

CASH CONVERTERS INTERNAT. LIMITED

Model update

Hartleys is assisting with the completion of a capital raising for Cash Converters International (CCV), for which it will earn fees.

Cash Converters Limited ("Cash Converters", "CCV", "Company") has announced it will issue 38.5m new shares @\$0.85 for ~\$32.7m (gross) to accelerate growth.

We assume the funds are used to acquire mature stores in Australia, which is immediately eps accretive. We assume an EBIT contribution from acquired stores of ~\$7m pa and an acquisition multiple of 4.5x (in-line with previous store purchases of 4.0-4.5x EBIT).

The consequence is a ~\$3m uplift in our FY13 EBIT estimate, and eps accretive. We now expect CCV to generate ~\$60.9 EBIT in FY13 (up from \$47m in FY12). Given Q1 EBIT was \$14.2m and the predictable earnings stream from the loan book, we have confidence in our estimate. We expect FY13 NPAT of \$40.9m.

We have also changed other aspects of our model, including increasing margin assumptions modestly for the Australian finance products in FY14 and increasing our Safrock loan book estimates given the strong performance announced at the recent AGM (in the six weeks to 13 November, the loan book added another ~\$7m to be ~A\$98m). Consequently, we have increased our FY14 NPAT estimate to \$51.4m.

We have No Rating for CCV.

Fig. 1: Hartleys Earnings Estimates

	6/12A actual	Old	6/13F New	% diff	Old	6/14F New	% diff
Safrock Loan Book (end)	86.8	104.6	108.3	3.5%	127.0	139.0	9.4%
Company owned stores (end)	102	122	122	0.0%	134	141	5.2%
- additional	14	20	20	0.0%	12	19	58.3%
Company owned stores (avg)	93	109	109	0.0%	126	130	3.2%
Revenue	233.5	271.3	322.6	18.9%	309.6	364.1	17.6%
EBITDA	51.2	64.0	65.8	2.9%	69.4	81.8	17.7%
- margin	21.9%	23.6%	20.4%	-13.4%	22.4%	22.5%	0.1%
Depreciation/Amortisation	-4.3	-6.1	-4.9	-19.3%	-5.4	-5.8	7.1%
EBIT	46.9	57.8	60.9	5.3%	64.0	75.9	18.6%
Net Interest	-1.6	-3.1	-3.3	7.4%	-3.1	-3.6	15.7%
Pretax Profit	41.4	54.7	57.5	5.2%	60.9	72.4	18.8%
Tax	-12.0	-15.9	-16.7	5.2%	-17.7	-21.0	18.8%
Norm. Net Profit After Tax	32.2	38.8	40.9	5.2%	43.3	51.4	18.8%
- margin	13.8%	14.3%	12.7%		14.0%	14.1%	
Reported Profit	29.4	38.8	40.9	5.2%	43.3	51.4	18.8%
DPS	3.50	3.75	3.75	0.0%	4.00	4.00	0.0%
EPS (diluted)	8.2	9.9	9.9	0.3%	11.0	11.9	8.2%
P/E (\$0.895)	10.9x	9.1x	9.0x		8.1x	7.5x	
Ordinary Shares (end)	379.8	385.4	423.9	10.0%	385.7	424.2	10.0%
Ordinary Shares (avg wgt)	379.8	382.6	401.8	5.0%	385.5	424.0	10.0%
Net Debt	26.2	36.7	43.8	19.2%	37.5	44.1	17.6%

Source: Hartleys

Brief Business Description:

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

Hartleys Brief Investment Conclusion:

High returns, industry tailwinds, market leader.

Chairman & CEO:

Mr Reginald Webb (Chairman)

Mr Peter Cumins (Managing Director)

Top Shareholders (pre new shares):

EZ Corp 32.3%

Fidelity Mgt & Res. (FMR) 6.0%

Company Address:

Level 18, 37 St. Georges Tce

Perth, WA, 6000

Issued Capital: 423.9m

- fully diluted 432.0m

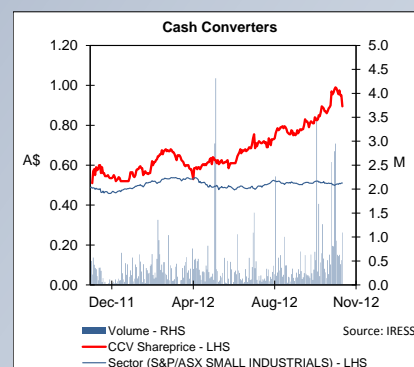
Market Cap: \$379.4m

- fully diluted \$386.6m

Net Debt (31 Dec '12e): -\$3.8m

	FY12a	FY13e	FY14e
Op Cash Flw	25.3	25.6	56.9
Free Cash Flw	9.4	-12.7	47.3
NPAT (A\$m)	32.2	40.9	51.4
EPS (\$, dil)	8.2	9.9	11.9
P/E (basic)	11.6x	8.8x	7.4x
P/E (diluted)	10.9x	9.0x	7.5x
EV / EBITDA	7.3x	5.7x	4.6x
DPS (\$)	3.50	3.75	4.00
Franking	100%	100%	100%
Dividend Yield	3.9%	4.2%	4.5%
N.D. / equity	14.1%	17.9%	15.8%

Source: Hartleys Research



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Hartleys is assisting with the completion of a capital raising for CCV, for which it will earn fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Cash Converters International, 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.

Fig. 1: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Store acquisitions	Low	Low	We assume new funds are used for accretive store acquisitions
Australian regulatory impact from 1 July 2013	High	Upside	The current timetable is for the legislation to be effective on 1 July 2013.
We assume Mon-e and Safrock's Australian margins are reduced.	High	Upside	We assume a decline in margins for Mon-e Australia and Safrock Australia.
UK Safrock margins improve	Low	Moderate	We assume that Safrock UK margins increase significantly but peak at a lower than the peak in the Aust business.
Safrock loan book peaks at \$165m in FY17	High	High	We assume that the Australian loan book peaks near current levels, but that the UK book increases to ~A\$83m.
\$30m in value for other projects	Low	Upside	We attribute \$30m for Carboodle. Given the history of the Company's innovation, it is likely that CCV will develop new products.
<i>Conclusion</i>	<i>The Company faces some risks but we believe we have been realistic or conservative in our base case assumptions.</i>		

Source: Hartleys

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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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