WA Industrials: Unsecured Finance

Hartleys

CCV.asx
Buy

CASH CONVERTERS INTERNAT. LIMITED

Retail royalty

The Cash Converters Limited ("Cash Converters", "CCV", "Company") first store opened in Perth in 1984. The success led to a global rollout of the franchise through the 1990's. Currently there are 708 stores in 18 countries. However only those stores in the UK and Australia are franchised directly to CCV, the others operate under a licence agreement with CCV.

Most of the senior management team have been with the Company for 15-20 years. They have significant experience and a record of innovation, which is one of the reasons the extended family of global stores stay in close contact.

CCV generates its profits from Australia (148 stores) and UK (222 stores). The ownership of stores is split between franchise and Company owned stores. The Company owned stores (45 in Aust., 61 in UK) help maintain network control, encourage product development & rollouts and generate profit. In recent years, the financial products division has shown significant earnings growth.

CCV generating strong returns on capital

Cash Converters generates a strong return on capital. In our view, the returns are not a function of an unsophisticated client base, but arise from economies of scale, product innovation and a fundamental understanding of its customer's needs. This market knowledge creates strong customer loyalty which limits bad debts. The finance division provides unsecured finance to customers with a poor credit history, which competitors have shown can be very risky. The very strong brand affinity, staff training, inventory management, multiple product streams, store fit-outs and in-house credit score systems limit bad debts and enable returns above competitors.

Regulation put to bed

The UK and Australia have recently been through extensive regulatory reviews. The UK regulatory review led to increased disclosures. The Australian review resulted in new legislation passing parliament to limit the charges on small loans and will become effective on 1 July 2013. The legislation encourages modestly longer duration loans and we believe it will not have a meaningful profit impact.

Hartleys expects FY13 NPAT of $40.9m, FY14 $51.4m

We expect 1H13 EBIT of $29.1m (1Q13 EBIT reported $14.2m, unaudited). We expect 1H13 NPAT of $19.3m and a dividend of 1.75cps. We expect a modest net cash position at 31st December (~$2m). We expect FY13 NPAT of $40.9m and a larger 2H dividend to bring the full year to 3.75cps (~40% payout). We expect FY14 NPAT of $51.4m and a 4cps dividend.

Buy recommendation with ~$1.32 twelve month price target

We believe one of Australia's best retail management teams has been hidden by the low market cap and poor industry perception. CCV have built a global business and are leaders in their industry. The business strategy in the 1990's was a 100% franchise model which resulted in the franchisees making the bulk of the profit. The development of the financial products in the past five years has given management a second opportunity to grow CCV. And the lessons learned by the team over the past 30 years mean the risks are the lowest they have ever been, in our view. We expect to see significant earnings growth for CCV over coming years, yet the company trades on very low earnings multiples.

We estimate CCV is trading on FY13 p/e (mkt cap / NPAT) of ~10.7x and FY14 of ~8.5x. We have a 12 month price target for CCV of ~$1.32, which implies the stock can trade on a FY14 p/e of 11.1x, or there are earnings upgrades.

	10 Dec 2012
Share Price:	$1.030
Valuation:	$1.41
12mth price target:	$1.32

Brief Business Description:
Payday lending, consumer finance & second hand retailer in UK & Aust.
Hartleys Brief Investment Conclusion:
High returns, industry tailwinds, market leader.

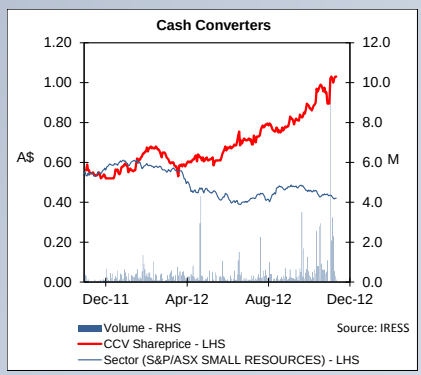
Chairman & CEO:
Mr Reginald Webb (Chairman)
Mr Peter Cumins (Managing Director)
Top Shareholders:
EZ Corp 32.3%
Fidelity Mgt & Res. (FMR) 5.5%

Company Address:
Level 18, 37 St. Georges Tce
Perth, WA, 6000

Issued Capital:	423.9m
- fully diluted	432.0m
Market Cap:	$436.6m
- fully diluted	$444.9m
Net Debt (31 Dec '12e):	-$1.7m

	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)	13.3x	10.1x	8.5x
P/E (diluted)	12.6x	10.4x	8.7x
EV / EBITDA	8.5x	6.6x	5.3x
DPS ($)	3.50	3.75	4.00
Franking	100%	100%	100%
Dividend Yield	3.4%	3.6%	3.9%
N.D. / equity	14.1%	17.9%	15.8%

Source: Hartleys Research



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Hartleys is Lead Manager for a capital raising which is being completed 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 CCV, 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.

SUMMARY MODEL

Cash Converters International Ltd (CCV)

Company Information		
Today's Date	10 Dec 2012	Level 18, 37 St. Georges Tce
Share Price	$1.030	Perth, WA, 6000
52 Week High-Low	$1.065 - $0.505	Ph: (08) 9221 9111
Market Cap ($m)	$436.6	Fax: (08) 9221 9011
Enterprise Value ($m)	$434.9	www.cashconverters.com.au
Ordinary Shares	423.9	
Fully Diluted Shares	432.0	

Spot DCF - 9 years explicit + terminal value (Base Case)	$1.41
12mth fwd DCF - 9 years explicit + terminal value (Base Case)	$1.50
12mth forward P/E of 10.0x	$1.25
Price / NTA (Jun '13e) 1x $0.30	$0.30
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)	$1.12
12mth price target	**$1.32**
P / E (6/13F) at price target	*13.9x*
P / E (6/14F) at price target	*11.1x*
EV/EBITDA (6/14F) at price target	*7.5x*
EV/EBIT (6/14F) at price target	*8.1x*

Multiples (S/price at $1.03)	6/11A	6/12A	6/13F	6/14F
P / E (basic, weighted)	14.2x	13.3x	10.1x	8.5x
P / E (fully diluted, weighted)	14.0x	12.6x	10.4x	8.7x
P / E (ord mkt cap / NPAT)	15.3x	13.6x	10.7x	8.5x
Dividend Yield	3.4%	3.4%	3.6%	3.9%
Group Free Cash Flow (f.c.f) / EV	-5.2%	-3.5%	-7.9%	3.8%
Equity f.c.f. / Mkt Cap	-5.8%	-4.3%	-8.8%	2.6%
Norm f.c.f. / Mkt cap	-5.8%	-4.3%	-8.8%	2.6%
Mkt cap / operating cash flow	10.5x	10.3x	9.6x	5.4x
EV/EBITDA multiple	9.9x	8.5x	6.6x	5.3x
EV/EBIT multiple	10.7x	9.3x	7.1x	5.7x
Price / Book Value	2.2x	2.1x	1.8x	1.6x
Price / NTA	5.0x	4.2x	3.4x	2.7x

Ratios	6/11A	6/12A	6/13F	6/14F
Return on Average Equity	16.9%	17.8%	19.0%	19.7%
Return on Assets	13.3%	13.0%	13.7%	14.5%
ROIC	43.4%	46.8%	46.3%	44.6%
ND / ND + Equity	-0.5%	12.3%	15.2%	13.7%
Net Interest Cover (EBIT)	2,051.4	29.7	18.2	21.3
Reported eps growth	10.3%	6.4%	31.3%	19.2%
Free Cash Flow Analysis	**6/11A**	**6/12A**	**6/13F**	**6/14F**
Net Operating Cash Flow	31.7	25.3	25.6	56.9
Capex (Reported) inc loan book	-54.6	-40.7	-59.8	-40.2
Group Free Cash Flow (rep'ted)	-22.8	-15.4	-34.2	16.6
Fixed Debt Repayments	-2.6	-3.3	-4.1	-5.1
Equity Free Cash Flow (rep'ted)	**-25.4**	**-18.7**	**-38.3**	**11.5**
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-25.4	-18.7	-38.3	11.5
Capex (inc HP) / depreciation	282%	278%	138%	165%

Share Data	6/11A	6/12A	6/13F	6/14F
Ord Issued shares (m)	379.8	379.8	423.9	424.2
growth	0.0%	0.0%	11.6%	0.1%
Weighted ave shares (m)	379.8	379.8	401.8	424.0
growth	15.9%	0.0%	5.8%	5.5%
Diluted shares wgted (m)	388.1	393.1	412.5	432.0
growth	18.1%	1.3%	4.9%	4.7%

Unpaid Capital

Year Expires	Number	% ord	Avg Price	$m unpaid
30-Jun-13	-	0.0%	$ -	$ -
30-Jun-14	300,000	0.1%	$ -	$ -
30-Jun-15	-	0.0%	$ -	$ -
30-Jun-16	-	0.0%	$ -	$ -
30-Jun-17	7,800,000	1.8%	$ -	$ -
TOTAL	8,100,000	1.9%	$ -	$ -

Directors & Senior Management
Mr Reginald Webb (Chairman)
Mr Peter Cumins (Managing Director)
Mr John Yeudall (Non-executive Director)
Mr William Love (Non-executive Director)
Mr Joseph Beal (Non-executive Director)
CFO - Mr Ralph Groom

Substantials	
EZ Corp	32%
Fidelity Mgt & Res. (FMR)	5.5%

Recommendation: Buy

Profit & Loss ($m)	6/11A	6/12A	6/13F	6/14F
AUD/GBP	0.627	0.655	0.669	0.664
Safrock Loan Book	62.2	86.8	108.3	139.0
Safrock Revenue	56.6	87.1	118.6	152.3
Safrock PBT	24.4	33.5	45.0	57.1
margin	*43.1%*	*38.4%*	*38.0%*	*37.5%*
Mon-e Revenue	13.9	16.6	22.9	25.4
Mon-e PBT	12.3	13.7	17.5	20.1
margin	*88.8%*	*82.3%*	*76.3%*	*79.1%*
Owned # (UK + Aust) - end	88	102	122	141
Owned Stores Revenue	100.9	122.8	157.3	161.7
Owned Stores PBT	8.6	8.1	11.0	11.3
margin	*8.5%*	*6.6%*	*7.0%*	*7.0%*
Franchised # (UK + Aust) - end	249	263	266	276
Franchise Revenue	27.4	23.5	23.9	24.7
Franchise PBT	6.5	6.1	5.7	5.9
margin	*23.7%*	*25.8%*	*24.0%*	*24.0%*
Group Revenue	**185.1**	**233.5**	**322.6**	**364.1**
growth	*46.2%*	*26.2%*	*38.1%*	*12.9%*
Divisional PBT	51.8	61.3	79.2	94.5
Overheads	-12.6	-19.9	-19.9	-21.9
EBITDA - Group	**43.9**	**51.2**	**65.8**	**81.8**
growth	***34.8%***	***16.5%***	***28.6%***	***24.2%***
EBITDA / Sales	**23.7%**	**21.9%**	**20.4%**	**22.5%**
Depreciation/Amortisation	-3.4	-4.3	-4.9	-5.8
EBIT	**40.6**	**46.9**	**60.9**	**75.9**
EBIT / Sales	21.9%	20.1%	18.9%	20.9%
Net Corporate Interest	0.0	-1.6	-3.3	-3.6
Pretax Profit	**39.2**	**41.4**	**57.5**	**72.4**
Tax	-11.6	-12.0	-16.7	-21.0
Effective Tax Rate	29.5%	29.0%	29.0%	29.0%
Minorities	0.0	0.0	0.0	0.0
Normalised NPAT to equity	**28.6**	**32.2**	**40.9**	**51.4**
Norm. Net Profit / Sales	**15.4%**	**13.8%**	**12.7%**	**14.1%**
Abnormals / discontinued	-0.9	-2.8	0.0	0.0
Reported Profit to equity	**27.6**	**29.4**	**40.9**	**51.4**
Reported EPS (basic, w'ted)	**7.3**	**7.7**	**10.2**	**12.1**
Normalised EPS (dil, w'ted)	**7.4**	**8.2**	**9.9**	**11.9**
DPS ($)	**0.0350**	**0.0350**	**0.0375**	**0.0400**
Franking	100%	100%	100%	100%
Payout Ratio	46.5%	41.3%	38.9%	33.0%

Cashflow Statement ($m)	6/11A	6/12A	6/13F	6/14F
EBITDA (inc Safrock interest)	43.9	51.2	65.8	81.8
Working Capital Change	-2.2	-8.9	-20.2	-0.3
Cash from Operations	**41.8**	**42.3**	**45.6**	**81.4**
Corporate Interest	0.1	-1.7	-3.3	-3.6
Tax Paid	-10.1	-15.3	-16.7	-21.0
Net Operating Cash Flow	**31.7**	**25.3**	**25.6**	**56.9**
Capital Expenditure	-9.5	-11.9	-6.8	-9.6
Other (including loan book)	-16.7	-22.7	-21.5	-30.7
Investments & acquisitions	-28.4	-6.1	-31.5	0.0
Net Investing Cash Flow	**-54.6**	**-40.7**	**-59.8**	**-40.2**
Proceeds from Equity Issues	0.0	0.0	30.8	0.0
Net Change in Debt & Leases	9.4	20.4	7.5	0.3
Dividends Paid	-12.3	-11.1	-14.1	-17.0
Net Financing Cash Flow	**-3.5**	**9.0**	**24.2**	**-16.6**
Movement in Cash	**-26.3**	**-6.5**	**-10.0**	**0.0**
HP Lease Capex (non-cash)				

Balance Sheet ($m)	6/11A	6/12A	6/13F	6/14F
Cash	23.5	16.4	6.4	6.4
Receivables	9.0	10.9	15.0	16.9
Inventories	14.1	17.1	41.1	42.3
Other (including loan book)	66.4	91.1	112.6	143.3
Total Current Assets	**112.9**	**135.5**	**175.2**	**209.0**
Property, Plant & Equipment	13.2	19.6	30.0	34.5
Intangibles (inc. Goodwill)	96.9	92.7	115.6	114.9
Other	9.7	14.9	14.9	14.9
Total Non Current Assets	**119.7**	**127.3**	**160.6**	**164.4**
Total Assets	**232.7**	**262.7**	**335.8**	**373.3**
Accounts Payable	20.3	19.6	27.6	30.3
Interest Bearing Liabilities	4.6	11.3	11.3	11.3
Other	11.2	13.8	13.8	13.8
Total Current Liabilities	**36.1**	**44.7**	**52.7**	**55.4**
Accounts Payable	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	18.0	31.4	38.9	39.2
Other	3.3	0.1	0.1	0.1
Total Non Current Liabilities	**21.3**	**31.4**	**38.9**	**39.3**
Total Liabilities	**57.4**	**76.1**	**91.6**	**94.7**
Net Assets	**175.3**	**186.6**	**244.2**	**278.6**
Net Asset Value / Share ($)	0.46	0.49	0.58	0.66
NTA / Share ($)	0.21	0.25	0.30	0.39
Net Debt (net cash)	-0.8	26.2	43.8	44.1

Analyst: Trent Barnett
Phone: +61 8 9268 3052

Last Earnings Estimate Changes:
28 November 2012

Sources: IRESS, Company Information, Hartleys Research

BUSINESS OVERVIEW

CCV operates retail merchandise stores and provides unconventional finance for small loan amounts or for people who have difficulty accessing credit

CCV operates retail merchandise stores and provides unconventional finance for small loan amounts or for people who have difficulty accessing credit. The unique store offering means there is a wide cross section of the community likely to enter a Cash Converters store. The modern retailing practices, professional management techniques and high ethical standards mean the Company has built very strong brand loyalty.

Globally we estimate the network makes $400m pa of EBIT, but the business strategy in the 1990's was a 100% franchise model which has resulted in the franchisees making the bulk of profits. CCV changed their strategy about six years ago to bring the earnings stream back into CCV. The Company relaunch focused on Australian corporate earnings, and then moved to grow the corporate UK earnings. In the medium term, we see opportunities in Europe.

Fig. 1: Example of a Cash Converters Store

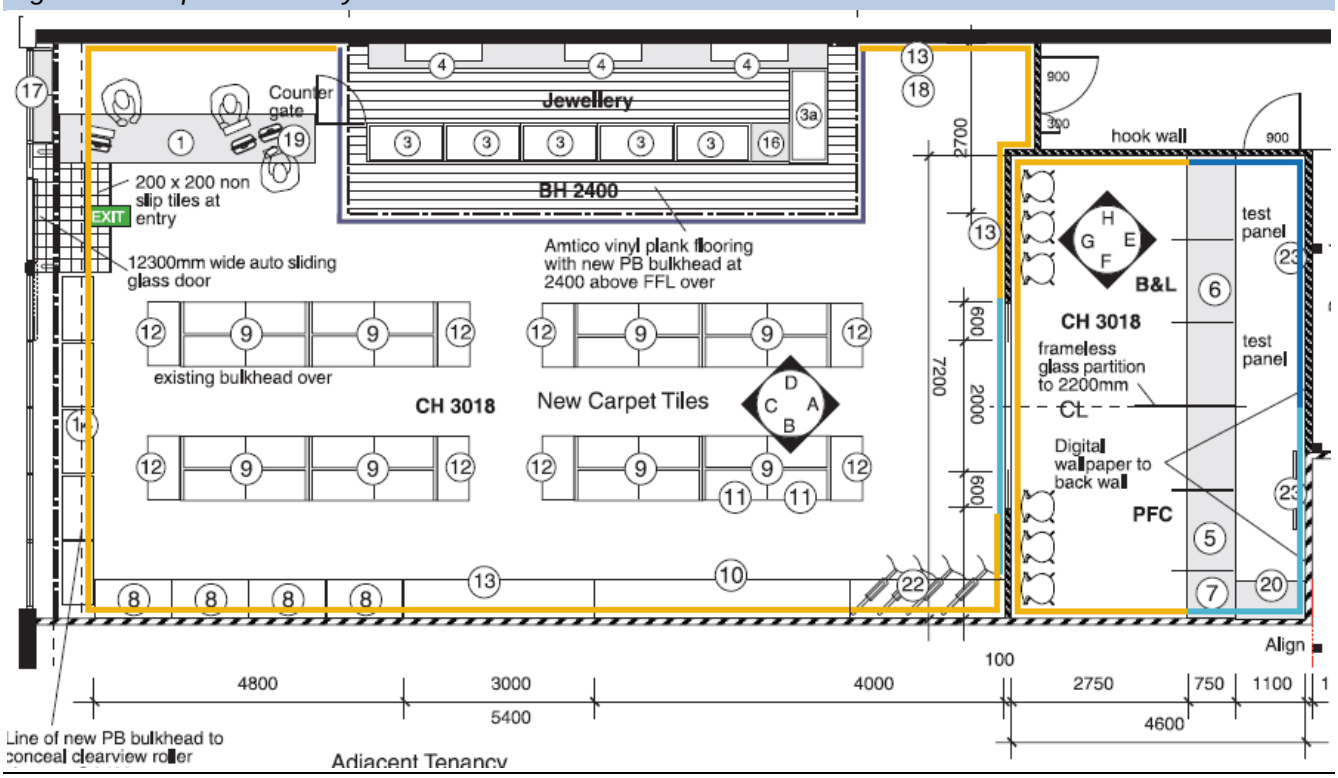
Source: CCV

STORE OPERATIONS

Store operations are a critical (and unique) aspect of Cash Converters. They help build foot traffic and improve branding (eg the "thrift buying" allure has led to some very high profile people purchasing at stores).

"Stores operations" is the buying and selling second-hand goods over the counter for cash. Although store presentation is deliberately similar to other retailers, the operation of a store is very different. The main difference is inventory management, given the store sources and sells goods to the local community. Consequently, greenfield stores can take up to eighteen months to become profitable (and 3-4 years to mature) because building a high inventory turnover requires momentum in two directions. Store operations are profitable and are a critical (and unique) aspect of Cash Converters. They help build foot traffic and improve branding (eg the "thrift buying" allure has led to some very high profile people purchasing at stores). Even in the poorer performing stores, sales at the very least cover the point-of-sale overheads for the finance operations and hence improve its competitiveness. Finally, store sales reduce short term regulatory risks on earnings.

Fig. 2: Example store layout



Source: CCV

Online Division

Cash Converters has an Australian and UK website whereby stores can advertise and sell goods on-line. The Company receives a commission based on an agreed percentage of sales for providing the 'Webshop' online service to its franchisees. Online product sales have grown 44.4% across the Australian and UK operations over the past 12 months.

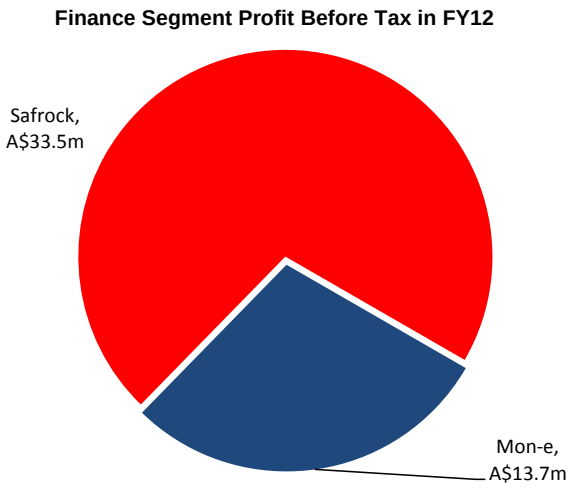
The Company launched on-line lending in Australia in 2010 and in the UK in 2011. In FY12, $15m Australian on-line loans were written and £1m. The on-line lending appears incremental to the store loans, with 75-80% of on-line loans sought by new customers.

The finance division has been operating in Australia for several years, but was only launched in the UK eighteen months ago

FINANCIAL PRODUCTS

The finance division has been operating in Australia for several years, but was only launched in the UK eighteen months ago. It provides short-term cash solutions via Safrock and Cash Advance (Mon-e).

Fig. 3: Finance Segments



Source: FY12 Report

Fig. 4: Four unconventional finance product offerings

	Safrock		Mon-e		Pawn Broking		Retail Product Sales
Geography	Australia and the UK		Australia and the UK		Both Australia and UK		Australia and the UK
Channels	In store or online		Completion in store (initiating online shortly)		In store		In store or online through our "Webshop" website
Security	Unsecured		Unsecured		Secured		N/A
Loan Size	$600 - $2,000 (avg $1,048)	£300 - £1,000 (avg £ 541)	$50-$1,000 (avg $331)	£50 - £300 (avg £121)	(avg is $90)	(avg £60)	Avg value of product sale per item is $75 & £30
Loan Duration	Usually four to seven months		usually repaid within four weeks		Varies from a minimum of 1 month to a maximum of 6 months. Goods may be redeemed by their owner at any time.		N/A
Credit Check	Yes		No		N/A		Identity check, cross check with police stolen property reports
Loan capital provider	Cash Converters		Franchisee		Franchisee		Franchisee

Source: CCV

Mon-E

MON-E runs the software platform for the Cash Advance product (very short term loans).

The new Australian legislation will limit the fee on this product to 20% upfront and 4% per month. That means that for a 30 day loan the maximum fee would by 24% (versus current rate of 35%) and for a 45 day loan the maximum fee would be 28%.

MON-E runs the software platform for the Cash Advance product (very short term loans). CCV derives its income from receiving a commission on the collection of all loan principal repayments. The capital for the loans is provided by the franchise owners, who are also responsible for the bad debts.

The characteristics of these short-term loans are:

- The loan is usually repaid within four weeks;
- The loan is unsecured, but the customer does need to show evidence of an income;
- The amount advanced is usually in the range of $50 to under $1,000, with the average loan being $260;
- Customer maximum borrowing limit (as measured by % of income) increases as the customer repays debts (but the maximum allowed is around 25% of income)
- A flat fee of 35% of the principal is charged. The fee is not time based and compensates the lender for the high risk and no security nature of the loan.

MON-E itself does not perform credit checks. The customer usually only provides identification, payslips, proof of address and bank account details, which the operator inputs into the system.

On approval of the loan, the customer's repayment schedule is inputed and the system arranges for direct debits to occur directly to the customer's bank account at the agreed dates, as per the signed agreements.

The new Australian legislation will limit the fee on this product to 20% upfront and 4% per month. That means that for a 30 day loan the maximum fee would by 24% (versus current rate of 35%) and for a 45 day loan the maximum fee would be 28%. In our model, we assume a 13% reduction in margins for Mon-e Australia (from ~82% to ~72%).

Safrock

We believe Safrock is the largest driver of earnings. As a rule of thumb, annual divisional PBT is around 50% of the loan book.

Safrock provides larger unsecured loans and CCV provides the capital for both corporate and franchise stores.

The unsecured loans range from $1,000 to $2,000 and usually have a term of between four to nine months. Credit checks are undertaken and employment details are verified.

Bad debt levels in Australia have been stable for many years at 5-6% (of the principal loaned). In the UK, bad debt levels have been higher (11.3% in FY12). The UK personal loan book is only two years old and the level of bad debts is in line with the levels initially experienced when establishing the Australian personal loan business. Consequently, it is expected to fall as the book matures.

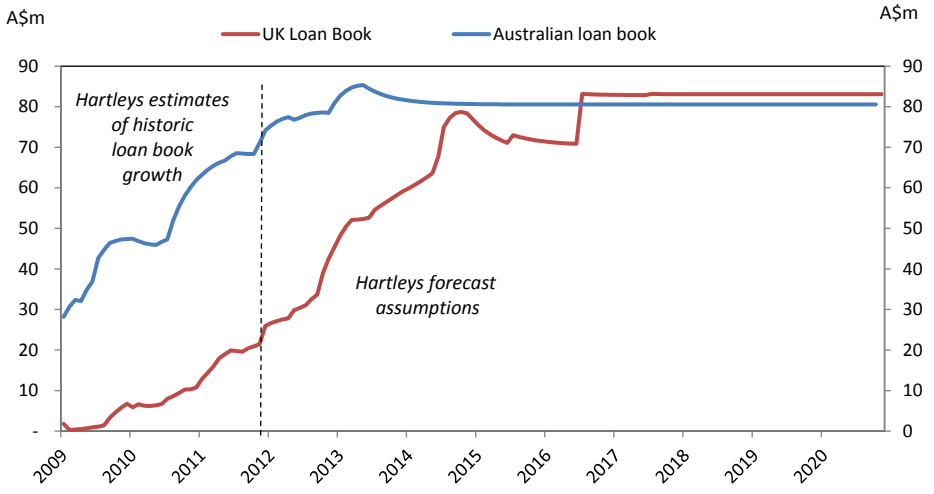
The capital for Safrock is provided by CCV, and historically it has been equity funded (the current loan book, not including expected interest, is ~$100m). We believe the Company is closer to a securitisation facility which would allow faster growth of the loan book.

The new Australian legislation will limit the fee on this product to 20% upfront and 4% per month. That means that for a seven month loan the maximum fee would be 48% of the principle loaned and for a 12 month loan the maximum fee would be 68% of the principle loaned. In our model, we assume margins fall modestly.

We believe Safrock is the largest driver of earnings. As a rule of thumb, annual divisional PBT is around 50% of the loan book. At the end of September, the Safrock loan book had grown to ~A$91m (Aust $67.1m, UK £15.3m), up from $86.8m at June. As at 13 November, the loan book added another ~$7m to ~A$98m (Aust $72.1m, UK £16.7m).

At the end of September, the Safrock loan book had grown to ~A$91m (Aust $67.1m, UK £15.3m), up from $86.8m at June. As at 13 November, the loan book added another ~$7m to ~A$98m (Aust $72.1m, UK £16.7m).

Fig. 1: UK and Aust Loan Growth



Source: Hartleys Estimates

CARBOODLE

Carboodle's niche is to provide long-term car leases to sub-prime customers (similar customer base to core CCV business).

A little over two years ago, CCV invested in Green Light Auto Group (holding company for the "Carboodle" start-up venture) via a convertible note ($4m) which converts to an 80% equity interest in July 2013. CCV's business development phase to date has been around five years – which is typical for CCV. The management team and Board conservatively evaluate many new product proposals and their success in such ventures is one reason we have titled this report "retail royalty".

Carboodle's niche is to provide long-term car leases to sub-prime customers (similar customer base to core CCV business). The sales/distribution centres service a large catchment area so the first point of customer contact is either via the web (link), a call centre or at a Cash Converters store. The car is typically ~3 years old (sourced by Carboodle) but is newer than the customer's current vehicle and better suits their needs. The customer receives full car maintenance for the term of the operating lease (4 years), insurance & registration, 4 year warranty and 24/7 roadside assistance. The packaging is attractive for the customer (access to a newer car and 'worry free motoring') and for the lender (better asset recovery).

CCV's business development phase to date has been around five years

Carboodle has four distribution centres (Perth, Melbourne, Sydney and Brisbane) and currently has >500 leases. The Company recently began radio advertising and has tested a television campaign in Perth. Given the early success of the rollout, we have explored the potential value of Carboodle.

Currently the fleet is ~500 cars. We assume the fleet grows to ~18k vehicles over six years (~$280m fleet market value) and is funded with equity and debt. We estimate steady state EBIT of ~$30-35m pa at maturity, although we don't include Carboodle in our CCV estimates because it's still too early stage

Modelling Carboodle

We assume the Carboodle fleet grows to ~18k vehicles over six years (~$280m fleet market value) and is funded with equity and debt. We estimate steady state EBIT of ~$30-35m pa at maturity, although we don't include Carboodle in our CCV estimates because it's still too early stage (we do attribute value in our valuation though). Note that 18,000 fleet we assume for Carboodle compares to the FY12 census of 16.7m registered vehicles (12.7m passenger vehicles) in Australia at an average age of 10 years (see link).

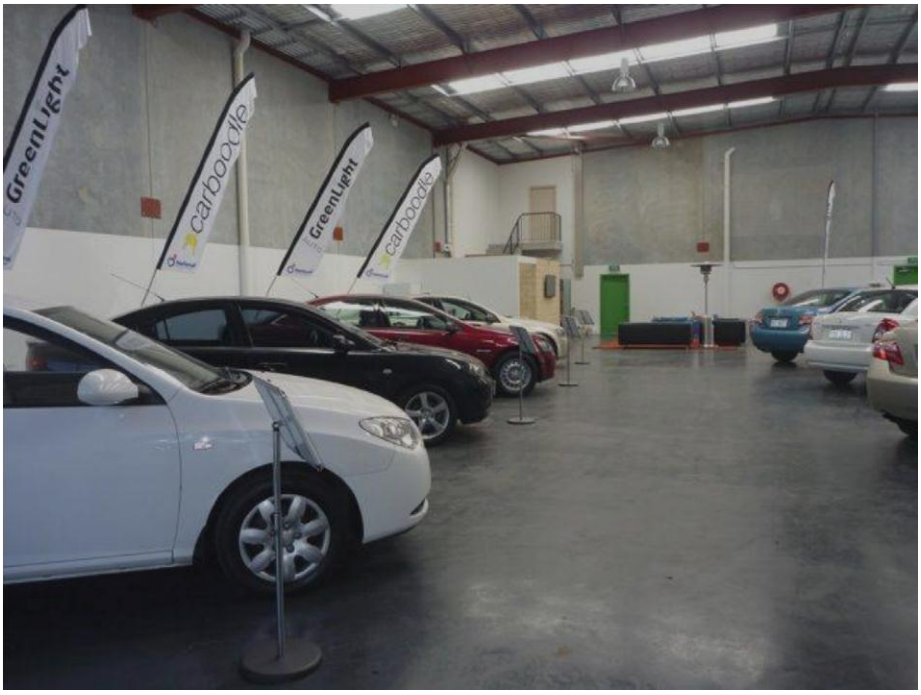
Longer term opportunities

Longer term expansion opportunities include a rollout into the UK and Europe. Additionally, if the Carboodle sub-prime business is successful at distributing second hand cars, it potentially opens avenues for CCV to pursue prime customers by offering a product in Australia similar to the product carmax.com (NYSE:KMX, mkt cap $8.2b) offers in the USA.

We believe that Carboodle has the potential to be as large as the current CCV business.

Inside the Perth Carboodle showroom

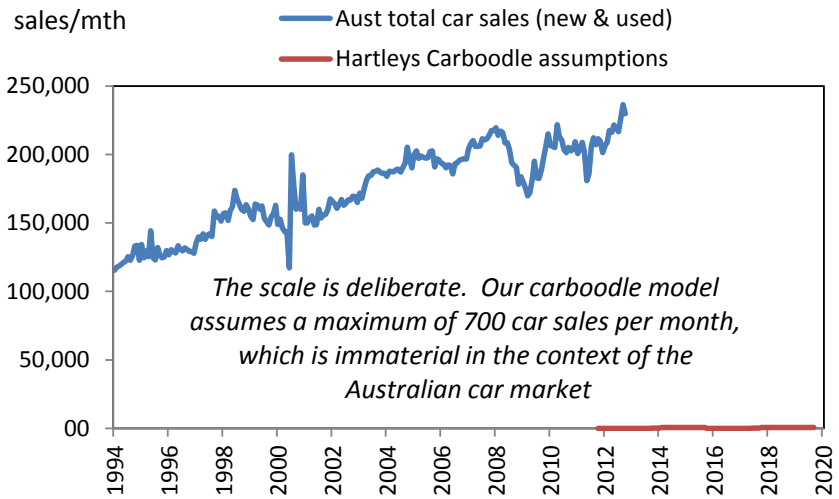
Fig. 2: Carboodle showroom



Source: google maps

The Australian car market

Fig. 3: Business model assumes negligible market penetration



Source: Hartleys, ABS. We conservatively assume that for every new car sale there are 1.4 second hand car sales.

INDUSTRY EXPOSURE

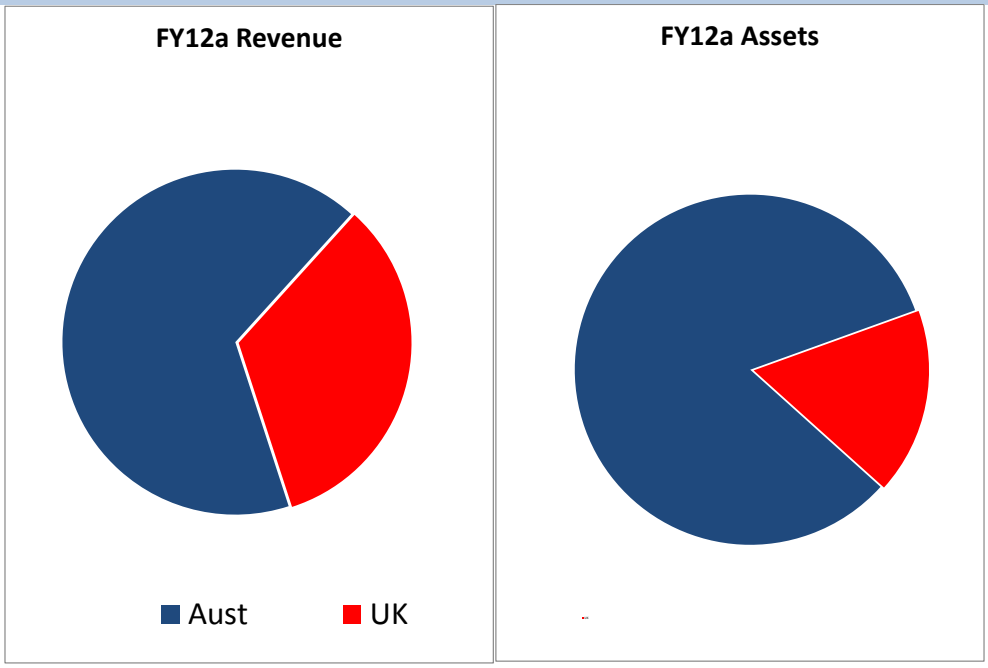
CCV is a retailer of second hand goods and finance provider for low income earners or people who have difficulty accessing credit. Via Carboodle, CCV has entered the motor vehicle market.

CCV has stores located in 18 countries, but Australia (the largest single country exposure) and the UK are the only meaningful contributors to CCV earnings.

GEOGRAPHIC EXPOSURE

CCV has stores located in 18 countries, but Australia (the largest single country exposure) and the UK are the only meaningful contributors to CCV earnings.

Fig. 4: Geographic Earnings Exposure



Source: FY08 Annual Report

Fig. 5: Percentage of Australian stores by state

NSW is under-represented in the Cash Converters Australian coverage and continues to be an opportunity for growth

Source: CCV Website, Hartleys

Fig. 6: "Cash Converter" Store (708 stores)

Country	Stores	Country	Stores
Australia – total stores	148	UK – total stores	222
Australia Corporate Stores	***45***	***UK Corporate Stores***	***61***
Belgium	22	Ireland	1
Holland	8	USA	7
Italy	1	New Zealand	13
France	85	South Africa	52
Spain	75	Thailand	1
Portugal	5	Singapore	7
Switzerland	3	Dubai (UAE)	1
Canada	49	Malaysia	7

Source: CCV

PEERS AND COMPETITORS

Mainstream shops and online auctions (eg E-bay) and community newspapers are the main competitor for the second hand goods operations. For finance, there are several competitors / peers...

- Credit card providers;
- Payday lenders & Pawn Shops
- White good rental companies;
- Store credit providers;
- Charities;
- Government.

Fig. 7: Comparisons

Bloomberg Consensus Estimates											P/E (dil. for new shs)					
NAME	TICKER	Last	M. CAP	"FY0"	EV/EBITDA			EV/EBIT			(curr mkt cap / NPAT)			Dividend Yield		
		Price	loc c (m)	Year	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Unconventional finance																
Cash Converters - Hartleys Estimates		**1.03**	**437**	**06/2012**	**8.5**	**6.6**	**5.3**	**9.3**	**7.1**	**5.7**	**13.6**	**10.7**	**8.5**	**3.4%**	**3.6%**	**3.9%**
CASH CONVERTERS INTL LTD	CCV AU	1.03	418	06/2012	9.3	6.9	6.4	9.7	7.4	6.7	13.8	10.8	10.0	3.4%	3.5%	3.6%
THORN GROUP LTD	TGA AU	1.94	284	03/2012	6.8	6.0	5.5	7.1	6.9	6.4	10.2	10.1	9.3	4.9%	5.3%	5.7%
FLEXIGROUP LTD	FXL AU	3.80	1,091	06/2012	11.4	13.0	11.4	15.3	13.3	11.7	18.0	15.4	13.4	3.2%	3.7%	4.2%
CABCHARGE AUSTRALIA LTD	CAB AU	4.17	502	06/2012	7.5	7.0	6.8	7.7	7.6	7.5	7.5	7.2	7.2	8.5%	8.9%	9.0%
THINKSMART LTD	TSM AU	0.18	29	12/2011	-20.7	73.5	10.5		-36.8	18.4		-28.6	9.5		0.0%	5.6%
MONEY3 CORP LTD	MNY AU	0.45	28	06/2012	4.3	2.9	2.3		3.5	3.0		7.9	6.6		8.9%	8.9%
ASK FUNDING LTD	AKF AU	0.15	10	06/2012	-12.0											
AUST AVERAGE					**7.9**	**18.2**	**7.2**	**10.0**	**7.7**	**8.9**	**12.4**	**10.3**	**9.3**	**5.0%**	**5.0%**	**6.2%**
AUST MEDIAN					**6.8**	**7.0**	**6.6**	**8.7**	**7.2**	**7.1**	**12.0**	**9.0**	**9.4**	**4.2%**	**4.5%**	**5.6%**
H&T GROUP PLC	HAT LN	271.50	99	12/2011	4.5	6.5	6.2	5.4	7.4	6.8	6.9	8.8	8.1	3.7%	3.9%	4.2%
PROVIDENT FINANCIAL PLC	PFG LN	1330.00	1,837	12/2011	11.4	11.7	10.7	11.8	11.4	10.3	15.6	13.7	12.6	5.2%	5.7%	6.3%
ALBEMARLE & BOND HOLDINGS	ABM LN	215.00	119	06/2012	5.9	6.7	6.6	6.5	7.5	7.7	7.4	9.0	9.1	6.1%	6.3%	6.0%
UK AVERAGE					**7.3**	**8.3**	**7.8**	**7.9**	**8.8**	**8.3**	**10.0**	**10.5**	**9.9**	**5.0%**	**5.3%**	**5.5%**
CASH STORE FINANCIAL/THE	CSF CN	4.26	75	09/2011	8.5	6.9	6.4				6.7	-24.1	12.6		8.5%	5.6%
CASH STORE AUSTRALIA HOLDING	AUC CN	0.14	2	06/2012	-0.2											
CANADA AVERAGE											**6.7**	**-24.1**	**12.6**	**nm**	**8.5%**	**5.6%**
CASH AMERICA INTL INC	CSH US	37.82	1,099	12/2011	4.9	4.8	4.1	5.9			8.9	8.6	7.6	0.4%	0.4%	0.4%
QC HOLDINGS INC	QCCO US	3.27	56	12/2011	3.4											
DFC GLOBAL CORP	DLLR US	17.60	754	06/2012	5.1	4.8	4.3	8.1	7.3	6.4	8.4	7.2	6.1			
WORLD ACCEPTANCE CORP	WRLD US	74.08	957	03/2012	4.3						11.3	9.2	8.2			
FIRST CASH FINL SVCS INC	FCFS US	48.58	1,390	12/2011	11.9	10.3	8.7	12.9	11.1	9.4	21.6	17.9	14.8			
EZCORP INC-CL A	EZPW US	19.17	985	09/2012	4.9	4.6	4.0	6.1			7.0	7.1	6.1			
USA AVERAGE					**5.7**	**6.1**	**5.3**	**8.2**	**9.2**	**7.9**	**11.4**	**10.0**	**8.6**	**0.4%**	**0.4%**	**0.4%**
Global unconven. finance median					**4.9**	**6.7**	**6.4**	**7.4**	**7.4**	**7.1**	**8.6**	**8.8**	**9.1**	**1.8%**	**3.5%**	**4.2%**
Average					**3.6**	**11.0**	**6.3**	**8.0**	**3.9**	**7.8**	**10.8**	**5.6**	**9.4**	**2.6%**	**3.6%**	**3.9%**
Aust Retail																
AUTOMOTIVE HOLDINGS GROUP LT	AHE AU	2.97	774	06/2012	9.1	7.9	7.5	10.8	9.5	9.0	12.5	10.4	9.6	6.0%	6.7%	7.4%
BILLABONG INTERNATIONAL LTD	BBG AU	0.89	424	06/2012	11.4	6.7	6.0	8.3	12.1	10.1	9.6	10.7	8.5	3.2%	0.3%	3.3%
DAVID JONES LTD	DJS AU	2.48	1,319	07/2012	9.8	7.1	7.2	9.1	9.6	9.9	12.5	13.3	14.0	7.1%	6.9%	6.4%
JB HI-FI LTD	JBH AU	10.11	999	06/2012	6.2	6.3	6.1	7.5	7.7	7.4	9.7	9.8	9.6	6.6%	6.3%	6.5%
MYER HOLDINGS LTD	MYR AU	2.19	1,278	07/2012	5.6	5.4	5.4	7.2	7.6	7.6	9.3	9.8	9.9	9.0%	8.2%	8.2%
RCG CORP LTD	RCG AU	0.43	104	06/2012	6.8	6.3	5.6	6.9	6.9	6.2	11.1	10.6	9.5	7.1%	7.3%	8.7%
SUPER RETAIL GROUP LTD	SUL AU	9.11	1,788	06/2012	12.2	8.9	8.0	13.9	10.9	9.8	19.1	14.7	13.0	3.5%	4.2%	4.9%
REJECT SHOP LTD/THE	TRS AU	14.91	389	06/2012	10.8	8.7	7.4	13.2	12.2	10.1	19.3	17.5	14.3	2.6%	2.9%	3.8%
WOOLWORTHS LTD	WOW AU	29.40	36,494	06/2012	9.3	8.8	8.4	11.9	11.2	10.6	16.8	15.6	14.8	4.3%	4.6%	4.8%
Aust retail median					**9.3**	**7.1**	**7.2**	**9.1**	**9.6**	**9.8**	**12.5**	**10.7**	**9.9**	**6.0%**	**6.3%**	**6.4%**
Average					**9.0**	**7.4**	**6.8**	**9.9**	**9.7**	**9.0**	**13.4**	**12.5**	**11.5**	**5.5%**	**5.3%**	**6.0%**

Source: Bloomberg Consensus, Hartleys Research. 09 December 2012

REGULATORY FRAMEWORK

There has been significant research performed over many years and in many jurisdictions to support that payday lending is a legitimate part of the economy. So in our view, given enough time to consider all the facts, it is very unlikely that an adverse regulatory outcome for the industry will be a sustainable position.

CASH CONVERTERS BRIEF POLICY SUMMARY

- Loans are unsecured and hence CCV is incentivised to only lend an amount that can be repaid by the customer;
- Customers are lent only a maximum proportion of their net monthly income (typically 15-25%);
- Loans fully comply with all Consumer Credit Code disclosure requirements.
- The vast bulk of the lending business is conducted with repeat customers who are familiar with the product and use the credit facilities from time to time to meet short term needs.

REGULATORY REFORM

"This Government believes there is a place in the economy for legitimate short term small amount lending. These loans are appropriate to fill in the gaps for people who need a temporary cash injection", Bill Shorten, Minister for Financial Services, 26 June 2012.

The UK and Australia have both recently been through extensive regulatory review.

The UK regulatory review led to increased disclosures.

The Australian review resulted in new legislation that limits the fees on small loans, and transferred responsibility from each State to a single Federal piece of legislation.

There has been significant research performed over many years and in many jurisdictions to support that payday lending is a legitimate part of the economy. So in our view, given enough time to consider all the facts, it is very unlikely that an adverse regulatory outcome for the industry will be a sustainable position. This was most recently evidenced in Australia when very harsh legislation was proposed in 2011. The proposed legislation was subsequently reviewed by two Federal parliamentary committee (the lower House committee had 5 Labour Government members, 4 Liberal opposition members, 1 Green member) with detailed submissions from industry, consumer advocates and independent research. The conclusion reached by both the Government and the opposition members was to make sure the industry can remain a viable part of the economy.

We have copied the conclusion from the committee report below. It is well worth reading, and keep in mind it is not a unique conclusion. Many detailed regulatory reviews around the world reach similar conclusions (including the recent OFT UK review).

So in summary, the UK and Australia have both recently been through extensive regulatory review. The UK regulatory review led to increased disclosures. The Australian review resulted in new legislation that limits the fees on small loans, and transferred responsibility from each State to a single Federal piece of legislation. This legislation has passed into law and will become effective on 1 July 2013. While we expect there could continue to be proponents for the abolishment of the industry for the foreseeable future, we believe such an outcome is very unlikely to ever occur, and almost certainly unlikely to occur in the near future.

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. 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 shortterm 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 percent 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).279 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

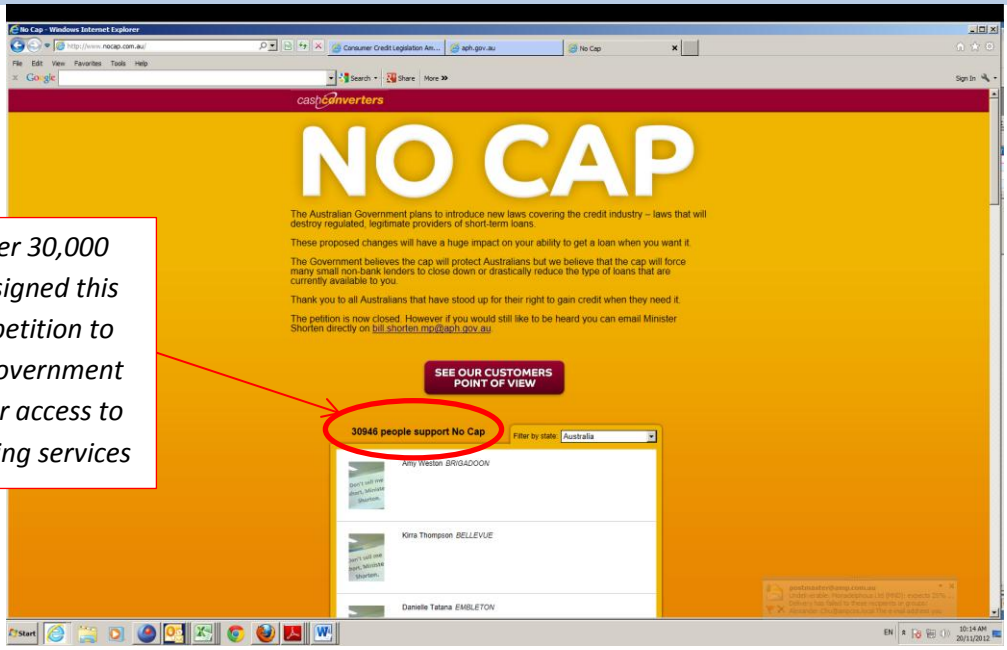
5.243 The inquiry identified that there is a need for additional protections for consumers when accessing short-term loans. However, evidence is not conclusive that the measures proposed are the best means of securing necessary protections for consumers. The evidence indicates that the measures regarding 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 shortterm 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. 8: Cash Converters has strong brand affinity



In 2011 over 30,000 customers signed this electronic petition to lobby the Government to keep their access to payday lending services

Source: www.nocap.com.au

The new Australian legislation will limit the fee on product to 20% upfront and 4% per month.

For Cash Advance, that means for a 30 day loan the maximum fee would by 24% (versus current rate of 35%) and for a 45 day loan the maximum fee would be 28%.

For Safrock, that means that for a seven month loan the maximum fee would be 48% of the principle loaned and for a 12 month loan the maximum fee would be 68% of the principle loaned

Fig. 9: New Australian Legislation (to be effective 1 Jul 2013)

Table 1.1: Summary of tiered cap on costs

Credit contracts	*Permitted costs*
Short-term credit contracts Applies to a credit contract that: • is not a continuing credit contract; • where the credit provider is not an Authorised Deposit-taking Institution (ADI); • the credit limit is $2,000 or less; and • the term of is 15 days or less.	Provision of credit contract is prohibited.
Small amount credit contract Applies to credit contracts: • that is not a continuing credit contract; • where the credit provider is not an ADI; • the credit limit of the contract is $2,000 or less; and • a maximum term of 1 year.	20 per cent establishment fee plus 4 per cent monthly fee on the original value of the loan for example maximum total costs of $24 on a $100 loan for a term of 16 days. 200 per cent total cap on charges for all lending.
Medium amount credit contract Applies to credit contracts that: • is not a continuing credit contract; • where the credit provider is not an ADI; • the credit limit of the contract is between $2,000 to $5,000; and • a maximum term of two years.	Annual cost rate must not exceed 48 per cent, with the formula allowing for an additional $400 fee to be charged.
All Remaining Credit Contracts Excludes ADIs.	Annual cost rate must not exceed 48 per cent.

Source: http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4682_ems_b9d82b8b-af71-481c-8975-088be001d298/upload_pdf/370236.pdf;fileType=application%2Fpdf

USEFUL WEBLINKS

http://www.oft.gov.uk/shared_oft/reports/consumer_credit/High-cost-credit-review/OFT1232.pdf

www.nocap.com.au

http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4682_ems_b9d82b8b-af71-481c-8975-088be001d298/upload_pdf/370236.pdf;fileType=application%2Fpdf

http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/038.htm&pageID=003&min=brs&Year=&DocType=

http://www.oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review/

http://www.guardian.co.uk/money/2012/nov/28/payday-loan-cap

MANAGEMENT, DIRECTORS AND MAJOR SHAREHOLDERS

Economic Exposure of Board and key management					Total	
			Total Options	Shares #	Economic Exposure	
Name	Joined CCV	Position				rank
Directors						
Mr Peter Cumins	1990	Managing Director	6,000,000	12,253,030	18,253,030	1
Mr Reginald Webb	2005	Chairman	-	1,112,500	1,112,500	5
Mr John Yeudall	2002	Non-executive Director	-	295,668	295,668	6
Mr William Love	2009	Non-executive Director (EZCORP)	-	-	0	9
Mr Joseph Beal	2009	Non-executive Director (EZCORP)	-	-	0	9
Key Management Personnel						
Michael Cooke	1993	Group Legal Council	1,800,000	4,500,000	6,300,000	2
Ian Day	1992	General Manager – Australia	200,000	3,681,174	3,881,174	3
Ralph Groom	1995	CFO	230,000	2,877,451	3,107,451	4
David Patrick	2009	CEO - UK	170,000	-	170,000	7
Mike Osborne	2010	CFO - UK	100,000	-	100,000	8
Richard Pilgrim	undisclosed	Operations Manager, UK	undisclosed	-	0	9

Source: CCV FY12 annual report, Company data, recent Appendix 3y

MAJOR SHAREHOLDERS

There are two major (>5%) shareholders on the register: EZCORP (32.3%) and Fidelity (~5.5%).

EZCORP is a Texas based pay day lender listed on the NASDAQ (ticker symbol EZPW) with a market cap ~$1bn. It operates 1,262 Company-operated pawn, buy/sell and personal financial services locations in the U.S., Mexico and Canada. Additionally, it owns controlling interests in “Crediamigo” (Mexican payday lending), “Cash Genie" (UK online loans) and has significant investments in Albemarle & Bond Holdings PLC (one of the U.K.'s largest pawnbroking businesses and listed on the LSE).

In March 2011, EZcorp proposed an offer to increase it’s holding in CCV to ~53% via a scheme of arrangement to compulsorily acquire 30% of all other shareholders’ shares at $0.91/shr. The offer was withdrawn by EZcorp in on 30th August following the material adverse change potential of the proposed regulation announced by the Australian Government (note the legislation was subsequently improved) in that month. EZcorp participated in the recent (November 2012) raising to maintain their shareholding.

FINANCIALS

PROFIT & LOSS

We expect FY13 NPAT of $40.9m. We expect FY14 NPAT of $51.4m.

Company guidance

There is no Company guidance.

Hartleys Forecasts

We believe Safrock is the largest driver of earnings. As a rule of thumb, annual divisional PBT is around 50% of the loan book. At the end of September, the Safrock loan book had grown to ~A$91m (Aust $67.1m, UK £15.3m), up from $86.8m at June. As at 13 November, the loan book added another ~$7m to ~A$98m (Aust $72.1m, UK £16.7m). Using our rule of thumb estimate, Safrock should generate PBT of $43m in FY13 and at current rates with no further loan growth, at least $50m in FY14.

CCV reported Q1 EBIT of $14.2m (up 43% pcp, although 1Q12 was not reported at the time). We expect FY13 EBIT to $60.9m, which implies quarter-to-quarter CAGR of ~4.6% (eg Q1 $14.2m, Q2 $14.9m, Q3 $15.5m, Q4 $16.3m). We expect FY13 NPAT to $40.9m. We expect FY14 NPAT $51.4m.

Fig. 10: Hartleys earnings estimates

Annual	6/11A	6/12A	6/13F	6/14F
AUD/GBP	0.627	0.655	0.669	0.664
Safrock Loan Book	62.2	86.8	108.3	139.0
Safrock Revenue	56.6	87.1	118.6	152.3
Safrock PBT	24.4	33.5	45.0	57.1
margin	*43.1%*	*38.4%*	*38.0%*	*37.5%*
Mon-e Revenue	13.9	16.6	22.9	25.4
Mon-e PBT	12.3	13.7	17.5	20.1
margin	*88.8%*	*82.3%*	*76.3%*	*79.1%*
Owned # (UK + Aust) - end	88	102	122	141
Owned Stores Revenue	100.9	122.8	157.3	161.7
Owned Stores PBT	8.6	8.1	11.0	11.3
margin	*8.5%*	*6.6%*	*7.0%*	*7.0%*
Franchised # (UK + Aust) - end	249	263	266	276
Franchise Revenue	27.4	23.5	23.9	24.7
Franchise PBT	6.5	6.1	5.7	5.9
margin	*23.7%*	*25.8%*	*24.0%*	*24.0%*
Group Revenue	**185.1**	**233.5**	**322.6**	**364.1**
growth	*46.2%*	*26.2%*	*38.1%*	*12.9%*
Divisional PBT	51.8	61.3	79.2	94.5
Overheads	-12.6	-19.9	-19.9	-21.9
EBITDA - Group	**43.9**	**51.2**	**65.8**	**81.8**
growth	***34.8%***	***16.5%***	***28.6%***	***24.2%***
EBITDA / Sales	**23.7%**	**21.9%**	**20.4%**	**22.5%**
Depreciation/Amortisation	-3.4	-4.3	-4.9	-5.8
EBIT	**40.6**	**46.9**	**60.9**	**75.9**
EBIT / Sales	21.9%	20.1%	18.9%	20.9%
Net Corporate Interest	0.0	-1.6	-3.3	-3.6
Pretax Profit	**39.2**	**41.4**	**57.5**	**72.4**
Tax	-11.6	-12.0	-16.7	-21.0
Effective Tax Rate	29.5%	29.0%	29.0%	29.0%
Minorities	0.0	0.0	0.0	0.0
Normalised NPAT to equity	**28.6**	**32.2**	**40.9**	**51.4**
Norm. Net Profit / Sales	**15.4%**	**13.8%**	**12.7%**	**14.1%**
Abnormals / discontinued	-0.9	-2.8	0.0	0.0
Reported Profit to equity	**27.6**	**29.4**	**40.9**	**51.4**
Reported EPS (basic, w'ted)	**7.3**	**7.7**	**10.2**	**12.1**
Normalised EPS (dil, w'ted)	**7.4**	**8.2**	**9.9**	**11.9**
DPS ($)	**0.0350**	**0.0350**	**0.0375**	**0.0400**
Franking	100%	100%	100%	100%
Payout Ratio	46.5%	41.3%	38.9%	33.0%

Half Year	Jun-10a	Dec-10a	Jun-11a	Dec-11a	Jun-12a	Dec-12e
AUD/GBP	0.582	0.609	0.656	0.639	0.671	
Safrock Loan Book	38.7	47.3	62.2	75.0	86.8	
Safrock Revenue	21.4	24.8	31.8	38.0	49.1	
Safrock PBT	8.4	10.6	13.8	14.1	19.4	
margin	*39.3%*	*42.8%*	*43.4%*	*37.2%*	*39.4%*	
Mon-e Revenue	5.5	6.6	7.3	8.0	8.6	
Mon-e PBT	5.0	5.9	6.4	6.6	7.0	
margin	*89.9%*	*90.5%*	*87.4%*	*83.1%*	*81.6%*	
Owned Stores Revenue	31.7	48.4	52.5	60.8	62.0	
Owned Stores PBT	3.2	5.6	2.9	4.3	3.8	
margin	*10.1%*	*11.7%*	*5.6%*	*7.0%*	*6.2%*	
Franchise Revenue	11.6	13.3	14.1	12.3	11.2	
Franchise PBT	4.2	3.4	3.1	2.9	3.2	
margin	*36.5%*	*25.9%*	*21.7%*	*23.3%*	*28.5%*	
Group Revenue	**67.3**	**87.9**	**97.2**	**111.7**	**121.9**	**152.9**
growth	*13.5%*	*30.6%*	*10.5%*	*14.9%*	*9.1%*	*25.5%*
EBITDA - Group	**17.1**	**21.6**	**22.3**	**22.8**	**28.4**	**31.5**
growth	***9.9%***	***26.8%***	***3.0%***	***2.2%***	***24.7%***	***10.9%***
EBITDA / Sales	**25.3%**	**24.6%**	**22.9%**	**20.4%**	**23.3%**	**20.6%**
Depreciation/Amortisation	-0.9	-1.1	-2.3	-2.0	-2.3	-2.5
EBIT	**16.2**	**20.5**	**20.0**	**20.8**	**26.1**	**29.1**
EBIT / Sales	24.1%	23.3%	20.6%	18.6%	21.4%	19.0%
Net Corporate Interest	0.2	0.0	0.0	-0.6	-1.0	-1.7
Pretax Profit	**16.4**	**20.5**	**18.7**	**20.3**	**21.2**	**27.4**
Tax	-4.8	-6.2	-5.3	-6.0	-6.0	-8.1
Effective Tax Rate	29.3%	30.4%	28.6%	29.7%	28.3%	29.5%
Minorities	-0.1	0.0	0.0	0.0	0.0	
Normalised NPAT to equity	**11.6**	**14.7**	**13.9**	**14.0**	**18.2**	**19.3**
Norm. Net Profit / Sales	**17.2%**	**16.7%**	**14.3%**	**12.5%**	**14.9%**	**12.6%**
Abnormals / discontinued	0.0	-0.4	-0.5	-0.8	-2.0	0.0
Reported Profit to equity	11.6	14.3	13.3	13.2	16.2	19.3
Reported EPS (basic, weighted)	**3.10**	**3.37**	**3.90**	**3.12**	**4.62**	**5.01**
Normalised EPS (dil, wghtd)	**3.08**	**3.41**	**3.95**	**3.24**	**4.95**	**5.01**
DPS ($)	**0.0150**	**0.0175**	**0.0175**	**0.0175**	**0.0175**	**0.0175**
Franking	100%	100%	100%	100%	100%	100%
Payout Ratio	48.4%	51.9%	44.8%	56.0%	37.9%	38.4%

Source: Hartleys Research Estimate

BALANCE SHEET

Fig. 11:Balance Sheet

Balance Sheet ($m)	6/11A	6/12A	6/13F	6/14F
Cash	23.5	16.4	6.4	6.4
Receivables	9.0	10.9	15.0	16.9
Inventories	14.1	17.1	41.1	42.3
Other (including loan book)	66.4	91.1	112.6	143.3
Total Current Assets	**112.9**	**135.5**	**175.2**	**209.0**
Property, Plant & Equipment	13.2	19.6	30.0	34.5
Intangibles (inc. Goodwill)	96.9	92.7	115.6	114.9
Other	9.7	14.9	14.9	14.9
Total Non Current Assets	**119.7**	**127.3**	**160.6**	**164.4**
Total Assets	**232.7**	**262.7**	**335.8**	**373.3**
Accounts Payable	20.3	19.6	27.6	30.3
Interest Bearing Liabilities	4.6	11.3	11.3	11.3
Other	11.2	13.8	13.8	13.8
Total Current Liabilities	**36.1**	**44.7**	**52.7**	**55.4**
Accounts Payable	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	18.0	31.4	38.9	39.2
Other	3.3	0.1	0.1	0.1
Total Non Current Liabilities	**21.3**	**31.4**	**38.9**	**39.3**
Total Liabilities	**57.4**	**76.1**	**91.6**	**94.7**
Net Assets	**175.3**	**186.6**	**244.2**	**278.6**
Net Asset Value / Share ($)	0.46	0.49	0.58	0.66
NTA / Share ($)	0.21	0.25	0.30	0.39
Net Debt (net cash)	-0.8	26.2	43.8	44.1

Balance Sheet ($m)	Jun-10a	Dec-10a	Jun-11a	Dec-11a	Jun-12a
Cash	50.7	23.4	23.5	19.5	16.4
Receivables	8.2	9.9	9.0	11.0	10.9
Inventories	10.7	12.1	14.1	14.7	17.1
Other (including loan book)	43.0	57.3	66.4	80.8	91.1
Total Current Assets	**112.6**	**102.7**	**112.9**	**126.1**	**135.5**
Property, Plant & Equipment	6.8	9.4	13.2	16.8	19.6
Intangibles (inc. Goodwill)	70.6	91.3	96.9	91.7	92.7
Other	7.1	6.9	9.7	11.2	14.9
Total Non Current Assets	**84.5**	**107.6**	**119.7**	**119.8**	**127.3**
Total Assets	**197.1**	**210.3**	**232.7**	**245.8**	**262.7**
Accounts Payable	10.5	17.5	20.3	14.5	19.6
Interest Bearing Liabilities	3.3	3.2	4.6	4.6	11.3
Other	8.6	9.6	11.2	13.6	13.8
Total Current Liabilities	**22.4**	**30.3**	**36.1**	**32.7**	**44.7**
Accounts Payable	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	10.6	8.8	18.0	33.7	31.4
Other	1.3	3.0	3.3	3.5	0.1
Total Non Current Liabilities	**11.9**	**11.8**	**21.3**	**37.2**	**31.4**
Total Liabilities	**34.3**	**42.1**	**57.4**	**69.9**	**76.1**
Net Assets	**162.9**	**168.2**	**175.3**	**176.0**	**186.6**
Net Asset Value / Share ($)	0.43	0.44	0.46	0.46	0.49
NTA / Share ($)	0.24	0.20	0.21	0.22	0.25
Net Debt (net cash)	-36.8	-11.5	-0.8	18.7	26.2

Source: Hartleys Research Estimates

NTA

CCV is predominantly a financial services business. NTA was $0.25 as at 30 June 2012.

Debt

CCV had a very modest net debt position of $26m at the end of June 2012. We estimate that CCV will have net cash at 31 December of ~$2m. We expect the Company to use more debt facilities as they become available.

Cash flow

Fig. 12:CCV Group Cash Flow

Cashflow Statement ($m)	6/11A	6/12A	6/13F	6/14F
EBITDA (inc Safrock interest)	43.9	51.2	65.8	81.8
Working Capital Change	-2.2	-8.9	-20.2	-0.3
Cash from Operations	**41.8**	**42.3**	**45.6**	**81.4**
Corporate Interest	0.1	-1.7	-3.3	-3.6
Tax Paid	-10.1	-15.3	-16.7	-21.0
Net Operating Cash Flow	**31.7**	**25.3**	**25.6**	**56.9**
Capital Expenditure	-9.5	-11.9	-6.8	-9.6
Other (including loan book)	-16.7	-22.7	-21.5	-30.7
Investments & acquisitions	-28.4	-6.1	-31.5	0.0
Net Investing Cash Flow	**-54.6**	**-40.7**	**-59.8**	**-40.2**
Proceeds from Equity Issues	0.0	0.0	30.8	0.0
Net Change in Debt & Leases	9.4	20.4	7.5	0.3
Dividends Paid	-12.3	-11.1	-14.1	-17.0
Net Financing Cash Flow	**-3.5**	**9.0**	**24.2**	**-16.6**
Movement in Cash	**-26.3**	**-6.5**	**-10.0**	**0.0**
HP Lease Capex (non-cash)				

Cashflow Statement ($m)	Jun-10a	Dec-10a	Jun-11a	Dec-11a	Jun-12a	Dec-12e
EBITDA (inc Safrock interest)	17.1	21.6	22.3	22.8	28.4	31.5
Working Capital Change	-6.4	-2.5	0.3	-3.5	-5.4	-5.0
Cash from Operations	**10.6**	**19.2**	**22.6**	**19.3**	**23.0**	**26.5**
Corporate Interest	0.4	0.5	-0.4	-0.6	-1.1	-1.7
Tax Paid	-3.7	-5.1	-4.9	-6.3	-9.0	-8.1
Net Operating Cash Flow	**7.3**	**14.5**	**17.2**	**12.4**	**12.9**	**16.8**
Capital Expenditure	-1.9	-3.3	-6.2	-6.5	-5.4	-3.0
Other (including loan book)	-4.0	-7.8	-8.8	-12.1	-10.6	-10.0
Investments & acquisitions	-12.2	-22.7	-5.7	-6.1	0.0	0.0
Net Investing Cash Flow	**-18.1**	**-33.8**	**-20.7**	**-24.8**	**-16.0**	**-13.0**
Proceeds from Equity Issues	9.7	0.0	0.0	0.0	0.0	30.8
Net Change in Debt & Leases	-0.2	-1.6	11.0	15.7	4.7	0.0
Dividends Paid	-5.5	-5.7	-6.6	-6.7	-4.5	-6.7
Net Financing Cash Flow	**3.6**	-7.5	4.0	9.0	-0.1	24.1
Movement in Cash	**-7.1**	**-26.9**	**0.5**	**-3.3**	**-3.2**	**27.9**
HP Lease Capex (non-cash)						

Source: Hartleys Research Estimates

Capex requirements

We expect investing cash flows of ~$56m in FY13, which includes loan growth, store acquisitions and maintenance.

Free cash flow

Due to the CCV continuing its store acquisition program and loan growth, operating cash flow is likely to be reinvested in the business.

Dividends

The Company has a payout ratio of 40-50%. We expect a FY13 dividend of 3.75cps, fully franked.

Equity Issuance

CCV recently (29 November 2012) issued 38.5m shares at $0.85. In recent years, there have been two placements to EZCorp (18 August 2009 @$0.50 and 19 May 2010 @$0.60) and one institutional placement (8 July 2009 @$0.40).

SENSITIVITIES

FX exposure

CCV has a material UK business, and so is exposed to translational effect of the AUD/GBP exchange rate.

Interest Rate exposure

We expect the Company to increasingly use debt facilities, which has the potential to increase direct interest rate exposure.

PRICE TARGET

We believe DCF is a reasonable method to value CCV. We have two approaches. The first is to conservatively assume nine years of operating value and then wind up the loan book. The second is more reasonable, whereby we assume a terminal value of the business. We separately attribute Carboodle value (highly discounted for risk).

We have a price target for CCV at ~$1.32/shr.

Price Target Methodology	Weighting	Spot	12 mth out
DCF	59%	$1.32	$1.40
- 9 years explicit + terminal value (Base Case)	50%	$1.41	$1.50
- 9 years explicit + then wind up of loan book	9%	$0.83	$0.86
12mth forward P/E of 10.0x	30%	$1.08	$1.25
Price / NTA (Jun '13e) 1x $0.30	1%	$0.30	$0.30
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)	10%	$1.05	$1.12
Risk weighted composite		**$1.21**	**$1.32**
12 Months Forward		**$1.32**	
Shareprice - Last		$1.030	
12 mth total return (% to 12mth target + dividend)		**32%**	

Source: Hartleys Estimate

Fig. 13:Key assumptions and risks for potential new valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Store acquisitions			We assume new funds are used for accretive store acqusitions
Australian regulatory impact felt 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 margins decline in Australia.	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 level much 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 at around the current level, but that the UK book increases to ~A$83m.
$30m in value for other projects	Low	Upside	We attribute $30m for Carboodle (CCV has a convertible note which converts to an 80% equity interest in 2013). Given the history of the Company's innovation, it is likely that CCV will develop new products.
Conclusion	*The Company faces some reasonable risks but we believe we have been realistic or conservative in our base case assumptions.*		

Source: Hartleys

CONCLUSION

We believe one of Australia's best retail success stories has been hidden by the low market cap and poor industry perception

We believe one of Australia's best retail success stories has been hidden by the low market cap and poor industry perception. CCV have built a global business and are leaders in their industry. Unfortunately, the business strategy in the 1990's meant that a lot of the success has flowed to franchisees. However, the development of financial products has given management a second opportunity to grow CCV into a very substantial business. And the lessons learned by the team over the past 30 years mean we believe the risks are the lowest they have ever been.

We expect to see significant earnings growth for CCV over coming years, yet the company trades on very low earnings multiples.

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Note: personal email addresses of company employees are structured in the following manner:firstname_lastname@hartleys.com.au

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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