

## CASH CONVERTERS INT. LTD (CCV)

### Earnings upgrade risk

Cash Converters International Ltd has acquired six franchised stores in Victoria from one franchisee for \$10.8m (3.7x on current EBIT and 2.5x excluding acquired assets). The stores will contribute earnings from March 2015. While we had expected an acquisition, the earnings contribution is earlier than we had assumed. Hence, we have increased our FY15 estimate modestly. There continues to be considerable opportunities, and we expect the Company to continue to make accretive acquisitions over the coming 18 months.

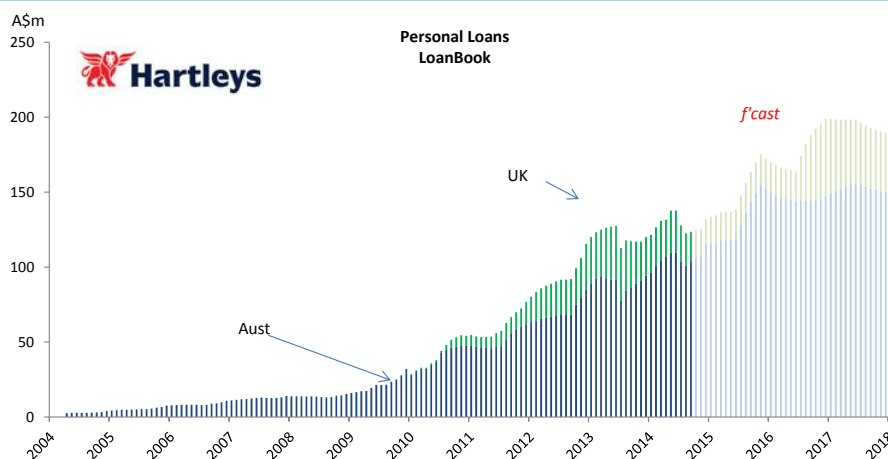
### New UK legislation begins 2 January, UK can grow again

The new UK small credit legislation becomes effective on 2 January. The new regime only allows for 0.8% per day interest, £15 default fee and a total cost <100% of the amount borrowed. We expect that CCV should be able to earn an economic return, albeit lower than Australia. We also expect to see a continued reduction in competition. We continue to be conservative and assume the UK contributes no profit in FY15, and \$5m in FY16. If the UK is too difficult though, we note that the division had ~\$23m of non-current assets at June and has a loan book of ~\$30m. Hence, in a worst case scenario, we see the potential for ~\$30-50m of capital to be redeployed into Australia.

### Maintain Buy

We expect very strong eps growth in FY16 based on reasonably conservative assumptions. Q1 EBITDA was \$16.4m. We expect Q2 will be \$18.1m (seasonally stronger). 2H15 should be \$40.8m, which is based on annualised Q2 plus the recent acquisition earnings (\$36m + \$3m + \$1m). Our FY16 estimate of \$93.8m implies 15% growth on 2H15 – which should be very achievable from traditional store loan growth, on-line loan growth, Carboodle, UK improvement and further store acquisitions. Consequently, we believe that normalised earnings risk is skewed firmly to the upside (FY15 reported profit will be weak due to expensing the ~\$31m license termination). We maintain our Buy recommendation. We have a twelve month price target of \$1.40, implying a FY16 p/e of 12.7x, EV/EBIT of 8.6x.

Fig. 1: Strong track record of loan growth



Source: Company Data, Hartleys Estimates

Share Price:	\$1.070
Valuation:	\$1.36
12mth price target:	\$1.40

#### Brief Business Description:

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

#### Hartleys Brief Investment Conclusion:

High returns, Australian business growth outlook strong. Market leader.

#### Chairman & CEO:

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

#### Top Shareholders:

EZ Corp 31.7%  
Perpetual Ltd 13.1%  
CBA 6.0%  
Fidelity Mgt & Res. (FMR) 5.5%

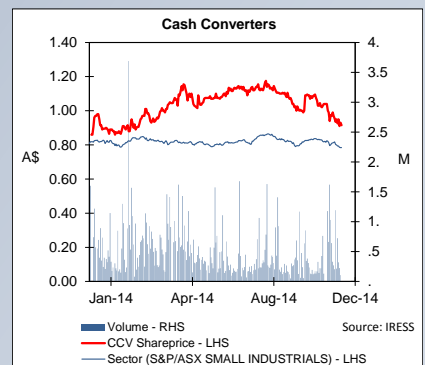
#### Company Address:

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

Issued Capital:	478.9m
- fully diluted	500.3m
Market Cap:	\$512.4m
- fully diluted	\$535.3m
Net Debt (30 Jun '14a):	\$97.1m
Net Debt (30 Jun '14a) adj NZ:	\$77.1m

	FY14a	FY15e	FY16e
Op Cash Flw	35.1	54.6	66.0
Free Cash Flw	14.8	0.8	60.6
NPAT (A\$m)	26.2	41.2	52.9
EPS (\$, dil)	6.0	8.9	10.8
P/E (basic)	18.8x	23.0x	9.8x
P/E (diluted)	20.4x	13.0x	10.1x
EV / EBITDA	11.4x	8.1x	6.5x
DPS (\$)	4.00	4.25	4.75
Franking	100%	100%	100%
Dividend Yield	3.7%	4.0%	4.4%
N.D. / equity	39.7%	23.1%	14.9%

Source: Hartleys Research



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Hartleys has completed a capital raising in the past 12 months for CCV, for which it has earned fees. Hartleys has provided corporate advice to CCV 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)

Company Information			
Today's Date	19 Dec 2014	Level 18, 37 St. Georges Tce	
Share Price	\$1.070	Perth, WA, 6000	
52 Week High-Low	\$1.205 - \$0.77	Ph: (08) 9221 9111	
Market Cap (\$m) - post	\$512.4	Fax: (08) 9221 9011	
Enterprise Value (\$m)	\$609.5	www.cashconverters.com.au	

Ordinary Shares	478.9
Fully Diluted Shares	500.3

### Price Target Methodology

Spot DCF - 9 years explicit + terminal value (Base Case)	\$1.36
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12mth fwd DCF - 9 years explicit + terminal value (Base Case)	\$1.45
12mth forward P/E of 14.0x	\$1.53
Price / NTA (Jun'14a) 1x \$0.26	\$0.26
12mth fwd Div Yield of 3.3% (Gross yield=4.8%)	\$1.35

<b>12mth Price Target</b>	<b>\$1.40</b>
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P / E (6/15F) at Price Target	16.3x
P / E (FY16) at Price Target	12.7x
EV/EBITDA (FY16) at Price Target	7.7x
EV/EBIT (FY16) at Price Target	8.6x

### Multiples (\$/price at \$1.07)

	6/13A	6/14A	6/15F	6/16F
P / E (basic, weighted)	13.2x	18.8x	23.0x	9.8x
P / E (normalised, fully diluted)	15.2x	20.4x	13.0x	10.1x
P / E (normalised, weighted dil.)	12.7x	18.0x	12.0x	10.0x
P / E (ord mkt cap / rep NPAT)	15.6x	20.7x	24.2x	9.7x

Dividend Yield	3.7%	3.7%	4.0%	4.4%
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Group Free Cash Flow (f.c.f.) / EV	-6.5%	-5.4%	0.1%	5.8%
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Equity f.c.f. / Mkt Cap	-8.5%	-7.4%	-1.1%	5.4%
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Norm f.c.f. / Mkt cap	-8.5%	-7.4%	-1.1%	5.4%
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Mkt cap / operating cash flow	7.9x	9.1x	7.2x	5.3x
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EV/EBITDA multiple	10.2x	11.4x	8.1x	6.5x
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EV/EBIT multiple	11.4x	13.3x	9.1x	7.3x
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Price / Book Value	1.9x	1.9x	1.8x	1.6x
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Price / NTA	3.8x	4.1x	3.3x	2.7x
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### Ratios

	6/13A	6/14A	6/15F	6/16F
Return on Average Equity	16.5%	10.8%	15.3%	17.0%
Return on Assets	11.6%	6.9%	9.6%	11.2%
ROIC pre-tax	33.8%	23.0%	28.8%	30.7%
ND / ND + Equity	17.2%	28.4%	18.8%	12.9%
Net Interest Cover (EBIT)	22.3	5.7	8.0	11.0
Reported eps growth	4.4%	-29.5%	-18.4%	135.0%
Norm. eps growth	2.7%	-29.1%	49.2%	20.9%

### Free Cash Flow Analysis

	6/13A	6/14A	6/15F	6/16F
Net Operating Cash Flow	44.9	35.1	54.6	66.0
Capex (Reported) inc loan book	-84.4	-67.8	-53.7	-30.5
Group Free Cash Flow (rep'ted)	-39.5	-32.7	0.9	35.6
Fixed Debt Repayments	-4.1	-5.1	-6.4	-8.0
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-43.6</b>	<b>-37.8</b>	<b>-5.5</b>	<b>27.6</b>
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-43.6	-37.8	-5.5	27.6
Capex (inc HP) / depreciation	118%	80%	116%	51%

### Share Data

	6/13A	6/14A	6/15F	6/16F
Ord Issued shares (m)	423.9	428.9	481.1	486.5
growth	11.6%	1.2%	12.2%	1.1%
Weighted ave shares (m)	406.3	426.3	455.0	483.8
growth	7.0%	4.9%	6.7%	6.3%
Diluted shares wgted (m)	419.7	439.3	463.1	491.8
growth	6.8%	4.7%	5.4%	6.2%

### Unpaid Capital (inc estimated DRP)

Year Expires	Number	% ord	Avg Price	\$m unpaid
30-Jun-15	2,250,355	0.5%	\$ 1.07	\$ 2.4
30-Jun-16	5,378,099	1.1%	\$ 1.07	\$ 5.8
30-Jun-17	13,806,630	2.9%	\$ 0.44	\$ 6.1
30-Jun-18	-	0.0%	\$ -	\$ -
30-Jun-19	-	0.0%	\$ -	\$ -
30-Jun-20	-	0.0%	\$ -	\$ -
TOTAL	21,435,083	4.5%	\$ 0.67	\$ 14.3

### Directors & Senior Management

	Substantials	
Mr Reginald Webb (Chairman)	EZ Corp	31.7%
Mr Peter Cummins (Managing Director)	Perpetual Ltd	13.1%
Mr David Carter (Non-exec.)	CBA	6.0%
Mr Stuart Grimshaw (N.-exec, EZ Corp)	Fidelity Mgt & Res. (FMR)	5.5%
Mr Lachlan Given (Non-exec, EZ Corp)		
CFO - Mr Ralph Groom		

### Analyst: Trent Barnett

Phone: +61 8 9268 3052

Sources: IRESS, Company Information, Hartleys Research

## Recommendation:

**Buy**

### Profit & Loss (\$m)

	6/13A	6/14A	6/15F	6/16F
AUD/GBP	0.642	0.556	0.545	0.570
Pers. Finance Loan Book	125.7	138.4	138.3	163.3
Pers. Finance Revenue	113.6	137.7	156.8	200.1
Pers. Finance EBITDA	43.6	39.8	57.5	69.6
margin	38.4%	28.9%	36.7%	34.8%
Fin. Services Admin. Revenue	17.7	14.3	19.1	19.8
Fin. Services Admin. EBITDA	14.2	10.4	11.1	11.9
margin	80.2%	72.7%	58.3%	60.0%
Owned # (UK + Aust) - end	118	122	129	129
Owned Stores Revenue	136.1	171.9	188.0	184.4
Owned Stores EBITDA	11.3	15.6	20.4	20.0
margin	8.3%	9.1%	10.9%	10.9%
Franchised # (UK + Aust) - end	273	253	253	253
Franchise Revenue	24.0	18.5	17.6	17.2
Franchise EBITDA	4.3	6.6	6.3	6.2
margin	17.8%	35.9%	35.9%	35.9%
Carboodle fleet value (100%)	9.8	14.4	19.8	38.8
Carboodle fleet (car leases)	528	807	1,415	3,133
Carboodle EBIT	nm	-4.2	-1.1	4.9

<b>Group Revenue</b>	<b>272.2</b>	<b>331.7</b>	<b>371.1</b>	<b>421.1</b>
growth	16.6%	21.8%	11.9%	13.5%

<b>Underlying EBITDA - Group</b>	<b>60.0</b>	<b>53.6</b>	<b>75.3</b>	<b>93.8</b>
growth	17.2%	-10.7%	40.5%	24.6%

<b>EBITDA / Sales</b>	<b>22.0%</b>	<b>16.2%</b>	<b>20.3%</b>	<b>22.3%</b>
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Depreciation/Amortisation	-6.5	-7.9	-8.1	-10.8
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EBIT	53.6	45.7	67.2	83.1
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EBIT / Sales	19.7%	13.8%	18.1%	19.7%
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Net Corporate Interest	-2.4	-8.0	-8.4	-7.5
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<b>Norm Pretax Profit</b>	<b>51.2</b>	<b>37.7</b>	<b>58.8</b>	<b>75.5</b>
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Norm. Tax	-15.9	-11.5	-17.6	-22.7
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Effective Tax Rate	31.0%	30.6%	30.0%	30.0%
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Minorities	0.0	0.0	0.0	0.0
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<b>Normalised NPAT to equity</b>	<b>35.3</b>	<b>26.2</b>	<b>41.2</b>	<b>52.9</b>
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<b>Norm. Net Profit / Sales</b>	<b>13.0%</b>	<b>7.9%</b>	<b>11.1%</b>	<b>12.6%</b>
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Abnormals / discontinued	-2.4	-1.4	-20.0	0.0
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<b>Reported Profit to equity</b>	<b>32.9</b>	<b>24.8</b>	<b>21.2</b>	<b>52.9</b>
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<b>Reported EPS (basic, w'ted)</b>	<b>8.1</b>	<b>5.7</b>	<b>4.7</b>	<b>10.9</b>
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<b>Normalised EPS (dil, w'ted)</b>	<b>8.4</b>	<b>6.0</b>	<b>8.9</b>	<b>10.8</b>
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<b>DPS (\$)</b>	<b>0.0400</b>	<b>0.0400</b>	<b>0.0425</b>	<b>0.0475</b>
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Franking	100%	100%	100%	100%
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Payout Ratio	48.1%	65.5%	49.7%	43.7%
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### Cashflow Statement (\$m)

	6/13A	6/14A	6/15F	6/16F
EBITDA	60.0	53.6	75.3	93.8
Working Capital Change	4.7	2.8	-4.2	2.4
<b>Cash from Operations</b>	<b>64.7</b>	<b>56.4</b>	<b>71.1</b>	<b>96.2</b>
Corporate Interest	-2.5	-8.0	-8.4	-7.5
Tax Paid	-17.2	-13.3	-8.1	-22.7
<b>Net Operating Cash Flow</b>	<b>44.9</b>	<b>35.1</b>	<b>54.6</b>	<b>66.0</b>
Capital Expenditure	-7.6	-6.4	-9.4	-5.5
Other (including loan book)	-40.9	-41.4	0.1	-25.0
Investments & acquisitions	-35.9	-20.0	-44.4	0.0
<b>Net Investing Cash Flow</b>	<b>-84.4</b>	<b>-67.8</b>	<b>-53.7</b>	<b>-30.5</b>
Proceeds from Equity Issues	31.6	0.0	47.1	5.4
Net Change in Debt & Leases	28.2	48.2	-9.5	1.1
Dividends Paid	-17.4	-12.4	-18.5	-22.1
<b>Net Financing Cash Flow</b>	<b>42.4</b>	<b>35.8</b>	<b>19.1</b>	<b>-15.6</b>
<b>Movement in Cash</b>	<b>2.9</b>	<b>3.1</b>	<b>20.0</b>	<b>20.0</b>
<b>HP Lease Capex (non-cash)</b>				

EBITDA	60.0	53.6	75.3	93.8
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<b>Movement in Cash</b>	<b>2.9</b>	<b>3.1</b>	<b>20.0</b>	<b>20.0</b>
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### Balance Sheet (\$m)

	6/13A	6/14A	6/15F	6/16F
Cash	20.7	26.8	46.8	66.8
Receivables	13.0	33.5	37.1	38.2
Inventories	21.8	25.6	28.0	27.4
Other (including loan book)	123.6	134.2	134.1	159.1
<b>Total Current Assets</b>	<b>179.1</b>	<b>220.2</b>	<b>246.0</b>	<b>291.6</b>
Property, Plant & Equipment	22.5	22.6	33.7	29.3
Intangibles (inc. Goodwill				

Fig. 1: Hartleys earnings estimate revisions

	6/14A actual	Old	6/15F New	% diff	Old	6/16F New	% diff	Old	6/17F New	% diff
AUD/GBP	0.556	0.545	0.545	0.0%	0.570	0.570	0.0%	0.565	0.565	0.0%
Pers. Finance Loan Book	138.4	137.5	138.3	0.6%	162.5	163.3	0.5%	197.9	199.1	0.6%
Pers. Finance Revenue	137.7	156.6	156.8	0.1%	197.9	200.1	1.1%	227.2	228.6	0.6%
Pers. Finance EBITDA	39.8	57.5	57.5	0.0%	68.8	69.6	1.1%	72.8	73.3	0.6%
margin	28.9%	36.7%	36.7%	-0.2%	34.8%	34.8%	0.0%	32.0%	32.0%	0.0%
Fin. Services Admin. Revenue	14.3	19.0	19.1	0.7%	19.6	19.8	1.3%	19.6	19.9	1.3%
Fin. Services Admin. EBITDA	10.4	11.1	11.1	0.7%	11.7	11.9	1.2%	11.7	11.9	1.2%
margin	72.7%	58.3%	58.3%	0.0%	60.0%	60.0%	0.0%	59.8%	59.8%	0.0%
Owned # (UK + Aust) - end	122	122	129	5.7%	127	129	1.6%	127	129	1.6%
- additional	4	0	7	nm	5	0	-100.0%	0	0	nm
Company owned stores (avg)	131	122	123	0.8%	127	129	1.6%	127	129	1.6%
Owned Stores Revenue	171.9	176.9	188.0	6.3%	181.6	184.4	1.6%	182.3	185.1	1.6%
Owned Stores EBITDA	15.6	19.2	20.4	6.3%	19.7	20.0	1.6%	19.8	20.1	1.6%
margin	9.1%	10.9%	10.9%	0.0%	10.9%	10.9%	0.0%	10.9%	10.9%	0.0%
Franchised # (UK + Aust) - end	253	253	253	0.0%	253	253	0.0%	253	253	0.0%
Franchise Revenue	18.5	17.6	17.6	0.0%	17.2	17.2	0.0%	17.3	17.3	0.0%
Franchise EBITDA	6.6	6.3	6.3	0.0%	6.2	6.2	0.0%	6.2	6.2	0.0%
margin	35.9%	35.9%	35.9%	0.0%	35.9%	35.9%	0.0%	35.9%	35.9%	0.0%
Carboodle fleet value (100%)	14.4	19.8	19.8	0.2%	38.6	38.8	0.5%	34.4	34.5	0.5%
Carboodle EBIT (100%)	-4.2	-1.1	-1.1	-0.4%	4.8	4.9	0.9%	5.2	5.2	1.0%
Revenue	331.7	360.3	371.1	3.0%	416.0	421.1	1.2%	446.5	450.9	1.0%
<b>Norm. EBITDA</b>	<b>53.6</b>	<b>74.5</b>	<b>75.3</b>	<b>1.0%</b>	<b>92.5</b>	<b>93.8</b>	<b>1.5%</b>	<b>96.5</b>	<b>97.3</b>	<b>0.8%</b>
- margin	<b>16.2%</b>	<b>20.7%</b>	<b>20.3%</b>	<b>-2.0%</b>	<b>22.2%</b>	<b>22.3%</b>	<b>0.2%</b>	<b>21.6%</b>	<b>21.6%</b>	<b>-0.2%</b>
EBITDA reported	51.6	41.6	42.4	1.8%						
- margin	15.3%	11.7%	11.6%	-1.2%						
Depreciation/Amortisation	-7.9	-8.1	-8.1	0.6%	-10.5	-10.8	2.8%	-11.2	-11.1	-0.3%
EBIT	45.7	66.5	67.2	1.1%	82.0	83.1	1.3%	85.3	86.2	1.0%
Net Interest	-8.0	-8.3	-8.4	1.1%	-7.5	-7.5	0.1%	-7.7	-7.5	-2.4%
Pretax Profit	37.7	58.2	58.8	1.0%	74.5	75.5	1.4%	77.7	78.7	1.3%
Tax	-11.5	-17.5	-17.6	1.0%	-22.3	-22.7	1.4%	-23.3	-23.6	1.3%
<b>Norm. Net Profit After Tax</b>	<b>26.2</b>	<b>40.7</b>	<b>41.2</b>	<b>1.0%</b>	<b>52.1</b>	<b>52.9</b>	<b>1.4%</b>	<b>54.4</b>	<b>55.1</b>	<b>1.3%</b>
- margin	7.9%	11.3%	11.1%		12.5%	12.6%		12.2%	12.2%	
<b>Reported Group Profit</b>	<b>24.8</b>	<b>20.7</b>	<b>21.2</b>	<b>2.0%</b>	<b>52.1</b>	<b>52.9</b>	<b>1.4%</b>	<b>54.4</b>	<b>55.1</b>	<b>1.3%</b>
DPS	4.00	4.25	4.25	0.0%	4.75	4.75	0.0%	5.42	5.50	1.6%
Norm. EPS (diluted)	6.0	8.8	8.9	1.0%	10.6	10.8	1.5%	10.9	11.1	1.5%
P/E (\$1.070)	18.0x	12.2x	12.0x		10.1x	10.0x		9.8x	9.7x	
Ordinary Shares (end)	428.9	481.1	481.1	0.0%	487.1	486.5	-0.1%	501.7	500.3	-0.3%
Ordinary Shares (avg wgt)	426.3	455.0	455.0	0.0%	484.1	483.8	-0.1%	494.4	493.4	-0.2%
Net Debt	97.1	65.2	67.6	3.7%	51.1	48.8	-4.5%	41.3	38.9	-5.9%
Net Debt Adj for NZ	77.1	45.2	47.6	5.4%	31.1	28.8	-7.4%	21.3	18.9	-11.4%

Source: Hartleys Research Estimate

**Fig. 2: Key assumptions and risks for potential new valuation**

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Kentsleigh license acquisition	Low	Moderate	We assume Kentsleigh acquisition contributes in 2H15 and FY16. We assume tax shield in FY15 reduces tax payable.
DRP (Dividend Reinvestment Plan)	Low	Moderate	We assume an ongoing DRP with ~25% takeup until and including FY17.
We assume Personal Finance (Safrock) returns have stabilised in Australia. We assume very modest Australian loan growth	High	Upside	We believe we are conservative given CCV is under penetrated NSW and on-line lending
UK make modest contribution in near term, but eventually is profitable	Low	Low / Upside	We believe this is reasonable
Carboodle makes a full year slightly positive EBIT contribution in FY16, loss in FY15	Low	Moderate	We assume that Carboodle is slow to grow.

**Conclusion**

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

Source: Hartleys

## USEFUL WEBLINKS

[www.nocap.com.au](http://www.nocap.com.au)

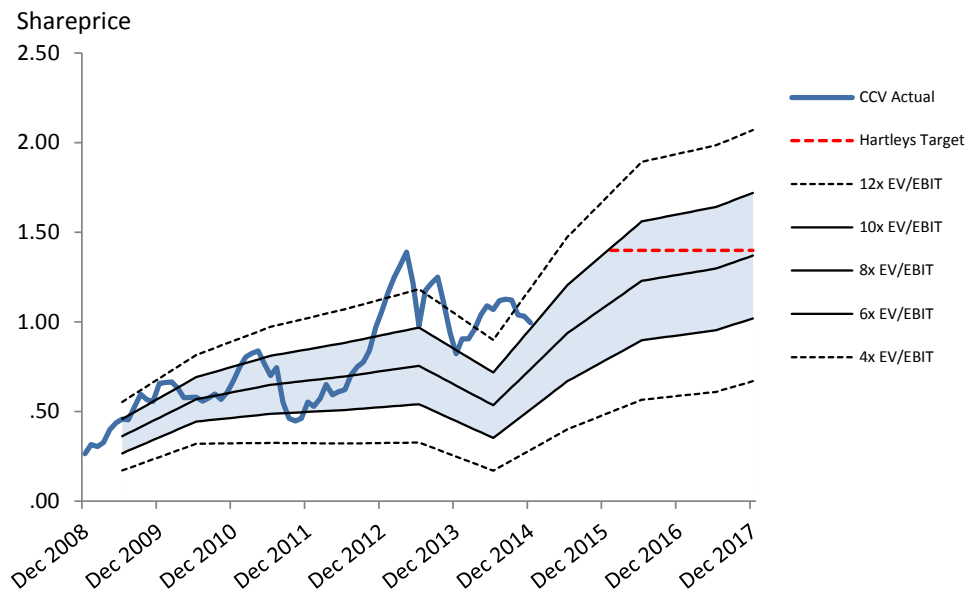
<https://www.gov.uk/cma-cases/payday-lending-market-investigation>

<https://www.gov.uk/government/news/cma-sets-out-proposals-to-lower-payday-loan-costs>

<http://www.comlaw.gov.au/Details/C2012A00130>

### EV/EBIT bands

**Fig. 3:** *Using Hartleys base case forecasts*



Source: Hartleys Estimates, IRESS

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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 Buy	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.

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