

21 Aug 2014

CASH CONVERTERS LIMITED (CCV)

In-line 2H14 result. Waiting for +ve surprises in 2H15

Cash Converters Limited reported FY14 NPAT of \$24.2m (we expected \$26.7m). Normalised EBITDA (our measure which includes Carboodle) was \$53.6m, in line with our expected \$53.8m. A 2cps final dividend was declared (as expected).

Operating cash flow was \$35.1m (our measure excludes loan book growth). We expected ~\$28m. Investing cash flow (inc loan book) was ~\$98m, higher than our expected \$43.3m. We had not included the recent acquisitions or properly accounted for the loan (~\$20m) to 'NZ Master Franchisor'. Adjusted for both, investing cash flow was closer to our estimate. Reported net debt was \$97m, as previously disclosed. Adjusted for the \$20m receivable from 'NZ Master Franchisor', net debt is closer to \$77m.

Q4 run rate augers well for FY15

We estimate that EBITDA for Q4 was \$15.9m, suggesting an annualised run-rate into FY15 of \$63.7m, versus our FY15 estimate of \$71.7m (see table 1).

The Australian business running well

The Australian Personal Finance (Safrock) loan book increased to \$109m (from ~\$94.3m at Dec. and the Oct. low of \$84.3m). Profit in 2H was ~\$21m, which was a solid result but impacted by higher BDD. The changes in legislation last year resulted in a change in CCV lending practices, which combined with a large number of new customers (from on-line lending) increased BDD. We expect the BDD to reduce over time as CCV refines lending procedures. Financial Service Administration profits in Australia (2H EBITDA \$5.1m) showed continued improvement and was broadly in line with our expectations. Corporate store profits were very strong (2H \$10.2m vs 1H \$6.2m).

UK division still weak

The UK division still has weak negative momentum and lost money in 2H. The Company is closing stores (five closed in the past twelve months) and the loan book is slowly shrinking as it's been put into a holding pattern pending regulatory changes expected in November. Our expectations for the UK remain low. Our hope is that regulatory changes cause competition to rationalise and CCV UK can improve in the future (FY16).

Carboodle looks on track to profit in late FY15

Carboodle momentum has paused (net loss ~40 leases since March to bring total to 807). The division lost \$1m for FY14, but that includes additional costs to allow for future growth. It appears the division can generate a profit in 2H15.

Hartleys FY15e normalised NPAT \$38.6m, FY16e \$44.4m

Our FY15 earnings estimates are barely changed, but our mix assumptions have. We have increased Australian corporate store profits, but decreased Australian Personal Finance earnings. The net result is we expect FY15 EBITDA of \$71.7m and FY16 of \$82.6m.

Maintain Buy

We maintain our Buy recommendation. On our estimates, CCV is trading on a FY15 p/e of 12.7x and EV/EBIT of 8.1x. We have a twelve month price target of \$1.27, implying a FY16 p/e of 12.3x.

Share Price:	\$1.125
Valuation:	\$1.19
12mth price target:	\$1.27

Brief Business Description:

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

Hartleys Brief Investment Conclusion:

High returns, Australian business growth outlook strong. Market leader.

Chairman & CEO:

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

Top Shareholders:

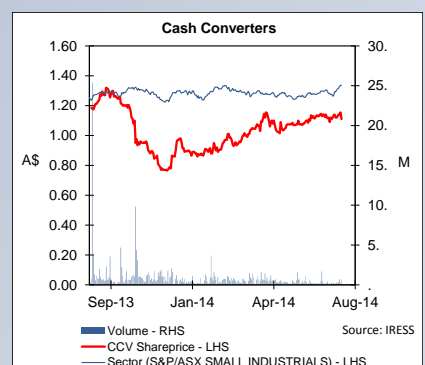
EZ Corp 31.9%
Perpetual Ltd 12.5%
CBA 6.0%
Fidelity Mgt & Res. (FMR) 5.6%

Company Address:

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

Issued Capital:	428.9m		
- fully diluted	437.0m		
Market Cap:	\$482.5m		
- fully diluted	\$491.6m		
Net Debt (30 Jun '14a):	\$97.1m		
Net Debt (30 Jun '14a) adj:	\$77.1m		
	FY14a	FY15e	FY16e
Op Cash Flw	35.1	47.3	54.3
Free Cash Flw	14.8	38.4	45.2
NPAT (A\$m)	26.2	38.6	44.4
EPS (\$, dil)	6.0	8.8	10.2
P/E (basic)	19.7x	12.7x	10.9x
P/E (diluted)	18.8x	12.7x	11.1x
EV / EBITDA	10.8x	8.1x	7.0x
DPS (\$)	4.00	4.25	4.88
Franking	100%	100%	100%
Dividend Yield	3.6%	3.8%	4.3%
N.D. / equity	39.7%	30.7%	38.0%

Source: Hartleys Research



Authors:

Trent Barnett, CFA
Head of Research / Industrial Analyst
Ph: +61 8 9268 3052
E: trent_barnett@hartleys.com.au

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.

Cash Converters International Ltd (CCV)					Recommendation: Buy				
Company Information					Profit & Loss (\$m)				
Today's Date	21 Aug 2014	Level 18, 37 St. Georges Tce			AUD/GBP	6/13A	6/14A	6/15F	6/16F
Share Price	\$1.125	Perth, WA, 6000			Pers. Finance Loan Book	125.7	138.4	136.7	173.4
52 Week High-Low	\$1.325 - \$0.75	Ph: (08) 9221 9111			Pers. Finance Revenue	113.6	137.7	166.1	195.3
Market Cap (\$m)	\$482.5	Fax: (08) 9221 9011			Pers. Finance EBITDA	43.6	39.8	54.3	61.8
Enterprise Value (\$m)	\$579.6	www.cashconverters.com.au			margin	38.4%	28.9%	32.7%	31.6%
Ordinary Shares	428.9				Fin. Services Admin. Revenue	17.7	14.3	18.8	18.5
Fully Diluted Shares	437.0				Fin. Services Admin. EBITDA	14.2	10.4	11.1	11.0
					margin	80.2%	72.7%	58.8%	59.5%
					Owned # (UK + Aust) - end	118	122	122	122
Valuation					Owned Stores Revenue	136.1	171.9	169.4	166.3
Spot DCF - 9 years explicit + terminal value (Base Case)					Owned Stores EBITDA	11.3	15.6	19.3	18.9
					margin	8.3%	9.1%	11.4%	11.4%
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					Franchised # (UK + Aust) - end	273	253	253	253
12mth forward P/E of 14.0x					Franchise Revenue	24.0	18.5	17.3	16.9
Price / NTA (Jun'14a) 1x \$0.26					Franchise EBITDA	4.3	6.6	6.2	6.1
12mth fwd Div Yield of 3.3% (Gross yield=4.7%)					margin	17.8%	35.9%	35.9%	35.9%
12mth price target					Carboodle fleet value (100%)	9.8	14.4	19.8	37.9
					Carboodle fleet (car leases)	528	807	1,412	3,058
					Carboodle EBIT	nm	-4.2	-1.1	4.7
P / E (6/15F) at price target					Group Revenue	272.2	331.7	361.6	397.3
P / E (16) at price target					growth	16.6%	21.8%	9.0%	9.9%
EV/EBITDA (16) at price target					Underlying EBITDA - Group	60.0	53.6	71.7	82.6
EV/EBIT (16) at price target					growth	17.2%	-10.7%	33.8%	15.3%
					EBITDA / Sales	22.0%	16.2%	19.8%	20.8%
					Depreciation/Amortisation	-6.5	-7.9	-8.1	-8.2
					EBIT	53.6	45.7	63.6	74.4
					EBIT / Sales	19.7%	13.8%	17.6%	18.7%
					Net Corporate Interest	-2.4	-8.0	-8.9	-10.5
					Pretax Profit	47.7	35.7	54.6	63.9
					Tax	-14.8	-10.9	-16.7	-19.5
					Effective Tax Rate	31.0%	30.6%	30.6%	30.6%
					Minorities	0.0	0.0	0.0	0.0
					Normalised NPAT to equity	35.3	26.2	38.6	44.4
					Norm. Net Profit / Sales	13.0%	7.9%	10.7%	11.2%
					Abnormals / discontinued	-2.4	-1.4	-0.7	0.0
					Reported Profit to equity	32.9	24.8	37.9	44.4
					Reported EPS (basic, w'ted)	8.1	5.8	8.8	10.4
					Normalised EPS (dil, w'ted)	8.4	6.0	8.8	10.2
					DPS (\$)	0.0400	0.0400	0.0425	0.0488
					Franking	100%	100%	100%	100%
					Payout Ratio	48.1%	65.5%	47.2%	47.2%
					Cashflow Statement (\$m)	6/13A	6/14A	6/15F	6/16F
					EBITDA (inc Pers. Finance interest)	60.0	53.6	71.7	82.6
					Working Capital Change	4.7	2.8	1.3	1.7
					Cash from Operations	64.7	56.4	73.0	84.3
					Corporate Interest	-2.5	-8.0	-8.9	-10.5
					Tax Paid	-17.2	-13.3	-16.7	-19.5
					Net Operating Cash Flow	44.9	35.1	47.3	54.3
					Capital Expenditure	-7.6	-6.4	-6.5	-6.7
					Other (including loan book)	-40.9	-41.4	-5.6	-56.4
					Investments & acquisitions	-35.9	-20.0	-2.5	-2.4
					Net Investing Cash Flow	-84.4	-67.8	-14.5	-65.5
					Proceeds from Equity Issues	31.6	0.0	0.0	0.0
					Net Change in Debt & Leases	28.2	48.2	4.3	49.4
					Dividends Paid	-17.4	-12.4	-17.2	-18.2
					Net Financing Cash Flow	42.4	35.8	-12.8	31.2
					Movement in Cash	2.9	3.1	20.0	20.0
					HP Lease Capex (non-cash)				
					Balance Sheet (\$m)	6/13A	6/14A	6/15F	6/16F
					Cash	20.7	26.8	46.8	66.8
					Receivables	13.0	33.5	33.8	34.9
					Inventories	21.8	25.6	25.2	24.7
					Other (including loan book)	123.6	134.2	132.5	169.2
					Total Current Assets	179.1	220.2	238.4	295.7
					Property, Plant & Equipment	22.5	22.6	22.3	22.2
					Intangibles (inc. Goodwill)	121.2	132.7	133.8	134.8
					Other	24.1	34.8	42.1	61.9
					Total Non Current Assets	167.8	190.1	198.2	218.8
					Total Assets	347.0	410.3	436.6	514.5
					Accounts Payable	20.0	26.8	27.9	30.3
					Interest Bearing Liabilities	70.5	59.9	59.9	59.9
					Other	14.3	14.7	14.7	14.7
					Total Current Liabilities	104.9	101.4	102.5	104.9
					Accounts Payable	0.0	0.0	0.0	0.0
					Interest Bearing Liabilities	0.4	64.0	68.4	117.8
					Other	0.1	0.1	0.1	0.1
					Total Non Current Liabilities	0.5	64.2	68.5	117.9
					Total Liabilities	105.3	165.6	171.1	222.9
					Net Assets	241.6	244.7	265.5	291.7
					Net Asset Value / Share (\$)	0.57	0.57	0.62	0.68
					NTA / Share (\$)	0.28	0.26	0.31	0.37
					Net Debt (net cash)	50.2	97.1	81.5	110.9
					Net Debt (net cash) - adj for NZ	50.2	77.1	61.5	90.9
Analyst: Trent Barnett					Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052					21 August 2014				
Sources: IRESS, Company Information, Hartleys Research									

Fig. 1: Hartleys estimates of quarterly earnings

	Q1e	Q2e	Q3e	Q4e	1Ha	2Ha	FY14a	FY15e
Reported EBITDA	7.6	11.5	14.5	18.0	19.1	32.5	51.6	69.6
Store Stamp Duty	1.8	0	-0.1	0.1	1.8	0.0	1.8	
Ausgroup	0	1.1	0.6	-0.3	1.1	0.3	1.4	1.0
Carboodle losses	2.5	0.4	0.2	0.2	2.9	0.4	3.3	1.1
GST adjustment	0	0	0.7	0.5	0.0	1.1	1.1	
Total abnormals	4.3	1.5	1.3	0.5	5.8	1.8	7.6	2.1
"Like-FY13" EBITDA (ex Carb.)	11.9	13.0	15.8	16.2	24.9	32.0	56.9	72.8
Underlying EBITDA (inc Carb.)	9.4	12.6	15.7	15.9	22.0	31.6	53.6	71.7
- annualised	37.6	50.4	62.7	63.7	44.0	63.2	53.6	71.7

Source: Hartleys Research estimates, CCV reports

Fig. 2: Earnings Changes

	f'cast	6/14A		6/15F			6/16F			6/17F		
		actual	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff
AUD/GBP	0.562	0.553	-1.5%	0.606	0.563	-7.1%	0.601	0.588	-2.1%	0.574	0.568	-1.2%
Pers. Finance Loan Book	136.3	138.4	1.5%	135.1	136.7	1.2%	156.2	173.4	11.0%	155.6	167.8	7.9%
Pers. Finance Revenue	131.6	137.7	4.7%	166.1	166.1	0.0%	182.2	195.3	7.2%	189.8	210.0	10.7%
Pers. Finance EBITDA	41.7	39.8	-4.4%	57.0	54.3	-4.7%	58.5	61.8	5.6%	60.6	66.2	9.2%
margin	31.7%	28.9%	-8.7%	34.3%	32.7%	-4.7%	32.1%	31.6%	-1.5%	31.9%	31.5%	-1.3%
Fin. Services Admin. Revenue	15.3	14.3	-6.3%	15.9	18.8	18.2%	15.9	18.5	16.4%	16.1	18.8	16.8%
Fin. Services Admin. EBITDA	10.3	10.4	1.2%	11.1	11.1	-0.5%	11.1	11.0	-0.7%	11.1	11.0	-0.7%
margin	67.3%	72.7%	8.0%	69.9%	58.8%	-15.8%	69.8%	59.5%	-14.7%	69.3%	58.9%	-15.0%
Owned # (UK + Aust) - end	145	122	-15.9%	145	122	-15.9%	145	122	-15.9%	145	122	-15.9%
- additional	27	4	-85.2%	0	0	nm	0	0	nm	145	0	-100.0%
Company owned stores (avg)	133	131	-1.4%	145	122	-15.9%	145	122	-15.9%	145	122	-15.9%
Owned Stores Revenue	163.3	171.9	5.3%	170.4	169.4	-0.6%	171.2	166.3	-2.8%	175.5	168.8	-3.8%
Owned Stores EBITDA	15.1	15.6	3.5%	15.7	19.3	22.3%	15.8	18.9	19.5%	16.2	19.2	18.3%
margin	9.2%	9.1%	-1.7%	9.2%	11.4%	23.0%	9.2%	11.4%	23.0%	9.2%	11.4%	23.0%
Franchised # (UK + Aust) - end	282	253	-10.1%	282	253	-10.1%	282	253	-10.1%	282	253	-10.1%
Franchise Revenue	19.2	18.5	-3.8%	18.4	17.3	-6.2%	18.6	16.9	-8.8%	19.2	17.2	-10.2%
Franchise EBITDA	6.7	6.6	-1.2%	6.5	6.2	-3.7%	6.5	6.1	-6.3%	6.7	6.2	-7.7%
margin	35.0%	35.9%	2.7%	35.0%	35.9%	2.7%	35.0%	35.9%	2.7%	35.0%	35.9%	2.7%
Carboodle fleet value (100%)	14.6	14.4	-1.5%	20.7	19.8	-4.4%	41.6	37.9	-8.9%	36.3	33.7	-7.2%
Carboodle EBIT (100%)	-3.3	-4.2	27.1%	0.3	-1.1	-521.3%	7.0	4.7	-33.3%	7.6	5.0	-34.7%
Revenue	324.5	331.7	2.2%	357.8	361.6	1.1%	387.9	397.3	2.4%	402.4	416.0	3.4%
Norm. EBITDA	53.8	53.6	-0.5%	70.5	71.7	1.7%	76.6	82.6	7.9%	78.9	87.1	10.4%
- margin	16.6%	16.2%	-2.6%	19.7%	19.8%	0.6%	19.7%	20.8%	5.4%	19.6%	20.9%	6.7%
EBITDA reported	49.3	51.6	4.7%	69.7	69.6	-0.2%	72.6	0.0	-100.0%	74.9	0.0	-100.0%
- margin	15.0%	15.3%	2.5%	19.8%	19.5%	-1.3%	19.0%	0.0%	-100.0%	18.8%	0.0%	-100.0%
Depreciation/Amortisation	-7.5	-7.9	6.0%	-8.2	-8.1	-1.3%	-8.4	-8.2	-2.7%	-8.9	-8.6	-3.3%
EBIT	46.4	45.7	-1.5%	62.2	63.6	2.1%	68.1	74.4	9.2%	70.0	78.4	12.1%
Net Interest	-8.2	-8.0	-3.0%	-8.3	-8.9	6.8%	-9.5	-10.5	10.5%	-10.1	-11.4	12.7%
Pretax Profit	38.1	35.7	-6.4%	53.9	54.6	1.4%	58.6	63.9	9.0%	59.9	67.0	12.0%
Tax	-11.4	-10.9	-4.7%	-16.2	-16.7	3.3%	-17.6	-19.5	11.1%	-18.0	-20.5	14.1%
Norm. Net Profit After Tax	32.0	26.2	-18.3%	38.4	38.6	0.6%	41.0	44.4	8.2%	41.9	46.6	11.1%
- margin	9.9%	7.9%		10.7%	10.7%		10.6%	11.2%		10.4%	11.2%	
Reported Group Profit	26.7	24.8	-7.2%	37.7	37.9	0.6%	41.0	44.4	8.2%	41.9	46.6	11.1%
DPS	4.00	4.00	0.0%	4.25	4.25	0.0%	4.47	4.88	9.2%	4.41	5.03	13.9%
EPS (diluted)	7.3	5.9	-19.1%	8.7	8.8	1.6%	9.2	10.2	10.9%	9.2	10.7	15.7%
P/E (\$1.125)	15.4x	19.0x		12.9x	12.7x		12.3x	11.1x		12.2x	10.6x	
Ordinary Shares (end)	430.3	428.9	-0.3%	436.6	428.9	-1.8%	443.3	428.9	-3.3%	437.0	437.0	0.0%
Ordinary Shares (avg wgt)	427.1	428.9	0.4%	433.4	428.9	-1.1%	439.9	428.9	-2.5%	432.9	432.9	0.0%
Net Debt	75.9	97.1	28.0%	54.0	81.5	50.8%	66.9	110.9	65.6%	32.3	76.4	136.5%
Net Debt Adj for NZ	75.9	77.1	1.6%	54.0	61.5	13.8%	66.9	90.9	35.7%	32.3	56.4	74.6%

Source: Hartleys Estimates

Fig. 3: Half year P & L and Balance Sheet

Profit & Loss (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	FY15e
AUD/GBP	0.639	0.650	0.641	0.643	0.557	0.550	0.563
Pers. Finance Loan Book	75.0	87.3	110.6	125.7	117.4	138.4	136.7
Pers. Finance Revenue	38.0	49.1	54.7	58.9	61.8	75.9	166.1
Pers. Finance EBITDA	14.1	19.4	22.4	21.2	18.3	21.5	54.3
margin	37.2%	39.4%	40.9%	36.0%	29.6%	28.4%	32.7%
Fin. Services Admin. Revenue	8.0	8.6	9.1	8.6	7.1	7.3	18.8
Fin. Services Admin. EBITDA	6.6	7.0	7.3	6.9	4.9	5.5	11.1
margin	83.1%	81.6%	80.2%	80.1%	69.7%	75.7%	58.8%
Owned Stores Revenue	60.8	62.0	68.0	68.2	78.4	93.5	169.4
Owned Stores EBITDA	6.2	2.4	6.5	4.8	6.9	8.7	19.3
margin	10.2%	3.9%	9.6%	7.0%	8.8%	9.4%	11.4%
Franchise Revenue	12.3	11.2	10.7	13.3	9.1	9.4	17.3
Franchise EBITDA	2.9	3.2	3.0	1.2	3.1	3.6	6.2
margin	23.3%	28.5%	28.5%	9.3%	33.8%	38.1%	35.9%
Carboodle fleet value (100%)		3.7	6.9	7.9	11.7	12.1	19.8
Carboodle fleet (car leases)		246	460	528	779	807	1,412
Carboodle EBIT					-2.9	-1.3	-1.1
Group Revenue	111.7	121.9	134.9	137.3	155.4	176.3	361.6
growth	14.9%	9.1%	10.7%	1.8%	13.2%	13.4%	9.0%
Underlying EBITDA - Group	22.8	28.4	31.1	29.0	21.7	31.9	71.7
growth	2.2%	24.7%	9.3%	-6.8%	-25.2%	47.5%	33.8%
EBITDA / Sales	20.4%	23.3%	23.0%	21.1%	13.9%	18.1%	19.8%
Depreciation/Amortisation	-2.0	-2.3	-2.8	-3.7	-3.8	-4.1	-8.1
EBIT	20.8	26.1	28.3	25.3	17.9	27.8	63.6
EBIT / Sales	18.6%	21.4%	20.9%	18.4%	11.5%	15.8%	17.6%
Net Corporate Interest	-0.6	-1.0	-1.2	-1.2	-3.7	-4.3	-8.9
Norm Pretax Profit	20.3	21.2	27.1	20.6	14.2	21.5	54.6
Tax	-6.0	-6.0	-7.8	-7.0	-4.0	-6.9	-16.7
Effective Tax Rate	29.7%	28.3%	28.6%	34.2%	28.2%	32.1%	30.6%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT to equity	14.0	18.2	19.0	16.3	9.9	16.2	38.6
Norm. Net Profit / Sales	12.5%	14.9%	14.1%	11.8%	6.4%	9.2%	10.7%
Abnormals / discontinued	-0.8	-2.0	-0.6	-1.8	-2.7	1.3	-0.7
Group Reported Profit	13.2	16.2	18.4	14.4	7.3	17.5	37.9
Reported EPS (basic, weighted)	3.09	4.66	4.70	3.39	2.30	3.40	8.85
Normalised EPS (dil, wghd)	3.20	4.98	4.85	3.55	2.54	3.42	8.84
DPS (\$)	0.0175	0.0175	0.0200	0.0200	0.0200	0.0200	0.0425
Franking	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	56.7%	37.6%	42.6%	59.0%	87.0%	58.8%	48.0%
Balance Sheet (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	FY15e
Cash	19.5	16.4	22.7	20.7	50.8	26.8	46.8
Receivables	11.0	10.9	11.1	13.0	22.5	33.5	33.8
Inventories	14.7	17.1	17.4	21.8	23.8	25.6	25.2
Other (including loan book)	80.8	91.1	112.5	123.6	131.4	134.2	132.5
Total Current Assets	126.1	135.5	163.7	179.1	228.5	220.2	238.4
Property, Plant & Equipment	16.8	19.6	20.4	22.5	24.1	22.6	22.3
Intangibles (inc. Goodwill)	91.7	92.7	93.9	121.2	131.5	132.7	133.8
Other	11.2	14.9	21.9	24.1	11.2	34.8	42.1
Total Non Current Assets	119.8	127.3	136.2	167.8	166.8	190.1	198.2
Total Assets	245.8	262.7	299.9	347.0	395.3	410.3	436.6
Accounts Payable	14.5	19.6	18.7	20.0	26.5	26.8	27.9
Interest Bearing Liabilities	4.6	11.3	4.6	70.5	55.1	59.9	59.9
Other	13.6	13.8	14.1	14.3	5.4	14.7	14.7
Total Current Liabilities	32.7	44.7	37.3	104.9	87.1	101.4	102.5
Accounts Payable	0.0	0.0	0.9	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	33.7	31.4	29.4	0.4	59.1	64.0	68.4
Other	3.5	0.1	0.1	0.1	0.1	0.1	0.1
Total Non Current Liabilities	37.2	31.4	30.5	0.5	59.2	64.2	68.5
Total Liabilities	69.9	76.1	67.8	105.3	146.3	165.6	171.1
Net Assets	176.0	186.6	232.1	241.6	249.0	244.7	265.5
Net Asset Value / Share (\$)	0.46	0.49	0.55	0.57	0.58	0.57	0.62
NTA / Share (\$)	0.22	0.25	0.33	0.28	0.28	0.26	0.31
Net Debt (net cash)	18.7	26.2	11.3	50.2	63.4	97.1	81.5

Source: Company Data, Hartleys Estimates

The Australian Personal Finance business continues to be the dominate earnings contributor.

The UK business remains disappointing and we assume is a minimal profit contributor

The loan book (~\$135m plus unearned interest) is short duration and, theoretically at least, would be turned into cash easily within twelve months if the business was wound down

Fig. 4: Free Cash Flow

Operating cash flow
very good in 2H

Cashflow Statement (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	FY15e
EBITDA (inc Pers. Finance interest)	22.8	28.4	31.1	29.0	21.7	31.9	71.7
Working Capital Change	-3.5	-5.4	2.2	2.5	0.6	2.2	1.3
Cash from Operations	19.3	23.0	33.3	31.4	22.3	34.1	73.0
Corporate Interest	-0.6	-1.1	-1.4	-1.1	-4.0	-3.9	-8.9
Tax Paid	-6.3	-9.0	-9.0	-8.2	-9.1	-4.2	-16.7
Net Operating Cash Flow	12.4	12.9	22.8	22.1	9.1	25.9	47.3
Capital Expenditure	-6.5	-5.4	-3.9	-3.8	-3.5	-2.9	-6.5
Other (including loan book)	-12.1	-10.6	-25.4	-15.5	-13.1	-28.4	-5.6
Investments & acquisitions	-6.1	0.0	-1.0	-34.9	1.3	-21.3	-2.5
Net Investing Cash Flow	-24.8	-16.0	-30.2	-54.2	-15.2	-52.5	-14.5
Proceeds from Equity Issues	0.0	0.0	31.6	0.0	0.0	0.0	0.0
Net Change in Debt & Leases	15.7	4.7	-8.7	36.8	38.7	9.5	4.3
Dividends Paid	-6.7	-4.5	-8.9	-8.5	-6.3	-6.1	-17.2
Net Financing Cash Flow	9.0	-0.1	14.0	28.4	32.4	3.4	-12.8
Movement in Cash	-3.3	-3.2	6.6	-3.7	26.3	-23.2	20.0
HP Lease Capex (non-cash)							
Free Cash Flow Analysis	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14a	FY15e
Net Operating Cash Flow	12.4	12.9	22.8	22.1	9.1	25.9	47.3
Capex (Reported) inc loan book	-24.8	-16.0	-30.2	-54.2	-15.2	-52.5	-14.5
Group Free Cash Flow (rep'ted)	-12.3	-3.1	-7.4	-32.1	-6.1	-26.6	32.8
Fixed Debt Repayments	-5.1	-6.7	-6.4	-8.7	-15.4	-19.8	-6.4
Equity Free Cash Flow (rep'ted)	-17.4	-9.8	-13.8	-40.8	-21.5	-46.4	26.4
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-17.4	-9.8	-13.8	-40.8	-21.5	-46.4	26.4
Capex (inc HP) / depreciation	332%	233%	138%	103%	92%	70%	79%

Source: Hartleys Research

PRICE TARGET

Our twelve month price target is increased to \$1.27 (from \$1.23).

Price Target Methodology	Weighting	Spot	12 mth out
DCF	50%	\$1.19	\$1.27
12mth forward P/E of 14.0x	30%	\$1.25	\$1.43
Price / NTA (Jun'14a) 1x \$0.26	5%	\$0.26	\$0.26
12mth fwd Div Yield of 3.3% (Gross yield=4.7%)	15%	\$1.30	\$1.30
Risk weighted composite		\$1.18	\$1.27
12 Months Forward		\$1.27	
Shareprice - Last		\$1.125	
12 mth total return (% to 12mth target + dividend)		17%	

Source: Hartleys Estimate

Fig. 5: Key assumptions and risks for potential new valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
We assume Personal Finance (Safrock) returns have stabilised in Australia. We assume very modest Australian loan growth	High	Upside	We believe we are conservative given CCV is under penetrated NSW and on-line lending
UK make modest contribution in near term, but eventually is profitable	Low	Low / Upside	We believe this is reasonable
Carboodle makes a full year slightly positive EBIT contribution in FY16, loss in FY15	Low	Moderate	We assume that Carboodle is slow to grow.
<i>Conclusion</i>	<i>We believe we have been realistic or conservative in our base case assumptions.</i>		

Source: Hartleys

USEFUL WEBLINKS

http://www.ofc.gov.uk/shared_ofc/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

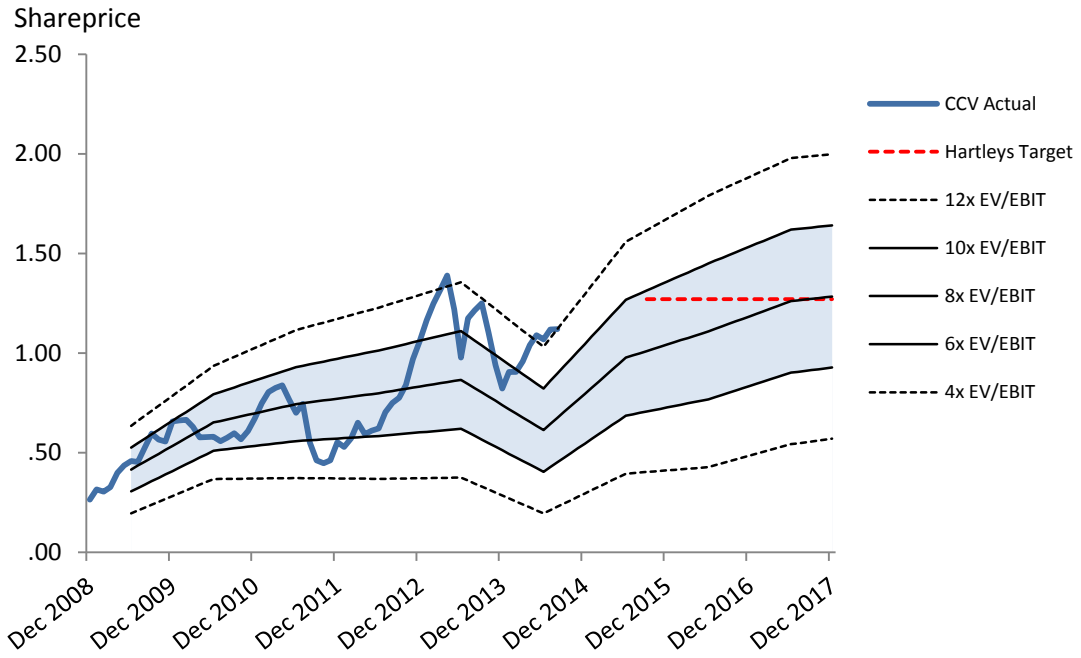
<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/038.htm&pageID=003&min=brs&Year=&DocType=>

<http://www.ofc.gov.uk/OFTwork/credit/payday-lenders-compliance-review/>

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

EV/EBIT BANDS

Fig. 6: Using Hartleys base case forecasts



Source: Hartleys Estimates, IRESS

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Scott Williamson	Resources Analyst	+61 8 9268 3045
Simon Andrew	Energy Analyst	+61 8 9268 3020
Alex Mazzege	Jnr Research Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Grey Egerton-Warburton	Head of Corp Fin.	+61 8 9268 2851
Richard Simpson	Director –Corp. Fin.	+61 8 9268 2824
Paul Fryer	Director–Corp. Fin.	+61 8 9268 2819
Dale Bryan	Director–Corp. Fin.	+61 8 9268 2829
Ben Wale	Snr Mgr–Corp. Fin.	+61 8 9268 3055
Ben Crossing	Snr Mgr – Corp.Fin.	+61 8 9268 3047
Stephen Kite	Snr Mgr- Corp. Fin.	+61 8 9268 3050
Scott Weir	Snr Mgr- Corp. Fin.	+61 8 9268 2821

Registered Office

Level 6, 141 St Georges Tce Postal Address:

PerthWA 6000 GPO Box 2777
 Australia Perth WA 6001
 PH:+61 8 9268 2888 FX: +61 8 9268 2800
 www.hartleys.com.au info@hartleys.com.au

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.

Disclaimer/Disclosure

The author of this publication, Hartleys Limited ABN 33 104 195 057 (“Hartleys”), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Hartleys and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

Hartleys has provided corporate advice to Cash Converters International (“Cash Converters”) within the past 12 months and continues to provide corporate advice to Cash Converters, for which it has earned fees and continues to earn fees.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Hartleys believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Hartleys however, does not warrant its accuracy or reliability. Hartleys, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Digby Gilmour	+61 8 9268 2814
Jayne Walsh	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Bradley Knight	+61 8 9268 2823
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Damir Mikulic	+61 8 9268 3027
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Brenton Reynolds	+61 8 9268 2866
Conlie Salvemini	+61 8 9268 2833
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041