

9 Feb 2016

CASH CONVERTERS INT. LTD (CCV)

Finance facility replacement. Upgrade to Buy.

Cash Converters International Ltd (CCV) has announced it has new financing facilities. It has replaced the \$70m Westpac debt facility with a \$100m facility from Fortress, and it has replaced the Westpac transactional banking facilities with a new service provider. The terms of the facility, as disclosed, appear very reasonable for CCV. The removal of the funding cap for online loans is particularly positive.

In our view, it is very good news that the replacement facilities have finally been approved. The deal had been delayed since guidance was provided at the AGM, and that consequently had increased the perception of outlier risks for investors. Now that financing is clearly resolved the focus is back to earnings risk, which we believe is adequately captured by the low earnings multiple (~5.5x p/e and 4.5x EV/EBIT on our estimates).

Government regulatory review still to complete...perhaps by end February

The Government review of the small credit legislation is expected to be finished at the end of February (although we note there has already been some delay). The committee has already stated that the industry is a legitimate part of the economy. Hence, any changes will allow for the industry to be profitable.

On the 22nd December 2015, the committee released an interim report and asked for consultation. Some of the suggestions had ramifications for industry viability. We assume, therefore, that following industry consultation these suggestions will not become recommendations.

CCV has a unique business model (retail sales help amortise overheads), scale (amortises compliance, legal and training costs), brand (helps reduce bad debts) and experience (improves compliance, marketing and bad debts). This all combines to mean that CCV profitability should be above industry.

Consequently, if regulation is set to allow for a competitive industry, we do not envisage substantial changes to current legislation. If there are substantial changes, at a minimum they will need to be set to allow for CCV to be viable, and hence CCV will win substantial market share (in extreme circumstances becoming the only supplier to the market).

Upgrade to Buy (from Speculative Buy)

We have had a Speculative Buy recommendation pending resolution to the finance facilities to reflect the small but extreme outlier risk had the Company not been able to secure new funding. We now upgrade to a Buy recommendation (from Speculative Buy).

Share Price:	\$0.500
Valuation:	\$1.19
12mth price target:	\$1.07

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 Stuart Grimshaw (Chairman, EZ Corp)
Mr Peter Cumins (Managing Director)

Top Shareholders:

EZ Corp 31.5%
Perpetual Ltd 14.8%
CBA 6.0%
Fidelity Mgt & Res. (FMR) 5.5%

Company Address:

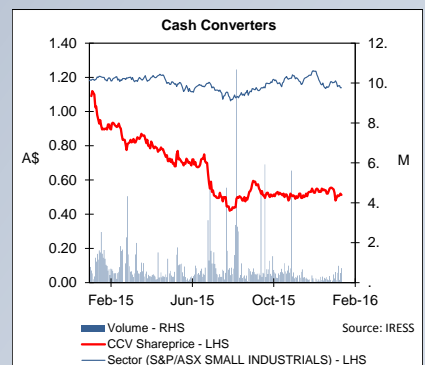
Level 18, 37 St. Georges Tce
Perth, WA, 6000

Issued Capital:	481.8m
- fully diluted	505.4m
Market Cap:	\$240.9m
- fully diluted	\$252.7m
Net Debt (30 Jun '15a):	\$74.8m

	FY15a	FY16e	FY17e
Op Cash Flw	60.9	50.9	58.0
Free Cash Flw	9.0	44.9	51.1
NPAT (A\$m)*	30.5	43.5	47.2
EPS (\$, dil)	6.6	8.9	9.4
P/E (basic)	-10.6x	5.6x	5.3x
P/E (diluted)	8.3x	5.8x	5.4x
EV / EBITDA	5.2x	3.9x	3.7x
DPS (\$)	2.00	4.00	4.00
Franking	100%	100%	100%
Dividend Yield	4.0%	8.0%	8.0%
N.D. / equity	28.6%	19.5%	15.7%

Source: Hartleys Research

*Normalised



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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	9 Feb 2016	Level 18, 37 St. Georges Tce			AUD/GBP	6/14A	6/15A	6/16F	6/17F
Share Price	\$0.500	Perth, WA, 6000			Pers. Finance Loan Book	0.556	0.521	0.489	0.484
52 Week High-Low	\$1.165 - \$0.415	Ph: (08) 9221 9111			Pers. Finance Revenue	138.0	125.9	126.7	156.4
Market Cap (\$m) - post	\$240.9	Fax: (08) 9221 9011			Pers. Finance EBITDA	137.7	163.9	158.2	177.3
Enterprise Value (\$m)	\$315.7	www.cashconverters.com.au			margin	28.9%	29.6%	40.7%	39.7%
Ordinary Shares	481.8				Fin. Services Admin. Revenue	14.3	14.7	16.6	16.8
Fully Diluted Shares	505.4				margin	72.7%	85.0%	80.7%	80.7%
Price Target Methodology					Underlying EBITDA - Group				
Spot DCF - 9 years explicit + terminal value (Base Case)					growth	21.8%	13.0%	2.0%	6.2%
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					EBITDA / Sales	16.2%	16.3%	21.2%	21.3%
12mth forward P/E of 14.0x					Depreciation/Amortisation	-7.9	-9.0	-10.3	-10.3
Price / NTA 1x \$0.26					EBIT	45.7	52.1	70.6	76.1
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)					EBIT / Sales	13.8%	13.9%	18.5%	18.7%
12mth Price Target	\$1.07				Net Corporate Interest	-8.0	-8.5	-8.4	-8.7
P / E (FY16) at Price Target	11.8x				Norm Pretax Profit	37.7	43.6	62.2	67.4
P / E (FY17) at Price Target	10.9x				Norm. Tax	-11.5	-13.1	-18.7	-20.2
EV/EBITDA (FY17) at Price Target	6.5x				Effective Tax Rate	30.6%	30.0%	30.0%	30.0%
EV/EBIT (FY17) at Price Target	7.3x				Minorities	0.0	0.0	0.0	0.0
Multiples (\$/price at \$0.50)					Normalised NPAT to equity				
P / E (basic, weighted)	6/14A	6/15A	6/16F	6/17F	growth	26.2	30.5	43.5	47.2
P / E (normalised, fully diluted)	8.8x	-10.6x	5.6x	5.3x	Norm. Net Profit / Sales	7.9%	8.1%	11.4%	11.6%
P / E (normalised, weighted dil.)	9.7x	8.3x	5.8x	5.4x	Abnormals / discontinued	-1.4	-52.2	0.0	0.0
P / E (ord mkt cap / rep NPAT)	9.7x	-11.1x	5.5x	5.1x	Reported Profit to equity	24.8	-21.7	43.5	47.2
Dividend Yield	8.0%	4.0%	8.0%	8.0%	Reported EPS (basic, w'ted)	5.7	-4.7	9.0	9.5
Group Free Cash Flow (f.c.f.) / EV	-10.4%	-3.6%	7.6%	6.8%	Normalised EPS (dil, w'ted)	6.0	6.6	8.9	9.4
Equity f.c.f. / Mkt Cap	-15.7%	-7.4%	6.7%	4.7%	DPS (\$)	0.0400	0.0200	0.0400	0.0400
Norm f.c.f. / Mkt cap	-15.7%	-7.4%	6.7%	4.7%	Franking	100%	100%	100%	100%
Mkt cap / operating cash flow	4.3x	2.9x	3.1x	2.8x	Payout Ratio	65.5%	31.5%	44.7%	42.8%
EV/EBITDA multiple	5.9x	5.2x	3.9x	3.7x	Cashflow Statement (\$m)				
EV/EBIT multiple	6.9x	6.1x	4.5x	4.2x	EBITDA	6/14A	6/15A	6/16F	6/17F
Price / Book Value	0.9x	0.9x	0.8x	0.8x	Working Capital Change	53.6	61.2	80.9	86.3
Price / NTA	1.9x	1.9x	1.5x	1.3x	Capital Expenditure	2.8	23.3	-3.0	0.5
Ratios					Cash from Operations	56.4	84.5	77.9	86.9
Return on Average Equity	6/14A	6/15A	6/16F	6/17F	Corporate Interest	-8.0	-8.5	-8.4	-8.7
Return on Assets	10.8%	12.1%	15.6%	15.0%	Tax Paid	-13.3	-15.1	-18.7	-20.2
ROIC pre-tax	6.9%	7.2%	9.7%	9.8%	Net Operating Cash Flow	35.1	60.9	50.9	58.0
ND / ND + Equity	23.0%	22.5%	27.5%	26.3%	Capital Expenditure	-6.4	-10.6	-6.0	-4.0
Net Interest Cover (EBIT)	28.4%	22.2%	16.3%	13.6%	Other (including loan book)	-41.4	-17.8	-0.8	-29.7
Reported eps growth	5.7	6.1	8.4	8.8	Invest. & acq / other	-20.0	-44.0	-20.0	-2.9
Norm. eps growth	-29.5%	-183.1%	-290.1%	5.8%	Net Investing Cash Flow	-67.8	-72.3	-26.8	-36.6
Free Cash Flow Analysis	6/14A	6/15A	6/16F	6/17F	Proceeds from Equity Issues	0.0	43.3	2.4	4.9
Net Operating Cash Flow	35.1	60.9	50.9	58.0	Net Change in Debt & Leases	48.2	2.7	3.3	13.7
Capex (Reported) inc loan book	-67.8	-72.3	-26.8	-36.6	Dividends Paid	-12.4	-13.6	-9.9	-20.0
Group Free Cash Flow (rep'ted)	-32.7	-11.4	24.1	21.4	Net Financing Cash Flow	35.8	32.4	-4.1	-1.4
Fixed Debt Repayments	-5.1	-6.4	-8.0	-10.0	Movement in Cash	3.1	21.0	20.0	20.0
Equity Free Cash Flow (rep'ted)	-37.8	-17.8	16.1	11.4	HP Lease Capex (non-cash)				
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	Balance Sheet (\$m)				
Free Cash Flow (normalised)	-37.8	-17.8	16.1	11.4	Cash	6/14A	6/15A	6/16F	6/17F
Capex (inc HP) / depreciation	80%	117%	58%	39%	Receivables	26.8	52.4	72.4	92.4
Share Data					Inventories	33.5	32.3	34.3	35.0
Ord Issued shares (m)	6/14A	6/15A	6/16F	6/17F	Other (including loan book)	25.6	27.7	27.6	27.9
growth	428.9	481.2	486.4	504.9	Total Current Assets	134.2	135.4	136.2	165.9
Weighted ave shares (m)	1.2%	12.2%	1.1%	3.8%	Property, Plant & Equipment	22.6	25.4	22.1	17.4
growth	426.3	458.1	483.8	495.6	Intangibles (inc. Goodwill)	132.7	136.1	135.0	136.3
Diluted shares wgted (m)	4.9%	7.4%	5.6%	2.4%	Other	34.8	32.0	32.0	32.0
growth	439.3	466.1	491.9	499.7	Total Non Current Assets	190.1	193.5	189.1	185.7
Unpaid Capital (inc estimated DRP)					Total Assets	410.3	441.2	459.6	506.9
Year Expires	Number	% ord	Avg Price	\$m unpaid	Accounts Payable	26.8	26.4	25.4	27.0
30-Jun-16	5,142,363	1.1%	\$ 0.50	\$ 2.6	Interest Bearing Liabilities	59.9	60.7	60.7	60.7
30-Jun-17	18,460,143	3.8%	\$ 0.28	\$ 5.2	Other	14.7	25.7	5.7	5.7
30-Jun-18	-	0.0%	\$ -	\$ -	Total Current Liabilities	101.4	112.8	91.8	93.3
30-Jun-19	-	0.0%	\$ -	\$ -	Accounts Payable	0.0	0.0	0.0	0.0
30-Jun-20	-	0.0%	\$ -	\$ -	Interest Bearing Liabilities	64.0	66.4	69.8	83.5
30-Jun-21	-	0.0%	\$ -	\$ -	Other	0.1	0.2	0.2	0.2
TOTAL	23,602,505	4.9%	\$ 0.33	\$ 7.8	Total Non Current Liabilities	64.2	66.7	70.0	83.8
Directors & Senior Management					Total Liabilities	165.6	179.5	161.8	177.1
Substantials					Net Assets	244.7	261.7	297.8	329.8
Mr Stuart Grimshaw (Chairman, EZ Corp)	EZ Corp			31.5%	Net Asset Value / Share (\$)	0.57	0.54	0.61	0.65
Mr Peter Cumins (Managing Director)	Perpetual Ltd			14.8%	NTA / Share (\$)	0.26	0.26	0.33	0.38
Mr Reginald Webb (Non-exec)	CBA			6.0%	Net Debt (net cash)	97.1	74.8	58.1	51.9
Mr Lachlan Given (Non-exec, EZ Corp)	Fidelity Mgt & Res. (FMR)			5.5%	- adj for NZ	82.1	59.8	43.1	36.9
Mr Kevin Dundo (Non-exec.)					Last Earnings Estimate Changes: 28 August 2015				
CFO - Mr Ralph Groom									
Analyst: Trent Barnett									
Phone: +61 8 9268 3052									
Sources: IRESS, Company Information, Hartleys Research									

We have compiled a list of resources regarding High Cost Credit in Australia.

HIGH COST CREDIT REFERENCES

We have compiled a list of resources regarding High Cost Credit in Australia. The most comprehensive review is Chapter 5 of the "[Inquiry into the Consumer Credit and Corporations Legislation Amendment \(Enhancements\) Bill 2011](#)", although it is a very long and difficult. The next best read is the [Consumer Credit Legislation Amendment \(Enhancements\) Act 2012](#) because this details the requirement of lenders and the protections for consumer (neither of which are discussed well in mainstream media). However, this is also not easy to read. The best simple read is "[Stopping the game of loans will take more than regulation](#)", but it is not comprehensive and therefore we suggest that if you need to understand the risk and protections of the industry, unfortunately you must spend the time to read the Inquiry and the Consumer Credit Act.

SACC

A credit contract is a **small amount credit contract** if:

- (a) the contract is not a continuing credit contract; and
- (b) the credit provider under the contract is not an ADI; and
- (c) the credit limit of the contract is \$2,000 (or such other amount as is prescribed by the regulations) or less; and
- (d) the term of the contract is at least 16 days but not longer than 1 year (or such other number of years as is prescribed by the regulations); and
- (e) the debtor's obligations under the contract are not, and will not be, secured; and
- (f) the contract meets any other requirements prescribed by the regulations.

A SACC is allowed a loan establishment fee 20% of the net amount of the loan and a monthly fee 4% per month.

MACC

A credit contract is a **medium amount credit** contract if:

- (a) the contract is not a continuing credit contract; and
- (b) the credit provider under the contract is not an ADI; and
- (c) the credit limit of the contract is:
 - (i) at least \$2,001 (or such other amount as is prescribed by the regulations); but
 - (ii) not more than \$5,000 (or such other amount as is prescribed by the regulations); and
- (d) the term of the contract is at least 16 days but not longer than 2 years (or such other number of years as is prescribed by the regulations); and
- (e) the contract meets any other requirements prescribed by the regulations.

A MACC can charge an establishment fee of \$400, but the maximum other fees/interest (excluding the \$400 establishment fee) of 48% APR.

Fig. 1: Payday Lending References

Title	Link	Comment
Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011	http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/2010-13/Consumer_Credit_Corporations_2011/report/c05	This was a comprehensive Government review where every stakeholder was incentivised to put their best case forward. See Chapter 5.
Positive industry commentary		
Stopping the game of loans will take more than regulation	http://theconversation.com/stopping-the-game-of-loans-will-take-more-than-regulation-39506?utm_medium=email&utm_campaign=Latest+from+The+Conversation+for+2+April+2015+-+2600&utm_content=Latest+from+The+Conversation+for+2+April+2015+-+2600+CID_522acc44cdd70df87be065f2d090962b&utm_source=campaign_monitor&utm_term=Stopping%20the%20game%20of%20loans%20will%20take%20more%20th	Must be read by all investors.
Caught Short. Exploring the role of small, short-term loans in the lives of Australians. Final report. July 2012	http://www.uq.edu.au/swahs/news/CaughtShortFinalReport.pdf	Worth reading
EIRIS is a global leader in the provision of environmental, social, governance (ESG) research for responsible investors.	http://www.eiris.org/blog/social-risks-consumer-finance-unpri-panel-melbourne/#more-2913	EIRIS review of debate on ESG of payday lending
No Cap	www.nocap.com.au	Consumer backlash following attempts to ban payday lending in Australia
The Politics of Payday Lending Regulation in Australia	http://www.law.unimelb.edu.au/files/dmfile/201421.pdf	Anti-payday lending article published in Monash Law Review that includes a history of the recent legislative reviews.
National Credit Providers Association	http://www.ncpa.net.au/contact/contact-us.html	Australia's Peak Body For The Small Amount Consumer Lending Industry
Finder.com.au	http://www.finder.com.au/payday-loans	Consumer website comparing products with industry commentary
Government & regulators		
Consumer Credit Legislation Amendment (Enhancements) Act 2012	http://www.comlaw.gov.au/Details/C2012A00130	Australian relevant legislation regarding caps on fees and charges
National Consumer Credit Protection Act 2009	http://download.asic.gov.au/media/2243019/rg209-published-5-november-2014.pdf	Australian relevant legislation regarding suitability of lending and the independent review
Credit licensing: Responsible lending conduct	http://www.asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-209-credit-licensing-responsible-lending-conduct/	Unsuitable lending
Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011	http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/2010-13/Consumer_Credit_Corporations_2011/report/c05	This was a comprehensive Government review where every stakeholder was incentivised to put their best case forward. See Chapter 5.
15-056MR ASIC puts payday lending industry on notice to lift standards	http://www.asic.gov.au/about-asic/media-centre/find-a-media-release/2015-releases/15-056mr-asic-puts-payday-lending-industry-on-notice-to-lift-standards/	While ASIC's review found compliance with some rules was working, it also found that payday lenders are falling short in meeting important new obligations.
ASIC Deputy Chairman Interview "ASIC report on payday lenders and the new small amount lending provisions"	https://www.youtube.com/watch?v=oSLXYevMnVU	Interview with Peter Kell, to get a balanced/official view of ASIC's concerns
PS14/16: Detailed rules for the price cap on high-cost short-term credit - Including feedback on CP14/10 and final rules	http://www.fca.org.uk/news/ps14-16-detailed-rules-on-the-price-cap-on-high-cost-short-term-credit	UK relevant legislation
Assistant Treasurer announcement regarding the review.	http://jaf.ministers.treasury.gov.au/media-release/037-2015/	Scope of the Government review in CY15
Review of the small amount credit contract laws	http://consumercredit.treasury.gov.au/content/downloads/Review-of-SACC-laws/Review_of_SACC_laws_CP.pdf	Government review request for submissions (CY15 expected completion)
ABC interview with Assist. Treasurer, Josh Frydenberg	http://mpegmedia.abc.net.au/news/audio/am/201508/20150807-am-full.mp3	Listen to the interview (above the first arrow on the fast forward button)
ASIC report on consumer leases	http://download.asic.gov.au/media/3350956/rep-447-published-11-september-2015.pdf	Argues that there perhaps should be a cap on fees for consumer leases
AML/CTF Act Review	http://www.ag.gov.au/Consultations/Documents/StatutoryReviewAnti-MoneyLaunderingAndCounter-TerrorismFinancingActCth200/national-financial-services-federation-ltd-28february2014a.pdf	Payday lending Anti-money laundering
Anti industry commentary		
Consumer Action Law Centre	http://consumeraction.org.au/	Loudest anti-payday lobby group

Source: Hartleys Research Estimates

Fig. 2: Current regulation of high cost credit - protections

Type of contract	Contract definition	Maximum costs	Responsible lending obligations: General	Additional obligations
Small amount credit contract (payday loan)	Amount borrowed: Less than \$2,000 Term: Between 16 days and 1 year	The provider cannot charge interest, and can only charge a maximum establishment fee of up to 20% of the amount of credit and a maximum monthly fee of 4% of this amount (for a 12-month contract, the maximum amount that can be charged in fees is equivalent to 68% of the amount of credit) No establishment fee can be charged where the contract refinances an existing small amount credit contract On default: The consumer cannot be charged more than twice the amount of credit (including the amount already paid)	The provider must assess whether the consumer can afford the repayments, on the basis of reasonable inquiries The product must meet the consumer's requirements and objectives	Procedural requirement: Bank statements must be obtained for 90 days Presumptions: The contract is unsuitable if the consumer: <ul style="list-style-type: none"> • is already in default under an existing small amount credit contract; or • has been a party to two or more small amount credit contracts in the last 90 days Additional disclosure: There must be a warning statement on the provider's website Protection for Centrelink recipients: Repayments cannot exceed 20% of income
Medium amount credit contract	Amount borrowed: Between \$2,001 and \$5,000 Term: Between 16 days and 2 years	Cap: The provider can charge interest and fees provided the amount charged does not exceed a maximum cost calculated as the sum of interest charged at 48% and a fee of \$400	As for a small amount credit contract	No additional obligations
All other credit contracts (including rental agreements with a right or obligation to purchase)	All other credit contracts	Cap: The provider can charge interest and fees provided the amount charged does not exceed a maximum cost calculated as the sum of interest charged at 48%	As for a small amount credit contract	No additional obligations
Consumer leases	Fixed term contracts of greater than 4 months The consumer pays more than the cash value of the goods There is no right or obligation to purchase the goods	There is no cap	As for a small amount credit contract	No additional obligations

Source: ASIC

Fig. 1: Current regulation of high cost credit - penalties

Obligations	Maximum penalties	Maximum infringement notice	Other sanctions*
Maximum Costs SACCs: charging in excess of a maximum establishment fee of up to 20% of the amount of credit and a maximum monthly fee of 4% of this amount (s31B of the Credit Code)	Criminal penalty: 100 penalty units (max penalty of \$18,000 per breach)	Individual: 20 penalty units (\$3,600) Body corporate: 100 penalty units (\$18,000) (If the conduct also falls within s24 of the Credit Code)	Borrower is not liable to make the payment and may recover any payment already made.
Medium amount credit contracts (MACCs): charging above 48% cap and a fee of \$400 (s32A of the Code, see s32B of the Credit Code)	Criminal penalty: 50 penalty units (max penalty of \$9,000 per breach) However, if the conduct also falls within s24 of the Credit Code – Criminal penalty: 100 penalty units (max penalty of \$18,000 per breach)	As above	The provision of a credit contract that imposes costs exceeding the maximum cost is void to the extent it does so and the borrower may recover prohibited amounts already paid. (If the conduct also falls within s23 of the Credit Code)
Other credit contracts: charging above 48% cap (s32A of the Credit Code)	As above	As above	The provision of a credit contract that imposes costs exceeding the maximum cost is void to the extent it does so and the borrower may recover prohibited amounts already paid. (If the conduct also falls within s23 of the Credit Code)
Responsible lending obligations <ul style="list-style-type: none"> Obligation to assess unsuitability (ss 115 and 128) Reasonable inquiries and verification (ss 117 and 130) including for SACCs Obtaining and considering account statements for preceding 90 days (ss 117(1A) and 130(1A)).	Civil penalty: 2,000 penalty units (max penalty of \$360,000 per breach)	Individual: 50 penalty units (\$9,000) Body corporate: 250 penalty units (\$45,000)	None
Additional obligation for SACCs Presumptions: The contract is unsuitable if the consumer (ss 118(3A) and 131(3A)): <ul style="list-style-type: none"> is already in default under an existing SACC; or has been a party to two or more SACCs in the last 90 days. 	Civil penalty: 2,000 penalty units (max penalty of \$360,000 per breach)	Individual: 50 penalty units (\$9,000) Body corporate: 250 penalty units (\$45,000)	None
Additional disclosure: Requirement to display a warning statement (s133CB and regulations 28XXA, 28XXB, 28XXC and 28XXD)	Civil penalty: 2,000 penalty units (max penalty of \$360,000 per breach) Criminal penalty: 50 penalty units (max penalty of \$9,000 per breach)	N/A	None
Protection for Centrelink recipients: Repayments cannot exceed 20% of income (s133CC and regulation 28S)	As above	N/A	None

* In relation to civil penalties, where the court has made a declaration of contravention of a civil penalty provision the court may order a pecuniary penalty payable to the Commonwealth up to the maximum number of penalty units referred to in the provision for a natural person, or 5 times the maximum number of penalty units referred to in the provision for a body corporate, partnership or multiple trustees (s167).

In relation to criminal offences, s4B(3) of the Crimes Act 1914 (Cth) allows a court to impose on a body corporate convicted of an offence a fine of not greater than 5 times the maximum that court could impose on an individual convicted of that offence.

A court is also able to make other orders including injunctions, compensation orders and adverse publicity (div 1, Part 4-2). ASIC can also take administrative action, including for breaching the credit legislation, to:

- suspend, cancel or vary credit licences (div 6, Part 2-2); and/or
- ban persons from engaging in credit activities either for a specified period or permanently (Part 2-4).

The value of a penalty unit is given in section 4AA of the Crimes Act 1914 (Cth) and changes from time to time. The above maximums are calculated on the basis of the penalty unit of \$180, which applies to contraventions and offences committed on or after 31 July 2015.

Source: http://consumercredit.treasury.gov.au/content/downloads/Review-of-SACC-laws/Review_of_SACC_laws_CP.pdf

PRICE TARGET

Our twelve month price target is increased to \$1.07 (from \$1.06).

Valuation Methodology	Weighting	Spot	12 mth out
DCF	25%	\$1.19	\$1.27
12mth forward P/E of 14.0x	30%	\$1.29	\$1.38
No cash advance earnings, 12mth forward P/E of 14.0x	25%	\$0.87	\$0.96
Price / NTA 1x \$0.26	15%	\$0.26	\$0.26
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)	5%	\$1.11	\$1.11
Risk weighted composite		\$1.00	\$1.07
12 Months Forward		\$1.07	
Shareprice - Last		\$0.500	
12 mth total return (% to 12mth target + dividend)		121%	

Source: Hartleys Estimate

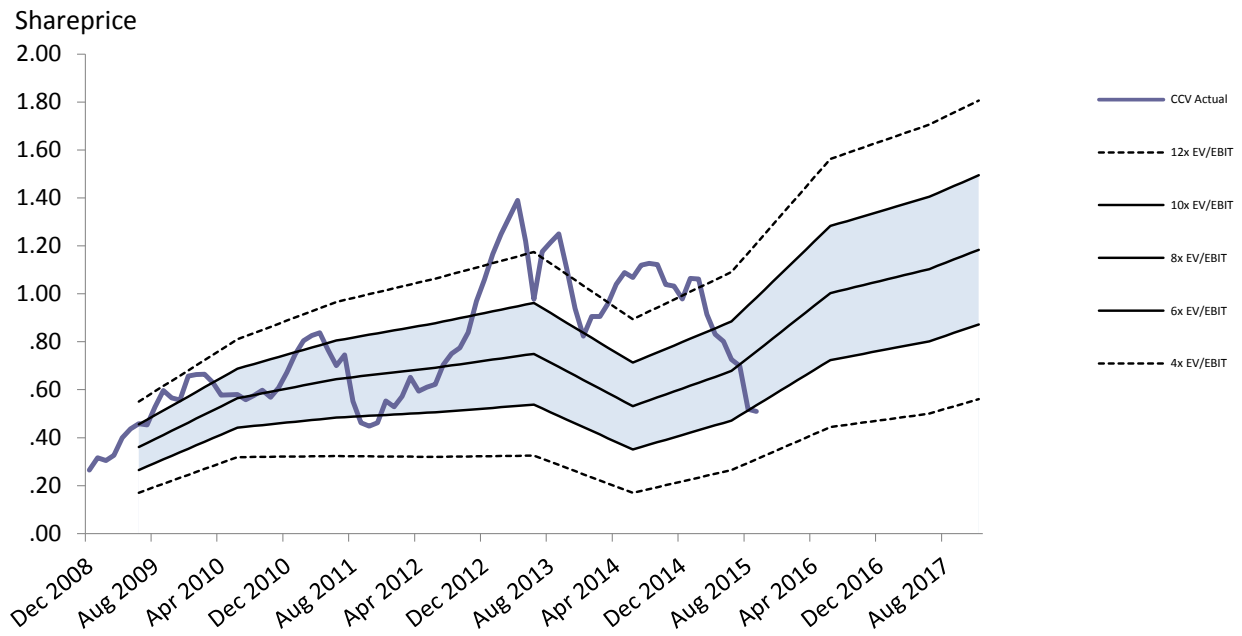
Fig. 2: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
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. We do not assume any release of capital from the division
We assume ~\$20m of cash is paid in NSW for the settlement. We assume there is no liability for the Q'ld case.	Low	Moderate	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.
<i>Conclusion</i>	<i>We believe we have been realistic or conservative in our base case assumptions.</i>		

Source: Hartleys

EV/EBIT BANDS

Fig. 3: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

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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 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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