

16 Feb 2015

CASH CONVERTERS INT. LTD (CCV)

Aust going fantastically, the UK is still a thorn

Cash Converters Limited reported 1H15 normalised NPAT of \$15.4m (we expected \$18.3m). Reported normalised EBITDA was \$32.4m, below our expected \$34.5m due to UK. A 2cps final dividend was declared (as expected).

The result implied Q2 EBITDA of ~\$16.5m, which was flat on Q1. The Australian business grew well, but was offset by accelerating UK losses ahead of the regulatory change on 2 January 2015. We estimate the UK division lost ~\$2m in Q2, versus our expectation of close to breakeven. We have lowered our FY15 UK profit estimate to a loss of \$6m and assume breakeven in FY16.

Group operating cash flow was healthy at \$21.7m (our measure excludes loan book growth), and would have been even better had it not included a large \$13m tax payment. Reported net debt was \$84.8m. Adjusted for the \$20m receivable from 'NZ Master Franchisor', net debt is a very modest \$64.8m.

The Australian business accelerating positively

The Australian Personal Finance loan book increased strongly to \$115.7m (from ~\$105m at September). On-line lending has grown rapidly, and now represents a third of the book. Aust Personal Finance profit was \$25.5m, which implies a return on capital for the division ~45%. Financial Administration profits in Australia (1H EBITDA \$5.4m) showed continued improvement and were better than our expectations. Corporate store profits were flat versus 2H14 at \$10.2m.

UK almost irrelevant, but losses offset Aust +ve surprises

Unfortunately, the UK division's negative momentum has accelerated. The division normalised loss was ~A\$2.7m in the half, although it was free-cash flow positive due to the running down of the loan books (from £15.7m at June to £14.4m). Note the losses were due to the financial products, some of which was due to one off costs associated with staff training. The store network generated a modest EBITDA profit. Our hope is that regulatory changes cause competition to rationalise and CCV UK can improve in the future (FY16), but in our estimates we assume it is breakeven in FY16 and FY17. At worst, we expect positive cash in-flow should the division close.

Carboodle looks on track to profit in late FY15

Carboodle lost \$0.8m in 1H. We expect profit in FY16, although lower than previously.

Hartleys FY15e normalised NPAT \$38.5m, FY16e \$52.7m

Australia beat our expectations, and we have revised up our Australian profit estimates by ~\$5m (5%). However, unfortunately the weakness in the UK and our conservatism around a turnaround has caused us to lower our group FY15 EBITDA by ~\$2m (3.1%) to \$73.1m.

Remember that the recent acquisitions should add \$4-5m of EBITDA in 2H15 (annualised \$8-10m) and hence our second half estimate of \$41.2m is achievable (vs 1H of \$31.9m).

We also increased our FY16 Australian business estimates, but this was also offset by our UK downgrade such that our FY16 EBITDA estimate has been revised up by only 1.6% to \$95.3m.

Maintain Buy

We maintain our Buy recommendation. We have a twelve month price target of \$1.44, implying a FY16 p/e of 13.1x.

Share Price:	\$1.130
Valuation:	\$1.40
12mth price target:	\$1.44

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%

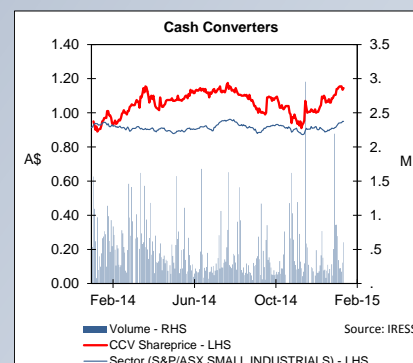
Company Address:

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

Issued Capital:	478.9m
- fully diluted	499.7m
Market Cap:	\$541.1m
- fully diluted	\$564.7m
Net Debt (31 Dec '14a):	\$84.8m
Net Debt (31 Dec '14a) adj NZ:	\$64.8m

	FY14a	FY15e	FY16e
Op Cash Flw	35.1	54.0	67.1
Free Cash Flw	14.8	0.2	60.3
NPAT (A\$m)	26.2	38.5	52.7
EPS (\$, dil)	6.0	8.3	10.7
P/E (basic)	19.8x	27.8x	10.4x
P/E (diluted)	21.6x	14.7x	10.7x
EV / EBITDA	11.7x	8.6x	6.6x
DPS (\$)	4.00	4.25	4.75
Franking	100%	100%	100%
Dividend Yield	3.5%	3.8%	4.2%
N.D. / equity	39.7%	25.9%	15.7%

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)						Recommendation: Buy				
Company Information						Profit & Loss (\$m)				
Today's Date	16 Feb 2015	Level 18, 37 St. Georges Tce				AUD/GBP	6/13A	6/14A	6/15F	6/16F
Share Price	\$1.130	Perth, WA, 6000				Pers. Finance Loan Book	125.7	138.0	144.6	164.1
52 Week High-Low	\$1.205 - \$0.865	Ph: (08) 9221 9111				Pers. Finance Revenue	113.6	137.7	169.2	212.2
Market Cap (\$m) - post	\$541.1	Fax: (08) 9221 9011				Pers. Finance EBITDA	43.6	39.8	52.7	69.9
Enterprise Value (\$m)	\$625.9	www.cashconverters.com.au				<i>margin</i>	38.4%	28.9%	31.1%	33.0%
Ordinary Shares	478.9					Fin. Services Admin. Revenue	17.7	14.3	23.1	24.5
Fully Diluted Shares	499.7					Fin. Services Admin. EBITDA	14.2	10.4	13.2	14.1
						<i>margin</i>	80.2%	72.7%	57.0%	57.7%
Price Target Methodology						Owned # (UK + Aust) - end	118	122	129	129
Spot DCF - 9 years explicit + terminal value (Base Case)						Owned Stores Revenue	136.1	171.9	190.0	186.4
						Owned Stores EBITDA	11.3	15.6	21.8	21.4
						<i>margin</i>	8.3%	9.1%	11.5%	11.5%
12mth fwd DCF - 9 years explicit + terminal value (Base Case)						Franchised # (UK + Aust) - end	273	253	253	253
						Franchise Revenue	24.0	18.5	17.9	18.3
						Franchise EBITDA	4.3	6.6	6.4	6.6
						<i>margin</i>	17.8%	35.9%	35.9%	35.9%
						Carboodle fleet value (100%)	9.8	14.4	19.8	31.7
						Carboodle fleet (car leases)	528	807	1,415	2,491
						Carboodle EBIT	nm	-4.2	-1.1	2.5
P / E (FY16) at Price Target						13.1x				
P / E (FY17) at Price Target						12.6x				
EV/EBITDA (FY17) at Price Target						7.3x				
EV/EBIT (FY17) at Price Target						8.4x				
12mth Price Target						\$1.44				
Multiples (\$/price at \$1.13)						6/08A	6/13A	6/14A	6/15F	6/16F
P / E (basic, weighted)						14.0x	19.8x	27.8x	10.4x	
P / E (normalised, fully diluted)						16.0x	21.6x	14.7x	10.7x	
P / E (normalised, weighted dil.)						13.4x	19.0x	13.6x	10.5x	
P / E (ord mkt cap / rep NPAT)						16.5x	21.8x	29.3x	10.3x	
Dividend Yield						3.5%	3.5%	3.8%	4.2%	
Group Free Cash Flow (f.c.f) / EV						-6.3%	-5.2%	-1.0%	6.5%	
Equity f.c.f. / Mkt Cap						-8.1%	-7.0%	-2.4%	6.1%	
Norm f.c.f. / Mkt cap						-8.1%	-7.0%	-2.4%	6.1%	
Mkt cap / operating cash flow						8.4x	9.6x	7.8x	5.5x	
EV/EBITDA multiple						10.4x	11.7x	8.6x	6.6x	
EV/EBIT multiple						11.7x	13.7x	9.8x	7.5x	
Price / Book Value						2.0x	2.0x	1.9x	1.7x	
Price / NTA						4.0x	4.3x	3.5x	2.9x	
Ratios						6/08A	6/13A	6/14A	6/15F	6/16F
Return on Average Equity						16.5%	10.8%	14.4%	17.1%	
Return on Assets						11.6%	6.9%	8.9%	11.1%	
ROIC pre-tax						33.8%	23.0%	27.0%	30.6%	
ND / ND + Equity						17.2%	28.4%	20.6%	13.5%	
Net Interest Cover (EBIT)						22.3	5.7	7.3	10.5	
Reported eps growth						4.4%	-29.5%	-28.8%	168.5%	
Norm. eps growth						2.7%	-29.1%	39.4%	29.0%	
Free Cash Flow Analysis						6/08A	6/13A	6/14A	6/15F	6/16F
Net Operating Cash Flow						44.9	35.1	54.0	67.1	
Capex (Reported) inc loan book						-84.4	-67.8	-60.5	-26.4	
Group Free Cash Flow (rep'ted)						-39.5	-32.7	-6.5	40.8	
Fixed Debt Repayments						-4.1	-5.1	-6.4	-8.0	
Equity Free Cash Flow (rep'ted)						-43.6	-37.8	-12.9	32.8	
HP Lease Capex (non-cash)						0.0	0.0	0.0	0.0	
Free Cash Flow (normalised)						-43.6	-37.8	-12.9	32.8	
Capex (inc HP) / depreciation						118%	80%	99%	56%	
Share Data						6/08A	6/13A	6/14A	6/15F	6/16F
Ord Issued shares (m)						423.9	428.9	481.1	486.2	
<i>growth</i>						11.6%	1.2%	12.2%	1.1%	
Weighted ave shares (m)						406.3	426.3	455.0	483.6	
<i>growth</i>						7.0%	4.9%	6.7%	6.3%	
Diluted shares wgted (m)						419.7	439.3	463.1	491.7	
<i>growth</i>						6.8%	4.7%	5.4%	6.2%	
Unpaid Capital (inc estimated DRP)						Number	% ord	Avg Price	\$m unpaid	
Year Expires										
30-Jun-15						2,250,355	0.5%	\$ 1.07	\$ 2.4	
30-Jun-16						5,091,050	1.1%	\$ 1.13	\$ 5.8	
30-Jun-17						13,497,149	2.8%	\$ 0.45	\$ 6.1	
30-Jun-18						-	0.0%	\$ -	\$ -	
30-Jun-19						-	0.0%	\$ -	\$ -	
30-Jun-20						-	0.0%	\$ -	\$ -	
TOTAL						20,838,554	4.4%	\$ 0.69	\$ 14.3	
Directors & Senior Management						Substantials				
Mr Reginald Webb (Chairman)						EZ Corp	31.7%			
Mr Peter Cumins (Managing Director)						Perpetual Ltd	13.1%			
Mr Stuart Grimshaw (N.-exec, EZ Corp)						CBA	6.0%			
Mr Lachlan Given (Non-exec, EZ Corp)						Fidelity Mgt & Res. (FMR)	5.5%			
CFO - Mr Ralph Groom										
Analyst: Trent Barnett						Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052						16 February 2015				
Sources: IRESS, Company Information, Hartleys Research										

Fig. 1: Earnings Changes

	6/14A	6/15F			6/16F			6/17F		
	actual	Old	New	% diff	Old	New	% diff	Old	New	% diff
AUD/GBP	0.556	0.545	0.531	-2.6%	0.570	0.507	-11.0%	0.565	0.521	-7.8%
Aust profit	58	85	90	5.4%	98	105	7.8%	93	109	16.8%
UK profit	2	0	-6	nm	6	0	-107.6%	7	0	-100.3%
Pers. Finance Loan Book	138.0	140.4	144.6	3.0%	166.1	164.1	-1.2%	201.6	201.4	-0.1%
Pers. Finance Revenue	137.7	156.8	169.2	7.9%	200.1	212.2	6.0%	228.6	240.5	5.2%
Pers. Finance EBITDA	39.8	57.5	52.7	-8.4%	69.6	69.9	0.5%	73.3	73.5	0.4%
margin	28.9%	36.7%	31.1%	-15.1%	34.8%	33.0%	-5.2%	32.0%	30.6%	-4.6%
Fin. Services Admin. Revenue	14.3	19.1	23.1	20.8%	19.8	24.5	23.6%	19.9	24.3	22.4%
Fin. Services Admin. EBITDA	10.4	11.1	13.2	18.3%	11.9	14.1	19.0%	11.9	14.1	18.9%
margin	72.7%	58.3%	57.0%	-2.1%	60.0%	57.7%	-3.7%	59.8%	58.1%	-2.8%
Owned # (UK + Aust) - end	122	129	129	0.0%	129	129	0.0%	129	129	0.0%
- additional	4	7	7	0.0%	0	0	nm	0	0	nm
Company owned stores (avg)	131	123	123	0.0%	129	129	0.0%	129	129	0.0%
Owned Stores Revenue	171.9	188.0	190.0	1.1%	184.4	186.4	1.1%	185.1	184.3	-0.4%
Owned Stores EBITDA	15.6	20.4	21.8	6.6%	20.0	21.4	6.7%	20.1	21.1	5.1%
margin	9.1%	10.9%	11.5%	5.5%	10.9%	11.5%	5.5%	10.9%	11.5%	5.5%
Franchised # (UK + Aust) - end	253	253	253	0.0%	253	253	0.0%	253	253	0.0%
Franchise Revenue	18.5	17.6	17.9	1.3%	17.2	18.3	6.1%	17.3	18.0	4.2%
Franchise EBITDA	6.6	6.3	6.4	1.3%	6.2	6.6	6.1%	6.2	6.5	4.2%
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	0.0%	38.8	31.7	-18.3%	34.5	29.1	-15.7%
Carboodle EBIT (100%)	-4.2	-1.1	-1.1	0.0%	4.9	2.5	-48.4%	5.2	3.1	-40.6%
Revenue	331.7	371.1	388.8	4.8%	421.1	434.8	3.3%	450.9	461.9	2.4%
Norm. EBITDA	53.6	75.3	73.1	-2.9%	93.8	95.3	1.6%	97.3	98.2	0.9%
- margin	16.2%	20.3%	18.8%	-7.3%	22.3%	21.9%	-1.6%	21.6%	21.3%	-1.5%
EBITDA reported	51.6	42.4	40.2	-5.2%						
- margin	15.3%	11.6%	10.5%	-9.5%						
Depreciation/Amortisation	-7.9	-8.1	-9.5	17.0%	-10.8	-12.1	12.7%	-11.1	-12.1	8.7%
EBIT	45.7	67.2	63.6	-5.3%	83.1	83.2	0.1%	86.2	86.1	-0.1%
Net Interest	-8.0	-8.5	-8.7	2.2%	-7.8	-7.9	1.7%	-7.8	-7.7	-0.9%
Pretax Profit	37.7	58.7	55.0	-6.4%	75.3	75.3	0.0%	78.4	78.4	0.0%
Tax	-11.5	-17.6	-16.5	-6.4%	-22.6	-22.6	0.0%	-23.5	-23.5	0.0%
Norm. Net Profit After Tax	26.2	41.1	38.5	-6.4%	52.7	52.7	0.0%	54.9	54.9	0.0%
- margin	7.9%	11.1%	9.9%		12.5%	12.1%		12.2%	11.9%	
Reported Group Profit	24.8	21.1	18.5	-12.4%	52.7	52.7	0.0%	54.9	54.9	0.0%
DPS	4.00	4.25	4.25	0.0%	4.75	4.75	0.0%	5.49	5.49	0.0%
Norm. EPS (diluted)	6.0	8.9	8.3	-6.4%	10.7	10.7	0.0%	11.0	11.0	0.0%
P/E (\$1.130)	19.0x	12.9x	13.6x		10.7x	10.5x		10.3x	10.2x	
Ordinary Shares (end)	428.9	481.1	481.1	0.0%	486.1	486.2	0.0%	499.6	499.7	0.0%
Ordinary Shares (avg wgt)	426.3	455.0	455.0	0.0%	483.6	483.6	0.0%	492.8	492.9	0.0%
Net Debt	97.1	70.3	75.0	6.7%	52.3	51.0	-2.5%	42.3	41.8	-1.3%
Net Debt Adj for NZ	77.1	50.3	55.0	9.4%	32.3	31.0	-4.1%	22.3	21.8	-2.4%

Source: Hartleys Estimates

Fig. 2: Half year P & L and Balance Sheet

Profit & Loss (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15e
AUD/GBP	0.653	0.654	0.650	0.653	0.571	0.547	0.545	
Pers. Finance Loan Book	75.0	87.3	111.4	125.7	122.5	138.0	143.2	144.6
Pers. Finance Revenue	38.0	49.1	54.7	58.9	61.8	75.9	83.4	85.8
Pers. Finance EBITDA	14.1	19.4	22.4	21.2	18.3	21.5	22.5	30.2
<i>margin</i>	37.2%	39.4%	40.9%	36.0%	29.6%	28.4%	27.0%	35.2%
Fin. Services Admin. Revenue	8.0	8.6	9.1	8.6	7.1	7.3	11.9	11.2
Fin. Services Admin. EBITDA	6.6	7.0	7.3	6.9	4.9	5.5	6.1	7.1
<i>margin</i>	83.1%	81.6%	80.2%	80.1%	69.7%	75.7%	51.3%	63.2%
Owned Stores Revenue	60.8	62.0	68.0	68.2	78.4	93.5	93.5	96.5
Owned Stores EBITDA	6.2	2.4	6.5	4.8	6.9	8.7	10.5	11.3
<i>margin</i>	10.2%	3.9%	9.6%	7.0%	8.8%	9.4%	11.2%	11.7%
Franchise Revenue	12.3	11.2	10.7	13.3	9.1	9.4	9.1	8.8
Franchise EBITDA	2.9	3.2	3.0	1.2	3.1	3.6	3.5	2.9
<i>margin</i>	23.3%	28.5%	28.5%	9.3%	33.8%	38.1%	38.6%	33.2%
Carboodle fleet value (100%)		3.7	6.9	7.9	11.7	12.1	15.1	19.8
Carboodle fleet (car leases)		246	460	528	779	807	1,009	1,415
Carboodle EBIT					-2.9	-1.3	-0.8	-0.3
Group Revenue	111.7	121.9	134.9	137.3	155.4	176.3	187.5	201.3
<i>Sequential growth</i>	14.9%	9.1%	10.7%	1.8%	13.2%	13.4%	6.3%	7.4%
Underlying EBITDA - Group	22.8	28.4	31.1	29.0	21.7	31.9	31.9	41.2
<i>Sequential growth</i>	2.2%	24.7%	9.3%	-6.8%	-25.2%	47.5%	0.0%	28.9%
EBITDA / Sales	20.4%	23.3%	23.0%	21.1%	13.9%	18.1%	17.0%	20.4%
Depreciation/Amortisation	-2.0	-2.3	-2.8	-3.7	-3.8	-4.1	-4.5	-5.0
EBIT	20.8	26.1	28.3	25.3	17.9	27.8	27.4	36.2
EBIT / Sales	18.6%	21.4%	20.9%	18.4%	11.5%	15.8%	14.6%	18.0%
Net Corporate Interest	-0.6	-1.0	-1.2	-1.2	-3.7	-4.3	-4.4	-4.3
Norm Pretax Profit	20.3	25.1	27.1	24.1	14.2	23.5	23.0	31.9
Norm. Tax	0.0	-13.1	0.0	-15.9	-4.3	-7.3	-6.9	-9.6
Effective Tax Rate	0.0%	52.4%	0.0%	66.0%	30.0%	30.9%	30.0%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT to equity	14.0	18.2	19.0	16.3	9.9	16.2	16.1	22.3
Norm. Net Profit / Sales	12.5%	14.9%	14.1%	11.8%	6.4%	9.2%	8.6%	11.1%
Abnormals / discontinued	-0.8	-2.0	-0.6	-1.8	-2.7	1.3	-21.4	1.4
Group Reported Profit	13.2	16.2	18.4	14.4	7.3	17.5	-5.3	23.8
Reported EPS (basic, weighted)	3.49	4.26	4.70	3.39	2.30	3.40	-1.2	5.3
Normalised EPS (dil, wghtd)	2.80	5.39	4.85	3.55	2.23	3.73	3.6	4.7
DPS (\$)	0.0175	0.0175	0.0200	0.0200	0.0200	0.0200	0.0200	0.02250
Franking	100%	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	50.2%	41.1%	42.6%	59.0%	87.0%	58.8%	55.1%	42.7%
Balance Sheet (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15e
Cash	19.5	16.4	22.7	20.7	50.8	26.8	43.2	46.8
Receivables	11.0	10.9	11.1	13.0	22.5	33.5	35.4	38.0
Inventories	14.7	17.1	17.4	21.8	23.8	25.6	25.2	28.2
Other (including loan book)	80.8	91.1	112.5	123.6	131.4	134.2	142.3	140.9
Total Current Assets	126.1	135.5	163.7	179.1	228.5	220.2	246.0	253.9
Property, Plant & Equipment	16.8	19.6	20.4	22.5	24.1	22.6	23.6	32.3
Intangibles (inc. Goodwill)	91.7	92.7	93.9	121.2	131.5	132.7	133.1	135.5
Other	11.2	14.9	21.9	24.1	11.2	34.8	36.7	34.8
Total Non Current Assets	119.8	127.3	136.2	167.8	166.8	190.1	193.4	202.7
Total Assets	245.8	262.7	299.9	347.0	395.3	410.3	439.4	456.6
Accounts Payable	14.5	19.6	18.7	20.0	26.5	26.8	26.2	30.4
Interest Bearing Liabilities	4.6	11.3	4.6	70.5	55.1	59.9	61.6	59.9
Other	13.6	13.8	14.1	14.3	5.4	14.7	5.0	14.7
Total Current Liabilities	32.7	44.7	37.3	104.9	87.1	101.4	92.8	105.0
Accounts Payable	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	33.7	31.4	29.4	0.4	59.1	64.0	66.3	61.9
Other	3.5	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Total Non Current Liabilities	37.2	31.4	30.5	0.5	59.2	64.2	66.5	62.0
Total Liabilities	69.9	76.1	67.8	105.3	146.3	165.6	159.3	167.1
Net Assets	176.0	186.6	232.1	241.6	249.0	244.7	280.1	289.5
Net Asset Value / Share (\$)	0.46	0.49	0.55	0.57	0.58	0.57	0.58	0.60
NTA / Share (\$)	0.22	0.25	0.33	0.28	0.28	0.26	0.31	0.32
Net Debt (net cash)	18.7	26.2	11.3	50.2	63.4	97.1	84.8	75.0

Source: Company Data, Hartleys Estimates

The Australian Personal Finance business continues to be the dominate earnings contributor.

The UK business remains disappointing and we assume is a profit drag

The loan book (~\$142m 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. 3: Free Cash Flow

*Operating cash flow
very good in 1H
despite a high cash
tax payment*

Cashflow Statement (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15e
EBITDA	22.8	28.4	31.1	29.0	21.7	31.9	31.9	41.2
Working Capital Change	-3.5	-5.4	2.2	2.5	0.6	2.2	7.7	-11.2
Cash from Operations	19.3	23.0	33.3	31.4	22.3	34.1	39.7	30.0
Corporate Interest	-0.6	-1.1	-1.4	-1.1	-4.0	-3.9	-4.6	-4.0
Tax Paid	-6.3	-9.0	-9.0	-8.2	-9.1	-4.2	-13.3	6.4
Net Operating Cash Flow	12.4	12.9	22.8	22.1	9.1	25.9	21.7	32.3
Capital Expenditure	-6.5	-5.4	-3.9	-3.8	-3.5	-2.9	-4.9	-4.5
Other (including loan book)	-12.1	-10.6	-25.4	-15.5	-13.1	-28.4	-13.1	6.4
Investments & acquisitions	-6.1	0.0	-1.0	-34.9	1.3	-21.3	-30.1	-14.3
Net Investing Cash Flow	-24.8	-16.0	-30.2	-54.2	-15.2	-52.5	-48.0	-12.5
Proceeds from Equity Issues	0.0	0.0	31.6	0.0	0.0	0.0	43.3	3.8
Net Change in Debt & Leases	15.7	4.7	-8.7	36.8	38.7	9.5	3.8	-5.9
Dividends Paid	-6.7	-4.5	-8.9	-8.5	-6.3	-6.1	-6.2	-12.3
Net Financing Cash Flow	9.0	-0.1	14.0	28.4	32.4	3.4	40.9	-14.4
Movement in Cash	-3.3	-3.2	6.6	-3.7	26.3	-23.2	14.6	5.4
HP Lease Capex (non-cash)								
Free Cash Flow Analysis	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15e
Net Operating Cash Flow	12.4	12.9	22.8	22.1	9.1	25.9	21.7	32.3
Capex (Reported) inc loan book	-24.8	-16.0	-30.2	-54.2	-15.2	-52.5	-48.0	-12.5
Group Free Cash Flow (rep'ted)	-12.3	-3.1	-7.4	-32.1	-6.1	-26.6	-26.4	19.9
Fixed Debt Repayments	-5.1	-6.7	-6.4	-8.7	-15.4	-19.8	-21.0	-20.8
Equity Free Cash Flow (rep'ted)	-17.4	-9.8	-13.8	-40.8	-21.5	-46.4	-47.3	-0.9
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-17.4	-9.8	-13.8	-40.8	-21.5	-46.4	-47.3	-0.9
Capex (inc HP) / depreciation	332%	233%	138%	103%	92%	70%	109%	91%

Source: Hartleys Research

PRICE TARGET

Our twelve month price target is increased to \$1.44 (from \$1.41).

Valuation Methodology	Weighting	Spot	12 mth out
DCF	50%	\$1.40	\$1.49
12mth forward P/E of 14.0x	30%	\$1.38	\$1.53
Price / NTA (Jun'14a) 1x \$0.31	5%	\$0.31	\$0.31
12mth fwd Div Yield of 3.0% (Gross yield=4.3%)	15%	\$1.40	\$1.48
Risk weighted composite		\$1.34	\$1.44
12 Months Forward		\$1.44	
Shareprice - Last		\$1.130	
12 mth total return (% to 12mth target + dividend)		31%	

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
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 continues to be loss making, returns to breakeven in FY16, but eventually is profitable	Low	Low / Upside	We believe this is reasonable, but conservative. We do not assume any release of capital from the division
Carboodle makes a full year slightly positive EBIT contribution in FY16, loss in FY15	Low	Moderate	We assume that Carboodle is slow to grow.
<i>Conclusion</i>	<i>We believe we have been realistic or conservative in our base case assumptions.</i>		

Source: Hartleys

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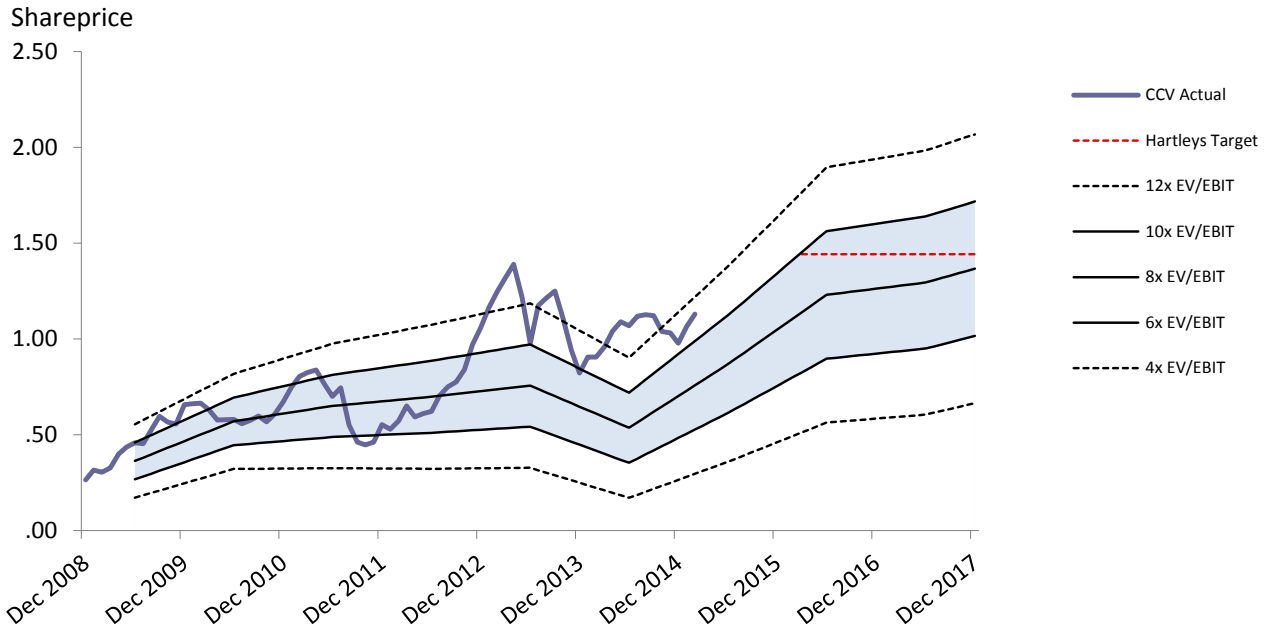
<https://www.gov.uk/cma-cases/payday-lending-market-investigation>

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

EV/EBIT BANDS

Fig. 5: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

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Buy	Share price appreciation anticipated.
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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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