

## Cash Converters (CCV)

UK growth coming through

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### Key Points

- CCV reported strong underlying NPAT growth of ~9.7% on pcp to \$32.6m. The result was primarily driven by growth in the personal loan book.
- We have upgraded our FY13 and FY14 EPS forecasts +9% and +2% due to stronger loan book growth expectations and margins although slightly offset by a slower store roll-out growth profile.
- We continue to like CCV's growth opportunities in the UK and Australia despite changes to the legislation. At 7.9x FY13F EPS, we think the market is pricing CCV with no growth despite its track record and early stage operations.

### Result highlights

CCV reported FY12 underlying NPAT of \$32.6m, ~3.5% ahead our estimates and ~9.7% on pcp. On a reported basis, CCV delivered NPAT of \$29.4m, inline with our estimates. The result was primarily driven by strong revenue growth from personal loans (+54%), the cash advance business (+20%) and store operations (+22%). We were impressed by the growth delivered in personal loans and primarily the UK loan book expanding 154%, driving a higher return mix and improved margins.

EBITDA margin was inline with our estimates and stabilised on a half on half basis at 22.2% after four consecutive periods of margin decline. Margins improved in both franchise and personal loan operations offsetting the continued profit drag from CCV's greenfield store openings over FY11/12. We believe FY13 will experience margin growth as the profit drag from greenfield operations subsides and the personal loan book and cash advance mix continues to be driven by the UK operations.

Operating cash flow continues to be weak at \$3.4m attributable to some timing differences in tax paid and the ongoing growth in the personal loan book. CCV are currently in the process of seeking capital through securitising the personal loan book. At this point in time, CCV has reached the upper limit of their debt facility resulting in the Company having to curtail expansion capex early in FY13. Ultimately we believe CCV will be successful in achieving an extension to the facility through the partial securitisation of the loan books.

Changes to the Consumer Credit Legislation passed the Senate on 20 August 2012 and is now awaiting Royal Assent. The changes come into effect in FY14 and we expect CCV's domestic cash advance business to be impacted most yet the full extent is still unknown.

### Investment view

Trading at 7.9x FY13F EPS, we believe the market is pricing CCV with no growth unjustified given the current environment and early stage nature of its operation in the UK. We retain our Buy recommendation with a 12mth target of \$0.87/share.

### Recommendation

**Buy**

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$0.78
12 Month Price Target	\$0.87
Price Target Methodology	DCF
Total Return (Capital + Yield)	17.2%
DCF Valuation	\$0.87
Market capitalisation	\$294m
Liquidity – Daily Value	\$0.3m

### EPS Changes & Octa Phillip vs. Consensus

Y/e Jun (\$m)	2013F	2014F	2015F
Previous EPS (cps)	9.1	9.4	N/a
Change in EPS (%)	+9%	+2%	N/a
Consensus EPS (cps)	N/a	N/a	N/a
Octa Phillip vs Consensus (%)	N/a	N/a	N/a

### Financial Forecasts & Valuation Metrics

Y/e Jun (\$m)	2012A	2013F	2014F	2015F
Revenue	234	283	314	358
NPAT	32.6	39.4	37.5	44.7
EPS (cps)	8.5	9.9	9.4	11.2
EPS Growth	9%	17%	-5%	19%
DPS (c)	3.5	3.5	3.5	3.5
EV / EBITDA (x)	6.2	5.3	5.6	4.7
PER (x)	9.2	7.9	8.3	6.9
Dividend Yield	4.5%	4.5%	4.5%	4.5%
Gearing	14%	15%	16%	13%
Interest Cover (x)	30.1	24.9	20.3	22.8

Source: Octa Phillip Securities estimates

### Result summary

	FY11	FY12	Delta %
<b>Revenue</b>	185.1	233.5	26.2%
<b>EBITDA</b>	43.6	51.8	19.0%
<b>EBIT</b>	40.6	47.5	17.1%
EBIT margin %	21.9%	20.4%	-1.6%
<b>NPAT</b>	29.7	32.6	9.7%
<b>EPS</b>	7.8	8.5	8.7%
<b>DPS</b>	3.5	3.5	0.0%

Source: Octa Phillip Securities estimates



## Cash Converters (CCV:\$0.78)

### PROFIT AND LOSS (\$m)

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
Sales revenue	185.1	233.5	282.0	312.9	357.3
EBITDA	43.6	51.8	64.0	62.2	73.0
Depreciation	2.9	4.3	5.4	5.9	6.3
<b>EBITA</b>	<b>40.6</b>	<b>47.5</b>	<b>58.7</b>	<b>56.3</b>	<b>66.7</b>
Goodwill amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>40.6</b>	<b>47.5</b>	<b>58.7</b>	<b>56.3</b>	<b>66.7</b>
Net interest expense	-0.3	1.6	2.4	2.8	2.9
Pre-tax profit	40.9	46.0	56.3	53.5	63.8
Tax expense	11.2	13.4	16.9	16.1	19.1
Tax rate (%)	27.4%	29.1%	30.0%	30.0%	30.0%
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>29.7</b>	<b>32.6</b>	<b>39.4</b>	<b>37.5</b>	<b>44.7</b>
<b>NPAT pre-g'will</b>	<b>29.7</b>	<b>32.6</b>	<b>39.4</b>	<b>37.5</b>	<b>44.7</b>
Significant items	-2.0	-3.2	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>27.7</b>	<b>29.4</b>	<b>39.4</b>	<b>37.5</b>	<b>44.7</b>

### CASHFLOW (\$m)

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
EBIT	40.6	47.5	58.7	56.3	66.7
Net interest paid	0.1	-1.7	-2.4	-2.8	-2.9
Dep'n and amort'n	2.9	4.3	5.4	5.9	6.3
Tax paid	-10.0	-15.3	-16.9	-16.1	-19.1
(Inc)/dec in working cap	-36.3	-50.6	-19.4	-19.9	-19.4
Other	17.5	19.1	2.6	1.0	1.9
<b>Operating cashflow</b>	<b>14.8</b>	<b>3.4</b>	<b>28.0</b>	<b>24.5</b>	<b>33.4</b>
<i>Investing activities</i>					
Capital expenditure	-7.0	-9.8	-6.0	-6.0	-6.0
Asset sales	0.0	0.0	0.0	0.0	0.0
Investments	-28.4	-7.5	-12.0	-12.0	-12.0
Divestments	0.0	0.0	0.0	0.0	0.0
<i>Financing activities</i>					
Equity raised	0.0	0.0	0.0	0.0	0.0
<b>Chg in loans</b>	<b>9.4</b>	<b>20.4</b>	<b>4.9</b>	<b>6.8</b>	<b>-2.3</b>
Dividends paid	-12.3	-11.1	-12.9	-13.3	-13.1
Other non-op flows	-2.8	-1.9	-2.0	0.0	0.0
<b>Net chg in cash</b>	<b>-26.3</b>	<b>-6.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### GROWTH RATES (% over pcp)

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
Sales	34.0%	26.2%	20.7%	11.0%	14.2%
EBITDA	29.1%	19.0%	23.6%	-2.9%	17.4%
EBIT	28.8%	17.1%	23.4%	-4.0%	18.5%
Pre-tax profit	33.9%	12.4%	22.5%	-4.9%	19.2%
NPAT pre-g'will	34.0%	9.7%	20.9%	-4.9%	19.2%
EPS	-1.1%	8.7%	16.6%	-4.9%	19.2%

### WORKING CAPITAL RATIOS (% of sales)

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
Current receivables	39.5%	41.9%	41.7%	43.9%	44.0%
Current inventory	7.6%	7.3%	7.5%	7.6%	7.6%
Current payables	10.6%	8.4%	8.6%	8.5%	8.6%
Current provisions	4.7%	4.2%	4.4%	4.3%	4.3%
Non-current provisions	0.1%	0.0%	0.0%	0.0%	0.0%

### BALANCE SHEET (\$m)

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
Cash	23.5	16.4	16.4	16.4	16.4
Receivables	73.2	97.8	117.7	137.5	157.3
Inventories	14.1	17.1	21.2	23.7	27.3
Other	2.2	4.2	4.2	4.2	4.2
<b>Current assets</b>	<b>112.9</b>	<b>135.5</b>	<b>159.5</b>	<b>181.8</b>	<b>205.2</b>
Net PPE	13.1	19.6	21.2	22.3	23.0
Investments	0.0	0.0	12.0	24.0	36.0
Intangibles	91.2	92.7	93.7	92.7	91.7
Other	6.4	14.9	14.9	14.9	14.9
<b>Non-current assets</b>	<b>110.7</b>	<b>127.3</b>	<b>141.9</b>	<b>154.0</b>	<b>165.7</b>
<b>Total assets</b>	<b>223.6</b>	<b>262.7</b>	<b>301.3</b>	<b>335.8</b>	<b>370.9</b>
Current payables	19.7	19.6	24.2	26.7	30.6
Debt	22.6	42.6	47.5	54.3	52.0
Provisions	8.9	9.8	12.4	13.5	15.4
Other	2.9	4.1	4.1	4.1	4.1
<b>Total liabilities</b>	<b>54.1</b>	<b>76.1</b>	<b>88.2</b>	<b>98.5</b>	<b>102.0</b>
Equity	116.8	116.8	116.8	116.8	116.8
Reserves	-4.3	-3.4	-3.4	-3.4	-3.4
Retained profits	57.1	73.2	99.7	123.9	155.4
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Total s/h funds</b>	<b>169.6</b>	<b>186.6</b>	<b>213.1</b>	<b>237.3</b>	<b>268.9</b>
<b>Total funds emp.</b>	<b>223.6</b>	<b>262.7</b>	<b>301.3</b>	<b>335.8</b>	<b>370.9</b>

### LIQUIDITY AND LEVERAGE RATIOS

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
Net debt (\$m)	-0.8	26.2	31.1	37.9	35.6
<b>Net debt / equity (%)</b>	<b>-0.5%</b>	<b>14.1%</b>	<b>14.6%</b>	<b>16.0%</b>	<b>13.2%</b>
Interest cover (x)	(142.1)	30.1	24.9	20.3	22.8

### PROFITABILITY RATIOS

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
EBITDA / sales (%)	23.5%	22.2%	22.7%	19.9%	20.4%
<b>EBIT / sales (%)</b>	<b>21.9%</b>	<b>20.4%</b>	<b>20.8%</b>	<b>18.0%</b>	<b>18.7%</b>
Return on assets (%)	23.5%	21.3%	22.1%	18.6%	19.8%
Return on equity (%)	17.9%	18.3%	19.7%	16.6%	17.7%
Return on funds emp (%)	27.6%	24.9%	25.7%	21.7%	23.0%

### MULTIPLES AND PER SHARE DATA

Year ending Jun	11(a)	12(a)	13(e)	14(e)	15(e)
EPS	7.8	8.5	9.9	9.4	11.2
DPS	3.5	3.5	3.5	3.5	3.5
Payout ratio	45%	41%	35%	37%	31%
CFPS	3.9	0.9	7.0	6.1	8.4
NTA	0.21	0.24	0.30	0.36	0.44
PER	10.0	9.2	7.9	8.3	6.9
Div yield (%)	4.5%	4.5%	4.5%	4.5%	4.5%
P/CF	20.0	88.7	11.1	12.6	9.3
P/NTA	3.8	3.2	2.6	2.1	1.7
EV/EBITDA	6.8	6.3	5.3	5.6	4.7
EV/EBIT	7.3	6.8	5.8	6.2	5.2

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**Recommendation Criteria****Investment View**

Octa Phillip Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

**Risk Rating**

Octa Phillip Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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