

17 Feb 2014

## CASH CONVERTERS INTER. LTD (CCV)

### Underlying operations are improving. 2H to be strong

Cash Converters Limited reported 1H14 NPAT of \$9.9m. The Company declared a 2cps dividend, in line with our estimate. "Like-for-FY13-like" EBITDA was \$24.9m (reported \$19.1m), slightly lower than our \$26.0m. Our measure of operating cash flow was \$9.1m, lower than we expected (mainly due to higher tax) but investing cash flows were also lower than we expected, and hence net debt (\$63.4m) was in line with our expectation.

### Accounting of Aust. Safrock loans stays the 'old way'

In October last year CCV announced unaudited 1Q14 EBITDA was \$7.9m, which was well down on our expectations at the time, in part due to a potential change in accounting treatment of Aust Safrock loans. However, after a formal review, the Company has maintained the 'old way' of accounting for loans. Restated, we estimate that EBITDA for Q1 was \$7.6m and Q2 EBITDA was \$11.5m (for \$19.1m in total). We estimate that the "Like-for-FY13-like" split was \$11.9m / \$13m (see table 1). Note that because most of the loan book growth increase was in December, the profit contribution will flow into 2H. We expect 2H EBITDA of \$32.8m, implying ~28% growth from annualised Q2.

### The Australian business is definitely improving from the lows

The Australian Safrock loan book increased modestly since June to ~\$94.3m, but rebounded substantially from the October low of \$84.3m (+14%). Profit was \$17.4m, which was down ~20% from 2H13 (recent profit warnings meant weakness was expected). The key now is that momentum is now positive and margins are okay (~36%). Financial Service Administration profits in Australia (EBITDA \$4.5m) were broadly in line with our expectations. Corporate store profits (\$6.2m) were better than we had assumed due to higher margins.

### UK continues to perform poorly, but it's a small contributor

The UK division contributed only ~\$2m EBITDA (loss at an EBIT level). Poor performance was broadly based...the loan book is now only £15m (EBITDA margin only 5%), bad debts increased and corporate store overheads increased (albeit intentionally to increase store sales). The UK industry remains highly competitive, and although CCV's performance is poor, it remains an industry leader. We expect competition to rationalise and CCV to improve in the future.

### Carboodle performance in line in underlying terms

Carboodle had 778 leases at the end of December, ~200 fewer than we had modelled. The implied reported loss (\$2.9m) was more than expected due to accounting adjustments prior to acquisition. However, we estimate that the underlying business performed more in line with our expectations and we conservatively expect \$0.8m loss in 2H (we hope for breakeven). We have lowered our Carboodle FY15 EBIT contribution for FY15 from \$8.9m to \$0.3m (we hope for ~\$1-3m) due to an assumed slower ramp up in sales.

### Hartleys lowers FY14 NPAT to \$32.4m, FY15 to \$39.7 m

The Company expects continued improvement in 2H based on continued positive momentum. We have lowered our adj. NPAT by 4.6% to \$32.4m, and expect \$54.3m EBITDA. We have lowered our FY15 NPAT by 6.4% to \$39.7m.

### Retain Buy, looks like it's on the mend

We have a twelve month price target of \$1.09, implying a FY15 p/e of 11.7x. We maintain our Buy recommendation.

Share Price:	\$0.925
Valuation:	\$1.01
12mth price target:	\$1.09

#### Brief Business Description:

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

#### Hartleys Brief Investment Conclusion:

High returns, Australian business looks to be recovering after regulatory change, market leader.

#### Chairman & CEO:

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

#### Top Shareholders:

EZ Corp 32.1%  
Perpetual Ltd 12.6%  
Fidelity Mgt & Res. (FMR) 5.6%  
CBA 5.0%

#### Company Address:

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

<b>Issued Capital:</b>	426.3m
- fully diluted	466.3m
<b>Market Cap:</b>	\$394.3m
- fully diluted	\$431.3m
<b>Net Debt (31 Dec '13a):</b>	\$63.4m

	FY13a	FY14e	FY15e
Op Cash Flw	44.9	29.0	48.2
Free Cash Flw	3.5	15.4	41.3
<b>NPAT (A\$m)</b>	<b>35.3</b>	<b>32.4</b>	<b>39.7</b>
EPS (\$, dil)	8.4	7.4	9.0
P/E (basic)	11.4x	14.6x	10.3x
P/E (diluted)	12.2x	13.3x	10.9x
EV / EBITDA	7.6x	8.4x	6.3x
DPS (\$)	4.00	4.00	4.25
Franking	100%	100%	100%
Dividend Yield	4.3%	4.3%	4.6%
N.D. / equity	20.8%	32.0%	19.8%

Source: Hartleys Research



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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				
<b>Company Information</b>					<b>Profit &amp; Loss (\$m)</b>				
Today's Date	17 Feb 2014	Level 18, 37 St. Georges Tce			AUD/GBP	6/12A	6/13A	6/14F	6/15F
Share Price	\$0.925	Perth, WA, 6000			Safrock Loan Book	87.3	125.7	144.7	140.9
52 Week High-Low	\$1.565 - \$0.75	Ph: (08) 9221 9111			Safrock Revenue	87.1	113.6	131.6	176.8
Market Cap (\$m)	\$394.3	Fax: (08) 9221 9011			Safrock EBITDA	33.5	43.6	42.4	59.8
Enterprise Value (\$m)	\$457.7	www.cashconverters.com.au			margin	38.4%	38.4%	32.2%	33.8%
Ordinary Shares	426.3				Fin. Services Admin. Revenue	16.6	17.7	15.1	15.9
Fully Diluted Shares	466.3				Fin. Services Admin. EBITDA	13.7	14.2	10.5	11.1
					margin	82.3%	80.2%	69.8%	69.9%
					Owned # (UK + Aust) - end	102	118	145	145
Spot DCF - 9 years explicit + terminal value (Base Case)					\$1.01	Owned Stores Revenue			
					\$1.07	122.8 136.1 157.8 169.7			
12mth fwd DCF - 9 years explicit + terminal value (Base Case)					\$1.07	Owned Stores EBITDA			
12mth forward P/E of 14.0x					\$1.27	8.6 11.3 14.6 15.7			
Price / NTA (Dec '13a) 1x \$0.31					\$0.31	margin			
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)					\$1.18	7.0% 8.3% 9.2% 9.2%			
<b>12mth price target</b>					<b>\$1.09</b>	Franchised # (UK + Aust) - end			
						263 273 282 282			
P / E (6/14F) at price target					14.3x	Franchise Revenue			
P / E (6/15F) at price target					11.7x	23.5 24.0 18.3 18.4			
EV/EBITDA (6/15F) at price target					7.5x	Franchise EBITDA			
EV/EBIT (6/15F) at price target					8.5x	6.1 4.3 6.0 6.1			
						margin			
						25.8% 17.8% 33.0% 33.0%			
						Carboodle fleet value (100%)			
						7.1 9.8 14.6 20.7			
						Carboodle fleet (car leases)			
						246 528 1,032 1,740			
						Carboodle EBIT			
						nm nm -3.7 0.3			
						Group Revenue			
						233.5 272.2 308.5 367.1			
						growth			
						26.2% 16.6% 13.3% 19.0%			
						Underlying EBITDA - Group			
						51.2 60.0 54.3 73.0			
						growth			
						16.5% 17.2% -9.6% 34.5%			
						EBITDA / Sales			
						21.9% 22.0% 17.6% 19.9%			
						Depreciation/Amortisation			
						-4.3 -6.5 -7.9 -8.4			
						EBIT			
						46.9 53.6 46.3 64.6			
						EBIT / Sales			
						20.1% 19.7% 15.0% 17.6%			
						Net Corporate Interest			
						-1.6 -2.4 -7.7 -8.8			
						Pretax Profit			
						41.4 47.7 38.7 55.8			
						Tax			
						-12.0 -14.8 -11.6 -16.7			
						Effective Tax Rate			
						29.0% 31.0% 30.0% 30.0%			
						Minorities			
						0.0 0.0 0.0 0.0			
						Normalised NPAT to equity			
						32.2 35.3 32.4 39.7			
						Norm. Net Profit / Sales			
						13.8% 13.0% 10.5% 10.8%			
						Abnormals / discontinued			
						-2.8 -2.4 -5.3 -0.7			
						Reported Profit to equity			
						29.4 32.9 27.1 39.0			
						Reported EPS (basic, w'ted)			
						7.7 8.1 6.3 9.0			
						Normalised EPS (dil, w'ted)			
						8.2 8.4 7.4 9.0			
						DPS (\$)			
						0.0350 0.0400 0.0400 0.0425			
						Franking			
						100% 100% 100% 100%			
						Payout Ratio			
						41.3% 48.1% 53.3% 47.0%			
						Cashflow Statement (\$m)			
						6/12A 6/13A 6/14F 6/15F			
						EBITDA (inc Safrock interest)			
						51.2 60.0 54.3 73.0			
						Working Capital Change			
						-8.9 4.7 -1.0 0.8			
						Cash from Operations			
						42.3 64.7 53.3 73.7			
						Corporate Interest			
						-1.7 -2.5 -7.7 -8.8			
						Tax Paid			
						-15.3 -17.2 -16.6 -16.7			
						Net Operating Cash Flow			
						25.3 44.9 29.0 48.2			
						Capital Expenditure			
						-11.9 -7.6 -6.9 -6.9			
						Other (including loan book)			
						-22.7 -40.9 -37.1 -4.7			
						Investments & acquisitions			
						-6.1 -35.9 -6.7 0.0			
						Net Investing Cash Flow			
						-40.7 -84.4 -50.7 -11.6			
						Proceeds from Equity Issues			
						0.0 31.6 6.4 6.5			
						Net Change in Debt & Leases			
						20.4 28.2 32.4 -5.8			
						Dividends Paid			
						-11.1 -17.4 -17.1 -17.4			
						Net Financing Cash Flow			
						9.0 42.4 21.7 -16.6			
						Movement in Cash			
						-6.5 2.9 0.0 20.0			
						HP Lease Capex (non-cash)			
						Balance Sheet (\$m)			
						6/12A 6/13A 6/14F 6/15F			
						Cash			
						16.4 20.7 20.7 40.7			
						Receivables			
						10.9 13.0 14.5 15.6			
						Inventories			
						17.1 21.8 25.2 27.2			
						Other (including loan book)			
						91.1 123.6 142.7 138.8			
						Total Current Assets			
						135.5 179.1 203.2 222.4			
						Property, Plant & Equipment			
						19.6 22.5 23.8 23.3			
						Intangibles (inc. Goodwill)			
						92.7 121.2 125.6 124.6			
						Other			
						14.9 24.1 47.1 55.6			
						Total Non Current Assets			
						127.3 167.8 196.5 203.5			
						Total Assets			
						262.7 347.0 399.7 425.9			
						Accounts Payable			
						19.6 20.0 24.0 27.8			
						Interest Bearing Liabilities			
						11.3 70.5 55.0 55.0			
						Other			
						13.8 14.3 14.3 14.3			
						Total Current Liabilities			
						44.7 104.9 93.3 97.0			
						Accounts Payable			
						0.0 0.0 0.0 0.0			
						Interest Bearing Liabilities			
						31.4 0.4 48.3 42.5			
						Other			
						0.1 0.1 0.1 0.1			
						Total Non Current Liabilities			
						31.4 0.5 48.4 42.6			
						Total Liabilities			
						76.1 105.3 141.7 139.7			
						Net Assets			
						186.6 241.6 258.0 286.2			
						Net Asset Value / Share (\$)			
						0.49 0.57 0.60 0.65			
						NTA / Share (\$)			
						0.25 0.28 0.31 0.37			
						Net Debt (net cash)			
						26.2 50.2 82.5 56.8			
Analyst: Trent Barnett					Last Earnings Estimate Changes:				
Phone: +61 8 9268 3052					17 February 2014				
Sources: IRESS, Company Information, Hartleys Research									

➤ "Reported EBITDA": as per accounts

➤ "Like-for-FY13-EBITDA" normalised for abnormals and excludes Carboodle contributions

➤ "Underlying EBITDA" normalised but includes Carboodle

Fig. 1: Hartleys estimates of Q1 and Q2 earnings

	Q1e	Q2e	1Ha	2He	FY14e	FY15e
Reported EBITDA	7.6	11.5	19.1	29.3	48.4	72.3
Abnormals						
Store Stamp Duty	1.8	0	1.8			
Ausgroup	0	1.1	1.1		2.2	1.0
Carboodle losses	2.5	0.4	2.9	0.8	3.7	-0.3
Total abnormals	4.3	1.5	5.8	1.5	7.3	7.3
"Like-for-FY13-like" EBITDA	11.9	13.0	24.9	33.1	58.0	72.7
Underlying EBITDA	9.4	12.6	22.0	32.3	54.3	73.0

Source: Hartleys Research estimates, CCV reports

Fig. 2: Earnings Changes

	6/13A actual	6/14F Old	6/14F New	% diff	6/15F Old	6/15F New	% diff	6/16F Old	6/16F New	% diff
AUD/GBP	0.642	0.562	0.598	6.4%	0.606	0.610	0.7%	0.601	0.601	0.0%
Safrock Loan Book	125.7	166.8	144.7	-13.3%	198.3	140.9	-28.9%	183.4	169.6	-7.5%
Safrock Revenue	113.6	128.1	131.6	2.7%	179.5	176.8	-1.5%	178.7	186.7	4.5%
Safrock EBITDA	43.6	45.8	42.4	-7.5%	64.3	59.8	-7.0%	66.5	60.0	-9.7%
margin	38.4%	35.8%	32.2%	-10.0%	35.8%	33.8%	-5.6%	37.2%	32.2%	-13.5%
Fin. Services Admin. Revenue	17.7	26.7	15.1	-43.3%	27.1	15.9	-41.5%	27.2	15.9	-41.5%
Fin. Services Admin. EBITDA	14.2	13.2	10.5	-20.1%	14.9	11.1	-25.4%	14.9	11.1	-25.5%
margin	80.2%	49.5%	69.8%	41.0%	54.9%	69.9%	27.4%	54.8%	69.8%	27.3%
Owned # (UK + Aust) - end	118	145	145	0.0%	145	145	0.0%	145	145	0.0%
- additional	16	27	27	0.0%	0	0	nm	0	0	nm
Company owned stores (avg)	110	133	133	0.0%	145	145	0.0%	145	145	0.0%
Owned Stores Revenue	136.1	163.3	157.8	-3.4%	170.4	169.7	-0.4%	171.2	171.2	0.0%
Owned Stores EBITDA	11.3	9.3	14.6	56.6%	9.7	15.7	61.5%	9.7	15.8	62.1%
margin	8.3%	5.7%	9.2%	62.1%	5.7%	9.2%	62.1%	5.7%	9.2%	62.1%
Franchised # (UK + Aust) - end	273	282	282	0.0%	282	282	0.0%	282	282	0.0%
Franchise Revenue	24.0	26.7	18.3	-31.5%	26.0	18.4	-29.5%	26.2	18.6	-29.0%
Franchise EBITDA	4.3	4.8	6.0	25.6%	4.7	6.1	29.3%	4.7	6.1	30.1%
margin	17.8%	18.0%	33.0%	83.3%	18.0%	33.0%	83.3%	18.0%	33.0%	83.3%
Carboodle fleet value (100%)		23.0	14.6	-36.5%	78.0	20.7	-73.5%	91.7	41.6	-54.6%
Carboodle EBIT (100%)		-1.1	-3.7	230.0%	8.9	0.3	-97.0%	19.3	7.0	-63.7%
Revenue	272.2	331.5	308.5	-7.0%	408.8	367.1	-10.2%	443.4	392.1	-11.6%
<b>EBITDA</b>	<b>60.0</b>	<b>56.4</b>	<b>54.3</b>	<b>-3.8%</b>	<b>86.3</b>	<b>73.0</b>	<b>-15.4%</b>	<b>102.8</b>	<b>77.8</b>	<b>-24.3%</b>
- margin	<b>22.0%</b>	<b>17.0%</b>	<b>17.6%</b>	<b>3.4%</b>	<b>21.1%</b>	<b>19.9%</b>	<b>-5.8%</b>	<b>23.2%</b>	<b>19.8%</b>	<b>-14.4%</b>
EBITDA reported	60.0	nm	48.4	nm	nm	72.3	nm	98.8	73.8	-25.3%
- margin	22.0%	18.2%	15.4%	-15.4%	20.4%	20.0%	-2.0%	22.5%	19.1%	-15.4%
Depreciation/Amortisation	-6.5	-8.1	-7.9	-1.7%	-14.5	-8.4	-42.0%	-23.3	-8.5	-63.4%
EBIT	53.6	48.3	46.3	-4.1%	71.7	64.6	-10.0%	79.5	69.3	-12.9%
Net Interest	-2.4	-7.4	-7.7	3.4%	-12.1	-8.8	-27.2%	-14.2	-10.1	-28.8%
Pretax Profit	47.7	40.9	38.7	-5.5%	59.7	55.8	-6.5%	65.3	59.1	-9.4%
Tax	-14.8	-12.3	-11.6	-5.5%	-17.9	-16.7	-6.5%	-19.6	-17.7	-9.4%
<b>Norm. Net Profit After Tax</b>	<b>35.3</b>	<b>33.9</b>	<b>32.4</b>	<b>-4.6%</b>	<b>42.5</b>	<b>39.7</b>	<b>-6.4%</b>	<b>45.7</b>	<b>41.4</b>	<b>-9.4%</b>
- margin	13.0%	10.2%	10.5%		10.4%	10.8%		10.3%	10.6%	
<b>Reported Group Profit</b>	<b>32.9</b>	<b>28.6</b>	<b>27.1</b>	<b>-5.5%</b>	<b>41.8</b>	<b>39.0</b>	<b>-6.5%</b>	<b>45.7</b>	<b>41.4</b>	<b>-9.4%</b>
DPS	4.00	4.00	4.00	0.0%	4.50	4.25	-5.6%	4.75	4.35	-8.4%
EPS (diluted)	8.4	7.7	7.4	-4.7%	9.6	9.0	-6.4%	10.1	9.2	-9.2%
P/E (\$0.915)	10.9x	11.8x	12.4x		9.6x	10.2x		9.1x	10.0x	
Ordinary Shares (end)	423.9	431.0	431.6	0.1%	440.0	439.3	-0.2%	449.2	447.5	-0.4%
Ordinary Shares (avg wgt)	406.3	427.4	427.8	0.1%	435.5	435.4	0.0%	444.6	443.4	-0.3%
Net Debt	50.2	94.0	82.6	-12.1%	143.8	56.8	-60.5%	117.0	77.8	-33.5%

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-14e	FY14e
AUD/GBP	0.639	0.650	0.641	0.643	0.557	0.566	0.598
Safrock Loan Book	75.0	87.3	110.6	125.7	117.4	144.7	144.7
Safrock Revenue	38.0	49.1	54.7	58.9	61.8	69.8	131.6
Safrock EBITDA	14.1	19.4	22.4	21.2	18.3	24.1	42.4
margin	37.2%	39.4%	40.9%	36.0%	29.6%	34.5%	32.2%
Fin. Services Admin. Revenue	8.0	8.6	9.1	8.6	7.1	8.1	15.1
Fin. Services Admin. EBITDA	6.6	7.0	7.3	6.9	4.9	5.6	10.5
margin	83.1%	81.6%	80.2%	80.1%	69.7%	69.9%	69.8%
Owned Stores Revenue	60.8	62.0	68.0	68.2	78.4	79.3	157.8
Owned Stores EBITDA	6.2	2.4	6.5	4.8	6.9	7.7	14.6
margin	10.2%	3.9%	9.6%	7.0%	8.8%	9.7%	9.2%
Franchise Revenue	12.3	11.2	10.7	13.3	9.1	9.3	18.3
Franchise EBITDA	2.9	3.2	3.0	1.2	3.1	3.0	6.0
margin	23.3%	28.5%	28.5%	9.3%	33.8%	32.3%	33.0%
Carboodle fleet value (100%)		3.7	6.9	7.9	11.7	15.5	
Carboodle fleet (car leases)		246	460	528	779	1,032	
Carboodle EBIT					-2.9	-0.8	
<b>Group Revenue</b>	<b>111.7</b>	<b>121.9</b>	<b>134.9</b>	<b>137.3</b>	<b>155.4</b>	<b>153.1</b>	<b>308.5</b>
growth	14.9%	9.1%	10.7%	1.8%	13.2%	-1.5%	13.3%
<b>Underlying EBITDA - Group</b>	<b>22.8</b>	<b>28.4</b>	<b>31.1</b>	<b>29.0</b>	<b>21.7</b>	<b>32.6</b>	<b>54.3</b>
growth	2.2%	24.7%	9.3%	-6.8%	-25.2%	50.6%	-9.6%
<b>EBITDA / Sales</b>	<b>20.4%</b>	<b>23.3%</b>	<b>23.0%</b>	<b>21.1%</b>	<b>13.9%</b>	<b>21.3%</b>	<b>17.6%</b>
Depreciation/Amortisation	-2.0	-2.3	-2.8	-3.7	-3.8	-4.1	-7.9
<b>EBIT</b>	<b>20.8</b>	<b>26.1</b>	<b>28.3</b>	<b>25.3</b>	<b>17.9</b>	<b>28.5</b>	<b>46.3</b>
EBIT / Sales	18.6%	21.4%	20.9%	18.4%	11.5%	18.6%	15.0%
Net Corporate Interest	-0.6	-1.0	-1.2	-1.2	-3.7	-4.0	-7.7
<b>Norm Pretax Profit</b>	<b>20.3</b>	<b>21.2</b>	<b>27.1</b>	<b>20.6</b>	<b>14.2</b>	<b>24.5</b>	<b>38.7</b>
Tax	-6.0	-6.0	-7.8	-7.0	-4.0	-7.6	-11.6
Effective Tax Rate	29.7%	28.3%	28.6%	34.2%	nm	nm	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Normalised NPAT to equity</b>	<b>14.0</b>	<b>18.2</b>	<b>19.0</b>	<b>16.3</b>	<b>9.9</b>	<b>22.4</b>	<b>32.4</b>
<b>Norm. Net Profit / Sales</b>	<b>12.5%</b>	<b>14.9%</b>	<b>14.1%</b>	<b>11.8%</b>	<b>6.4%</b>	<b>14.7%</b>	<b>10.5%</b>
Abnormals / discontinued	-0.8	-2.0	-0.6	-1.8	-2.7	-2.6	-5.3
Group Reported Profit	13.2	16.2	18.4	14.4	7.3	19.8	27.1
<b>Reported EPS (basic, weighted)</b>	<b>3.11</b>	<b>4.64</b>	<b>4.70</b>	<b>3.39</b>	<b>2.30</b>	<b>4.03</b>	<b>6.33</b>
<b>Normalised EPS (dil, wghtd)</b>	<b>3.00</b>	<b>5.19</b>	<b>4.85</b>	<b>3.55</b>	<b>3.15</b>	<b>4.23</b>	<b>7.38</b>
<b>DPS (\$)</b>	<b>0.0175</b>	<b>0.0175</b>	<b>0.0200</b>	<b>0.0200</b>	<b>0.0200</b>	<b>0.0200</b>	<b>0.0400</b>
Franking	100%	100%	100%	100%	100%	100%	100%
Payout Ratio	56.3%	37.7%	42.6%	59.0%	87.0%	49.7%	63.2%
<b>Balance Sheet (\$m)</b>	<b>Dec-11a</b>	<b>Jun-12a</b>	<b>Dec-12a</b>	<b>Jun-13a</b>	<b>Dec-13a</b>	<b>Jun-14e</b>	<b>FY14e</b>
Cash	19.5	16.4	22.7	20.7	50.8	20.7	20.7
Receivables	11.0	10.9	11.1	13.0	22.5	14.5	14.5
Inventories	14.7	17.1	17.4	21.8	23.8	25.2	25.2
Other (including loan book)	80.8	91.1	112.5	123.6	131.4	142.7	142.7
<b>Total Current Assets</b>	<b>126.1</b>	<b>135.5</b>	<b>163.7</b>	<b>179.1</b>	<b>228.5</b>	<b>203.2</b>	<b>203.2</b>
Property, Plant & Equipment	16.8	19.6	20.4	22.5	24.1	23.8	23.8
Intangibles (inc. Goodwill)	91.7	92.7	93.9	121.2	131.5	125.6	125.6
Other	11.2	14.9	21.9	24.1	11.2	47.1	47.1
<b>Total Non Current Assets</b>	<b>119.8</b>	<b>127.3</b>	<b>136.2</b>	<b>167.8</b>	<b>166.8</b>	<b>196.5</b>	<b>196.5</b>
<b>Total Assets</b>	<b>245.8</b>	<b>262.7</b>	<b>299.9</b>	<b>347.0</b>	<b>395.3</b>	<b>399.7</b>	<b>399.7</b>
Accounts Payable	14.5	19.6	18.7	20.0	26.5	24.0	24.0
Interest Bearing Liabilities	4.6	11.3	4.6	70.5	55.1	55.0	55.0
Other	13.6	13.8	14.1	14.3	5.4	14.3	14.3
<b>Total Current Liabilities</b>	<b>32.7</b>	<b>44.7</b>	<b>37.3</b>	<b>104.9</b>	<b>87.1</b>	<b>93.3</b>	<b>93.3</b>
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	48.3	48.3
Other	3.5	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total Non Current Liabilities</b>	<b>37.2</b>	<b>31.4</b>	<b>30.5</b>	<b>0.5</b>	<b>59.2</b>	<b>48.4</b>	<b>48.4</b>
<b>Total Liabilities</b>	<b>69.9</b>	<b>76.1</b>	<b>67.8</b>	<b>105.3</b>	<b>146.3</b>	<b>141.7</b>	<b>141.7</b>
<b>Net Assets</b>	<b>176.0</b>	<b>186.6</b>	<b>232.1</b>	<b>241.6</b>	<b>249.0</b>	<b>258.0</b>	<b>258.0</b>
Net Asset Value / Share (\$)	0.46	0.49	0.55	0.57	0.58	0.60	0.60
NTA / Share (\$)	0.22	0.25	0.33	0.28	0.28	0.31	0.31
Net Debt (net cash)	18.7	26.2	11.3	50.2	63.4	82.6	82.6

Source: Company Data, Hartleys Estimates

*The Australian Safrock business continues to be the dominate earnings contributor, and performed better than our "low" expectation's.*

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

*The loan book (~\$120m 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 was a bit softer than expected due to a larger than expected tax payment*

Cashflow Statement (\$m)	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14e	FY14e
EBITDA (inc Safrock interest)	22.8	28.4	31.1	29.0	21.7	32.6	54.3
Working Capital Change	-3.5	-5.4	2.2	2.5	0.6	-1.6	-1.0
<b>Cash from Operations</b>	<b>19.3</b>	<b>23.0</b>	<b>33.3</b>	<b>31.4</b>	<b>22.3</b>	<b>31.0</b>	<b>53.3</b>
Corporate Interest	-0.6	-1.1	-1.4	-1.1	-4.0	-3.7	-7.7
Tax Paid	-6.3	-9.0	-9.0	-8.2	-9.1	-7.5	-16.6
<b>Net Operating Cash Flow</b>	<b>12.4</b>	<b>12.9</b>	<b>22.8</b>	<b>22.1</b>	<b>9.1</b>	<b>19.8</b>	<b>29.0</b>
Capital Expenditure	-6.5	-5.4	-3.9	-3.8	-3.5	-3.4	-6.9
Other (including loan book)	-12.1	-10.6	-25.4	-15.5	-13.1	-24.0	-37.1
Investments & acquisitions	-6.1	0.0	-1.0	-34.9	1.3	-8.0	-6.7
<b>Net Investing Cash Flow</b>	<b>-24.8</b>	<b>-16.0</b>	<b>-30.2</b>	<b>-54.2</b>	<b>-15.2</b>	<b>-35.4</b>	<b>-50.7</b>
Proceeds from Equity Issues	0.0	0.0	31.6	0.0	0.0	6.4	6.4
Net Change in Debt & Leases	15.7	4.7	-8.7	36.8	38.7	-6.3	32.4
Dividends Paid	-6.7	-4.5	-8.9	-8.5	-6.3	-10.8	-17.1
<b>Net Financing Cash Flow</b>	<b>9.0</b>	<b>-0.1</b>	<b>14.0</b>	<b>28.4</b>	<b>32.4</b>	<b>-10.7</b>	<b>21.7</b>
<b>Movement in Cash</b>	<b>-3.3</b>	<b>-3.2</b>	<b>6.6</b>	<b>-3.7</b>	<b>26.3</b>	<b>-26.3</b>	<b>0.0</b>
<b>HP Lease Capex (non-cash)</b>							
Free Cash Flow Analysis	Dec-11a	Jun-12a	Dec-12a	Jun-13a	Dec-13a	Jun-14e	FY14e
Net Operating Cash Flow	12.4	12.9	22.8	22.1	9.1	19.8	29.0
Capex (Reported) inc loan book	-24.8	-16.0	-30.2	-54.2	-15.2	-35.4	-50.7
Group Free Cash Flow (rep'ted)	-12.3	-3.1	-7.4	-32.1	-6.1	-15.6	-21.7
Fixed Debt Repayments	-5.1	-6.7	-6.4	-8.7	-15.4	-18.1	-5.1
<b>Equity Free Cash Flow (rep'ted)</b>	<b>-17.4</b>	<b>-9.8</b>	<b>-13.8</b>	<b>-40.8</b>	<b>-21.5</b>	<b>-33.7</b>	<b>-26.8</b>
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	-33.7	-26.8
Capex (inc HP) / depreciation	332%	233%	138%	103%	92%	83%	87%

Source: Hartleys Research

## PRICE TARGET

Our twelve month price target is lowered to \$1.09 (from \$1.16).

Price Target Methodology	Weighting	Spot	12 mth out
DCF	59%	\$1.01	\$1.07
12mth forward P/E of 14.0x	20%	\$1.10	\$1.27
Price / NTA (Dec '13a) 1x \$0.31	5%	\$0.31	\$0.31
12mth fwd Div Yield of 3.6% (Gross yield=5.1%)	16%	\$1.11	\$1.18
<b>Risk weighted composite</b>		<b>\$1.01</b>	<b>\$1.09</b>
<b>12 Months Forward</b>		<b>\$1.09</b>	
Shareprice - Last		\$0.925	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>22%</b>	

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 Safrock returns have stabilised in Australia. We assume Mon-e Australia volumes rebound	High	High	We assume a decline in margins for Mon-e Australia and Safrock Australia.
UK financial margins improve slowly	Low	Low / Upside	We assume that Safrock and Mon-e UK margins increase slowly.
Store profits rebound	Low	Moderate	We assume Aust store volumes increase, and margins remain robust.
Carboodle makes a full year slightly positive EBIT contribution in FY15, loss in FY14	Low	Moderate	We assume that Carboodle is slow to grow, and peaks at 4,000 leases, which is substantially lower than we believe should be achievable.
Safrock loan book peaks at \$170m in FY16	High	Low / Upside	We assume that the Australian loan book peaks at around the current level, but that the UK book increases to ~A\$75m in FY16, after consolidating at around \$40m for the FY14/FY15.

*Conclusion*

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

Source: Hartleys

## USEFUL WEBLINKS

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

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

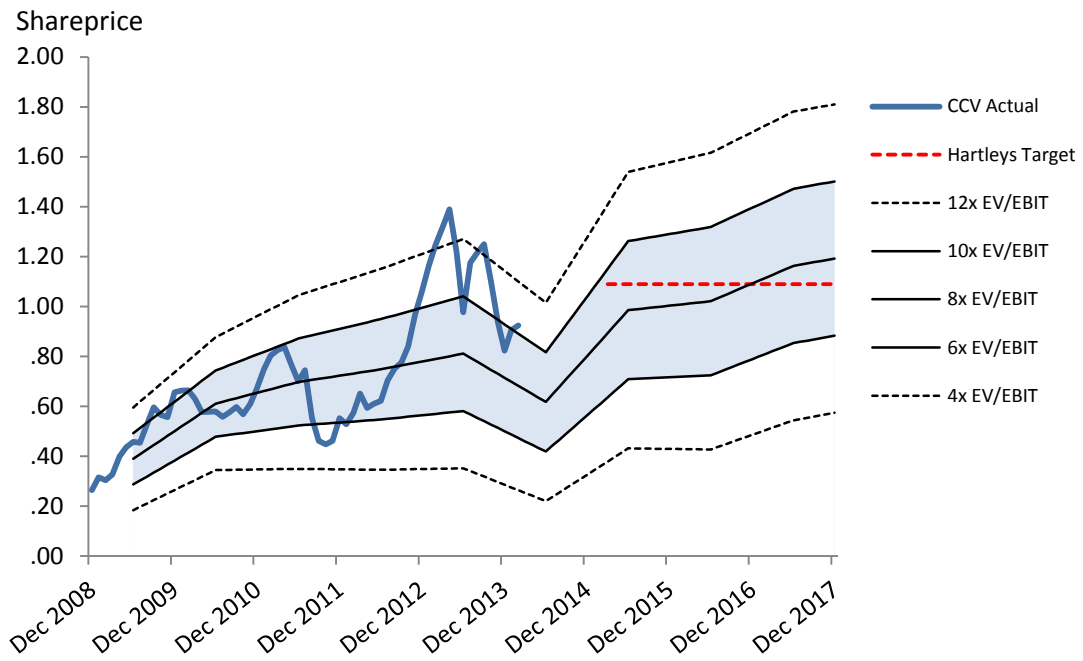
<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2012/038.htm&pageID=003&min=brs&Year=&DocType=>

<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

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Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	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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