CCV.asx
Speculative Buy

CASH CONVERTERS INT. LTD (CCV)

Lots of cash

CCV has recently reported its FY20 results, delivering adjusted NPAT of $19.6m. Statutory NPAT, including the $42.5m Class Action settlement and associated legal costs was a loss of $10.5m.

One of the current short-term outcomes of COVID-19 and the subsequent flood of Government stimulus payments is that lenders such as CCV have seen material declines in demand for short-term credit and an increased level of early loan settlements. This has resulted in CCV's gross loan book declining significantly during the period from $224m to $160m.

The resulting large cash inflows during 2H20 sees CCV with ~$85m of available cash (see page 5) in addition to which the business has ~$60m of finance facility headroom.

All this cash – not a bad thing, but not necessarily a good thing

CCV earns high returns on the funds it lends; hence when those funds aren't being lent (i.e. sitting their lazily), profitability gets hit. In short CCV would rather be lending the cash than sitting on it.

At a high-level, we assume that as stimulus measures roll off CCV will see a gradual normalisation of demand for its lending products, however this may be some time away.

Sit on the cash or look to capital management

CCV's current cash and access to funding is far in excess of its current requirements. The question now for CCV is whether to consider some form of capital management, by way of a dividend payment or share buyback. A key consideration will be CCV's views on when they expect loan book growth to recommence and the pace and quantum of such.

CCV has $68m of franking credits and retained earnings of $51m, providing plenty of capacity to consider capital management options.

Speculative Buy, Price Target $0.29

CCV is being largely ignored by investors; which to a certain extent is understandable given their recent history of material class action payments and ongoing upheaval in senior management ranks.

Notwithstanding these issues, which are real and have been detrimental to shareholders, on a risk reward basis we think the stock looks very cheap. So much so that at FY20, were CCV to liquidate its $130m net loan book and pay off its finance facility, the business would be in a net cash position of ~$140m, well in excess of its current market capitalization of ~$100m (i.e. theoretically, worth more dead than alive).

While CCV remains high risk, the current share price offers potentially significant upside. We maintain our Speculative Buy recommendation with a price target of $0.29 / share (from $0.28 / share previously).

	16 Sep 2020
Share Price:	$0.165
12mth price target:	$0.29

Brief Business Description:
MACC lending, SACC lending, consumer finance, car finance and pawn broking operations.

Hartleys Brief Investment Conclusion:
High risk, though current share price offers potentially significant upside.

Chairman & CEO:
Jason Kulas (Non-Exec. Chairman)
Sam Budiselik (CEO)

Top Shareholders:

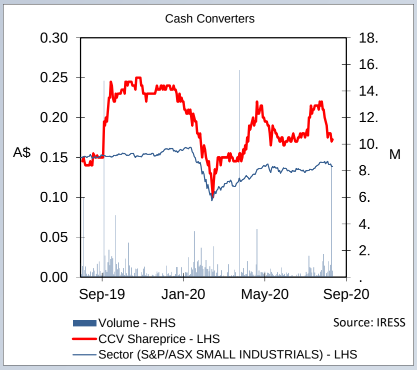
EZCORP	34.7%
Perpetual Ltd	12.1%

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

Issued Capital:	616m
- fully diluted	634m
Market Cap:	102m
- fully diluted	105m
Net Debt (FY20):	-19m

	FY19a	FY20a	FY21e
Revenue	280.6	278.7	226.4
NPAT (A$m)	-1.7	-10.5	9.6
NPAT (A$m) *	20.7	19.6	9.6
EPS ($, dil)*	3.3	3.1	1.5
P/E (diluted)	5.0x	5.3x	10.9x
EV / EBITDA	5.7x	5.5x	2.0x
N.D. / equity	13%	-6%	-14%

Source: Hartleys Research. *normalised



Author:
Oliver Stevens
Industrial Analyst
Ph: +61 8 9268 2879
e: oliver.stevens@hartleys.com.au

SUMMARY MODEL

Cash Converters International (CCV)

Company Information		
Date	16 Sep 2020	Level 18, 37 St Georges Tce
Share Price	$0.165	Perth, WA, 6000
52 Week High-Low	$0.27 - $0.10	Ph: (08) 9221 9011
Market Cap ($m)	$102	www.cashconverters.com.au
Net Debt ($m)	-$19	
Enterprise Value ($m)	$83	
Ordinary Shares	616	
Fully Diluted Shares	634	
Price Target	$0.29	
Upside / Downside	77%	
Dividend Yield - FY20	0%	
Total Return	77%	

Price Target	
12 Month Price Target	$0.29
P/E (FY6/20A) at price target - Reported EPS	-17.2x
P/E (FY21) at price target - Reported EPS	18.8x
Div. Yld (FY6/20A) at price target	0.0%
Div. Yld (FY21) at price target	0.0%

Multiples (S/price at $0.17)	6/19A	6/20A	6/21F	6/22F
P / E (basic, weighted)	-60.1x	-9.7x	10.6x	6.8x
P / E (norm, diluted, weighted)	5.0x	5.3x	10.9x	7.0x
Dividend Yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA multiple	5.7x	5.5x	2.0x	1.7x
EV/EBIT multiple	15.0x	-40.3x	3.2x	2.5x
Price / Book Value	0.3x	0.3x	0.3x	0.3x
Price / NTA	0.6x	0.6x	0.5x	0.5x

Ratios	6/19A	6/20A	6/21F	6/22F
Return on Average Equity	-0.5%	-3.4%	3.0%	4.5%
Return on Assets	-0.3%	-2.2%	2.0%	3.0%
ND / ND + Equity	11.8%	-6.5%	-16.3%	-18.1%
ND / Equity	13.3%	-6.1%	-14.0%	-15.3%
Net Interest Cover (EBIT)	0.6x	-0.2x	2.1x	2.8x
Revenue growth	8%	-1%	-19%	6%
EBIT growth	-86%	-137%	1350%	29%
NPAT growth	-108%	520%	-191%	57%
EPS (dil, wghtd) growth	-106%	523%	190%	57%
EBIT Margin	2%	-1%	11%	14%
Tax Rate	17%	20%	30%	30%

Cash Flow Analysis	6/19A	6/20A	6/21F	6/22F
Net Operating Cash Flow	41.3	56.4	18.4	32.4
+ Tax Paid	5.9	0.1	0.0	4.1
+ Net Interest	12.1	12.1	12.1	11.7
Ungeared pre-tax cashflow	59.2	68.6	30.5	48.2
Reported EBITDA	14.7	15.2	40.7	48.1
Cash Conversion	**404%**	**452%**	**75%**	**100%**
Capex / D&A	0.8x	0.2x	0.3x	0.3x

Share Data	6/19A	6/20A	6/21F	6/22F
Ord Issued shares (m)	616.4	616.4	616.4	616.4
growth	0.0%	0.0%	0.0%	0.0%
Weighted ave shares (m)	616.4	616.4	616.4	616.4
growth	24.7%	0.0%	0.0%	0.0%
Diluted shares wgted (m)	628.6	625.4	630.5	630.5
growth	23.6%	-0.5%	0.8%	0.0%

Directors & Senior Mgt	Substantial Shareholders	
Jason Kulas (Non-Exec. Chairman)	EZCORP	34.7%
Peter Cumins (Exec. Deputy Chairman)	Perpetual Ltd	12.1%
Kevin Dundo (NED)		
Lachlan Given (NED)		
Robert Hines (NED)		
Julie Elliott (NED)		
Sam Budiselik (CEO)		

Recommendation: Speculative Buy

Profit & Loss ($m)	6/19A	6/20A	6/21F	6/22F
Operating Revenue	280.6	278.7	226.4	241.1
EBITDA	14.7	15.2	40.7	48.1
growth	*-69.4%*	*3.5%*	*168.4%*	*18.1%*
EBITDA / Revenue	5.2%	5.4%	18.0%	20.0%
Depn & Amort.	-9.1	-17.2	-15.0	-15.0
EBIT	**5.5**	**-2.1**	**25.7**	**33.1**
Net Interest	-9.5	-12.3	-12.1	-11.7
PBT	**-4.0**	**-14.3**	**13.7**	**21.4**
Tax	0.7	2.8	-4.1	-6.4
Assoc. Cont	1.6	1.0	0.0	0.0
NPAT	**-1.7**	**-10.5**	**9.6**	**15.0**
Pre-tax Adjustments	31.7	42.9	0.0	0.0
Adjusted EBITDA	**46.4**	**58.1**	**40.7**	**48.1**
Post-tax Adjustments	22.4	30.1	0.0	0.0
Adjusted NPAT	**20.7**	**19.6**	**9.6**	**15.0**
Reported EPS (basic, wghtd)	**-0.3**	**-1.7**	**1.6**	**2.4**
Normalised EPS (dil, wghtd)	**3.3**	**3.1**	**1.5**	**2.4**
DPS (cps)	**0.0**	**0.0**	**0.0**	**0.0**
Franking	0%	0%	0%	0%
Payout Ratio	0.0%	0.0%	0.0%	0.0%

Cashflow Statement ($m)	6/19A	6/20A	6/21F	6/22F
EBITDA	14.7	15.2	40.7	48.1
Net Interest	-12.1	-12.1	-12.1	-11.7
Working Capital	10.3	15.6	-0.3	0.1
Tax Paid	-5.9	-0.1	0.0	-4.1
Other	34.3	37.8	-10.0	0.0
Net Operating Cash Flow	**41.3**	**56.4**	**18.4**	**32.4**
Net loan funds advanced	-73.1	13.8	10.9	-21.5
Operating Cash Flow	**-31.8**	**70.1**	**29.3**	**10.8**
Capital Expenditure	-7.4	-4.2	-4.2	-4.2
Acquisitions	0.0	0.0	0.0	0.0
Other (inc Investments, Asset sales etc)	15.1	2.4	1.0	1.0
Net Investing Cash Flow	**7.7**	**-1.8**	**-3.2**	**-3.2**
Proceeds from Equity Issues	0.0	0.0	0.0	0.0
Net Change in Debt	-35.0	-36.8	-10.5	5.8
Dividends Paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Net Financing Cash Flow	**-35.0**	**-36.8**	**-10.5**	**5.8**
Movement in Cash	-59.1	31.6	15.7	13.4

Balance Sheet ($m)	6/19A	6/20A	6/21F	6/22F
Cash	81.1	106.5	122.2	135.7
Loan Receivables	128.4	93.7	85.1	98.6
Receivables	7.8	6.7	5.4	5.8
Inventories	20.4	15.2	12.4	13.2
Other	9.7	6.4	6.4	6.4
Total Current Assets	**247.3**	**228.5**	**231.5**	**259.6**
Property, Plant & Equipment	6.2	4.6	5.0	5.0
Loan Receivables	46.2	35.9	36.2	40.2
Intangibles	133.9	128.3	128.3	128.3
Other	30.6	82.4	82.4	82.4
Total Non Current Assets	**216.9**	**251.3**	**251.9**	**256.0**
Total Assets	**464.2**	**479.8**	**483.5**	**515.6**
Accounts Payable	15.3	23.3	18.9	20.2
Interest Bearing Liabilities	87.8	60.6	60.0	60.0
Other	7.0	15.0	19.1	21.4
Total Current Liabilities	**110.2**	**98.9**	**98.0**	**101.6**
Interest Bearing Liabilities	35.5	27.2	17.3	23.1
Other	1.7	47.4	47.4	47.4
Total Non Current Liabilities	**37.2**	**74.6**	**64.7**	**70.5**
Total Liabilities	**147.4**	**173.5**	**162.7**	**172.0**
Net Assets	**316.9**	**306.4**	**320.7**	**343.6**
Net Asset Value / Share ($)	0.51	0.50	0.52	0.56
NTA / Share ($)	0.30	0.29	0.31	0.35
Net Debt (net cash)	42.2	-18.8	-44.9	-52.6

Analyst: Oliver Stevens
Phone: +61 8 9268 2879

Sources: IRESS, Company Information, Hartleys Research

FY20 RESULT SUMMARY

Fig. 1: FY20 result summary

CCV	FY19a	FY20a	Chg	1H20	2H20
Revenue	281	279	-1%	144	135
Gross Profit	**156**	**168**	**8%**	**86.5**	**81.0**
Expenses	-141	-152		-99	-53
EBITDA	**14.7**	**15.2**		**-12.8**	**28.0**
D&A	-9.1	-17.2		-8.7	-8.6
EBIT	**5.5**	**-2.1**		**-21.5**	**19.4**
Net Interest	-9.5	-12.3		-6.3	-6.0
PBT	**-4.0**	**-14.3**		**-27.7**	**13.4**
Tax	0.7	2.8		8.3	-5.5
NPAT	**-1.7**	**-10.5**		**-19.4**	**8.9**
Adjustments (pre-tax)	31.7	42.9		42.9	0.0
Adjusted EBITDA	**46.4**	**58.1**	**25%**	**30.1**	**28.0**
Adjusted NPAT	**20.7**	**19.6**	**-5%**	**10.6**	**8.9**
Divisional Gross Profit					
Financial Services	108	114	5%	57	57
Sale of goods	31	39	26%	19	20
Other (incl. Franchise Fees)	16	14	-13%	10	4

Source: CCV, Hartleys

- CCV reported a Net Loss After Tax of $10.5m, primarily impacted by the $42.5m (pre-tax) charge taken in 1H20 in relation to the settlement of the Lynch Class Action (see our note of 21 October 2019 *"Lynch action settlement agreed at $42.5m"*).

- After adjusting for this charge and associated legal costs ($0.4m pre-tax), CCV achieved an Adjusted NPAT of $19.6m down 5% on FY19.

- On a comparable basis, the first-time adoption of AASB16 provided an $11.0m boost to EBITDA while negatively impacting NPAT by $1.6m.

LOAN BOOK

CCV's gross loan book declined significantly during 2H20, dropping from $224m to $160m.

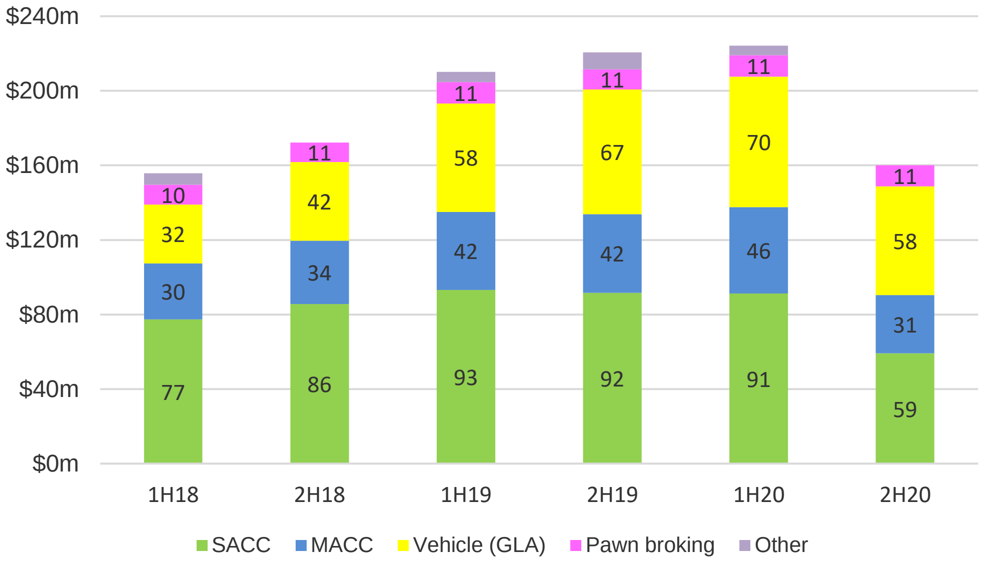
The decline in CCV's loan book has occurred as a direct result of COVID-19, in particular:

- **Government stimulus payments** have seen early settlements on client loans along with a decline in demand for short-term credit.

  CCV expects that by 2H21, as the various stimulus payments reduce / cease, borrowing behaviours will return to what the business has historically seen.

- **Tightened lending criteria** was prudently adopted by CCV at the onset of the crisis.

Fig. 2: *Gross loan book*



Source: CCV, Hartleys

BALANCE SHEET / FUNDING CAPACITY

One of the major impacts of the sharp decline in the loan book is reflected in the cash that has flowed back into the business.

In FY20 CCV reported operating cash flow of $70m. 2H20 operating cash flow was $86m, following $16m cash outflow in 1H20, which included a $32.5m payment related to the Lynch Class Action settlement.

CCV now finds itself with significant (excess?) cash holdings (Figure 3).

Fig. 3: ***Funding / Cash Position***

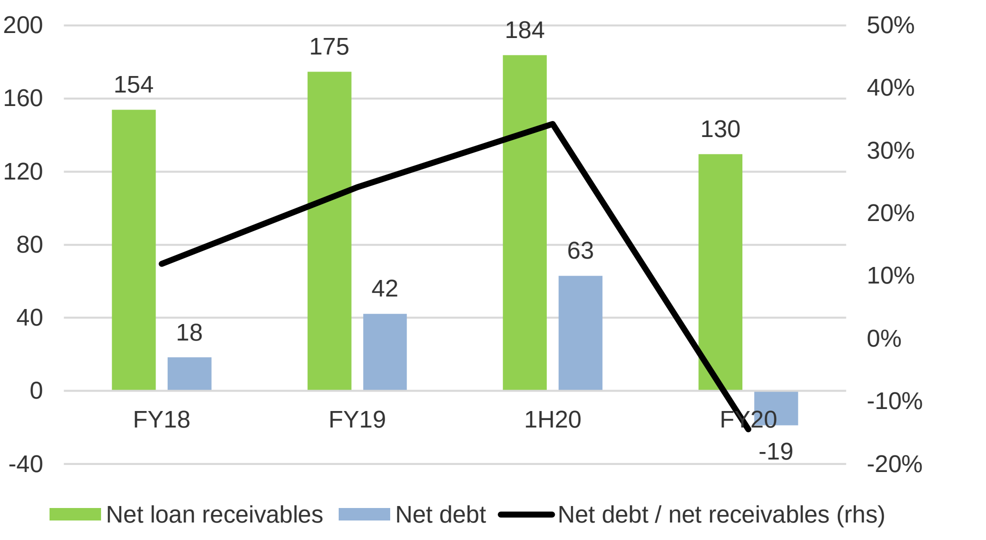
Cash			
FY20		106.5	
Restricted cash		-11.1	Deposits related to lending facilities.
Unrestricted Cash		**95.4**	
Lynch Settlement - Tranche 2		-10.0	Due by 30 Sep 2020
Proforma Unrestricted Cash	***1***	**85.4**	
Working Capital Required	*2*	-30.0	Estimate of working cap. required.
CCV Cash available for Lending	***3***	**55.4**	
Fortress Facility			
Total Facility		150.0	Current expiry December 2020.
Drawn at FY20		87.8	
Other		1.5	
Headroom at FY20		**60.8**	
FY20 Net Receivables (Loan Book)		130	
Funding Ratio		68%	Net Receivables / Fortress facility utilised.

Source: CCV, Hartleys

- *1.* On a pro-forma basis, post payment of Class Action Tranche 2 ($10m), CCV has $85m of available cash.
- *2.* We assume working capital to fund day to day operations of $30m.
- *3.* Shows excess funds available to facilitate ongoing growth in lending book.

The change in the CCV's cash / funding situation on the back of the drop in loan book balances is made clear in Figure 4.

Fig. 4: ***Net loan book / gearing***



Source: CCV, Hartleys

FORECASTS

Fig. 5: *Forecasts*

CCV	FY20	FY21	Chg
Loan Book - Gross	160	149	-7%
Revenue	279	226	-19%
Gross Profit	**168**	**128**	**-24%**
Expenses	-152	-87	
EBITDA	**15.2**	**40.7**	**168%**
D&A	-17.2	-15.0	
EBIT	**-2.1**	**25.7**	
Net Interest	-12.3	-12.1	
PBT	**-14.3**	**13.7**	**195%**
Tax	2.8	-4.1	
NPAT	**-10.5**	**9.6**	**191%**
Adjustments (pre-tax)	42.9	0.0	
Adjusted NPAT	**19.6**	**9.6**	**-51%**
EPS - Adjusted, dil	**3.1c**	**1.5c**	**-52%**
Reported EPS (basic)	-1.7c	1.6c	191%

Source: CCV, Hartleys

CCV's core lending business is heavily leveraged to the impacts (to date, primarily Government stimulus programs) flowing from COVID-19. As such, there remains material uncertainty around CCV's short-term earnings and our forecasts.

CCV earns high returns on the funds it lends; hence when those funds aren't being lent (i.e. sitting their lazily), profitability gets hit.

At a high-level, we would assume that as stimulus measures roll off CCV will see a gradual normalisation of demand for its lending products.

In relation to FY21, CCV comments as follows:

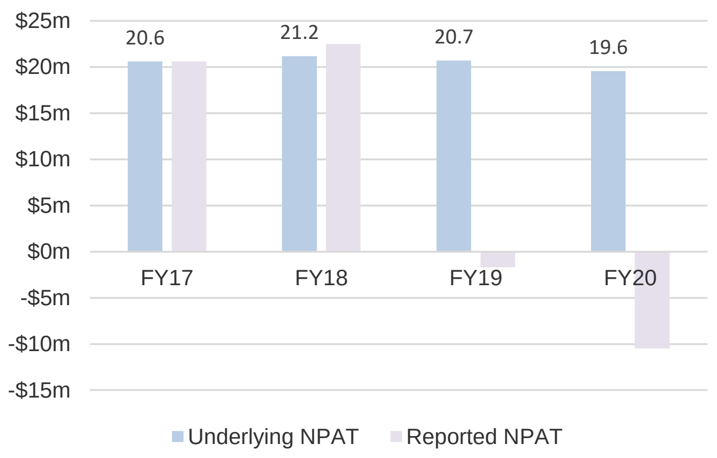
- The year on year reduction in gross loan book balances will likely remain in FY21, which is expected to have a relatively negative effect on revenue and earnings.
- Revenue and earnings are forecast to be significantly lower in 1H21 due primarily to the impact of the reduction in lending volumes seen through 4Q20.
- By 2H21 CCV expects that borrowing behaviours will have returned to what it historically considers to be normal.

VALUATION

As discussed above, there is great uncertainty as to likely profitability levels in the short-term, due primarily to the current low demand for credit from CCV's customer base.

In considering a 'reasonable' level of profitability for CCV, the last four years show that underlying NPAT has sat at around $20m (Figure 6). Reported NPAT has been impacted by a variety of other (largely self-inflicted) costs, primarily related to Class Action settlements and related legal costs.

Fig. 6: *NPAT History*



Source: CCV, Hartleys

Other, non-COVID-related, risks to earnings remain:

- Potential SACC law review implementation may occur at some stage – see below.
- Other operational issues. CCV has in recent times had a rotating door of senior executives which has come at a cost to shareholders through additional compensation payments and a cost to the business through ongoing disruption.

Keeping these risks in mind, in considering our valuation we adopt an NPAT of $20m, which implies an EPS of 3.2cps. Applying a PER multiple of 9x results in our valuation of $0.29 / share (Figure 7). We note that this valuation is in line with CCV's reported NTA of $0.29 /share.

Fig. 7: *CCV Valuation*

CCV	
FY20 EPS	3.2c
Target PER	9.0x
Valuation per share	**$0.29**

Source: Hartleys

SACC LAW REVIEW

Background	Comments
In February 2019 The Senate Inquiry report into *"Credit and financial services targeted at Australians at risk of financial hardship"* was released. Among other recommendations, the report recommended that the proposed SACC amendments should be passed through Parliament. In September 2019 and December 2019 two Bills were introduced to Parliament. Together the Bills propose to amend the National Consumer Credit Protection Act as follows: - The protected earnings amount (PEA) for SACC's will be reduced from 20% of a consumer's gross income in relation to Centrelink recipients, to 10% of a consumer's net income for each payment period; and - Extend the PEA cap to all borrowers (PEA and non-PEA) not just those receiving 50% or more of their income from Centrelink.	It would appear that at present this proposed legislation has been further delayed. As a reminder, were The Bills ultimately passed into law, they do not take effect until 12 months from the date of receiving Royal Assent. CCV has not released any updated assumptions around potential impacts if the Bills are passed in their current form. At FY19, CCV estimated that the changes likely result in a goodwill impairment in the range of $45m-$60m, were the changes to be enacted from July 2020

RISKS

While not an exhaustive list, other potential risks we see as ever-present to CCV include:

- The potential for future regulatory reviews and / or proposed changes. Any activity in this regard could impact CCV's operations or may simply cause share price pressure due to the potential for additional investor uncertainty.
- Future disputes or litigation (for e.g. with regulatory bodies) in the ordinary course of business.
- Action of franchisees. The majority of CCV's stores are run under franchise agreements. CCV faces the risk of non-compliance by franchisors to contractual arrangements which could result in damage to CCV's brand and reputation or require CCV to take steps to remedy non-compliance.
- Security of online databases. CCV maintains significant data and client account information online. The theft, loss or corruption of this data is a risk.
- Ability to access and maintain funding sources. CCV relies in part on debt to fund its business operations. CCV's Fortress facility was recently extended to December 2022, providing good tenure.

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

Registered Office

Level 6, 141 St Georges Tce	**Postal Address:**
Perth WA 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
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
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
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
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
Heath Ryan	+61 8 9268 3053
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855