

Cash Converters Intl.

22nd November 2012

GICS: Diversified Financials – Consumer Finance

1Q13 Trading Update...

RECENT NEWS

Cash Converters [ASX:CCV] recently provided a trading update for the first quarter of FY13 showing strong growth in its UK personal loan product and operating earnings coming ahead of management's expectations.

UPDATE REPORT

Event

- 1Q13 Trading Update:** Unaudited EBIT in the first quarter was 43% higher than pcp at \$14.2m.
- UK loan books performing strongly:** UK personal loan book grew from £12.7m to £16.7m in November driven by rollout into corporate stores and customer penetration. Profitability has also improved with bad debt levels stabilising. We believe the UK is the real growth driver for the business going forward.
- Australian loan book growing solidly:** Personal loan book has grown from \$67.6m to \$72.1m by November. Strong growth from the online platform has driven this. We are impressed by continued solid growth from a 'mature' book.

Our view

- Upward revision to our NPAT forecasts:** Our FY13 NPAT forecast is increased from \$34.8m to \$37.9m and FY14 numbers from \$37.6m to \$41.2m. Our dividend forecasts are maintained at 3.75c and 4.0c respectively.

Valuation | Recommendation

We maintain a BUY recommendation and raise our price objective to \$1.22 from \$1.01. This represents a 27.7% premium over the last traded price of \$0.955. Stabilisation of bad debt levels in the UK personal loan book and improved profitability allows us to upgrade our FY13 earnings forecasts. Increase in the growth assumptions of the Australian personal loan book further underlies our forecasts.

CCV

BUY

Price Objective:

\$1.22

Last traded	A\$	\$0.955
Market Cap	A\$m	368.0
N ^o of Shares	m	385.4
2012A EPS	¢	7.6
2013F EPS	¢	9.8
2013F PE	x	9.7
2013F EV/EBITDA	x	6.3
2013F DPS	¢	3.75
2013F Div Yield	%	3.9
Sales 2012A	m	235.2
Sales 2013F	m	278.9
EBITDA 2012A	m	48.1
EBITDA 2013F	m	62.2
NPAT 2012A*	m	29.4
NPAT 2013F	m	37.9

*2012F NPAT is reported NPAT (inclusive of one-off items)

Share Price | 12month



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1Q13 TRADING UPDATE...ITS ALL ABOUT THE UK

Cash Converters recently provided a first quarter trading update with unaudited first quarter EBIT up 43% to \$14.2m from pcp. The UK personal loan book is growing at rates faster than we had envisaged and profitability improving following a stabilisation in bad debt levels. The loan book has grown to £15.3m (September 2012) and at the recent AGM, the book had grown to around £16.7m (November 2012) from £12.7m at the end of FY12. UK personal loan EBIT during the quarter was 155.4% higher than pcp as the book gains scale and matures. We expect strong growth to continue with rollout of the loan product into 20 UK stores in FY13 and increased penetration and repeat customers. Profitability will also continue to improve with maturity of the book and increased repeat customers.

1Q13 unaudited EBIT is 43% higher than pcp.

Growth and profitability of the UK personal loan book has surprised on the upside.

Growth in the Australian personal loan book continues with the loan book rising from \$67.6m at the end of FY12 to \$72.1m in November 2012. Bad debt levels remained relatively stable at around 5.6% of principal loaned. Driving this strong growth has been the personal loans through its online platform. The online personal loan book in Australia is now around \$13.2m and £1.0m for UK personal loans.

Australian personal loan book also growing ahead of our expectations.

The company also continued with the expansion of its corporate store network with two stores acquired in the UK (currently 61 corporate stores and 161 franchise stores) and two new corporate store openings in Australia (currently 44 corporate stores and 103 franchise stores).

CHANGES TO OUR FORECASTS

Figure 1: CCV – Earnings revisions

<i>Figures in A\$'million unless stated</i>	FY12A	FY13F (OLD)	FY13F (NEW)	% Revision	FY14F (OLD)	FY14F (NEW)	% Revision
Revenue	234.4	274.2	279.9	+2.1%	294.2	300.8	+2.2%
Operating Expenses	-186.2	-216.5	-217.7		-231.0	-232.5	
EBITDA	48.1	57.8	62.2		63.2	68.3	
% Chg YoY	15%	20%	29%		9%	10%	
<i>EBITDA Margin</i>	21%	21%	22%		21%	23%	
Depr & Amortisation	-4.3	-5.9	-5.9		-7.4	-7.4	
EBIT	43.8	51.9	56.3	+8.5%	55.8	61.0	+9.3%
<i>EBIT Margin</i>	19%	19%	20%		19%	20%	
Net Interest Expense	-2.4	-2.2	-2.2		-2.1	-2.1	
Profit Before Tax	41.4	49.7	54.1	+8.9%	53.7	58.8	+9.5%
Tax Benefit (Expense)	-12.0	-14.9	-16.2		-16.1	-17.6	
Reported NPAT	29.4	34.8	37.9		37.6	41.2	
<i>Add back: One-off items</i>	3.2	0.0	0.0		0.0	0.0	
Underlying NPAT	32.6	34.8	37.9	+8.9%	37.6	41.2	+9.6%

Source: Company data, Microequities estimates

We upgrade our FY13 and FY14 numbers in light of the 1Q13 trading update and positive tone from management.

We have increased our forecast growth rates for the Australian and UK personal loan books to account for the strong 1Q13 trading performance. In FY13 we expect the UK personal loan book to grow by around 73% to circa £22m (our previous forecast was £20m), driven by rollout into further stores and increased customer penetration. We expect the Australian loan book to grow by around 15% to \$77.9m with its online platform and legislation certainty paving the way for growth.

We have increased our growth assumptions for the UK and Australian personal loan books.

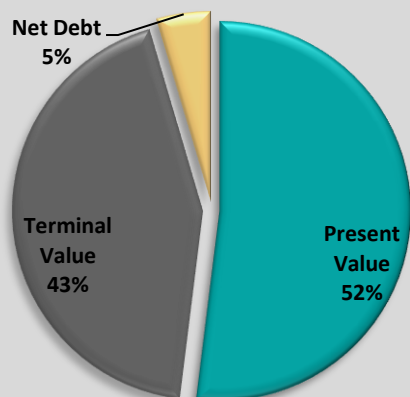
We upgrade our FY13 and FY14 forecasts to account for improvements in profitability and faster rate of growth in the personal loan books. Our FY13 NPAT forecast is increased from \$34.8m to \$37.9m and FY14 forecast from \$37.6m to \$41.2m. Credit reform legislations in Australia take effect in FY14 but we believe continued penetration and improving profitability of the UK operations will more than offset this impact. Our dividend forecasts of 3.75c and 4.0c for FY13 and FY14, respectively, are maintained.

VALUATION | RECOMMENDATION

DCF Valuation

Our DCF model provides us with a \$1.34 valuation for CCV, representing a 40% premium to the last traded price. We have used a fundamental BETA of 0.98, a WACC of 10.13% and long-term growth rate of 1%.

DCF Valuation Breakup

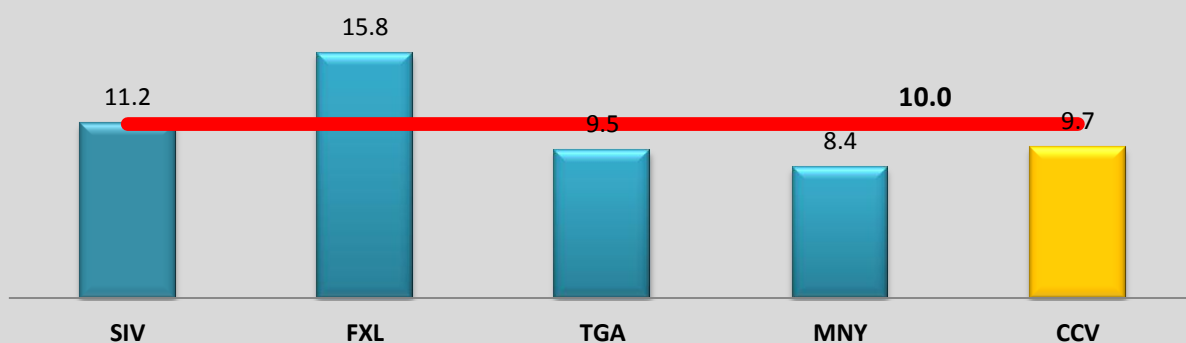


Key Assumptions			
Equity Beta:	0.98	Debt:	\$42.6m
Risk free rate:	3.22%	K _d :	6.3%
Return on Equity:	10.57%	WACC:	10.13%
LT Growth Rate:	1.00%		

Relative EV/EBITDA Valuation

We have undertaken a relative valuation using the most appropriate peer comparisons in the consumer financials sector. Using a forecast FY13 PE multiple of 10x, we have derived a relative valuation of \$1.10 per share, representing a 15% premium to the last traded price.

Peer group financial summary (as at 21/11/2012)



Investment Opinion

We maintain a BUY recommendation and increase our price objective to \$1.22 from \$1.01. The price objective is based on a combination of our DCF valuation of \$1.34 and our relative peer valuation of \$1.10 which we have applied a peer group average forward PE of 10x.

Improved profitability and our assumption for faster growth in the UK personal loan book leads us to upgrade FY13 and FY14 earnings forecasts.

PRICE OBJECTIVE & RECOMMENDATION HISTORY

Changes to recommendations and/or price objectives			
Date	Recommendation	Price at time of Rec	Price Objective
22/11/2012	BUY	\$0.955	\$1.22
04/09/2012	BUY	\$0.795	\$1.01
02/03/2012	BUY	\$0.60	\$0.75
18/01/2012	STRONG BUY	\$0.52	\$0.78

FINANCIAL SUMMARY

PROFIT & LOSS SUMMARY (\$m)

Year Ending June	2012A	2013F	2014F
Revenue	234.4	279.9	300.8
Op. Expense	-186.2	-217.7	-232.5
EBITDA	48.1	62.2	68.3
% Chg YoY	15%	29%	10%
% Margin	21%	22%	23%
Depreciation & Amortisation	-4.3	-5.9	-7.4
EBIT	43.8	56.3	61.0
% Margin	19%	20%	20%
Net Interest Expense	-2.4	-2.2	-2.1
PBT	41.4	54.1	58.8
Tax	-12.0	-16.2	-17.6
NPAT	29.4	37.9	41.2

PROFITABILITY RATIOS

Year Ending June	2012A	2013F	2014F
Sales	235.2	278.9	299.7
% Chg YoY	26%	19%	7%
Price/Sales	1.6x	1.3x	1.2x
EPS (cents)	7.6	9.8	10.7
% Chg YoY	6%	29%	9%
P/E	12.5x	9.7x	8.9x
Enterprise Value	394.3	394.3	394.3
EV/EBIT	9.0x	7.0x	6.5x
EV/EBITDA	8.2x	6.3x	5.8x
DPS	3.50¢	3.75¢	4.00¢
Dividend Yield	3.7%	3.9%	4.2%
ROE	16%	15%	14%
Debt to Assets	16%	14%	12%
Debt to Equity	23%	18%	15%

BALANCE SHEET SUMMARY (\$m)

Year Ending June	2012A	2013F	2014F
Cash & cash equivalents	16.4	24.3	39.2
Trade and other receivables	10.9	12.5	14.4
Inventories	17.1	19.6	21.2
Other Current Assets	91.1	119.9	138.4
Total Current Assets	135.5	176.3	213.2
Other financial assets	4.0	4.0	4.0
Trade and other receivables	6.1	6.1	6.1
Property, Plant & Equipment	19.6	28.1	31.7
Intangible assets	15.5	28.3	30.6
Deferred tax assets	4.8	4.8	4.8
Other Non-Current Assets	77.2	77.2	77.2
Total Non-Current Assets	127.3	148.6	154.4
TOTAL ASSETS	262.7	324.9	367.6
Trade and other payables	19.6	20.8	22.0
Borrowings	11.3	11.3	11.3
Current tax liabilities	7.1	8.1	8.8
Deferred establishment fee	4.1	4.1	4.1
Provisions	2.7	2.7	2.7
Total Current Liabilities	44.7	44.2	46.2
Borrowings	31.4	32.8	32.9
Provisions	.1	.1	.1
Total Non-Current Liabilities	31.4	32.9	32.9
TOTAL LIABILITIES	76.1	77.1	79.1
NET ASSETS	186.6	247.8	288.5

CASH FLOW SUMMARY (\$m)

Year Ending June	2012A	2013F	2014F
EBITDA	\$48.1	\$62.2	\$68.3
Decre./(Incr.) in work. Cap	-\$5.0	-\$3.0	-\$2.2
Net Int. (Paid)/Rec	-\$1.7	-\$2.2	-\$2.1
Taxes Paid	-\$15.3	-\$16.2	-\$17.6
Incr/(decr) in provisions	\$0.6	\$0.0	\$0.0
Other Op. Cash items	-\$3.7	\$0.0	\$0.0
Cash from Operations	\$23.1	\$40.8	\$46.3
CAPEX	-\$11.9	-\$19.8	-\$16.1
Disposals/(Acquisitions)	-\$6.1	\$0.0	\$0.0
Other Inv. Cash Flows	-\$1.4	\$0.0	\$0.0
Loans to/from other ent.	\$0.6	\$0.0	\$0.0
Cash Flow From Invest.	-\$18.8	-\$19.8	-\$16.1
Incr/(Decr) in Equity	\$0.0	\$0.0	\$0.0
Incr/(Decr) in Debt	\$20.4	\$1.4	\$0.1
Ord. Dividend paid	-\$11.1	-\$14.5	-\$15.4
Preferred dividends	\$0.0	\$0.0	\$0.0
Other Fin. Cash Flow	-\$0.3	\$0.0	\$0.0
Cash Flow From Fin	\$9.0	-\$13.0	-\$15.3
Net Incr/(Dcr) in cash	\$13.2	\$7.9	\$14.9
Forx & Disc. Op.	-\$0.6	\$0.0	\$0.0
Net Inc/(Decr) Cash	\$12.6	\$7.9	\$14.9
Equity FCF	\$11.1	\$12.4	\$28.5

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RECOMMENDATION GUIDE

Recommendation	Market Price undervalued/overvalued to Microequities price objective
Strong Buy	Above 40%
Buy	20 to 40%
Hold	0 to 20%
Sell	0 to -20%
Strong Sell	Greater than 20%

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