

28 Aug 2015

CASH CONVERTERS INT. LTD (CCV)

Strong cashflow, solid outlook, but DPS cut...for now

Cash Converters Limited reported an FY15 NPAT loss of \$21.4m (we expected ~\$11.6m loss with the difference mainly due to the larger UK loss). Due to covenants relating to payout ratios, no dividend was declared (we expected 2.25cps). We had expected variability in reported NPAT given one-off expenses had been well flagged. However, the cancellation of the dividend was a big disappointment and surprise, given CCV has a long history of DPS and given the Company had obtained an exemption to the covenant to pay the 1H15 DPS.

It was also disappointing given that the underlying business in FY15 was okay (reported normalised EBITDA ~\$63m, slightly skewed to 1H), although below our estimate of \$70m. The miss was due to a larger than expected UK loss (lost \$9m in FY15 vs expected \$5m loss). Australia performed well, with EBITDA of \$71.3m, although it implied a weaker than expected Q4 (corresponds to the declining Australian loan book in Q4).

Excellent cash flow

Group operating cash flow was very healthy at \$60.1m (our measure excludes loan book growth and the Kentsleigh licence acquisition). Reported net debt was \$74.5m. Adjusted for the \$15m receivable from 'NZ Master Franchisor', net debt is a modest ~\$60m.

The Australian business generated ~\$71m EBITDA

As mentioned above, the Australian business performed well, although it was weaker than expected given the loan book shrunk from A\$110m in March to \$107.4m in June. Aust Personal Finance profit in 2H was \$28.8m (1H \$25.5m), with the acquisition of Kentsleigh improving margins. Financial Administration profits in Australia also improved in 2H (1H \$5.4m / 2H \$6.1m). Corporate store profits were down in 2H though to \$8.6m (1H15 \$10.2m).

UK loss meaningful...Company confident it will be profitable

Unfortunately, the UK division's negative momentum has accelerated. The division normalised loss was A\$6.3m in 2H (~A\$2.7m in 1H), and excluded the A\$7.6m impairment. The loan book is now only £9.3m (from £15.7m at June '14 and £14.4m in December) and it lost £2.8m for the year. Given the writeoffs in FY15, we have more confidence that the loss will only be modest in FY16 (the Company expects a modest profit). At worst, we expect positive cash in-flow should the division close.

Hartleys FY16e normalised NPAT \$43.5m, FY17e \$47.2m

We have lowered our Australian EBITDA expectations in FY16 by 10% to \$81m. Our UK expectation for a modest loss is effectively unchanged. We assume the Company can pay a 1H DPS. Perhaps there is even scope for a special DPS.

Downgrade to Speculative Buy (from Buy)

We have been long term bulls on CCV. However, given there have been several negative surprises in the past six months, and given there remains short term risks (however remote) regarding timing for the new banking relationship and the final outcome of the regulatory review, we feel compelled to downgrade to Speculative Buy (from Buy), to reflect the small, but possible, risk of further negative surprises.

On our estimates CCV trades on FY16 p/e of 5.1x and EV/EBIT of 4.1x, suggesting considerable upside once the risks are removed over the next four to six months.

Share Price:	\$0.445
Valuation:	\$1.13
12mth price target:	\$1.06

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 31.6%
Perpetual Ltd 13.0%
CBA 6.0%
Fidelity Mgt & Res. (FMR) 5.5%

Company Address:

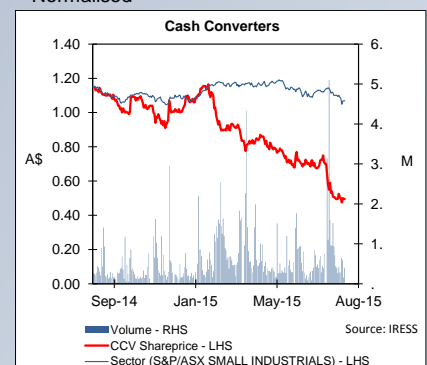
Level 18, 37 St. Georges Tce
Perth, WA, 6000

Issued Capital:	481.2m
- fully diluted	506.8m
Market Cap:	\$214.2m
- fully diluted	\$225.5m
Net Debt (30 Jun '15a):	\$74.8m

	FY15a	FY16e	FY17e
Op Cash Flw	60.9	50.9	58.0
Free Cash Flw	9.0	44.9	51.1
NPAT (A\$m)*	30.5	43.5	47.2
EPS (\$, dil)	6.6	8.8	9.4
P/E (basic)	-9.4x	4.9x	4.7x
P/E (diluted)	7.4x	5.2x	4.8x
EV / EBITDA	4.7x	3.6x	3.3x
DPS (\$)	2.00	4.00	4.00
Franking	100%	100%	100%
Dividend Yield	4.5%	9.0%	9.0%
N.D. / equity	28.6%	19.5%	15.7%

Source: Hartleys Research

*Normalised



Authors:

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

Hartleys has completed a capital raising in the past 12 months for CCV, for which it has earned fees. Hartleys has provided corporate advice to CCV 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: Speculative Buy				
Company Information					Profit & Loss (\$m)				
Today's Date	28 Aug 2015	Level 18, 37 St. Georges Tce			AUD/GBP	6/14A	6/15A	6/16F	6/17F
Share Price	\$0.445	Perth, WA, 6000			Pers. Finance Loan Book	138.0	125.9	126.7	156.4
52 Week High-Low	\$1.205 - \$0.455	Ph: (08) 9221 9111			Pers. Finance Revenue	137.7	163.9	158.2	177.3
Market Cap (\$m) - post	\$214.2	Fax: (08) 9221 9011			Pers. Finance EBITDA	39.8	48.5	64.3	70.3
Enterprise Value (\$m)	\$288.9	www.cashconverters.com.au			margin	28.9%	29.6%	40.7%	39.7%
Ordinary Shares	481.2				Fin. Services Admin. Revenue	14.3	14.7	16.6	16.8
Fully Diluted Shares	506.8				margin	10.4	12.5	13.4	13.6
					margin	72.7%	85.0%	80.7%	80.7%
Price Target Methodology					Owned # (UK + Aust) - end	122	129	130	130
Spot DCF - 9 years explicit + terminal value (Base Case)					Owned Stores Revenue	171.9	190.2	189.7	191.9
					Owned Stores EBITDA	15.6	15.8	15.8	16.0
					margin	9.1%	8.3%	8.3%	8.3%
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					Franchised # (UK + Aust) - end	253	253	253	253
					Franchise Revenue	18.5	19.0	19.6	19.7
					Franchise EBITDA	6.6	6.0	6.2	6.2
					margin	35.9%	31.5%	31.5%	31.5%
					Carboodle fleet value (100%)	14.4	19.8	31.7	29.2
					Carboodle fleet (car leases)	807	1,415	2,491	2,495
					Carboodle EBIT	-4.2	-2.8	0.5	0.8
P / E (FY16) at Price Target					11.7x				
P / E (FY17) at Price Target					10.8x				
EV/EBITDA (FY17) at Price Target					6.4x				
EV/EBIT (FY17) at Price Target					7.3x				
12mth Price Target					\$1.06				
Multiples (\$/price at \$0.45)					6/14A	6/15A	6/16F	6/17F	
P / E (basic, weighted)		7.8x	-9.4x	4.9x	4.7x				
P / E (normalised, fully diluted)		8.6x	7.4x	5.2x	4.8x				
P / E (normalised, weighted dil.)		7.5x	6.8x	5.0x	4.7x				
P / E (ord mkt cap / rep NPAT)		8.6x	-9.9x	4.9x	4.5x				
Dividend Yield		9.0%	4.5%	9.0%	9.0%				
Group Free Cash Flow (f.c.f.) / EV		-11.3%	-3.9%	8.3%	7.4%				
Equity f.c.f. / Mkt Cap		-17.7%	-8.3%	7.5%	5.3%				
Norm f.c.f. / Mkt cap		-17.7%	-8.3%	7.5%	5.3%				
Mkt cap / operating cash flow		3.8x	2.5x	2.7x	2.5x				
EV/EBITDA multiple		5.4x	4.7x	3.6x	3.3x				
EV/EBIT multiple		6.3x	5.5x	4.1x	3.8x				
Price / Book Value		0.8x	0.8x	0.7x	0.7x				
Price / NTA		1.7x	1.7x	1.3x	1.2x				
Ratios					6/14A	6/15A	6/16F	6/17F	
Return on Average Equity		10.8%	12.1%	15.6%	15.0%				
Return on Assets		6.9%	7.2%	9.7%	9.8%				
ROIC pre-tax		23.0%	22.5%	27.5%	26.3%				
ND / ND + Equity		28.4%	22.2%	16.3%	13.6%				
Net Interest Cover (EBIT)		5.7	6.1	8.4	8.8				
Reported eps growth		-29.5%	-183.1%	-289.9%	5.6%				
Norm. eps growth		-29.1%	10.0%	34.9%	6.5%				
Free Cash Flow Analysis					6/14A	6/15A	6/16F	6/17F	
Net Operating Cash Flow		35.1	60.9	50.9	58.0				
Capex (Reported) inc loan book		-67.8	-72.3	-26.8	-36.6				
Group Free Cash Flow (rep'ted)		-32.7	-11.4	24.1	21.4				
Fixed Debt Repayments		-5.1	-6.4	-8.0	-10.0				
Equity Free Cash Flow (rep'ted)		-37.8	-17.8	16.1	11.4				
HP Lease Capex (non-cash)		0.0	0.0	0.0	0.0				
Free Cash Flow (normalised)		-37.8	-17.8	16.1	11.4				
Capex (inc HP) / depreciation		80%	117%	58%	39%				
Share Data					6/14A	6/15A	6/16F	6/17F	
Ord Issued shares (m)		428.9	481.2	487.0	506.8				
growth		1.2%	12.2%	1.2%	4.1%				
Weighted ave shares (m)		426.3	458.1	484.1	496.9				
growth		4.9%	7.4%	5.7%	2.6%				
Diluted shares wgted (m)		439.3	466.1	492.2	501.0				
growth		4.7%	6.1%	5.6%	1.8%				
Unpaid Capital (inc estimated DRP)									
Year Expires	Number	% ord	Avg Price	\$m unpaid					
30-Jun-16	5,785,450	1.2%	\$ 0.45	\$ 2.6					
30-Jun-17	19,775,042	4.1%	\$ 0.26	\$ 5.2					
30-Jun-18	-	0.0%	\$ -	\$ -					
30-Jun-19	-	0.0%	\$ -	\$ -					
30-Jun-20	-	0.0%	\$ -	\$ -					
30-Jun-21	-	0.0%	\$ -	\$ -					
TOTAL	25,560,492	5.3%	\$ 0.30	\$ 7.8					
Directors & Senior Management					Substantials				
Mr Reginald Webb (Chairman)				EZ Corp	31.6%				
Mr Peter Cumins (Managing Director)				Perpetual Ltd	13.0%				
Mr Stuart Grimshaw (N.-exec, EZ Corp)				CBA	6.0%				
Mr Lachlan Given (Non-exec, EZ Corp)				Fidelity Mgt & Res. (FMR)	5.5%				
Mr Kevin Dundo (Non-exec.)									
CFO - Mr Ralph Groom									
Balance Sheet (\$m)					6/14A	6/15A	6/16F	6/17F	
Cash		26.8	52.4	72.4	92.4				
Receivables		33.5	32.3	34.3	35.0				
Inventories		25.6	27.7	27.6	27.9				
Other (including loan book)		134.2	135.4	136.2	165.9				
Total Current Assets		220.2	247.7	270.5	321.2				
Property, Plant & Equipment		22.6	25.4	22.1	17.4				
Intangibles (inc. Goodwill)		132.7	136.1	135.0	136.3				
Other		34.8	32.0	32.0	32.0				
Total Non Current Assets		190.1	193.5	189.1	185.7				
Total Assets		410.3	441.2	459.6	506.9				
Accounts Payable		26.8	26.4	25.4	27.0				
Interest Bearing Liabilities		59.9	60.7	60.7	60.7				
Other		14.7	25.7	5.7	5.7				
Total Current Liabilities		101.4	112.8	91.8	93.3				
Accounts Payable		0.0	0.0	0.0	0.0				
Interest Bearing Liabilities		64.0	66.4	69.8	83.6				
Other		0.1	0.2	0.2	0.2				
Total Non Current Liabilities		64.2	66.7	70.0	83.8				
Total Liabilities		165.6	179.5	161.8	177.2				
Net Assets		244.7	261.7	297.7	329.8				
Net Asset Value / Share (\$)		0.57	0.54	0.61	0.65				
NTA / Share (\$)		0.26	0.26	0.33	0.38				
Net Debt (net cash)		97.1	74.8	58.1	51.9				
- adj for NZ		82.1	59.8	43.1	36.9				
Analyst: Trent Barnett					Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052					28 August 2015				
Sources: IRESS, Company Information, Hartleys Research									

Fig. 1: Earnings Changes

	6/14A				6/16F			6/17F			6/18F		
	actual	f'cast	Actual	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff
AUD/GBP	0.556	0.521	0.521	0.0%	0.508	0.489	-3.8%	0.511	0.484	-5.3%	0.494	0.494	0.0%
Aust profit	52	75	70	-6.1%	92	82	-10.3%	94	86	-8.6%	91	86	-5.2%
UK profit	2	-4.8	-9	93.8%	-1.3	-1.4	3.7%	0.0	0.6	-3374.4%	4.9	4.2	-13.6%
Pers. Finance Loan Book	138.0	142.7	125.9	-11.8%	165.8	126.7	-23.6%	205.3	156.4	-23.8%	192.0	148.9	-22.4%
Pers. Finance Revenue	137.7	164.7	163.9	-0.4%	203.7	158.2	-22.4%	235.4	177.3	-24.7%	231.2	183.1	-20.8%
Pers. Finance EBITDA	39.8	50.8	48.5	-4.4%	66.4	64.3	-3.1%	70.5	70.3	-0.2%	73.6	75.4	2.5%
margin	28.9%	30.8%	29.6%	-3.9%	32.6%	40.7%	24.8%	29.9%	39.7%	32.5%	31.8%	41.2%	29.4%
Fin. Services Admin. Revenue	14.3	23.2	14.7	-36.6%	24.8	16.6	-32.8%	24.8	16.8	-32.2%	24.7	16.8	-31.9%
Fin. Services Admin. EBITDA	10.4	13.2	12.5	-5.1%	14.1	13.4	-5.0%	14.1	13.6	-3.9%	14.1	13.6	-3.9%
margin	72.7%	56.7%	85.0%	49.9%	57.1%	80.7%	41.3%	56.9%	80.7%	41.7%	57.3%	80.8%	41.0%
Owned # (UK + Aust) - end	122	129	129	0.0%	129	130	0.8%	129	130	0.8%	129	130	0.8%
- additional	4	7	7	0.0%	0	1	nm	0	0	nm	0	0	nm
Company owned stores (avg)	131	123	123	0.0%	129	129	0.1%	129	130	0.8%	129	130	0.8%
Owned Stores Revenue	171.9	185.0	190.2	2.8%	189.5	189.7	0.1%	190.4	191.9	0.8%	188.6	190.1	0.8%
Owned Stores EBITDA	15.6	21.2	15.8	-25.4%	21.7	15.8	-27.4%	21.8	16.0	-26.9%	21.6	15.8	-26.9%
margin	9.1%	11.5%	8.3%	-27.4%	11.5%	8.3%	-27.4%	11.5%	8.3%	-27.4%	11.5%	8.3%	-27.4%
Franchised # (UK + Aust) - end	253	253	253	0.0%	253	253	0.0%	253	253	0.0%	253	253	0.0%
Franchise Revenue	18.5	18.0	19.0	5.1%	18.7	19.6	5.2%	18.8	19.7	5.3%	18.5	19.5	5.2%
Franchise EBITDA	6.6	6.3	6.0	-5.5%	6.5	6.2	-5.4%	6.6	6.2	-5.3%	6.5	6.1	-5.4%
margin	35.9%	35.0%	31.5%	-10.1%	35.0%	31.5%	-10.1%	35.0%	31.5%	-10.1%	35.0%	31.5%	-10.1%
Carboodle fleet value (100%)	14.4	19.8	19.8	0.0%	31.7	31.7	0.0%	29.1	29.2	0.1%	29.0	29.1	0.2%
Carboodle EBIT (100%)	-4.2	-1.7	-2.8	64.1%	0.5	0.5	0.2%	0.8	0.8	0.7%	1.7	1.8	0.7%
Revenue	331.7	380.0	374.9	-1.3%	425.7	382.4	-10.2%	456.3	406.1	-11.0%	458.7	410.6	-10.5%
Norm. EBITDA	53.6	70.3	61.2	-13.0%	90.0	80.9	-10.1%	93.3	86.3	-7.5%	95.5	90.2	-5.6%
- margin	16.2%	18.5%	16.3%	-11.8%	21.1%	21.2%	0.3%	20.4%	21.3%	4.2%	20.8%	22.0%	5.4%
EBITDA reported	51.6	38.2	29.1	-23.8%									
- margin	15.3%	10.2%	7.9%	-22.9%									
Depreciation/Amortisation	-7.9	-9.5	-9.0	-4.9%	-12.1	-10.3	-14.5%	-12.1	-10.3	-15.1%	-11.0	-9.1	-16.7%
EBIT	45.7	60.8	52.1	-14.3%	77.9	70.6	-9.4%	81.2	76.1	-6.3%	84.6	81.0	-4.2%
Net Interest	-8.0	-8.8	-8.5	-3.7%	-9.4	-8.4	-11.0%	-10.7	-8.7	-18.8%	-7.8	-8.1	4.6%
Pretax Profit	37.7	52.0	43.6	-16.1%	68.5	62.2	-9.2%	70.5	67.4	-4.4%	76.8	72.9	-5.0%
Tax	-11.5	-15.6	-13.1	-16.1%	-20.6	-18.7	-9.4%	-21.2	-20.2	-4.6%	-23.0	-21.9	-5.0%
Norm. Net Profit After Tax	26.2	36.4	30.5	-16.1%	48.0	43.5	-9.3%	49.4	47.2	-4.5%	53.8	51.0	-5.0%
- margin	7.9%	9.6%	8.1%	-11.3%	11.3%	11.4%	0.1%	10.8%	11.6%	7.4%	11.7%	12.4%	6.9%
Reported Group Profit	24.8	-11.6	-21.7	86.9%	48.0	43.5	-9.3%	49.4	47.2	-4.5%	53.8	51.0	-5.0%
DPS	4.00	4.25	2.00	-52.9%	4.75	4.00	-15.8%	4.88	4.00	-18.0%	5.23	4.33	-17.3%
Norm. EPS (diluted)	6.0	7.9	6.6	-17.0%	9.7	8.8	-8.8%	10.2	9.4	-7.7%	10.5	10.1	-3.8%
P/E (\$0.445)	7.5x	5.6x	6.8x	19.3%	4.6x	5.0x	8.7%	4.4x	4.7x	6.8%	4.3x	4.4x	2.3%
Ordinary Shares (end)	428.9	481.3	481.2	0.0%	489.0	487.0	-0.4%	505.3	506.8	0.3%	513.7	506.8	-1.3%
Ordinary Shares (avg wgt)	426.3	455.1	458.1	0.6%	485.1	484.1	-0.2%	497.1	496.9	0.0%	513.7	506.8	-1.3%
Net Debt	97.1	78.2	74.8	-4.4%	86.0	58.1	-32.4%	83.3	51.9	-37.7%	10.4	10.7	2.8%
- adj for NZ & NSW class act.	82.1	58.2	59.8	2.7%	66.0	43.1	-34.7%	83.3	36.9	-55.7%	10.4	-4.3	-140.9%

Source: Hartleys Estimates

Fig. 2: Half year P & L and Balance Sheet

Profit & Loss (\$m)	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15a	FY16e
AUD/GBP	0.650	0.653	0.571	0.547	0.545	0.507	0.489
Pers. Finance Loan Book	111.4	125.7	122.5	138.0	143.2	125.9	126.7
Pers. Finance Revenue	54.7	58.9	61.8	75.9	83.4	80.5	158.2
Pers. Finance EBITDA	22.4	21.2	18.3	21.5	22.5	26.0	64.3
<i>margin</i>	40.9%	36.0%	29.6%	28.4%	27.0%	32.4%	40.7%
Fin. Services Admin. Revenue	9.1	8.6	7.1	7.3	7.6	7.1	16.6
Fin. Services Admin. EBITDA	7.3	6.9	4.9	5.5	6.1	6.4	13.4
<i>margin</i>	80.2%	80.1%	69.7%	75.7%	80.1%	90.3%	80.7%
Owned Stores Revenue	68.0	68.2	78.4	93.5	93.5	96.7	189.7
Owned Stores EBITDA	6.5	4.8	6.9	8.7	10.5	5.3	15.8
<i>margin</i>	9.6%	7.0%	8.8%	9.4%	11.2%	5.5%	8.3%
Franchise Revenue	10.7	13.3	9.1	9.4	9.1	9.9	19.6
Franchise EBITDA	3.0	1.2	3.1	3.6	3.5	2.5	6.2
<i>margin</i>	28.5%	9.3%	33.8%	38.1%	38.6%	25.0%	31.5%
Carboodle fleet value (100%)	6.9	7.9	11.7	12.1	15.1	19.8	31.7
Carboodle fleet (car leases)	460	528	779	807	1,009	1,415	2,491
Carboodle EBIT			-2.9	-1.3	-0.8	-2.0	0.5
Group Revenue	134.9	137.3	155.4	176.3	187.5	187.4	382.4
<i>Sequential growth</i>	10.7%	1.8%	13.2%	13.4%	6.3%	0%	2.0%
Underlying EBITDA - Group	31.1	29.0	21.7	31.9	31.9	29.2	80.9
<i>Sequential growth</i>	9.3%	-6.8%	-25.2%	47.5%	0.0%	-8.5%	32.3%
EBITDA / Sales	23.0%	21.1%	13.9%	18.1%	17.0%	15.6%	21.2%
Depreciation/Amortisation	-2.8	-3.7	-3.8	-4.1	-4.5	-4.5	-10.3
EBIT	28.3	25.3	17.9	27.8	27.4	24.7	70.6
EBIT / Sales	20.9%	18.4%	11.5%	15.8%	14.6%	13.2%	18.5%
Net Corporate Interest	-1.2	-1.2	-3.7	-4.3	-4.4	-4.1	-8.4
Norm Pretax Profit	27.1	24.1	14.2	23.5	23.0	20.6	62.2
Norm. Tax	0.0	-15.9	-4.3	-7.3	-6.9	-6.2	-18.7
Effective Tax Rate	0.0%	66.0%	30.0%	30.9%	30.0%	30.0%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT to equity	19.0	16.3	9.9	16.2	16.1	14.4	43.5
Norm. Net Profit / Sales	14.1%	11.8%	6.4%	9.2%	8.6%	7.7%	11.4%
Abnormals / discontinued	-0.6	-1.8	-2.7	1.3	-21.4	-30.8	0.0
Group Reported Profit	18.4	14.4	7.3	17.5	-5.3	-16.4	43.5
Reported EPS (basic, weighted)	4.70	3.39	2.30	3.40	-1.21	-3.5	9.00
Normalised EPS (dil, wghtd)	4.85	3.55	2.23	3.73	3.63	2.9	8.85
DPS (\$)	0.0200	0.0200	0.0200	0.0200	0.0200	0.0000	0.0400
Franking	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	42.6%	59.0%	87.0%	58.8%	55.1%	0.0%	44.5%
Balance Sheet (\$m)	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15a	FY16e
Cash	22.7	20.7	50.8	26.8	43.2	52.4	72.4
Receivables	11.1	13.0	22.5	33.5	35.4	32.3	34.3
Inventories	17.4	21.8	23.8	25.6	25.2	27.7	27.6
Other (including loan book)	112.5	123.6	131.4	134.2	142.3	135.4	136.2
Total Current Assets	163.7	179.1	228.5	220.2	246.0	247.7	270.5
Property, Plant & Equipment	20.4	22.5	24.1	22.6	23.6	25.4	22.1
Intangibles (inc. Goodwill)	93.9	121.2	131.5	132.7	133.1	136.1	135.0
Other	21.9	24.1	11.2	34.8	36.7	32.0	32.0
Total Non Current Assets	136.2	167.8	166.8	190.1	193.4	193.5	189.1
Total Assets	299.9	347.0	395.3	410.3	439.4	441.2	459.6
Accounts Payable	18.7	20.0	26.5	26.8	26.2	26.4	25.4
Interest Bearing Liabilities	4.6	70.5	55.1	59.9	61.6	60.7	60.7
Other	14.1	14.3	5.4	14.7	5.0	25.7	5.7
Total Current Liabilities	37.3	104.9	87.1	101.4	92.8	112.8	91.8
Accounts Payable	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Interest Bearing Liabilities	29.4	0.4	59.1	64.0	66.3	66.4	69.8
Other	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Total Non Current Liabilities	30.5	0.5	59.2	64.2	66.5	66.7	70.0
Total Liabilities	67.8	105.3	146.3	165.6	159.3	179.5	161.8
Net Assets	232.1	241.6	249.0	244.7	280.1	261.7	297.8
Net Asset Value / Share (\$)	0.55	0.57	0.58	0.57	0.58	0.54	0.61
NTA / Share (\$)	0.33	0.28	0.28	0.26	0.31	0.26	0.33
Net Debt (net cash)	11.3	50.2	63.4	97.1	84.8	74.8	58.1

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 profit drag

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. 3: Free Cash Flow

Operating cash flow is
very strong

Cashflow Statement (\$m)	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15a	FY16e
EBITDA	31.1	29.0	21.7	31.9	31.9	29.2	80.9
Working Capital Change	2.2	2.5	0.6	2.2	7.7	15.6	-3.0
Cash from Operations	33.3	31.4	22.3	34.1	39.7	44.8	77.9
Corporate Interest	-1.4	-1.1	-4.0	-3.9	-4.6	-3.9	-8.4
Tax Paid	-9.0	-8.2	-9.1	-4.2	-13.3	-1.7	-18.7
Net Operating Cash Flow	22.8	22.1	9.1	25.9	21.7	39.2	50.9
Capital Expenditure	-3.9	-3.8	-3.5	-2.9	-4.9	-5.7	-6.0
Other (including loan book)	-25.4	-15.5	-13.1	-28.4	-13.1	-4.7	-0.8
Investments & acquisitions	-1.0	-34.9	1.3	-21.3	-30.1	-13.9	-20.0
Net Investing Cash Flow	-30.2	-54.2	-15.2	-52.5	-48.0	-24.3	-26.8
Proceeds from Equity Issues	31.6	0.0	0.0	0.0	43.3	0.0	2.4
Net Change in Debt & Leases	-8.7	36.8	38.7	9.5	3.8	-1.1	3.3
Dividends Paid	-8.9	-8.5	-6.3	-6.1	-6.2	-7.4	-9.9
Net Financing Cash Flow	14.0	28.4	32.4	3.4	40.9	-8.5	-4.1
Movement in Cash	6.6	-3.7	26.3	-23.2	14.6	6.4	20.0
HP Lease Capex (non-cash)							
Free Cash Flow Analysis	Dec-12a	Jun-13a	Dec-13a	Jun-14a	Dec-14a	Jun-15a	FY16e
Net Operating Cash Flow	22.8	22.1	9.1	25.9	21.7	39.2	50.9
Capex (Reported) inc loan book	-29.2	-19.3	-16.5	-31.3	-18.0	-10.4	-26.8
Group Free Cash Flow (rep'ted)	-6.4	2.8	-7.4	-5.3	3.7	28.9	24.1
Fixed Debt Repayments	-6.4	-8.7	-15.4	-19.8	-21.0	-21.3	-8.0
Equity Free Cash Flow (rep'ted)	-12.8	-5.9	-22.8	-25.2	-17.3	7.6	16.1
HP Lease Capex (non-cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow (normalised)	-12.8	-5.9	-22.8	-25.2	-17.3	7.6	16.1
Capex (inc HP) / depreciation	138%	103%	92%	70%	109%	125%	58%

Source: Hartleys Research

Upcoming events

We highlight some upcoming events:

- 1) September: Government review panel to set timeline
- 2) October: Court to approve the NSW settlement
- 3) December: earliest we estimate that the Government review of the legislation will be concluded.
- 4) March 2016: no more drawdown from the current bank debt facility
- 5) March 2017: current bank securitisation facility due to be repaid

Fig. 4: Review relating to small amount credit contracts

(1) The Minister must cause an independent review of the following matters to be undertaken as soon as practicable after 1 July 2015:

(a) the operation of the following provisions:

- (i) subsections 117(1A), 118(3A), 123(3A), 130(1A), 131(3A) and 133(3A) of this Act;
- (ii) Division 7 of Part 3-1 of this Act;
- (iii) Part 3-2C of this Act;
- (iv) sections 23A, 31A, 31B, 39A and 39B of the National Credit Code;

(b) whether a national database of small amount credit contracts should be established;

(c) whether any additional provisions relating to small amount credit contracts should be included in this Act and/or the National Credit Code.

(2) The review must be undertaken by 3 persons who, in the Minister's opinion, possess appropriate qualifications to undertake the review.

(3) The persons who undertake the review must give the Minister a written report of the review.

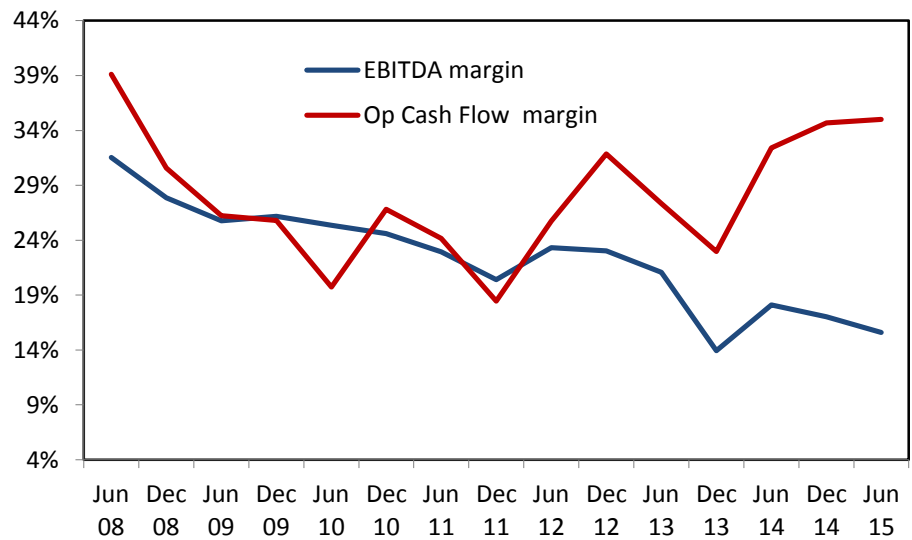
(4) The Minister must cause a copy of the report to be tabled in each House of the Parliament within 15 sitting days of that House after the day on which the report is given to the Minister.

(5) The report is not a legislative instrument.

Source: NATIONAL CONSUMER CREDIT PROTECTION ACT 2009 - SECT 335A

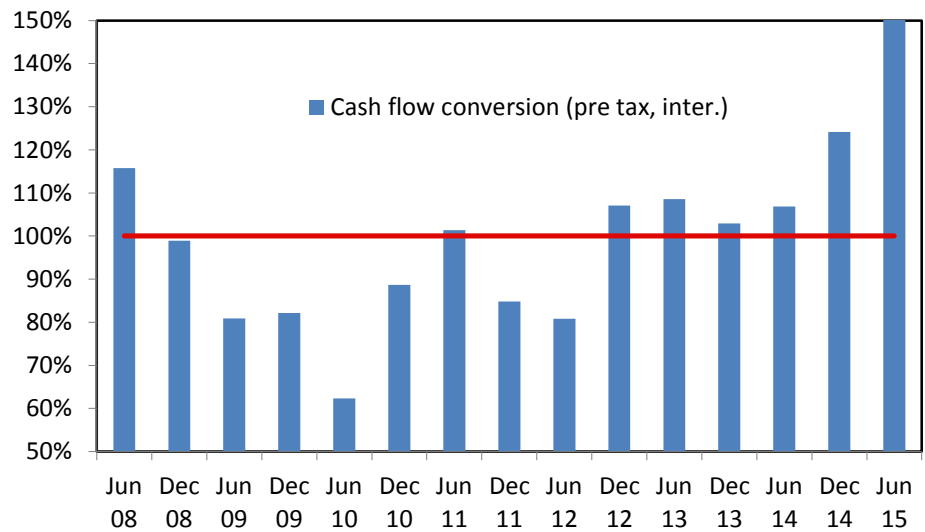
http://www5.austlii.edu.au/au/legis/cth/consol_act/nccpa2009377/s335a.html

Fig. 1: EBITDA and Cash flow margins



Source: Hartleys Research

Fig. 2: Cash conversion



Source: Hartleys Research

PRICE TARGET

Our twelve month price target is increased to \$1.06 (from \$1.32).

Valuation Methodology	Weighting	Spot	12 mth out
DCF	25%	\$1.13	\$1.21
12mth forward P/E of 14.0x	30%	\$1.25	\$1.33
No cash advance earnings, 12mth forward P/E of 14.0x	25%	\$0.83	\$0.91
Price / NTA 1x \$0.26	10%	\$0.26	\$0.26
No transactional banking facility	0.5%	\$0.07	\$0.07
12mth fwd Div Yield of 3.6% (Gross yield=5.2%)	10%	\$0.55	\$1.11
Risk weighted composite		\$0.94	\$1.06
12 Months Forward		\$1.06	
Shareprice - Last		\$0.445	
12 mth total return (% to 12mth target + dividend)		143%	

Source: Hartleys Estimate

Key assumptions and risks for potential new valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
DRP (Dividend Reinvestment Plan)	Low	Moderate	We assume an ongoing DRP with ~25% takeup until and including FY17.
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 continues to be loss making, returns to breakeven in FY16, but eventually is profitable	Low	Low / Upside	We believe this is reasonable. We do not assume any release of capital from the division
We assume ~\$20m of cash is paid in NSW for the settlement. We assume there is no liability for the Q'ld case.	Low	Moderate	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.

Conclusion

We believe we have been realistic or conservative in our base case assumptions.

Source: Hartleys

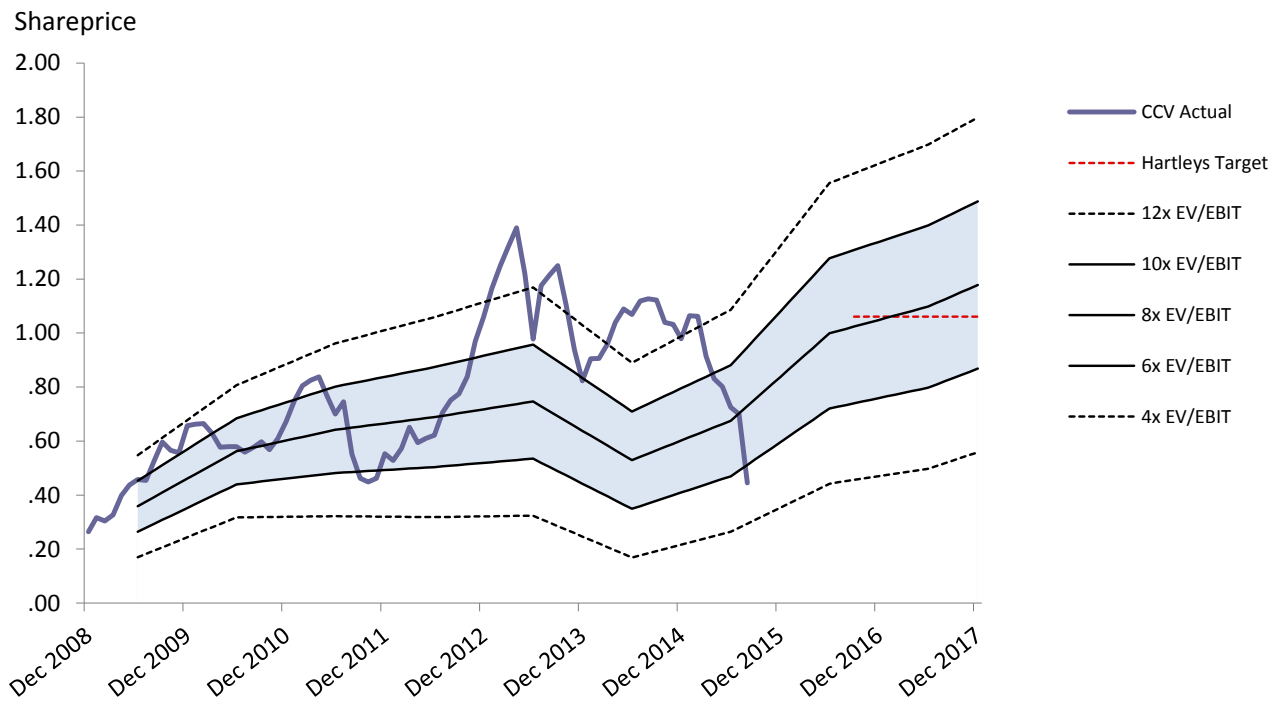
USEFUL WEBLINKS

Title	Link	Comment
Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011	http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/2010-13/Consumer_Credit_Corporations_2011/report/c05	This was a comprehensive Government review where every stakeholder was incentivised to put their best case forward. See Chapter 5.
Positive industry commentary		
Stopping the game of loans will take more than regulation	http://theconversation.com/stopping-the-game-of-loans-will-take-more-than-regulation-39506?utm_medium=email&utm_campaign=Latest+from+The+Conversation+for+2+April+2015+-+2600&utm_content=Latest+from+The+Conversation+for+2+April+2015+-+2600+CID_522acc44cdd70df87be065f2d090962b&utm_source=campaign_monitor&utm_term=Stopping%20the%20game%20of%20loans%20will%20take%20more%20th	Must be read by all investors.
Caught Short. Exploring the role of small, short -term loans in the lives of Australians. Final report. July 2012	http://www.uq.edu.au/swahs/news/CaughtShortFinalReport.pdf	Worth reading
EIRIS is a global leader in the provision of environmental, social, governance (ESG) research for responsible investors.	http://www.eiris.org/blog/social-risks-consumer-finance-unpri-panel-melbourne/#more-2913	EIRS review of debate on ESG of payday lending
No Cap	www.nocap.com.au	Consumer backlash following attempts to ban payday lending in Australia
The Politics of Payday Lending Regulation in Australia	http://www.law.unimelb.edu.au/files/dmfile/201421.pdf	Anti-payday lending article published in Monash Law Review that includes a history of the recent legislative reviews.
National Credit Providers Association	http://www.ncpa.net.au/contact/contact-us.html	Australia's Peak Body For The Small Amount Consumer Lending Industry
Finder.com.au	http://www.finder.com.au/payday-loans	Consumer website comparing products with industry commentary
Government & regulators		
Consumer Credit Legislation Amendment (Enhancements) Act 2012	http://www.comlaw.gov.au/Details/C2012A00130	Australian relevant legislation regarding caps on fees and charges
National Consumer Credit Protection Act 2009	http://download.asic.gov.au/media/2243019/rg209-published-5-november-2014.pdf	Australian relevant legislation regarding suitability of lending and the independent review
Credit licensing: Responsible lending conduct	http://download.asic.gov.au/media/2243019/rg209-published-5-november-2014.pdf	Unsuitable lending
Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011	http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/2010-13/Consumer_Credit_Corporations_2011/report/c05	This was a comprehensive Government review where every stakeholder was incentivised to put their best case forward. See Chapter 5.
15-056MR ASIC puts payday lending industry on notice to lift standards	http://www.asic.gov.au/about-asic/media-centre/find-a-media-release/2015-releases/15-056mr-asic-puts-payday-lending-industry-on-notice-to-lift-standards/	While ASIC's review found compliance with some rules was working, it also found that payday lenders are falling short in meeting important new obligations.
ASIC Deputy Chairman Interview "ASIC report on payday lenders and the new small amount lending provisions"	https://www.youtube.com/watch?v=gSLXyevMnVU	Interview with Peter Kell, to get a balanced/official view of ASIC's concerns
PS14/16: Detailed rules for the price cap on high-cost short-term credit - Including feedback on CP14/10 and final rules	http://www.fca.org.uk/news/ps14-16-detailed-rules-on-the-price-cap-on-high-cost-short-term-credit	UK relevant legislation
Assistant Treasurer announcement regarding the review.	http://jaf.ministers.treasury.gov.au/media-release/037-2015/	Scope of the Government review in CY15
ABC interview with Assist. Treasurer, Josh Frydenberg	http://mpegmedia.abc.net.au/news/audio/am/201508/20150807-am-full.mp3	Listen to the interview (above the first arrow on the fast forward button)
FCA confirms price cap rules for payday lenders	http://www.fca.org.uk/news/fca-confirms-price-cap-rules-for-payday-lenders	UK regulation
US CFPB Considers Proposal to End Payday Debt Traps	http://www.consumerfinance.gov/newsroom/cfpb-considers-proposal-to-end-payday-debt-traps/	Recent US Federal Government proposals for payday lending. Appear similar to Australia.
AML/CTF Act Review	http://www.ag.gov.au/Consultations/Documents/StatutoryReviewAnti-MoneyLaunderingAndCounter-TerrorismFinancingActCth200/national-financial-services-federation-ltd-28february2014a.pdf	Payday lending Anti-money laundering
Anti industry commentary		
QLD class action	http://www.mauriceblackburn.com.au/legal-services/general-law/class-actions/current-class-actions/cash-converters-class-action-in-queensland/	The claim alleges that borrowers were charged excessive fees and interest on unsecured 'personal loans' via the imposition of a 'brokerage' fee.
Consumer Action Law Centre	http://consumeraction.org.au/	Loudest anti-payday lobby group

Source: Hartleys

EV/EBIT BANDS

Fig. 3: 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
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

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

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
Veronika Tkacova	+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
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 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
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
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
Mark Sandford	+61 8 9268 3066
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
Jayne Walsh	+61 8 9268 2828

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 completed a capital raising in the past 12 months for Cash Converters International Limited ("Cash Converters"), for which it has earned fees. Hartleys has provided corporate advice to Cash Converters within the past 12 months for which it has earned fees. The analyst has a beneficial interest in Cash Converters shares.

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.