1.8	-1.3
Reported Profit to equity	13.3	13.2	16.2	18.4	14.4	37.8
Reported EPS (basic, weighted)	3.90	3.12	4.62	4.70	3.39	8.86
Normalised EPS (dil, wghtd)	4.18	3.02	5.16	4.85	3.55	8.93
DPS (\$)	0.0175	0.0175	0.0175	0.0200	0.0200	0.0450
Franking	100%	100%	100%	100%	100%	100%
Payout Ratio	44.8%	56.0%	37.9%	42.6%	59.0%	50.8%
Balance Sheet (\$m)	Jun-11a	Dec-11a	Jun-12a	Dec-12a	Jun-13a	FY14e
Cash	23.5	19.5	16.4	22.7	20.7	20.7
Receivables	9.0	11.0	10.9	11.1	13.0	18.1
Inventories	14.1	14.7	17.1	17.4	21.8	29.2
Other (including loan book)	66.4	80.8	91.1	112.5	123.6	154.1
Total Current Assets	112.9	126.1	135.5	163.7	179.1	222.0
Property, Plant & Equipment	13.2	16.8	19.6	20.4	22.5	41.7
Intangibles (inc. Goodwill)	96.9	91.7	92.7	93.9	121.2	120.2
Other	9.7	11.2	14.9	21.9	24.1	24.1
Total Non Current Assets	119.7	119.8	127.3	136.2	167.8	186.0
Total Assets	232.7	245.8	262.7	299.9	347.0	408.1
Accounts Payable	20.3	14.5	19.6	18.7	20.0	27.8
Interest Bearing Liabilities	4.6	4.6	11.3	4.6	70.5	70.5
Other	11.2	13.6	13.8	14.1	14.3	14.3
Total Current Liabilities	36.1	32.7	44.7	37.3	104.9	112.6
Accounts Payable	0.0	0.0	0.0	0.9	0.0	0.0
Interest Bearing Liabilities	18.0	33.7	31.4	29.4	0.4	26.6
Other	3.3	3.5	0.1	0.1	0.1	0.1
Total Non Current Liabilities	21.3	37.2	31.4	30.5	0.5	26.7
Total Liabilities	57.4	69.9	76.1	67.8	105.3	139.3
Net Assets	175.3	176.0	186.6	232.1	241.6	268.8
Net Asset Value / Share (\$)	0.46	0.46	0.49	0.61	0.6	0.63
NTA / Share (\$)	0.21	0.22	0.25	0.36	0.3	0.35
Net Debt (net cash)	-0.8	18.7	26.2	11.3	50.2	76.4

Source: Company Data, Hartleys Estimates

The Australian Safrock business continues to be the dominate earnings contributor.

As the UK business grows we assume group margins are diluted, but this assumption is due to conservatism. We hope to see UK margins rapidly increase at some point through scale and system refinement

The loan book (~\$125m plus unearned interest) is short duration and, theoretically at least, would be turned into cash easily within twelve months if the business was wound down

Fig. 2: Free Cash Flow

Operating cash flow was very strong in the in the half, but the growth in financial services and acquisitions meant free cash flow was negative

Cashflow Statement (\$m)	Jun-11a	Dec-11a	Jun-12a	Dec-12a	Jun-13a	FY14e
EBITDA (inc Safrack interest)	22.3	22.8	28.4	31.1	29.0	96.7
Working Capital Change	0.3	-3.5	-5.4	2.2	2.5	-0.8
Cash from Operations	22.6	19.3	23.0	33.3	31.4	95.9
Corporate Interest	-0.4	-0.6	-1.1	-1.4	-1.1	-11.6
Tax Paid	-4.9	-6.3	-9.0	-9.0	-8.2	-21.1
Net Operating Cash Flow	17.2	12.4	12.9	22.8	22.1	63.3
Capital Expenditure	-6.2	-6.5	-5.4	-3.9	-3.8	-64.7
Other (including loan book)	-8.8	-12.1	-10.6	-25.4	-15.5	-42.3
Investments & acquisitions	-5.7	-6.1	0.0	-1.0	-34.9	0.0
Net Investing Cash Flow	-20.7	-24.8	-16.0	-30.2	-54.2	-107.0
Proceeds from Equity Issues	0.0	0.0	0.0	31.6	0.0	8.6
Net Change in Debt & Leases	11.0	15.7	4.7	-8.7	36.8	77.9
Dividends Paid	-6.6	-6.7	-4.5	-8.9	-8.5	-22.8
Net Financing Cash Flow	4.0	9.0	-0.1	14.0	28.4	63.7
Movement in Cash	0.5	-3.3	-3.2	6.6	-3.7	20.0
HP Lease Capex (non-cash)						
Free Cash Flow Analysis	Jun-11a	Dec-11a	Jun-12a	Dec-12a	Jun-13a	FY14e
Net Operating Cash Flow	17.2	12.4	12.9	22.8	22.1	42.2
Capex (Reported) inc loan book	-20.7	-24.8	-16.0	-30.2	-54.2	-57.7
Group Free Cash Flow (rep'ted)	-3.5	-12.3	-3.1	-7.4	-32.1	-15.5
Fixed Debt Repayments	-2.9	-5.1	-6.7	-6.4	-8.7	-5.1
Equity Free Cash Flow (rep'ted)	-6.4	-17.4	-9.8	-13.8	-40.8	-20.7
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-6.4	-17.4	-9.8	-13.8	-40.8	-20.7
Capex (inc HP) / depreciation	274%	332%	233%	138%	103%	300%

Source: Hartleys Research

Fig. 3: Earnings Changes

	6/12A actual	f'cast	6/13A actual	% diff	Old	6/14F New	% diff	Old	6/15F New	% diff
Safrack Loan Book (end)	87.3	121.9	125.7	3.1%	133.4	156.2	17.1%	187.1	198.5	6.1%
Company owned stores (end)	102	120	118	-1.7%	145	145	0.0%	145	145	0.0%
- additional	14	18	16	-11.1%	25	27	8.0%	0	0	nm
Company owned stores (avg)	93	110	110	-0.2%	134	133	-0.6%	145	145	0.0%
Carboodle fleet value (100%)					19.5	23.0	17.5%	75.6	78.0	3.2%
Carboodle EBIT (100%)					-1.5	-1.1	-25.7%	8.5	8.9	4.8%
Revenue	233.5	282.1	272.2	-3.5%	359.4	364.2	1.3%	435.4	448.5	3.0%
EBITDA	51.2	59.4	60.0	1.0%	72.5	70.2	-3.2%	96.5	96.7	0.2%
- margin	21.9%	21.1%	22.1%	4.7%	20.2%	19.3%	-4.5%	22.2%	21.6%	-2.8%
Depreciation/Amortisation	-4.3	-6.2	-6.5	3.6%	-9.2	-9.1	-1.3%	-14.9	-14.9	-0.1%
EBIT	46.9	53.2	53.6	0.7%	63.3	61.1	-3.5%	81.6	81.8	0.2%
Net Interest	-1.6	-4.0	-2.4	-40.0%	-6.9	-7.1	3.5%	-12.1	-11.6	-4.0%
Pretax Profit	41.4	45.5	47.7	4.8%	56.5	54.0	-4.3%	69.5	70.2	1.0%
Tax	-12.0	-13.6	-14.8	8.4%	-16.9	-16.2	-4.3%	-20.9	-21.1	1.0%
Norm. Net Profit After Tax	32.2	34.4	35.3	2.5%	40.8	39.1	-4.2%	49.4	49.8	0.9%
- margin	13.8%	12.2%	13.0%		11.3%	10.7%		11.3%	11.1%	
Reported Profit	29.4	31.8	32.9	3.2%	39.5	37.8	-4.3%	48.7	49.1	1.0%
DPS	3.50	4.00	4.00	0.0%	4.75	4.50	-5.3%	6.00	5.75	-4.2%
EPS (diluted)	8.2	8.3	8.4	0.7%	9.4	8.9	-5.4%	11.4	11.3	-1.2%
P/E (\$1.200)	14.7x	14.4x	14.3x		12.7x	13.4x		10.5x	10.6x	
Ordinary Shares (end)	379.8	423.9	423.9	0.0%	424.2	429.9	1.3%	424.2	437.4	3.1%
Ordinary Shares (avg wgt)	379.8	401.8	406.3	1.1%	424.0	426.9	0.7%	424.2	433.6	2.2%
Net Debt	26.2	58.2	50.2	-13.8%	66.9	76.4	14.2%	147.0	134.3	-8.7%

Source: Hartleys Estimates

PRICE TARGET

Our twelve month price target is increased to \$1.37 (from \$1.31).

Price Target Methodology	Weighting	Spot	12 mth out
DCF	59%	\$1.29	\$1.36
12mth forward P/E of 14.0x	20%	\$1.26	\$1.58
Price / NTA (Jun '13a) 1x \$0.28	5%	\$0.28	\$0.28
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)	16%	\$1.12	\$1.48
Risk weighted composite		\$1.21	\$1.37
12 Months Forward		\$1.37	
Shareprice - Last		\$1.200	
12 mth total return (% to 12mth target + dividend)		17%	

Source: Hartleys Estimate

Fig. 4: Key assumptions and risks for potential new valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
We assume Safrock returns decline in Australia. We assume Mon-e Australia volumes rebound	High	Upside	We assume a decline in margins for Mon-e Australia and Safrock Australia.
UK financial margins improve slowly	Low	Moderate	We assume that Safrock and Mon-e UK margins increase slowly. We also assumed they peak at a level much lower than the peak in the Aust business.
Store profits rebound	Low	Moderate	We assume UK corporate stores return to profitability, but with margins still lower than Aust.
Carboodle makes a full year positive EBIT contribution in FY15, loss in FY14	Low	Moderate	We assume that Carboodle is slow to grow, and peaks at 11,000 leases, which is substantially lower than the business model assumes.
Safrock loan book peaks at \$180m in FY15	High	High	We assume that the Australian loan book peaks at around the current level, but that the UK book increases to ~A\$75m.

Conclusion

We believe we have been realistic or conservative in our base case assumptions.

Source: Hartleys

USEFUL WEBLINKS

http://www.ofc.gov.uk/shared_ofc/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf

www.nocap.com.au

http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4682_ems_b9d82b8b-af71-481c-8975-088be001d298/upload_pdf/370236.pdf;fileType=application%2Fpdf

<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/038.htm&pageID=003&min=brs&Year=&DocType=>

<http://www.ofc.gov.uk/OFTwork/credit/payday-lenders-compliance-review/>

<http://www.guardian.co.uk/money/2012/nov/28/payday-loan-cap>

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Scott Williamson	Resources Analyst	+61 8 9268 3045
Simon Andrew	Oil & Gas Analyst	+61 8 9268 3020
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Grey Egerton-Warburton	Head of Corp Fin.	+61 8 9268 2851
Richard Simpson	Director –Corp. Fin.	+61 8 9268 2824
Paul Fryer	Director–Corp. Fin.	+61 8 9268 2819
Dale Bryan	Director–Corp. Fin.	+61 8 9268 2829
Ben Wale	Snr Mgr–Corp. Fin.	+61 8 9268 3055
Ben Crossing	Snr Mgr – Corp.Fin.	+61 8 9268 3047
Stephen Kite	Snr Mgr- Corp. Fin.	+61 8 9268 3050
Scott Weir	Snr Mgr - Corp Fin.	+61 8 9268 2821

Registered Office

Level 6, 141 St Georges Tce Postal Address:

PerthWA 6000 GPO Box 2777
Australia Perth WA 6001
PH:+61 8 9268 2888 FX: +61 8 9268 2800
www.hartleys.com.au info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner:firstname_lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

Disclaimer/Disclosure

The author of this publication, Hartleys Limited ABN 33 104 195 057 (“Hartleys”), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Hartleys and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

Hartleys was Lead Manager for a capital raising which was completed in the past 12 months for Cash Converters International (“Cash Converters”), for which it earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Cash Converters International, for which it has earned fees and continues to earn fees.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Hartleys believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Hartleys however, does not warrant its accuracy or reliability. Hartleys, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Bradley Knight	+61 8 9268 2823
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Damir Mikulic	+61 8 9268 3027
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Brenton Reynolds	+61 8 9268 2866
Conlie Salvemini	+61 8 9268 2833
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Jayne Walsh	+61 8 9268 2828
Samuel Williams	+61 8 9268 3041