

23 Aug 2017

## CASH CONVERTERS INT. LTD (CCV)

### We are now at the bottom of the U-shaped recovery

Cash Converters Limited reported FY17 NPAT \$20.6m (in line with guidance and our expectation of \$20.2m). No DPS was declared (none expected). EBITDA was \$45.7m (we expected \$46.8m). Capex \$8.2m (we expected \$7.6m). Net debt \$26.6m (we expected \$18.7m). Operating cash flow (adjusted for loan book reduction and the remediation payments) was \$51.2m, helped by a \$5.3m tax refund.

### Guidance for 1H18 in-line with 2H17, then for growth

The Company "expects 1H2018 to be in line with 2H2017, assuming current market conditions, before the full impact of the strategic initiatives put in place over the last 12-18 months flow to the bottom line, providing a stronger 2H2018 and confidence in the future growth profile of the Company."

2H17 EBITDA was \$20.4m (1H \$25.6m) and 2H NPAT was \$9.2m.

### Hartleys FY18 NPAT \$21.1m, FY19 NPAT \$27.6m

We assume a u-shaped recovery in profits, in line with guidance and consistent with our previous expectations. For FY18, we continue to expect meaningful SACC profit contribution (~40% of group) but we expect that to decline to ~25% by FY20 as the MACC profit contribution increases from ~15% in FY18 to ~40% in FY19. At end FY17, the SACC loan book was ~A\$70m and MACC was \$13m.

We expect 1H18 EBITDA of \$20.5m (consistent with guidance) and 2H18 EBITDA of \$24.8m (just below 1H17). The consequence is FY18 NPAT forecast similar to FY17, but with positive earnings momentum throughout the year.

### Upgrade to Speculative Buy (from Neutral)

CCV still appears to have significant risks to navigate (regulation, mainstream financial exclusion, political risk, and new product rollout). We upgrade to Speculative Buy (from Neutral) given the Company has met FY17 guidance and appears to be navigating the risks.

We have a twelve month price target of 51cps, implying FY19 EV/EBIT of 6.3x. Key risks include an adverse outcome for current litigation. On the upside, the risk is that our FY19 estimates are substantially too low (as they imply only 10% EBITDA growth versus annualised 2H18).

Fig. 1: Earnings Changes

	6/16A actual	f'cast	6/17A Actual	% diff	6/18F old	New	% diff
Revenue	304.9	249.0	269.7	8.3%	234.6	275.2	17.3%
<b>Norm. EBITDA</b>	<b>69.1</b>	<b>46.8</b>	<b>45.7</b>	<b>-2.2%</b>	<b>44.0</b>	<b>45.3</b>	<b>2.9%</b>
- margin	22.7%	18.8%	17.0%	-9.7%	18.8%	16.5%	-12.3%
Depreciation/Amortisation	-8.6	-7.5	-8.1	8.4%	-7.0	-8.2	16.0%
EBIT	60.4	39.3	37.6	-4.3%	37.0	37.1	0.4%
Net Interest	-8.0	-10.5	-7.6	-27.4%	-8.6	-6.6	-23.7%
Pretax Profit	52.4	28.8	30.0	4.2%	28.4	30.5	7.7%
Tax	-15.7	-8.6	-9.0	4.2%	-8.5	-9.2	7.7%
<b>Norm. Net Profit After Tax</b>	<b>36.7</b>	<b>20.2</b>	<b>20.7</b>	<b>2.6%</b>	<b>19.8</b>	<b>21.1</b>	<b>6.1%</b>
- margin	12.0%	8.1%	7.7%		8.5%	7.7%	
<b>Reported Group Profit</b>	<b>-11.1</b>	<b>20.2</b>	<b>22.1</b>	<b>9.6%</b>	<b>19.8</b>	<b>21.1</b>	<b>6.1%</b>
DPS	3.00	0.00	0.00		0.00	0.00	
Norm. EPS (diluted)	7.4	4.1	4.2	0.7%	4.0	4.3	6.1%
P/E (\$0.348)	4.7x	8.4x	8.4x		8.6x	8.1x	
Ordinary Shares (end)	485.0	493.0	493.0	0.0%	493.2	493.0	0.0%
Ordinary Shares (avg wgt)	485.0	489.0	490.3	0.3%	493.1	493.0	0.0%
Net Debt	60.4	18.7	26.7	42.3%	59.9	43.4	-27.6%

Source: Hartleys Estimates

Share Price:	\$0.348
Valuation:	\$0.69
12mth price target:	\$0.51

#### Brief Business Description:

MACC lending, SACC lending, consumer finance, car finance & second hand retailer.

#### Hartleys Brief Investment Conclusion:

Regulatory, political and financial risks remain high. Earnings cycle due to bottom.

#### Chairman & CEO:

Mr Stuart Grimshaw (Chairman, EZ Corp)  
Mark Reid - CEO

#### Top Shareholders:

EZ Corp 30.8%  
Perpetual Ltd 10.8%

#### Company Address:

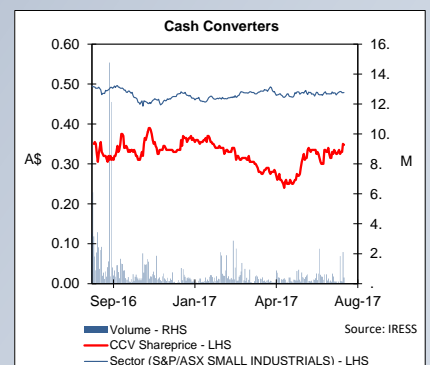
Level 18, 37 St. Georges Tce  
Perth, WA, 6000

<b>Issued Capital:</b>	<b>493.0m</b>
- fully diluted	499.7m
<b>Market Cap:</b>	<b>\$171.3m</b>
- fully diluted	\$173.6m
<b>Net Debt (30 Jun '17a):</b>	<b>\$26.7m</b>

	FY17a	FY18e	FY19e
Op Cash Flw	51.2	27.5	37.4
Free Cash Flw	37.9	20.0	29.9
<b>NPAT (A\$m)*</b>	<b>20.7</b>	<b>21.1</b>	<b>27.6</b>
EPS (\$, dil)	4.2	4.3	5.6
P/E (diluted)	8.4x	8.2x	6.3x
EV / EBITDA	4.3x	4.4x	3.6x
DPS (\$)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	10.2%	15.4%	12.8%

Source: Hartleys Research

\*Normalised



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Hartleys has provided corporate advice to CCV within the past 12 months for which it has earned fees. The analyst has a beneficial interest in CCV shares. See disclosure on back page.

Cash Converters International Ltd (CCV)					Recommendation: <b>Speculative Buy</b>						
<b>Company Information</b>					<b>Profit &amp; Loss (\$m)</b>						
Today's Date	23 Aug 2017	Level 18, 37 St. Georges Tce			AUD/GBP	6/16A	6/17A	6/18F	6/19F		
Share Price	\$0.348	Perth, WA, 6000			Pers. Finance Loan Book	101.5	82.1	118.9	144.9		
52 Week High-Low	\$0.515 - \$0.24	Ph: (08) 9221 9111			Pers. Finance Revenue	144.6	107.9	91.9	111.4		
Market Cap (\$m)	\$171.3	Fax: (08) 9221 9011			Pers. Finance EBITDA	57.4	39.6	32.3	40.2		
Enterprise Value (\$m)	\$198.0	www.cashconverters.com.au			<i>margin</i>	39.7%	36.7%	35.1%	36.1%		
Ordinary Shares	493.0				Fin. Services Admin. Revenue	14.2	9.3	6.1	6.1		
Fully Diluted Shares	499.7				Fin. Services Admin. EBITDA	8.1	4.6	3.1	3.1		
<b>Price Target Methodology</b>					<i>margin</i>						
Spot DCF - 9 years explicit + terminal value (Base Case)					\$0.69	57.1%	50.0%	50.0%	50.0%		
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					\$0.77	Owned # (UK + Aust) - end	130	71	71		
12mth forward P/E of 14.0x (peak)					\$0.83	Owned Stores Revenue	140.4	124.2	131.4		
Price / NTA 1x \$0.26					\$0.26	Owned Stores EBITDA	17.4	17.5	18.6		
12mth fwd Div Yield of 4.2% (Gross yield=6.0%)					\$0.00	<i>margin</i>	12.4%	14.1%	14.1%		
<b>12mth Price Target</b>					<b>\$0.51</b>	Franchised # (UK + Aust) - end	253	279	283		
P / E (FY18) at Price Target					11.9x	Franchise Revenue	22.2	20.2	18.6		
P / E (FY19) at Price Target					9.0x	Franchise EBITDA	6.7	10.3	9.5		
EV/EBITDA (FY19) at Price Target					5.3x	<i>margin</i>	30.1%	51.2%	51.2%		
EV/EBIT (FY19) at Price Target					6.3x	Auto revenue		9.4	12.2		
<b>Multiples (\$/price at \$0.35)</b>					<b>Group Revenue</b>						
P / E (basic, weighted)	6/16A	6/17A	6/18F	6/19F	<b>304.9</b>	<b>269.7</b>	<b>275.2</b>	<b>307.8</b>	<b>307.8</b>		
P / E (normalised, fully diluted)	4.7x	8.4x	8.2x	6.3x	<i>growth</i>	-18.7%	-11.5%	2.0%	11.8%		
P / E (normalised, weighted dil.)	4.7x	8.4x	8.1x	6.2x	<b>Underlying EBITDA - Group</b>	<b>69.1</b>	<b>45.7</b>	<b>45.3</b>	<b>55.0</b>		
P / E (ord mkt cap / rep NPAT)	-15.5x	7.8x	8.1x	6.2x	<i>growth</i>	13.0%	-33.8%	-1.0%	21.5%		
Dividend Yield	8.6%	0.0%	0.0%	0.0%	<b>EBITDA / Sales</b>	<b>22.7%</b>	<b>17.0%</b>	<b>16.5%</b>	<b>17.9%</b>		
Group Free Cash Flow (f.c.f.) / EV	11.0%	18.8%	-8.5%	1.9%	Depreciation/Amortisation	-8.6	-8.1	-8.2	-8.6		
Equity f.c.f. / Mkt Cap	8.1%	15.8%	-17.1%	-6.9%	<b>EBIT</b>	<b>60.4</b>	<b>37.6</b>	<b>37.1</b>	<b>46.5</b>		
Norm f.c.f. / Mkt cap	8.1%	15.8%	-17.1%	-6.9%	EBIT / Sales	19.8%	13.9%	13.5%	15.1%		
Mkt cap / operating cash flow	1.7x	3.2x	4.0x	3.1x	Net Corporate Interest	-8.0	-7.6	-6.6	-6.5		
EV/EBITDA multiple	2.9x	4.3x	4.4x	3.6x	<b>Norm Pretax Profit</b>	<b>52.4</b>	<b>30.0</b>	<b>30.5</b>	<b>39.9</b>		
EV/EBIT multiple	3.3x	5.3x	5.3x	4.3x	Norm. Tax	-15.7	-9.0	-9.2	-12.0		
Price / Book Value	0.7x	0.7x	0.6x	0.6x	Effective Tax Rate	30.0%	30.0%	30.0%	30.0%		
Price / NTA	1.5x	1.4x	1.2x	1.0x	Minorities	0.0	-0.3	-0.3	-0.3		
<b>Ratios</b>					<b>Normalised NPAT to equity</b>						
Return on Average Equity	6/16A	6/17A	6/18F	6/19F	<b>36.7</b>	<b>20.7</b>	<b>21.1</b>	<b>27.6</b>			
Return on Assets	14.6%	8.3%	7.8%	9.3%	<b>Norm. Net Profit / Sales</b>	<b>12.0%</b>	<b>7.7%</b>	<b>7.7%</b>	<b>9.0%</b>		
ROIC pre-tax	26.1%	18.4%	20.4%	26.8%	Abnormals / discontinued	-47.8	1.4	0.0	0.0		
ND / ND + Equity	20.1%	9.3%	13.3%	11.3%	<b>Reported Profit to equity</b>	<b>-11.1</b>	<b>22.1</b>	<b>21.1</b>	<b>27.6</b>		
Net Reported Cover (EBIT)	7.5	4.9	5.6	7.1	<b>Reported EPS (basic, w'ted)</b>	<b>-2.3</b>	<b>4.5</b>	<b>4.3</b>	<b>5.6</b>		
Reported eps growth	nm	nm	-5.2%	30.3%	<b>Normalised EPS (dil, w'ted)</b>	<b>7.4</b>	<b>4.2</b>	<b>4.3</b>	<b>5.6</b>		
Norm. eps growth	13.5%	-44.2%	2.9%	30.3%	<b>DPS (\$)</b>	<b>0.0300</b>	<b>0.0000</b>	<b>0.0000</b>	<b>0.0000</b>		
<b>Free Cash Flow Analysis</b>					<b>Reported EPS (basic, w'ted)</b>						
Net Operating Cash Flow	6/16A	6/17A	6/18F	6/19F	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>			
Capex (Reported) inc loan book	79.1	51.2	27.5	37.4	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>			
Group Free Cash Flow (rep'ted)	-57.2	-14.1	-44.2	-33.6	<b>39.7%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>			
Fixed Debt Repayments	21.9	37.1	-16.7	3.8	<b>Cashflow Statement (\$m)</b>						
<b>Equity Free Cash Flow (rep'ted)</b>	<b>13.9</b>	<b>27.1</b>	<b>-29.2</b>	<b>-11.8</b>	<b>6/16A</b>	<b>6/17A</b>	<b>6/18F</b>	<b>6/19F</b>			
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	EBITDA	69.1	45.7	45.3	55.0		
Free Cash Flow (normalised)	13.9	27.1	-29.2	-11.8	Working Capital Change	33.9	7.8	-2.1	0.9		
Capex (inc HP) / depreciation	102%	91%	92%	88%	<b>Cash from Operations</b>	<b>103.0</b>	<b>53.5</b>	<b>43.2</b>	<b>55.9</b>		
<b>Share Data</b>					Corporate Interest						
Ord Issued shares (m)	6/16A	6/17A	6/18F	6/19F	-9.2	-7.6	-6.6	-6.5			
<i>growth</i>	485.0	493.0	493.0	499.7	-14.7	5.3	-9.2	-12.0			
Weighted ave shares (m)	0.8%	1.7%	0.0%	1.3%	<b>Tax Paid</b>	<b>79.1</b>	<b>51.2</b>	<b>27.5</b>	<b>37.4</b>		
Diluted shares wgted (m)	485.0	490.3	493.0	496.4	Capital Expenditure	-8.8	-7.4	-7.5	-7.5		
<i>growth</i>	5.9%	1.1%	0.6%	0.7%	Other (including loan book)	-25.3	5.5	-36.7	-26.1		
	493.0	498.3	493.0	496.4	Invest. & acq / other	-23.1	-12.2	0.0	0.0		
	5.8%	1.1%	-1.1%	0.7%	<b>Net Investing Cash Flow</b>	<b>-57.2</b>	<b>-14.1</b>	<b>-44.2</b>	<b>-33.6</b>		
<b>Unpaid Capital (inc estimated DRP)</b>					Proceeds from Equity Issues						
Year Expires	Number	% ord	Avg Price	\$m unpaid	0.0	0.0	0.0	0.0			
30-Jun-18	-	0.0%	\$ -	\$ -	Net Change in Debt & Leases	8.1	-27.6	-3.3	-3.8		
30-Jun-19	6,634,152	1.3%	\$ -	\$ -	Dividends Paid	-8.1	-2.2	0.0	0.0		
30-Jun-20	-	0.0%	\$ -	\$ -	<b>Net Financing Cash Flow</b>	<b>0.0</b>	<b>-29.8</b>	<b>-3.3</b>	<b>-3.8</b>		
30-Jun-21	-	0.0%	\$ -	\$ -	<b>Movement in Cash</b>	<b>21.9</b>	<b>7.3</b>	<b>-20.0</b>	<b>0.0</b>		
30-Jun-22	-	0.0%	\$ -	\$ -	<b>HP Lease Capex (non-cash)</b>						
TOTAL	6,634,152	1.3%	\$ -	\$ -	<b>Balance Sheet (\$m)</b>						
<b>Directors &amp; Senior Management</b>					<b>6/16A</b>						
					<b>6/17A</b>						
					<b>6/18F</b>						
					<b>6/19F</b>						
<b>Substantials</b>					Cash						
Mr Stuart Grimshaw (Chairman, EZ Corp)					EZ Corp	30.8%	73.6	80.6	60.6	60.6	
Mr Peter Cumins (Executive Deputy Chairman)					Perpetual Ltd	10.8%	16.9	7.6	9.0	10.3	
Ms Ellen Comerford (Non-exec)							17.6	21.0	22.2	22.2	
Ms Andrea Waters (Non-exec)							126.5	93.5	91.7	96.8	
Mr Lachlan Given (Non-exec, EZ Corp)							<b>Total Current Assets</b>	<b>234.6</b>	<b>202.6</b>	<b>183.4</b>	<b>189.8</b>
Mr Kevin Dundo (Non-exec.)							Property, Plant & Equipment	13.9	10.2	10.1	9.3
Mark Reid - CEO							Intangibles (inc. Goodwill)	131.0	134.0	133.4	133.3
CFO - Martyn Jenkins							Other	43.1	52.0	90.5	111.5
							<b>Total Non Current Assets</b>	<b>188.0</b>	<b>196.2</b>	<b>234.1</b>	<b>254.0</b>
							<b>Total Assets</b>	<b>422.6</b>	<b>398.8</b>	<b>417.5</b>	<b>443.8</b>
							Accounts Payable	32.3	21.3	21.9	24.0
							Interest Bearing Liabilities	70.0	46.3	46.3	46.3
							Other	15.6	7.1	7.1	7.1
							<b>Total Current Liabilities</b>	<b>117.9</b>	<b>74.7</b>	<b>75.2</b>	<b>77.4</b>
							Accounts Payable	0.0	0.0	0.0	0.0
							Interest Bearing Liabilities	64.0	60.9	57.7	53.9
							Other	0.3	2.4	2.4	2.4
							<b>Total Non Current Liabilities</b>	<b>64.3</b>	<b>63.4</b>	<b>60.1</b>	<b>56.3</b>
							<b>Total Liabilities</b>	<b>182.2</b>	<b>138.0</b>	<b>135.3</b>	<b>133.7</b>
							<b>Net Assets</b>	<b>240.4</b>	<b>260.8</b>	<b>282.2</b>	<b>310.2</b>
							Net Asset Value / Share (\$)	0.50	0.53	0.57	0.62
							NTA / Share (\$)	0.23	0.26	0.30	0.35
							Net Debt (net cash)	60.4	26.7	43.4	39.6
Analyst: Trent Barnett					Last Earnings Estimate Changes:						
Phone: +61 8 9268 3052					23 August 2017						
Sources: IRESS, Company Information, Hartleys Research											

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

Profit & Loss (\$m)	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a
<b>Group Revenue</b>	<b>155.4</b>	<b>176.3</b>	<b>187.5</b>	<b>187.4</b>	<b>198.3</b>	<b>106.6</b>	<b>143.4</b>	<b>126.2</b>
<i>Sequential growth</i>	13.2%	13.4%	6.3%	0.0%	5.8%	-46.3%	35%	-12.0%
<b>Underlying EBITDA - Group</b>	<b>21.7</b>	<b>31.9</b>	<b>31.9</b>	<b>29.2</b>	<b>37.0</b>	<b>32.1</b>	<b>25.6</b>	<b>20.1</b>
<i>Sequential growth</i>	-25.2%	47.5%	0.0%	-8.5%	26.7%	-13.3%	-20.2%	-21.5%
<b>EBITDA / Sales</b>	<b>13.9%</b>	<b>18.1%</b>	<b>17.0%</b>	<b>15.6%</b>	<b>18.7%</b>	<b>30.1%</b>	<b>17.9%</b>	<b>15.9%</b>
Depreciation/Amortisation	-3.8	-4.1	-4.5	-4.5	-4.6	-4.0	-3.8	-4.3
<b>EBIT</b>	<b>17.9</b>	<b>27.8</b>	<b>27.4</b>	<b>24.7</b>	<b>32.4</b>	<b>28.0</b>	<b>21.8</b>	<b>15.8</b>
EBIT / Sales	11.5%	15.8%	14.6%	13.2%	16.3%	26.3%	15.2%	12.5%
Net Corporate Interest	-3.7	-4.3	-4.4	-4.1	-3.9	-4.1	-5.2	-2.4
<b>Norm Pretax Profit</b>	<b>14.2</b>	<b>23.5</b>	<b>23.0</b>	<b>20.6</b>	<b>28.5</b>	<b>23.9</b>	<b>16.7</b>	<b>13.3</b>
Norm. Tax	-4.3	-7.3	-6.9	-6.2	-8.5	-7.2	-5.0	-4.0
Effective Tax Rate	30.0%	30.9%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.5
<b>Normalised NPAT to equity</b>	<b>9.9</b>	<b>16.2</b>	<b>16.1</b>	<b>14.4</b>	<b>19.9</b>	<b>16.8</b>	<b>11.5</b>	<b>9.2</b>
<b>Norm. Net Profit / Sales</b>	<b>6.4%</b>	<b>9.2%</b>	<b>8.6%</b>	<b>7.7%</b>	<b>10.1%</b>	<b>15.7%</b>	<b>8.0%</b>	<b>7.3%</b>
Abnormals / discontinued	-2.7	1.3	-21.4	-30.8	-4.0	-43.7	0.0	1.4
Group Reported Profit	7.3	17.5	-5.3	-16.4	15.9	-27.0	11.5	10.6
<b>Reported EPS (basic, weighted)</b>	<b>2.30</b>	<b>3.40</b>	<b>-1.21</b>	<b>-3.52</b>	<b>3.64</b>	<b>-5.92</b>	<b>2.3</b>	<b>2.17</b>
<b>Normalised EPS (dil, wghtd)</b>	<b>2.23</b>	<b>3.73</b>	<b>3.63</b>	<b>2.92</b>	<b>4.49</b>	<b>2.96</b>	<b>2.3</b>	<b>1.85</b>
<b>DPS (\$)</b>	<b>0.0200</b>	<b>0.0200</b>	<b>0.0200</b>	<b>0.0000</b>	<b>0.0200</b>	<b>0.0100</b>	<b>0.0000</b>	<b>0.0000</b>
Franking	100%	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	87.0%	58.8%	55.1%	0.0%	44.6%	33.8%	0.0%	0.0%
<b>Balance Sheet (\$m)</b>	<b>Dec-13a</b>	<b>Jun-14a</b>	<b>Dec-14a</b>	<b>Jun-15a</b>	<b>Dec-15a</b>	<b>Jun-16a</b>	<b>Dec-16a</b>	<b>Jun-17a</b>
Cash	50.8	26.8	43.2	52.4	49.2	73.6	84.8	80.6
Receivables	22.5	33.5	35.4	32.3	16.1	16.9	14.4	7.6
Inventories	23.8	25.6	25.2	27.7	23.3	17.6	18.9	21.0
Other (including loan book)	131.4	134.2	142.3	135.4	153.0	126.5	101.5	93.5
<b>Total Current Assets</b>	<b>228.5</b>	<b>220.2</b>	<b>246.0</b>	<b>247.7</b>	<b>241.6</b>	<b>234.6</b>	<b>219.6</b>	<b>202.6</b>
Property, Plant & Equipment	24.1	22.6	23.6	25.4	25.3	13.9	12.1	10.2
Intangibles (inc. Goodwill)	131.5	132.7	133.1	136.1	135.2	131.0	132.1	134.0
Other	11.2	34.8	36.7	32.0	36.3	43.1	51.8	52.0
<b>Total Non Current Assets</b>	<b>166.8</b>	<b>190.1</b>	<b>193.4</b>	<b>193.5</b>	<b>196.8</b>	<b>188.0</b>	<b>196.0</b>	<b>196.2</b>
<b>Total Assets</b>	<b>395.3</b>	<b>410.3</b>	<b>439.4</b>	<b>441.2</b>	<b>438.4</b>	<b>422.6</b>	<b>415.5</b>	<b>398.8</b>
Accounts Payable	26.5	26.8	26.2	26.4	26.3	32.3	31.5	21.3
Interest Bearing Liabilities	55.1	59.9	61.6	60.7	57.4	70.0	58.2	46.3
Other	5.4	14.7	5.0	25.7	10.8	15.6	12.7	7.1
<b>Total Current Liabilities</b>	<b>87.1</b>	<b>101.4</b>	<b>92.8</b>	<b>112.8</b>	<b>94.5</b>	<b>117.9</b>	<b>102.4</b>	<b>74.7</b>
Accounts Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	59.1	64.0	66.3	66.4	65.9	64.0	62.2	60.9
Other	0.1	0.1	0.2	0.2	3.2	0.3	4.7	2.4
<b>Total Non Current Liabilities</b>	<b>59.2</b>	<b>64.2</b>	<b>66.5</b>	<b>66.7</b>	<b>69.1</b>	<b>64.3</b>	<b>66.9</b>	<b>63.4</b>
<b>Total Liabilities</b>	<b>146.3</b>	<b>165.6</b>	<b>159.3</b>	<b>179.5</b>	<b>163.6</b>	<b>182.2</b>	<b>169.3</b>	<b>138.0</b>
<b>Net Assets</b>	<b>249.0</b>	<b>244.7</b>	<b>280.1</b>	<b>261.7</b>	<b>274.8</b>	<b>240.4</b>	<b>246.3</b>	<b>260.8</b>
Net Asset Value / Share (\$)	0.58	0.57	0.58	0.54	0.57	0.50	0.51	0.53
NTA / Share (\$)	0.28	0.26	0.31	0.26	0.29	0.23	0.24	0.26
Net Debt (net cash)	63.4	97.1	84.8	74.8	74.1	60.4	35.7	26.7

Source: Company Data, Hartleys Estimates.

Earnings in 1H18  
expected be flat in  
2H17

The balance sheet is  
okay, but the  
Company suffers from  
mainstream financial  
exclusion which adds  
risk. The FIIG bond  
matures in September  
2018

Fig. 3: Free Cash Flow

Operating cash flow  
was positive.

Cashflow Statement (\$m)	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a
EBITDA	21.7	31.9	31.9	29.2	37.0	32.1	25.6	20.1
Working Capital Change	0.6	2.2	7.7	15.6	20.9	13.0	2.7	5.1
<b>Cash from Operations</b>	<b>22.3</b>	<b>34.1</b>	<b>39.7</b>	<b>44.8</b>	<b>57.9</b>	<b>45.1</b>	<b>28.3</b>	<b>25.2</b>
Corporate Interest	-4.0	-3.9	-4.6	-3.9	-4.3	-5.0	-3.3	-4.3
Tax Paid	-9.1	-4.2	-13.3	-1.7	-2.4	-12.3	-3.0	8.3
<b>Net Operating Cash Flow</b>	<b>9.1</b>	<b>25.9</b>	<b>21.7</b>	<b>39.2</b>	<b>51.3</b>	<b>27.8</b>	<b>22.0</b>	<b>29.2</b>
Capital Expenditure	-3.5	-2.9	-4.9	-5.7	-6.0	-2.8	-3.1	-4.3
Other (including loan book)	-13.1	-28.4	-13.1	-4.7	-21.1	-4.2	8.7	-3.2
Investments & acquisitions	1.3	-21.3	-30.1	-13.9	-23.1	0.0	0.1	-12.2
<b>Net Investing Cash Flow</b>	<b>-15.2</b>	<b>-52.5</b>	<b>-48.0</b>	<b>-24.3</b>	<b>-50.2</b>	<b>-7.0</b>	<b>5.7</b>	<b>-19.7</b>
Proceeds from Equity Issues	0.0	0.0	43.3	0.0	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	38.7	9.5	3.8	-1.1	-4.1	12.2	-14.0	-13.6
Dividends Paid	-6.3	-6.1	-6.2	-7.4	0.0	-8.1	-2.2	0.0
<b>Net Financing Cash Flow</b>	<b>32.4</b>	<b>3.4</b>	<b>40.9</b>	<b>-8.5</b>	<b>-4.1</b>	<b>4.2</b>	<b>-16.2</b>	<b>-13.6</b>
<b>Movement in Cash</b>	<b>26.3</b>	<b>-23.2</b>	<b>14.6</b>	<b>6.4</b>	<b>-3.1</b>	<b>25.0</b>	<b>11.4</b>	<b>-4.1</b>
Free Cash Flow Analysis	Dec-13a	Jun-14a	Dec-14a	Jun-15a	Dec-15a	Jun-16a	Dec-16a	Jun-17a
Net Operating Cash Flow	9.1	25.9	21.7	39.2	51.3	27.8	22.0	29.2
Capex (Reported) inc loan book	-16.5	-31.3	-18.0	-10.4	-27.1	-7.0	5.6	-7.5
Group Free Cash Flow (rep'ted)	-7.4	-5.3	3.7	28.9	24.2	20.8	27.6	21.7
Fixed Debt Repayments	-15.4	-19.8	-21.0	-21.3	-20.9	-21.4	-21.2	-19.0
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-22.8</b>	<b>-25.2</b>	<b>-17.3</b>	<b>7.6</b>	<b>3.3</b>	<b>-0.6</b>	<b>6.4</b>	<b>2.7</b>
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)	-22.8	-25.2	-17.3	7.6	3.3	-0.6	6.4	2.7
Capex (inc HP) / depreciation	92%	70%	109%	125%	130%	69%	83%	99%

Source: Hartleys Research

Fig. 4: Earnings Changes

	6/16A		6/17A		6/18F			6/19F		
	actual	f'cast	Actual	% diff	old	New	% diff	old	New	% diff
Revenue	304.9	249.0	269.7	8.3%	234.6	275.2	17.3%	250.1	307.8	23.1%
<b>Norm. EBITDA</b>	<b>69.1</b>	<b>46.8</b>	<b>45.7</b>	<b>-2.2%</b>	<b>44.0</b>	<b>45.3</b>	<b>2.9%</b>	<b>50.2</b>	<b>55.0</b>	<b>9.6%</b>
<b>- margin</b>	<b>22.7%</b>	<b>18.8%</b>	<b>17.0%</b>	<b>-9.7%</b>	<b>18.8%</b>	<b>16.5%</b>	<b>-12.3%</b>	<b>20.1%</b>	<b>17.9%</b>	<b>-10.9%</b>
Depreciation/Amortisation	-8.6	-7.5	-8.1	8.4%	-7.0	-8.2	16.0%	-6.8	-8.6	26.2%
EBIT	60.4	39.3	37.6	-4.3%	37.0	37.1	0.4%	43.4	46.5	7.0%
Net Interest	-8.0	-10.5	-7.6	-27.4%	-8.6	-6.6	-23.7%	-9.2	-6.5	-28.7%
Pretax Profit	52.4	28.8	30.0	4.2%	28.4	30.5	7.7%	34.3	39.9	16.6%
Tax	-15.7	-8.6	-9.0	4.2%	-8.5	-9.2	7.7%	-10.3	-12.0	16.6%
<b>Norm. Net Profit After Tax</b>	<b>36.7</b>	<b>20.2</b>	<b>20.7</b>	<b>2.6%</b>	<b>19.8</b>	<b>21.1</b>	<b>6.1%</b>	<b>24.0</b>	<b>27.6</b>	<b>15.3%</b>
- margin	12.0%	8.1%	7.7%		8.5%	7.7%		9.6%	9.0%	
<b>Reported Group Profit</b>	<b>-11.1</b>	<b>20.2</b>	<b>22.1</b>	<b>9.6%</b>	<b>19.8</b>	<b>21.1</b>	<b>6.1%</b>	<b>24.0</b>	<b>27.6</b>	<b>15.3%</b>
DPS	3.00	0.00	0.00		0.00	0.00		0.00	0.00	
Norm. EPS (diluted)	7.4	4.1	4.2	0.7%	4.0	4.3	6.1%	4.8	5.6	15.3%
P/E (\$0.348)	4.7x	8.4x	8.4x		8.6x	8.1x		7.2x	6.2x	
Ordinary Shares (end)	485.0	493.0	493.0	0.0%	493.2	493.0	0.0%	499.8	499.7	0.0%
Ordinary Shares (avg wgt)	485.0	489.0	490.3	0.3%	493.1	493.0	0.0%	496.5	496.4	0.0%
Net Debt	60.4	18.7	26.7	42.3%	59.9	43.4	-27.6%	34.5	39.6	14.7%

Source: Hartleys Estimates

## RECOMMENDATION & RISKS

### PRICE TARGET

Our twelve month price target is \$0.51 (from \$0.37 previously).

Valuation Methodology	Weighting	Spot	12 mth out
DCF	20%	\$0.69	\$0.77
12mth forward P/E of 14.0x (peak)	20%	\$0.62	\$0.83
12mth fwd forward EV/EBIT of 4.0x	10%	\$0.23	\$0.31
12mth fwd forward EV/EBIT of 10.0x	10%	\$0.69	\$0.91
Price / NTA 1x \$0.26	25%	\$0.26	\$0.26
12mth fwd Div Yield of 4.2% (Gross yield=6.0%)	15%	\$0.00	\$0.00
<b>Risk weighted composite</b>		<b>\$0.42</b>	<b>\$0.51</b>
<b>12 Months Forward</b>		<b>\$0.51</b>	
Shareprice - Last		\$0.348	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>46%</b>	

Source: Hartleys Estimate

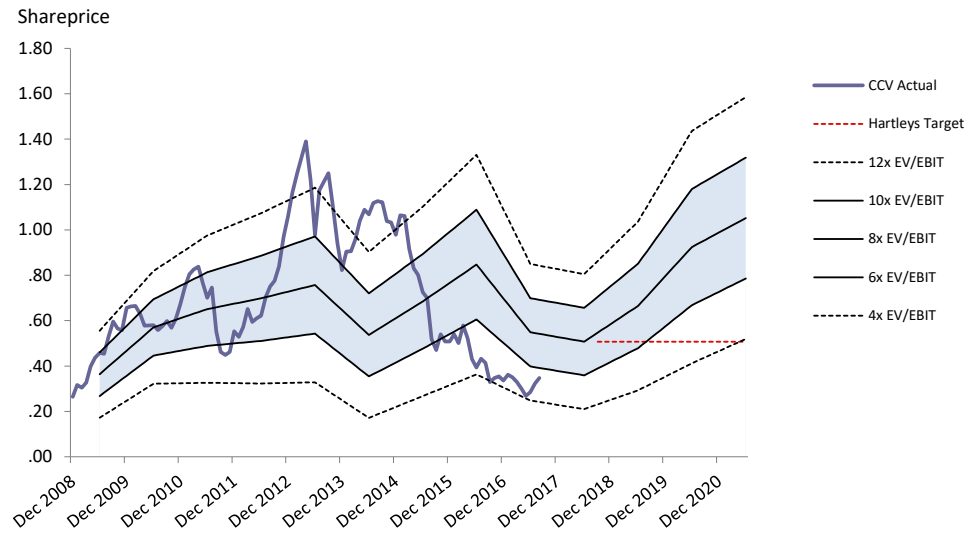
*Fig. 5: Key assumptions and risks for valuation*

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
We assume Personal Finance returns have stabilised in Australia. We assume a v-shaped recovery in net Australian loan growth, but there is a substantial mix change away from SACC towards MACC	High	Extreme	The assumption that the MACC product can offset the decline in SACC product is a large assumption
Dividend cut	High	Moderate	We assume no dividends in the foreseeable future.
No material financial impact of Q'land court case	Moderate	High	We assume that there is no financial impact. Given the history, this is a risk
No material legislative changes	Moderate	High	We assume that minimal legislative changes occur beyond current proposals.
<i>Conclusion</i>	<i>We believe we have been realistic in our base case assumptions. The biggest risk is the Queensland court case</i>		

Source: Hartleys Estimates

## EV/EBIT BANDS

**Fig. 6:** EV/EBIT Band



Source: Hartleys Estimate

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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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