

5 Dec 2011

## CASH CONVERTERS INTERNAT. LIMITED

### Good news on the regulatory front

The Cash Converters Limited ("Cash Converters", "CCV", "Company") share price has been depressed since the Australian Government announced proposed legislation changes in late August. The legislation would make the economics of short term lending unattractive. The legislation has subsequently been reviewed by a parliamentary committee (5 Labour Government members, 4 Liberal opposition members, 1 Green member). The report (164 pages) was released on Friday and appears to disagree with the legislation on the points that would have affected CCV the most. In particular, it concludes that the proposed fee caps should be improved in favour of the industry (which in turn would be for the benefit of borrowers).

### Evidence stacked against prohibition

As we wrote in our last report *"Don't underestimate the customer/expert"*, 9 September 2011, arguing for prohibition of the industry on an evidence basis is likely to be a losing battle. The evidence presented to the parliamentary committee appears to have once again led to the conclusion that payday lending is a legitimate and necessary part of an economy.

### Modest decrease FY12 earnings, upgrades to FY14 earnings

We have reduced our FY12 reported earnings estimate by 6.7% to \$31.2m due to higher overheads and the higher AUDGBP. For FY13 we expect NPAT of \$39.1m (barely changed from previous). For FY14, when the legislation is likely to be effected, we have increased our earnings estimates modestly to \$29.2m (we assume a ~25% decline from FY13). Until we see the final version of the legislation it is difficult to model the impact accurately, but it appears likely that earnings will be better than we had previously assumed. Additionally, given the potential for delays in refining the legislation, the impact on CCV may be later than FY14. Also, implicitly we are still assuming the legislation will be designed to have a negative impact for CCV, but it is not clear we should be making that assumption any more.

### CCV is very cheap, worst case scenario now off the table?

We maintain our Buy recommendation. Our DCF valuation is \$0.74 and we have a twelve month price target of \$0.77.

On our estimates, CCV is trading on FY12 p/e of 6.2x and a dividend yield of 6.9%. In FY14, when we assume a negative regulatory impact, the stock is on a 6.9x p/e but maintains a 6.9% dividend yield. Additionally, earlier this year, CCV received a proposed takeover (via scheme of arrangement) offer from EZCorp for 30% of shareholders shares at \$0.91. The offer fell over after the announcement of the legislation. It would seem plausible that an improvement in legislation could bring the parties back together again.

A key risk is that the Government ignores the Parliamentary committee recommendations and proceeds with the current legislation, although this seems unlikely given the committee was dominated by Government members. Another risk is that no revised legislation is drafted and the industry continues to operate under current regulation but with uncertainty.

<b>Share Price:</b>	\$0.505
<b>Valuation:</b>	\$0.74
<b>12mth price target:</b>	\$0.77

#### Brief Business Description:

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

#### Hartleys Brief Investment Conclusion:

Worst case Australian regulatory changes already priced into the stock.

#### Chairman & CEO:

Mr Reginald Webb (Chairman)  
Mr Peter Cumins (Managing Director)

#### Top Shareholders:

EZ Corp 32.8%  
Rand Holdings Pty Ltd 5.1%

#### Company Address:

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

<b>Issued Capital:</b>	379.8m		
- fully diluted	399.8m		
<b>Market Cap:</b>	\$191.8m		
- fully diluted	\$201.9m		
<b>Net Debt (30 Jun '11a):</b>	-\$0.8m		
	<b>FY11a</b>	<b>FY12e</b>	<b>FY13e</b>
Op Cash Flw	31.7	27.5	43.5
Free Cash Flw	-5.6	10.1	33.1
<b>NPAT (A\$m)</b>	<b>28.6</b>	<b>32.6</b>	<b>39.1</b>
EPS (\$, dil)	7.1	8.2	9.8
P/E (basic)	6.9x	6.1x	4.9x
P/E (diluted)	7.1x	6.2x	5.2x
EV / EBITDA	4.3x	3.6x	2.9x
DPS (\$)	0.035	0.035	0.035
Franking	100%	100%	100%
Dividend Yield	6.9%	6.9%	6.9%
N.D. / equity	-0.5%	9.8%	11.0%

Source: Hartleys Research



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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 for details.

## SUMMARY MODEL

Cash Converters International Ltd (CCV)					Recommendation: Buy				
<b>Company Information</b>					<b>Profit &amp; Loss (\$m)</b>				
Today's Date	5 Dec 2011	Level 18, 37 St. Georges Tce			AUD/GBP	6/11A	6/12F	6/13F	6/14F
Share Price	\$0.505	Perth, WA, 6000			Safrock Loan Book	62.2	78.7	103.6	106.1
52 Week High-Low	\$0.91 - \$0.39	Ph: (08) 9221 9111			Safrock Revenue	56.6	65.0	80.6	65.3
Market Cap (\$m)	\$191.8	Fax: (08) 9221 9011			Safrock PBT	24.4	27.3	33.9	23.1
Enterprise Value (\$m)	\$190.9	www.cashconverters.com.au			<i>margin</i>	43.1%	42.0%	42.0%	35.4%
Ordinary Shares	379.8				Mon-e Revenue	13.9	18.1	19.7	20.6
Fully Diluted Shares	399.8				Mon-e PBT	12.3	16.4	17.8	10.4
<b>Valuation</b>					<i>margin</i>				
Spot DCF - 10 years explicit + terminal growth value (Base Case)	\$0.74				Owned # (UK + Aust) - end	88	119	139	139
12mth fwd DCF - 10 years explicit + terminal growth value (Base Case)	\$0.77				Owned Stores Revenue	100.9	121.9	146.3	176.4
12mth forward P/E (diluted) of 8.4x (back calc. based on 10x FY14)	\$0.74				Owned Stores PBT	8.6	12.2	14.6	17.6
Price / Book (Jun '11a) 1x \$0.46	\$0.46				<i>margin</i>	8.5%	10.0%	10.0%	10.0%
12mth fwd Div Yield of 4.6% (Gross yield=6.6%)	\$0.76				Franchised # (UK + Aust) - end	249	254	262	262
<b>12 Months Price Target (wgted avg above 4 avg)</b>	<b>\$0.77</b>				Franchise Revenue	27.4	28.0	29.8	31.4
P / E (6/12F) at price target	9.4x				Franchise PBT	6.5	6.6	7.1	7.5
P / E (6/13F) at price target	7.8x				<i>margin</i>	23.7%	23.7%	23.7%	23.7%
P / E (6/14F) at price target	10.5x				Divisional PBT	51.8	62.5	73.4	58.6
EV/EBITDA (6/14F) at price target	6.4x				Overheads	-12.6	-18.2	-17.9	-17.1
EV/EBIT (6/14F) at price target	7.7x				<b>EBITDA - Group</b>	<b>43.9</b>	<b>53.0</b>	<b>65.5</b>	<b>51.9</b>
<b>Multiples (\$/price at \$0.51)</b>	<b>6/11A</b>	<b>6/12F</b>	<b>6/13F</b>	<b>6/14F</b>	<b>growth</b>	<b>34.8%</b>	<b>20.7%</b>	<b>23.6%</b>	<b>-20.8%</b>
P / E (basic, weighted)	6.9x	6.1x	4.9x	6.7x	<b>EBITDA / Sales</b>	<b>23.7%</b>	<b>22.8%</b>	<b>23.7%</b>	<b>17.7%</b>
P / E (fully diluted, weighted)	7.1x	6.2x	5.2x	6.9x	Depreciation/Amortisation	-3.4	-5.3	-7.3	-8.8
P / E (ord mkt cap / NPAT)	6.7x	5.9x	4.9x	6.6x	<b>EBIT</b>	<b>40.6</b>	<b>47.7</b>	<b>58.2</b>	<b>43.1</b>
Dividend Yield	6.9%	6.9%	6.9%	6.9%	EBIT / Sales	21.9%	20.5%	21.0%	14.7%
Group Free Cash Flow (f.c.f.) / EV	-11.9%	-3.4%	4.3%	13.6%	Net Corporate Interest	0.0	-1.5	-2.7	-1.6
Equity f.c.f. / Mkt Cap	-13.3%	-5.1%	2.1%	10.9%	<b>Pretax Profit</b>	<b>39.2</b>	<b>44.3</b>	<b>55.5</b>	<b>41.5</b>
Norm f.c.f. / Mkt cap	-13.3%	-5.1%	2.1%	10.9%	Tax	-11.6	-13.1	-16.4	-12.2
Mkt cap / operating cash flow	4.6x	4.6x	3.1x	3.9x	Effective Tax Rate	29.5%	29.5%	29.5%	29.5%
EV/EBITDA multiple	4.3x	3.6x	2.9x	3.7x	Minorities	0.0	0.0	0.0	0.0
EV/EBIT multiple	4.7x	4.0x	3.3x	4.4x	<b>Normalised NPAT to equity</b>	<b>28.6</b>	<b>32.6</b>	<b>39.1</b>	<b>29.2</b>
Price / Book Value	1.1x	1.0x	0.9x	0.8x	<b>Norm. Net Profit / Sales</b>	<b>15.4%</b>	<b>14.0%</b>	<b>14.1%</b>	<b>9.9%</b>
Price / NTA	2.4x	2.1x	1.6x	1.5x	Abnormals / discontinued	-0.9	-1.4	0.0	0.0
<b>Ratios</b>					<b>Reported Profit to equity</b>	<b>27.6</b>	<b>31.2</b>	<b>39.1</b>	<b>29.2</b>
Return on Average Equity	16.9%	17.7%	19.0%	12.9%	<b>Reported EPS (basic, weighted)</b>	<b>7.28</b>	<b>8.22</b>	<b>10.24</b>	<b>7.5</b>
Return on Assets	13.3%	13.0%	13.1%	8.9%	<b>Normalised EPS (dil, wghtd)</b>	<b>7.15</b>	<b>8.16</b>	<b>9.78</b>	<b>7.3</b>
ND / ND + Equity	-0.5%	8.9%	9.9%	4.7%	<b>DPS (\$)</b>	<b>0.0350</b>	<b>0.0350</b>	<b>0.0350</b>	<b>0.0350</b>
Net Interest Cover (EBIT)	2,051.4	32.4	21.7	26.2	Franking	100%	100%	100%	100%
Reported eps growth	10.3%	12.9%	24.7%	-26.6%	Payout Ratio	46.5%	40.8%	34.3%	47.2%
<b>Free Cash Flow Analysis</b>					<b>Cashflow Statement (\$m)</b>	<b>6/11A</b>	<b>6/12F</b>	<b>6/13F</b>	<b>6/14F</b>
Net Operating Cash Flow	31.7	27.5	43.5	35.1	EBITDA (inc Safrock interest)	43.9	53.0	65.5	51.9
Capex (Reported) inc loan book	-54.6	-33.9	-35.3	-9.1	Working Capital Change	-2.2	-11.0	-2.9	-2.9
Group Free Cash Flow (rep'ted)	-22.8	-6.4	8.2	26.0	<b>Cash from Operations</b>	<b>41.8</b>	<b>42.1</b>	<b>62.6</b>	<b>49.0</b>
Fixed Debt Repayments	-2.6	-3.3	-4.1	-5.1	Corporate Interest	0.1	-1.5	-2.7	-1.6
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-25.4</b>	<b>-9.7</b>	<b>4.1</b>	<b>20.9</b>	Tax Paid	-10.1	-13.1	-16.4	-12.2
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	<b>Net Operating Cash Flow</b>	<b>31.7</b>	<b>27.5</b>	<b>43.5</b>	<b>35.1</b>
Free Cash Flow (normalised)	-25.4	-9.7	4.1	20.9	Capital Expenditure	-9.5	-10.4	-10.5	-6.6
Capex (inc HP) / depreciation	282%	198%	142%	75%	Other (including loan book)	-16.7	-16.6	-24.9	-2.5
<b>Share Data</b>					Investments & acquisitions	-28.4	-7.0	0.0	0.0
Ord Issued shares (m)	379.8	379.8	383.8	393.8	<b>Net Investing Cash Flow</b>	<b>-54.6</b>	<b>-33.9</b>	<b>-35.3</b>	<b>-9.1</b>
<i>growth</i>	0.0%	0.0%	1.1%	2.6%	Proceeds from Equity Issues	0.0	0.0	0.0	0.0
Weighted ave shares (m)	379.8	379.8	381.8	388.8	Net Change in Debt & Leases	9.4	14.7	25.2	-12.4
<i>growth</i>	15.9%	0.0%	0.5%	1.8%	Dividends Paid	-12.3	-13.3	-13.4	-13.6
Diluted shares wgted (m)	399.8	399.8	399.8	399.8	<b>Net Financing Cash Flow</b>	<b>-3.5</b>	<b>1.4</b>	<b>11.8</b>	<b>-26.0</b>
<i>growth</i>	21.6%	0.0%	0.0%	0.0%	<b>Movement in Cash</b>	<b>-26.3</b>	<b>-5.0</b>	<b>20.0</b>	<b>0.0</b>
<b>Unpaid Capital</b>					<b>HP Lease Capex (non-cash)</b>				
Year Expires	Number	% ord	Avg Price	\$m unpaid	<b>Balance Sheet (\$m)</b>	<b>6/11A</b>	<b>6/12F</b>	<b>6/13F</b>	<b>6/14F</b>
30-Jun-12	-	0.0%	\$ -	\$ -	Cash	23.5	18.5	38.5	38.5
30-Jun-13	4,000,000	1.1%	\$ -	\$ -	Receivables	9.0	11.4	13.5	14.3
30-Jun-14	10,000,000	2.6%	\$ -	\$ -	Inventories	14.1	26.3	31.5	38.0
30-Jun-15	-	0.0%	\$ -	\$ -	Other (including loan book)	66.4	82.9	107.8	110.3
30-Jun-16	-	0.0%	\$ -	\$ -	<b>Total Current Assets</b>	<b>112.9</b>	<b>139.0</b>	<b>191.3</b>	<b>201.1</b>
30-Jun-17	6,000,000	1.6%	\$ -	\$ -	Property, Plant & Equipment	13.2	21.4	25.2	23.8
TOTAL	20,000,000	5.3%	\$ -	\$ -	Intangibles (inc. Goodwill)	96.9	100.8	100.0	99.3
<b>Directors &amp; Senior Management</b>					Other	9.7	9.7	9.7	9.7
<b>Substantials</b>					<b>Total Non Current Assets</b>	<b>119.7</b>	<b>131.8</b>	<b>135.0</b>	<b>132.8</b>
Mr Reginald Webb (Chairman)	EZ Corp				<b>Total Assets</b>	<b>232.7</b>	<b>270.8</b>	<b>326.2</b>	<b>333.8</b>
Mr Peter Cumins (Managing Director)	Rand Holdings Pty Ltd				Accounts Payable	20.3	25.9	30.3	34.8
Mr John Yeudall (Non-executive Director)					Interest Bearing Liabilities	4.6	4.6	4.6	4.6
Mr William Love (Non-executive Director)					Other	11.2	11.2	11.2	11.2
Mr Joseph Beal (Non-executive Director)					<b>Total Current Liabilities</b>	<b>36.1</b>	<b>41.7</b>	<b>46.2</b>	<b>50.6</b>
Company Secretary - Mr Ralph Groom					Accounts Payable	0.0	0.0	0.0	0.0
					Interest Bearing Liabilities	18.0	32.7	57.8	45.4
					Other	3.3	3.3	3.3	3.3
					<b>Total Non Current Liabilities</b>	<b>21.3</b>	<b>36.0</b>	<b>61.1</b>	<b>48.7</b>
					<b>Total Liabilities</b>	<b>57.4</b>	<b>77.7</b>	<b>107.3</b>	<b>99.3</b>
					<b>Net Assets</b>	<b>175.3</b>	<b>193.2</b>	<b>218.9</b>	<b>234.5</b>
					Net Asset Value / Share (\$)	0.46	0.51	0.57	0.60
					NTA / Share (\$)	0.21	0.24	0.31	0.34
					Net Debt (net cash)	-0.8	18.9	24.0	11.6
Analyst: Trent Barnett					Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052					5 December 2011				
Sources: IRESS, Company Information, Hartleys Research									

## Extract from the Report

The textbox is an extract from the “*Parliamentary Joint Committee on Corporations and Financial Services*”, *Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011, December 2011*. We have copied the conclusion of the committee on pay day lending below in its entirety as we believe it is well worth reading for those with an interest in the industry. The **emphasis** is our own.

### **Committee view (pages 113 to 118)**

5.219 The key question before the committee is whether the proposed short-term loan reforms strike the right balance between consumer protection and the continuation of a viable short-term loan industry. The national consumer credit reforms centred on the need to strengthen consumer protection through the introduction of nationally consistent consumer credit regulations. In addressing identified weaknesses in state and territory consumer credit legislation, the reforms also sought to raise the bar, that is, to create a more equitable market for consumers by bringing all jurisdictions to the highest common denominator. The need for additional protections for consumers when accessing short-term loans was flagged at the outset of the national consumer credit reforms.

5.220 It was put to the committee by industry representatives that the additional measures proposed in Schedules 3 and 4 of the Enhancements Bill are unnecessary. The committee notes the argument that the responsible lending obligations, introduced as part of phase one of the national consumer credit reforms, effectively deter inappropriate conduct and therefore ensure adequate protections for consumers. This argument presupposes that the vulnerabilities of consumers who access short-term loans is no greater than that of the broader consumer population in Australia.

5.221 The committee notes with concern the lack of evidence from Treasury regarding the need for measures in addition to the responsible lending obligations. Limited evidence can be found through mining the Regulation Impact Statement attached to the Explanatory Memorandum for the Enhancements Bill. However, the statement does not explain how the proposed short-term reforms will sit against and interact with the responsible lending obligations. Nor does it comprehensively explain why the measures in Schedules 3 and 4 of the Enhancements Bill were selected rather than other options that on the basis of evidence before the committee seem available.

5.222 The committee also notes evidence that there is a growing number of middle income earners accessing the short-term loan market. The committee agrees with views of industry representatives that this growing client base cannot be considered to have the same vulnerabilities as lower income earners and, in particular, consumers whose income is substantially derived from Centrelink benefits. However, the committee was struck by the high cost of short-term finance, whether calculated according to the API or, perhaps more accurately, in dollar terms.

5.223 High-cost finance for any amount is undesirable but in itself is not a risk. While the web-based, middle income earner client base appears to be expanding, the short-term loan industry attracts significant numbers of consumers who are in financial hardship. The very nature of a small amount short-term loan indicates that the loans are being sought to address financial difficulty. In entering into a pay-pay loan contract, consumers exchange what appear to be substantial fees for a rapid injection of cash. For consumers in financial hardship, or those not understanding the financial implications, this may be a perilous path. The committee considers that the short-term loan market is a complex market in which a proportion of consumers are not fully informed.

5.224 Therefore, additional measures are required to compliment, not duplicate, the responsible lending obligations. Accordingly, the committee agrees in principle with the introduction of measures tailored to protect consumers accessing the short-term loan market. The committee supports the introduction of minimum standards for the short-term loan industry and credit contracts. However, having considered the available evidence, the committee concludes that the short-term lending reforms proposed in Schedules 3 and 4 of the Enhancements Bill do not strike the right balance between consumer protection and industry viability. It can be strongly questioned whether all the measures proposed will result in a viable industry. The committee further considers that it can be questioned whether all the proposed reforms represent the optimal approach to enhancing protections for consumers accessing short-term loans.

5.225 Accordingly, the committee draws the Government's attention to areas of concern with the short-term loan reforms and to options for improvements.

### *Schedule 3 - Web-based disclosure statements*

5.226 The committee strongly supports measures to promote financial literacy among consumers. Accordingly, the committee approves the measures proposed in relation to web-based disclosure statements for small amount credit contracts.

5.227 However, to ensure that all consumers have the opportunity to be fully informed prior to entering a short-term loan, it would be appropriate for this requirement to be extended to all credit contracts covered by Schedules 3 and 4, and for store-front lenders to be required to provide this statement to prospective customers prior to entering into a credit contract under Schedules 3 and 4.

5.228 The utility of a web-based disclosure statement would also be improved were it to include a link to the financial counselling information on the ASIC MoneySmart website. The information contains, among other matters, details of the free, confidential financial counselling services available via the Financial Counselling Hotline (1800 007 007). This service promotes financial literacy and is a valuable tool for consumers facing financial difficulties. The Government should consider how the consumer credit reforms can encourage greater use of existing Government-funded services.

*Schedule 3 – Restriction on multiple concurrent contracts, refinancing and increasing credit limits*

5.229 The committee notes concerns with the practicality of the proposed restrictions on multiple concurrent contracts, increasing credit limits and refinancing. The committee shares concerns that it is not practical for credit providers to know what credit contracts a prospective borrower may have with other providers. In this instance, the credit provider is dependent on disclosure by the prospective borrower. The restriction on multiple concurrent contracts would only be workable if it applied to loans within a credit provider's portfolio. However, on the whole, the proposed restrictions did not appear to be an appropriate means of increasing consumer protection.

5.230 The committee notes with concern industry views that, rather than increasing the protections available to vulnerable consumers, the restrictions may lead to increased financial hardship. It is also questionable whether the proposed restrictions are appropriate for consumers who are not financially vulnerable.

5.231 The restrictions appear to be incongruent with the responsible lending obligations, save for one exception. The committee notes evidence that, while the responsible lending requirements were intended to ensure that consumers are protected from unsuitable credit contracts, the obligations do not require the lender to consider the consumer's commitments under other credit contracts. On the basis of evidence before the committee, it would seem appropriate to strengthen the operation of the responsible lending obligations in relation to short-term loans. The committee considers that a more appropriate response to consumer vulnerability would be to require short-term lenders to consider whether the proposed short-term loan or increased credit limit is unsuitable given the consumer's repayment obligations under existing credit contracts. This obligation should only apply to the extent that the short-term lender is informed of existing credit contracts by the consumer in response to the lender's inquiries.

*Schedule 4 – 10 and 2 per cent cap for small amount credit contracts and the 48 per cent cap*

5.232 Evidence before the committee does not support the conclusion that the small amount credit contracts industry will remain viable were the 10 and 2 per cent restriction on fees introduced. Indeed, the evidence strongly indicated that the availability of this form of finance will be significantly reduced, as there would be a high probability that providers would withdraw from the market and move to larger amount credit contracts. The contraction in the size of the small amount credit contract industry would be of further concern given the limited availability of alternative sources of finance.

5.233 The committee considers that the restriction on fees and charges for small amount credit contracts should be set at a level that will ensure the ongoing viability of the small amount credit contract sector. The committee strongly urges the Government to work with industry to establish a better balance between protecting the vulnerable and supporting a properly regulated small amount credit market.

5.234 The committee notes evidence that higher costs can be incurred for relatively short-term credit contracts compared to longer-term contracts. The committee is persuaded by evidence that the repayments required under relatively short-term loans can constitute a significant proportion of the borrower's income. In this regard, the committee notes data provided by the Consumer Action Law Centre that a \$300 loan over 28 days can require repayments of \$405, representing, in this case, 22 per cent of the borrower's income. If a person is in need of \$300 due to financial hardship, it seems axiomatic that the person may encounter further difficulties through having to repay the principal and an additional \$105 within a short timeframe. The committee considers that it is consistent with the principle of responsible lending for the loan repayment period to be reasonable according to the borrower's capacity to repay. The committee is of the view that it would be appropriate for the responsible lending obligations to require credit providers to consider a borrower's capacity to repay within the proposed repayment timeframe and to not require repayment within a period in which it would be unlikely the borrower could repay the loan.

5.235 The committee acknowledges that fees should reflect the cost of lending. However, the committee does not consider that it is best practice to impose a fee ceiling that is calculated using an APR. This method distorts the actual cost to the borrower, and the cost to the lender, and is therefore not the appropriate regulatory tool. The committee also notes with concern evidence presented of strategies to avoid the state-based 48 per cent caps. The evidence casts doubt on whether a 48 per cent cap is viable, particularly for smaller providers. In considering the method to impose a limit on the costs that borrowers may incur, the Government should be mindful of not undermining the COAG agreement and the state-based referrals of power.

5.236 The Government could also explore the feasibility and appropriateness of limiting the overall remuneration that a credit provider can receive for issuing a credit contract to which Schedules 3 and 4 apply, to an amount not exceeding twice the principal advanced. This would include remuneration obtained by third parties, all costs associated with product add-ons, such as DVDs, and fees payable in the event of default. This should not, however, include costs associated with enforcement.

*Other matters – application of Schedule 4 to ADIs*

5.237 It was put to the committee that the caps on costs proposed in Schedule 4 should be extended to ADIs. However, as the committee noted in its April 2011 report *Access for small and medium business to finance*, ADIs are required to comply with the comprehensive prudential regulatory framework overseen by the Australian Prudential Regulation Authority (APRA).<sup>279</sup> The committee has not been provided evidence that this framework would be insufficient to ensure appropriate conduct on the part of ADIs were they to offer short-term, small amount credit contracts. However, the committee recognises the potential impact on the principle of competitive neutrality of the proposed reforms and therefore considers that the Government should consider the implication of the proposed legislation for competitive markets and the adequacy of the prudential regulations for short-term, small amount credit contracts provided by ADIs.

*Other matters - Use of direct debit repayment options*

5.238 The committee notes concerns raised by consumer advocates with the use of direct debit repayment facilities by short-term loan providers. On balance, evidence before the committee does not indicate the repayment option is inappropriate for all consumers who enter into short-term credit contracts. The committee also notes that it is borrowers who have the first call on their financial resources and the monies debited from these resources, as it is they who ultimately control the account. However, consumers should not be locked in to inappropriate repayment methods. The committee would be concerned if direct debit repayments were being used inappropriately, or if alternatives were not provided. The committee therefore urges Treasury to monitor this area and to consult with credit providers on the viability of offering alternative repayment methods.

5.239 The committee would also be concerned if consumers misunderstood their rights regarding direct debit repayment options. The committee considers that it would also be appropriate for the web-based disclosure statements, and statements provided by store-front lenders, to include information setting out consumers' rights in relation to direct debit repayments, and directing consumers to other information sources such as the Financial Counselling Hotline.

*Other matters - Alternatives to short-term loans*

5.240 The committee notes with concern evidence that there may be a shortfall in the availability of finance from non-mainstream lenders were the number of providers to decrease following the introduction of the Enhancements Bill. It is the committee's view that the financially vulnerable must have access to appropriately regulated sources of finance.

5.241 The committee notes that the caps are not due to commence until 1 January 2013. It is essential that this window of time be used to develop additional sources of finance for consumers who currently access short-term loans. The committee notes that the Government is consulting with stakeholders about options to develop additional sources of finance, and supports the Government in this initiative. The committee recommends that the Government explore options to encourage ADIs to re-enter the short-term credit contract market.

*Other matters - Consultation on further amendments*

5.242 It is difficult for the committee to comment meaningfully about this provision. Only two of the submissions canvass the implications of the provision because of its late inclusion in the debate. As well, Treasury officials did not take the opportunity of explaining the amendment during the hearing. However, the committee draws to the Government's attention concerns with the proposed amendments.

*Committee view – Conclusion*

5.243 The inquiry identified that there is a need for additional protections for consumers when accessing short-term loans. However, evidence is not conclusive that the measures proposed are the best means of securing necessary protections for consumers. The evidence indicates that the measures regarding restrictions on multiple concurrent contracts, refinancing and increasing credit limits are at odds with the principles and effect of the responsible lending obligations. Measures should be introduced to strengthen protections for consumers accessing short-term loans, however, these should complement, not contradict, the responsible lending obligations. The committee has identified options to strengthen the responsible lending obligations in relation to short-term loans and draws these to the Government's attention. The proposed 10 and 2 per cent cap does not appear to be workable. In this regard, it does not appear that an appropriate balance has been struck between consumer protection and industry viability. As outlined above, the committee was also alerted to other options to increase consumer protection and financial literacy, while upholding consumer choice and the continued viability of the short-term loan market.

5.244 Accordingly, the committee recommends that the Government undertake further consultation with stakeholders to address concerns identified and, in doing so, develop additional measures that will increase consumer protection and lift industry standards.

**Recommendation 12**

**5.245 The committee recommends that the Government revisit the measures proposed in Schedules 3 and 4 of the Enhancements Bill. Further consultation with stakeholders should be undertaken to address the concerns identified throughout the inquiry and to develop measures that will ensure cohesive and consistent national consumer credit legislation and an appropriate balance between consumer protection and industry viability.**

*Fig. 1: Hartleys earnings estimate changes*

Profit & Loss (\$m)	6/11A	6/12F			6/13F			6/14F		
	Actual	Old	New	% diff	Old	New	% diff	Old	New	% diff
Safrock Loan Book (end)	62.2	79.1	78.7	-0.4%	102.1	103.6	1.5%	101.0	106.1	5.0%
Revenue	185.1	234.9	233.0	-0.8%	275.6	276.5	0.3%	289.8	293.7	1.4%
<b>EBITDA</b>	<b>43.9</b>	<b>54.2</b>	<b>53.0</b>	<b>-2.1%</b>	<b>66.2</b>	<b>65.5</b>	<b>-1.1%</b>	<b>48.6</b>	<b>51.9</b>	<b>6.8%</b>
- margin	<b>23.7%</b>	<b>23.1%</b>	<b>22.8%</b>	<b>-1.3%</b>	<b>24.0%</b>	<b>23.7%</b>	<b>-1.4%</b>	<b>16.8%</b>	<b>17.7%</b>	<b>5.3%</b>
Depreciation/Amortisation	-3.4	-5.3	-5.3	-0.1%	-7.4	-7.3	-0.3%	-8.8	-8.8	-0.2%
PBT before o/head interest	40.6	48.9	47.7	-2.3%	58.9	58.2	-1.2%	39.8	43.1	8.3%
Net Interest	0.0	-1.4	-1.5		-2.5	-2.7		-1.2	-1.6	
Pretax Profit	39.2	47.5	44.3	-6.7%	56.4	55.5	-1.6%	38.6	41.5	7.5%
Tax	-11.6	-14.0	-13.1	-6.7%	-16.7	-16.4	-1.6%	-11.4	-12.2	7.5%
<b>Norm. Net Profit After Tax</b>	<b>28.6</b>	<b>33.5</b>	<b>32.6</b>	<b>-2.5%</b>	<b>39.7</b>	<b>39.1</b>	<b>-1.6%</b>	<b>27.2</b>	<b>29.2</b>	<b>7.5%</b>
- margin	15.4%	14.2%	14.0%		14.4%	14.1%		9.4%	9.9%	
<b>Reported Profit</b>	<b>27.6</b>	<b>33.5</b>	<b>31.2</b>	<b>-6.7%</b>	<b>39.7</b>	<b>39.1</b>	<b>-1.6%</b>	<b>27.2</b>	<b>29.2</b>	<b>7.5%</b>
DPS	3.50	3.50	3.50	0.0%	3.50	3.50	0.0%	3.50	3.50	0.0%
EPS	7.1	8.4	8.2	-2.5%	9.9	9.8	-1.6%	6.8	7.3	7.5%
P/E	7.1x	6.0x	6.2x		5.1x	5.2x		7.4x	6.9x	
Net Debt	-0.8	17.4	18.9	8.4%	19.7	24.0	22.0%	4.7	11.6	146.1%

Source: Hartleys Research

## PRICE TARGET METHODOLOGY

Our price target is the average of four components. The assumption is there is a chance of each of the following happening.

*Our price target is the weighted average of four components.*

### Fundamental Valuation (DCF)

Assumes our base case cash flow estimates for CCV are correct and share price trades to our fundamental valuation.

### Market Put (Dividend yield)

Assumes company delivers our earnings estimates, but the equity market falls significantly so that dividend yield becomes the support level for the stock.

### Earnings Disappointment (NTA)

Net Tangible Asset (NTA) Value - assumes the company misses profit estimates and market is only prepared to pay book value.

### Positive Market Momentum (P/E multiple)

Attempts to capture market momentum (i.e. assumes that comparison company P/E's converge when markets are moving).

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## PRICE TARGET

Our twelve month price target is \$0.77 (previously \$0.76).

CCV Price Target Methodology	Weighting	Spot	12 mth out
DCF	49%	\$0.82	\$0.85
- 10 years explicit + terminal growth value (Bull Case)	15%	\$1.01	\$1.01
- 10 years explicit + terminal growth value (Base Case)	34%	\$0.74	\$0.77
12mth forward P/E (diluted) of 8.4x (back calc. based on 10x FY14)	31%	\$0.73	\$0.74
Price / Book (Jun '11a) 1x \$0.46	10%	\$0.46	\$0.46
12mth fwd Div Yield of 4.6% (Gross yield=6.6%)	11%	\$0.76	\$0.76
<b>Risk weighted composite</b>		<b>\$0.75</b>	<b>\$0.77</b>
<b>12 Months Price Target</b>		<b>\$0.77</b>	
Shareprice - Last		\$0.505	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>59%</b>	

Source: Hartleys Estimate

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## RISKS

The key risk for CCV is changes to the regulatory framework. Both the UK and Aust Governments have made recent regulatory announcements which hopefully provides some certainty for the next few years. The other key risks comes from competition in second hand good selling, and potentially in micro lending and controlling the bad and doubtful debts in the money lending segments. For some good reading on regulatory issues, see

[http://www.ofc.gov.uk/shared\\_ofc/reports/consumer\\_credit/High-cost-credit-review/OFT1232.pdf](http://www.ofc.gov.uk/shared_ofc/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf)

Aust: <http://www.treasury.gov.au/contentitem.asp?NavId=002&ContentID=2131f>  
[www.nocap.com.au](http://www.nocap.com.au) and

[http://www.aph.gov.au/senate/committee/corporations\\_ctte/Consumer\\_Credit\\_Corporations\\_2011/report/report.pdf](http://www.aph.gov.au/senate/committee/corporations_ctte/Consumer_Credit_Corporations_2011/report/report.pdf)

Hartleys Gold Research Coverage					Hartleys Research Recommendation
Name	Ticker	Last Price*	M. CAP (A\$m)	Status	
<b>Resources</b>					
<b>Gold / Precious Metals</b>					
1. Evolution Mining Limited	EVN	1.87	1,311	Producer	Buy
2. Silver Lake Resources Limited	SLR	3.58	738	Producer	Buy
3. Intrepid Mines Limited	IAU	1.05	549	Explorer	Speculative Buy
4. Integra Mining Limited	IGR	0.570	480	Producer	Buy
5. Beadell Resources Limited	BDR	0.690	454	Developer	Buy
6. Gold One International Limited	GDO	0.550	444	Producer	No Rating
7. Northern Star Resources Ltd	NST	0.880	308	Producer	Buy
8. Focus Minerals Ltd	FML	0.059	255	Producer	Buy
9. ABM Resources NL	ABU	0.075	244	Explorer	Speculative Buy
10. Tanami Gold NL	TAM	0.920	240	Producer	Accumulate
11. PMI Gold Corporation Limited	PVM	1.03	206	Developer	Speculative Buy
12. Papillon Resources Limited	PIR	0.685	142	Explorer	Speculative Buy
13. YTC Resources Limited	YTC	0.460	114	Developer	Buy
14. Cerro Resources NL	CJO	0.130	97	Developer / Explorer	Accumulate
15. Emmerson Resources Limited	ERM	0.265	60	Explorer	Speculative Buy
16. Mutiny Gold Limited	MYG	0.073	31	Developer	Speculative Buy
17. Cortona Resources Limited	CRC	0.135	30	Developer	Accumulate
18. Augur Resources Ltd	AUK	0.155	27	Explorer	Speculative Buy
19. Canyon Resources Limited	CAY	0.470	21	Explorer	Speculative Buy
20. Southern Gold Limited	SAU	0.044	11	Explorer	Speculative Buy
21. Geopacific Resources NL	GPR	0.275	10	Explorer	Speculative Buy
<b>Diversified Base / Precious Metals</b>					
22. Independence Group NL	IGO	4.40	891	Gold & Base Prod./Dev.	Buy
23. Aviva Corporation Limited	AVA	0.130	22	Gold & Base Explorer	Speculative Buy
24. Ausquest Limited	AQD	0.070	16	Diversified explor	Speculative Buy
25. Silver Swan Group Ltd	SWN	0.065	9	Base Metal Explorer	Speculative Buy
<b>Iron Ore</b>					
26. Atlas Iron Limited	AGO	2.87	2,552	Producer	Buy
27. Centaurus Metals Ltd	CTM	0.510	68	Explorer	Speculative Buy
<b>Uranium</b>					
28. Peninsula Energy Ltd	PEN	0.036	77	Developer	Accumulate
29. Impact Minerals Limited	IPT	0.061	7	Explorer	Speculative Buy
<b>Other metals</b>					
30. Kasbah Resources Limited	KAS	0.165	60	Tin Developer	Buy
31. Hazelwood Resources Ltd	HAZ	0.150	40	Tungsten Developer	Speculative Buy
32. Shaw River Resources Limited	SRR	0.140	35	Manganese: Developer	Speculative Buy
Sub-Total			9,547		

Hartleys Oil & Gas Research Coverage					Hartleys Research Recommendation
Name	Ticker	Last Price*	M. CAP (A\$m)	Status	
<b>Oil &amp; Gas</b>					
<b>Conventional Oil &amp; Gas</b>					
1. Woodside Petroleum Ltd	WPL	32.80	26,018	Major	Buy
2. Nexus Energy Ltd	NXS	0.32	307	Developer / Explorer	No Rating
3. Tap Oil Ltd	TAP	0.64	154	Producer / Explorer	Buy
4. Cooper Energy Ltd	COE	0.39	114	Producer / Explorer	Buy
5. Otto Energy Ltd	OEL	0.08	96	Explorer / Producer	Buy
6. Carnarvon Petroleum Ltd	CVN	0.11	72	Producer / Explorer	Accumulate
7. WHL Energy Ltd	WHN	0.06	70	Explorer	Speculative Buy
8. Amadeus Energy Ltd	AMU	0.21	63	Producer / Explorer	Neutral
9. Pancontinental Oil and Gas NL	PCL	0.09	58	Explorer	Speculative Buy
10. FAR Ltd	FAR	0.03	55	Explorer	Speculative Buy
11. Hawkeye Oil and Gas Ltd	HOG	0.22	41	Producer / Explorer	Buy
12. Sun Resources NL	SUR	0.02	23	Explorer / Producer	Speculative Buy
<b>Non Conventional Oil &amp; Gas</b>					
13. Aurora Oil and Gas Ltd	AUT	3.34	1,373	Producer / Developer	Reduce
14. Samson Oil & Gas Ltd	SSN	0.08	145	Developer / Producer	Buy
15. Oilex Ltd	OEX	0.25	63	Explorer / Producer	Speculative Buy
16. European Gas Ltd	EPG	0.28	55	Producer / Explorer	Speculative Buy
17. Transerv Energy Ltd	TSV	0.01	36	Developer	Speculative Buy
18. Emerald Oil and Gas NL	EMR	0.03	20	Producer / Appraisal	Speculative Buy
19. Austin Exploration Ltd	AKK	0.03	17	Producer / Appraisal	Speculative Buy
Sub-Total			28,780		
<b>Industrials</b>					
<b>Resource Services - Capital Intensive</b>					
1. Ausdrill Limited	ASL	2.89	871	Contract Drilling	Buy
1. NRW Holdings Ltd	NWH	2.86	798	Contract mining	Buy
2. Fleetwood Corporation	FWD	11.96	692	Accommodation	Neutral
2. Mermaid Marine Ltd	MRM	2.95	635	Oil & Gas Services	Accumulate
3. Macmahon Holdings Limited	MAH	0.58	426	Contract mining	Accumulate
3. Index Ltd	IMD	1.90	389	Drilling Supplies	Buy
4. MACA Ltd	MLD	1.91	287	Contract mining	Buy
4. Matrix Composites &	MCE	3.24	250	Oil & Gas Services	Neutral
5. Pacific Energy Ltd	PEA	0.37	127	Remote Power	Buy
5. Swick Mining Services Ltd	SWK	0.29	69	Contract Drilling	Buy
<b>Resource Services - Labour Intensive</b>					
6. Monadelphous Group Limited	MND	19.89	1,742	Construction	Buy
6. Decmil Group Limited	DCG	2.14	266	Construction	Buy
7. Lycopodium Limited	LYL	5.96	230	Engineer. & Constr.	Accumulate
7. RCR Tomlinson Ltd	RCR	1.64	218	Engineer. & Constr.	Buy
8. LogiCamms Limited	LCM	0.73	49	Engineer. & Constr.	Speculative Buy
<b>Other Industrial Companies</b>					
9. Austal Limited	ASB	2.16	406	Civil and Military	Buy
9. iiNet Limited	IIN	2.69	402	Telecommunications	Buy
10. Amcom Telecommunications	AMM	0.86	206	Telecommunications	Accumulate
10. Cash Converters Internat.	CCV	0.48	192	Unsecured Finance	Buy
Sub-Total			8,253		
70. GRAND TOTAL			46,579		

Source: IRESS, Hartleys Research. \* 5 Dec 2011

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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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