

Cash Converters International Ltd

(CCV \$0.22) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	28 th June 2021	\$0.36/sh ▲ from \$0.29/sh

May Trading Update / Change of Analyst

Event

Cash Converters provided a May business update with the gross loan books continuing to show strong signs of recovery.

We have updated our forecasts and note the change in the Analyst.

Impact

- We provide updated forecasts looking for FY'21 EBIT of \$26.6m and NPAT of \$11.5m. FY'22 outlook appears strong and a return to normalised earnings with NPAT of \$20.0m.
- Given the May update, CCV is well placed to finish FY'21 with gross loan book outstanding of \$175m (up from \$160m at 30 June 2020) and FY'22 with \$205m in gross loans; as borrowing demand looks set to continue grow in the near term.
- Balance sheet position as at 30 May remains healthy with CCV disclosing a cash balance of \$73.3m (down from \$91.2m at 1H'21).
- The current balance sheet position supports management's commitment to sustain a dividend payment, we are forecasting 1c fully franked final dividend; placing CCV on a full year 9% dividend yield.

Action

We resume coverage with a \$0.36/sh Price Target and Buy Recommendation.

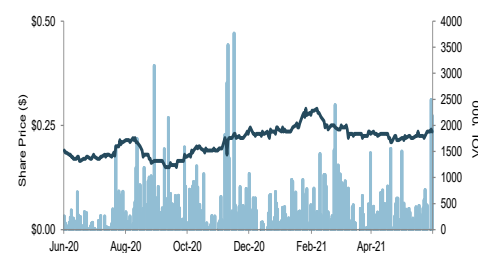
Key Catalysts

- Resumption of full year dividend - we are forecasting a 1c final distribution. Given current balance sheet and future earnings forecast, we could see this distribution increasing overtime.
- Continued recovery of loan books and launch of new non-SACC products under the National Credit Consumer Protection act.
- FY'21 results which should highlight improved operational efficiency across the organisation and the impact of bringing collections functions inhouse.

Cash Converters Ltd	Year End 30 June	
Share Price	0.22	A\$/sh
Price Target	0.36	A\$/sh
Valuation (DCF)	0.45	A\$/sh
WACC	10.5%	
Terminal Growth	2.5%	
Shares on issue	632 m,	diluted
Market Capitalisation	135.6	A\$m
Enterprise Value	174.1	A\$m
Cash	91.3	A\$m
Debt	129.8	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	279.0	215.4	265.1
EBITDA (A\$m)	16.5	42.0	57.2
EBIT (A\$m)	-0.7	26.6	40.8
Reported NPAT (A\$m)	-10.5	11.5	20.0
Normalised NPAT (A\$m)	19.3	11.5	20.0
Gross Cashflow (A\$m)	48.2	8.2	2.6
Capex (A\$m)	-4.2	-6.8	-7.0
Op. Free Cashflow (A\$m)	63.9	-5.5	-10.8
Revenue Growth (%)	-1%	-23%	23%
EBITDA Growth (%)	-5%	154%	36%
Norm. NPAT Growth (%)	-4%	5%	8%
Normalised EPS (Ac)	-1.66	1.82	3.16
Norm. EPS growth (%)	520%	-210%	74%
PER (x)	-12.9	11.8	6.8
EV:EBITDA (x)	10.7	4.1	3.0
EV:EBIT (x)	-256.6	6.6	4.3
DPS (Ac)	0.0	2.0	2.0
Dividend Yield (%)	na	9.1%	9.1%
Net cash (A\$m)*	-34.3	-53.0	-78.8
Net Debt:Equity (%)	-0.1	-0.2	-0.2

Share Price Chart



Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Cash Converters Ltd during the last year. Euroz Hartleys has received a fee for these services.

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Cash Converters International Ltd

(CCV \$0.22) Buy

Analysis

CCV has delivered solid a business update, which continues to point towards growing trading momentum and further recovery in CCV's loan books – after loan balances were heavily impacted by stimulus through 2020.

We are forecasting CCV to finish FY'21 with \$175m deployed across the GLA, MACC, SACC and Pawn books leaving the business well positioned for a strong start to FY'22.

- We expect business activity to be stronger again through FY'22 as we see a normalisation demand for lending products.

The update followed half year results in which CCV delivered revenue of \$98.4m (\$142.7m PCP) and operating NPAT of \$7.7m (\$10.6m PCP). Whilst borrower demand and business activity through the second half of FY'21 has largely recovered, management have stated “expectation of softer second half earnings is due to Covid-19 related factors.”

- With this in mind we are looking for a full year FY'21 NPAT result of \$11.5m (vs adj \$19.3m PY) normalising to \$20m FY'22 (inline with historical business normalised activity)

The business maintains a healthy balance sheet with the NTA of \$185.6m (30c per share), of which \$91.3m was held as cash (at the half). This strong position has enabled the business to return to a dividend paying entity following 1c fully franked dividend declared at the half and we forecast a final dividend of 1c.

Currently trading at \$0.22/sh we feel CCV continues to trade some what under investment radars – a discount which at least is partially attributed to recent material Class Action Settlement and perhaps misconceptions around the CCV business model.

Our Price Target of \$0.36/sh provides significant upside to investors – while the commitment payment of dividends (and healthy franking credit balance) will no doubt prove attractive.

If CCV can deliver on management strategy to diversify products and expand corporate store network we expect CCV will be well placed to offer investors attractive capital growth and dividend yields overtime.

We resume coverage with a \$0.36/sh Price Target and Buy Recommendation.

Cash Converters International Ltd

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Forecasts

The following outlines our forecasts and key assumptions over the short term:

Half on Half												
Revenues		FY19	1H 20	2H 20	FY20	1H 21	2H 21	FY'21	1H 22	2H 22	FY'22	FY'23
Franchise Fee revenue	\$m	15.4	8.0	5.2	13.2	6.0	6.4	12.4	6.2	6.2	12.3	12.2
Financial Services Interest	\$m	186.5	90.2	84.2	174.4	56.8	71.1	127.8	79.4	89.0	168.5	185.9
Sale of Goods	\$m	75.8	43.0	45.3	88.2	34.0	38.0	72.0	40.2	41.0	81.1	83.6
Other Revenue	\$m	3.9	1.6	1.6	3.2	1.7	1.5	3.2	1.6	1.6	3.2	3.2
Total Revenue		281.6	142.7	136.3	279.0	98.4	117.0	215.4	127.4	137.7	265.1	284.9
Loan Book												
GLA	\$m	68.5	70.7	61.4	61.4	47.5	45.0	45.0	55.0	65.0	65.0	65.0
MACC	\$m	39.9	46.3	32.3	32.3	30	46	46.0	50.0	60.0	60.0	70.0
SACC	\$m	82.7	91.2	58.9	58.9	57.4	66.0	66.0	70.0	70.0	70.0	60.0
Total	\$m	191.1	208.2	152.6	152.6	135.1	157.0	157.0	175.0	195.0	195.0	195.0
Corporate Stores	#	69	70	70	70	70	72	72	74	75	75	78
Cost of sales												
Finance	\$m	-78.1	-32.8	-27.3	-60.1	-9.1	-25.5	-34.6	-24.2	-27.1	-51.4	-56.7
Goods	\$m	-46.0	-24.1	-24.7	-48.8	-17.7	-20.5	-38.2	-20.9	-21.3	-42.2	-44.3
Other		-2.1	-1.0	-1.3	-2.3	-0.7	-1.5	-2.3	-0.7	-1.5	-2.3	-2.3
Total Cogs	\$m	-126	-58	-53	-111	-28	-47	-75	-46	-50	-96	-103
Gross Profit	\$m	155.3	84.8	83.0	167.8	70.9	69.5	140.4	81.5	87.7	169.3	181.6
GP Margin	%	55%	59%	61%	60%	72%	59%	65%	64%	64%	64%	64%
Opex	\$m	-121.5	-54.9	-53.9	-108.8	-46.2	-52.1	-98.4	-56.1	-56.1	-112.1	-119.7
Class Action Settlement	\$m	-16.4	-42.5	0.0	-42.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	\$m	17.4	-12.6	29.1	16.5	24.6	17.4	42.0	25.5	31.7	57.2	61.9
EBIT	\$m	8.2	-21.2	20.5	-0.7	16.4	10.2	26.6	17.3	23.5	40.8	44.8
NPAT	\$m	-1.7	-19.4	8.9	-10.5	7.7	3.8	11.5	7.8	12.2	20.0	22.6
NPAT Normalised	\$m	9.8	2.0	17.3	19.3	0.0	0.0	11.5	0.0	0.0	20.0	22.6

CCV's revenue is primarily generated through its core lending business (62% FY'20 revenue) we expect this trend to continue for the foreseeable future, however we note that the company is progressing its Australian store network expansion strategy (70 corporate stores at 1H'21.)

- We assume CCV generates 73% effective average interest across outstanding loan balances (Personal and Vehicle financing loan books).
- We drive our forecast on ECL provision of 18% of gross/loan book, inline with historical provisioning requirements - up from 16.9% at 1H'21.
- Management have highlighted expectation of a softer second half FY'21 earnings result, we look for activity to normalise through FY'22.
- 1H'21 store revenue was impacted by Covid-19 related lockdowns across the network, we expect 2H'21 operating results to be stronger given return from lockdowns.

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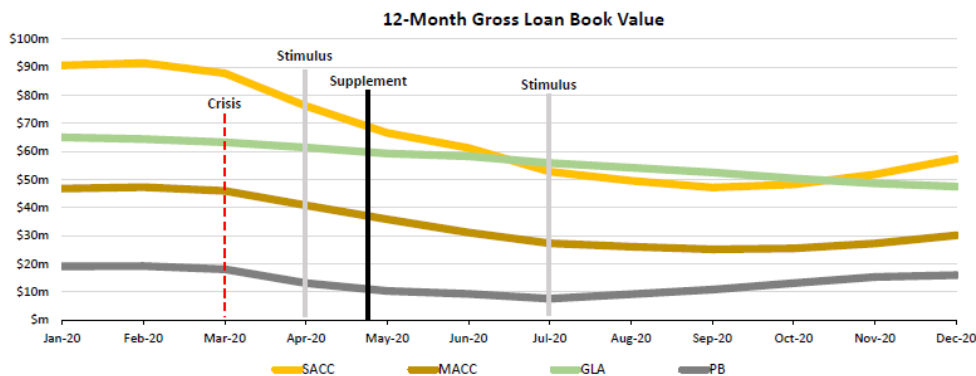
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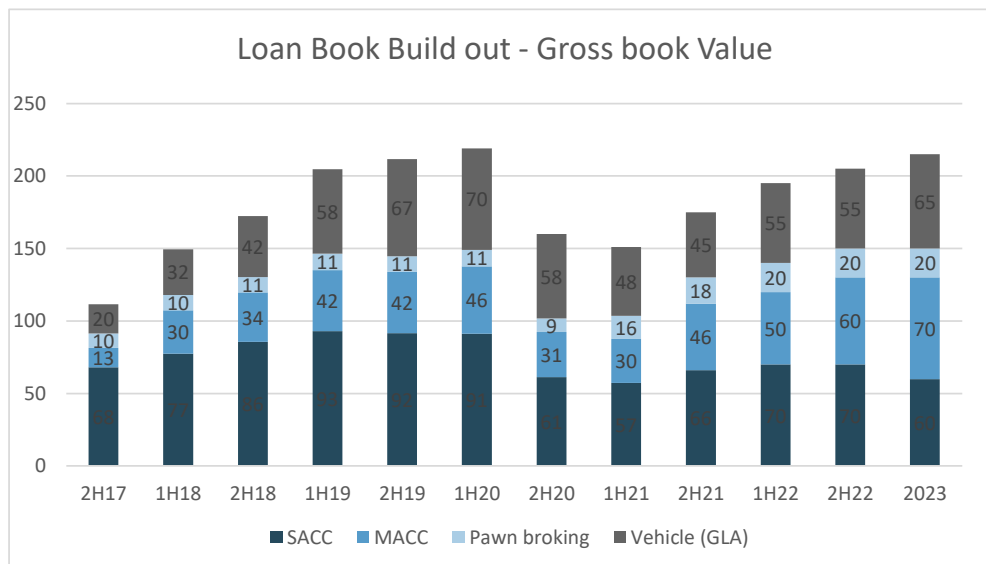
Loan books

The following highlights impact of stimulus on CCV's loan books through FY'21; loan books are now recovering lead by short term SACC lending.



- Tightened lending criteria was adopted by CCV at the outset of the virus and loan books declined significantly through FY'20 with Stimulus payments to low income earners resulting in early settlement of client loans as well as a general decline in the demand for short term credit.
- Gross loan books have increased 14% through the second half of the FY'21; with management continuing to execute on a strategy to diversify lending products.
- We expect MACC book will play an increasingly important part of CCV's product line-up.

We buildout our Loan Book forecasts as follows:



Gross Loan Receivables	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22	2H22	2023
SACC	68	77	86	93	92	91	61	57	66	70	70	60
MACC	13	30	34	42	42	46	31	30	46	50	60	70
Pawn broking	10	10	11	11	11	11	9	16	18	20	20	20
Vehicle (GLA)	20	32	42	58	67	70	58	48	45	55	55	65
Gross Loan book	111	150	172	205	212	219	160	151	175	195	205	215

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Valuation

Our 12-month price target of \$0.36/sh is derived through a blended PE target and repriced dividend yield.

Components	Multiple	Weighting	Equity	A\$/sh.
PE	10.0	50%	200	0.32
Dividend Yield	NA	50%	253	0.40
mean			226.5	0.36

Comparable

There is no direct ASX listed peer for CCV unique blend store sales network and consumer finance offering.

- Given that the loan book contributes ~60% of earnings, we look to the following group of diversified financial service providers trading on an average of 13.6x earnings.

Name	Ticker	Last Price	Market Cap	PE			
				FY'20	FY'21	FY'22	FY'23
Eclipx Group Ltd	ECX	2.25	728	47.9	14.9	13.8	12.5
Credit Corp Group	CCP	29.26	2,026	26.5	22.6	20.0	18.4
Humm Group Ltd	HUM	1.00	508	11.1	6.6	7.5	6.3
Money 3 Corp Ltd	MNY	3.18	676	30.2	17.8	14.2	11.9
<i>Source: Bloomberg</i>							
AVG				28.9	15.5	13.9	12.3
MED				28.3	16.4	14.0	12.2

- Credit Corp trades on a premium to peers given US market exposure provides a material opportunity to grow future earnings.

We apply a **10x multiple on FY'22** earnings forecast, a slight discount on peers given the unique mix of brick and mortar consumer stores and financial service offering.

Dividend Yield

Management have committed to continued dividend distributions; we are forecasting a full year FY'21 distribution of 2c per share.

Yield	Price Target
3.0%	\$0.67
4.0%	\$0.50
5.0%	\$0.40
6.0%	\$0.33
7.0%	\$0.29
8.0%	\$0.25

CCV currently trades on an undemanding 9% yield, repricing this to 5% arrives at a 40c Price target.

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NTA

Under pinning our valuation the business continues to trade at a discount NTA of \$0.31/sh.

Discounted Cash Flows

Our long term discounted cash flow forecast is coming out as follows:

FY	Units	2021	2022	2023	2024	2025	2026
EBIT	A\$m	26.6	40.8	44.8	46.0	46.1	46.0
(-) Tax (Ungearred)	A\$m	-8.0	-12.2	-13.4	-13.8	-13.8	-13.8
(+) D&A	A\$m	15.4	16.3	17.1	17.9	18.8	19.8
(-) Lease expense	A\$m	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5
(-) Capex	A\$m	-6.8	-7.0	-8.0	-8.9	-9.8	-10.8
(-) ΔNWC	A\$m	-6.9	-6.4	-1.1	-0.5	-0.3	0.0
(+/-) Loan book	A\$m	-12.2	-27.2	-21.7	-4.8	-5.0	0.0
FCFF	A\$m	1.6	-2.2	11.1	29.5	29.5	34.7
Period	x	0.5	1.5	2.5	3.5	4.5	5.5
Disc. Factor	x	0.95	0.86	0.78	0.71	0.64	0.58
Disc FCFF	A\$m	1.6	-1.9	8.7	20.8	18.8	20.0
NPV forecasted FCFF	A\$m	68.0					
Terminal FCFF		34.7					
TGR		2.5%					
TV		444.4					
PV of TV		256.7					
EV		324.6					
(-) Debt (1H)		-129.8					
(+) Cash (1H)		91.3					
Equity Value		286.1					
Per Share /Sh		0.45					
WACC		10.5%					

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1H'21 Results

The following summarises CCV's 1H results.

FY	Units	2019	1H	2H	2020	1H	Commentary
Franchise Fee revenue	A\$m	15.4	8.0	5.2	13.2	6.0	Franchise operations across the UK significantly impacted by Covid-19 lock downs - CCV has discounted and waived Franchise fees of stores impacted by lockdowns.
Financial Services Interest	A\$m	186.5	90.2	84.2	174.4	56.8	Gross loanbook (ex Pawn) fell to \$151.1m during the period; down from a high of \$208.2m.
Sale of Goods	A\$m	75.8	43.0	45.3	88.2	34.0	Impact of Store lock downs and a retail seasonality with key sales period in second half. Average sales per store down from \$650k to \$500k for the half.
Other Revenue	A\$m	3.9	1.6	1.6	3.2	1.7	I.M
Total Revenue	A\$m	281.6	142.7	136.3	279.0	98.4	
Financial Services	A\$m	-78.1	-32.8	-27.3	-60.1	-9.1	Windback in the bad debt provision as a percentage of the gross loan book - decrease from 19% to 16.9%. CCV still believe this is cautious - We model at 18% and sensitise the impact on earnings below.
Cost of Goods Sold	A\$m	-46.0	-24.1	-24.7	-48.8	-17.7	Store GP margins up to 48%; up half on half inline with expectations given drawn down on inventory in the second half for FY'21.
Other Cost of Sales	A\$m	-2.1	-1.0	-1.3	-2.3	-0.7	na
Total COGS	A\$m	-126.2	-57.9	-53.3	-111.2	-27.6	
(-) OPEX	A\$m	-121.5	-54.9	-53.9	-108.8	-46.2	Continued cost saving across the segments.
(-) Class Action	A\$m	-16.4	-42.5	0.0	-42.5	0.0	Final payment of \$10m made during 1H 21.
EBITDA	A\$m	17.4	-12.6	29.1	16.5	24.6	
Margin	%	6%	-9%	21%	6%	25%	
EBIT	A\$m	8.2	-21.2	20.5	-0.7	16.4	
Margin	%	3%	-15%	15%	0%	17%	
EBT	A\$m	-2.4	-27.7	14.4	-13.3	10.5	
Margin	%	-1%	-19%	11%	-5%	11%	
NPAT, Reported	A\$m	-1.7	-19.4	8.9	-10.5	7.7	
NPAT, Adj.	A\$m	20.7	2.0	17.3	19.3	7.7	CCV is consistently generate underlying earnings -\$20m

RISKS

We highlight the following investment risks specific to CCV

- Operating within the financial services sector; we highlight the potential for future regulatory review and proposed changes to lending regulations.
- Based on business performance and forecasts as disclosed in the half-year to 31 December 2020, CCV highlighted that if the National Credit Protection Amendment Bill were to proceed on its previously assumed schedule, no impairments were identified based on expected future performance. Although there was a significant reduction in the positive difference between the assessed carrying and reported loan book value - no impairment provision was required.
 - As of this week, the National Credit Protection Amendment Bill is not tabled for debate in the final Senate session before mid-year break. However, it remains unclear as to when (or if) the Bill in its current form will be taken to the Senate.
- CCV stores are majority franchisee run, CCV faces the risk of non-compliance of the franchisors to contractor arrangements which could result in damage to CCV group.
- Cyber Security risk - CCV maintains a large data base of personal and financial data.

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Financial Statements	2020a	2021f	2022f	Performance Ratios	2020a	2021f	2022f
Income Statement				Growth & Margins			
Revenue	279.0	215.4	265.1	Revenue Growth	-1%	-23%	23%
Cost of Goods Sold	-111.2	-75.0	-95.9	EBITDA Growth	-5%	154%	36%
Gross Profit	167.8	140.4	169.3	EBITDA margin	6%	20%	22%
OPEX	-151.3	-98.4	-112.1	EBIT margin	0%	12%	15%
EBITDA	16.5	42.0	57.2	EBIT Growth	-108%	160%	54%
Depreciation & amortisation	-17.2	-15.4	-16.3	Normalized net profit margin	-4%	5%	8%
EBIT	-0.7	26.6	40.8	Effective tax rate	30%	30%	30%
Net finance expense	-12.6	-10.1	-12.2	Liquidity			
EBT	-13.3	16.4	28.6	Capex/depreciation (x)	0.2	0.4	0.4
Tax expense	2.8	-4.9	-8.6	Current ratio (x)	28.4	32.1	28.5
Reported Earnings	-10.5	11.5	20.0	Quick ratio (x)	1.9	1.6	1.2
Abnormal Expenses / (Incomes)	29.8	0.0	0.0	Receivable days	9	15	15
Normalized Net Profit	19.3	11.5	20.0	Payable days	59	60	50
Cash flow (A\$m)				Risk Measures			
Profit before Tax	-10.5	11.5	20.0	Dividend Cover (x)	na	1.9	1.6
(+) D&A	17.2	15.4	16.3	Payout ratio (%)	0%	17%	15%
(-) Lease Expense	-6.5	-6.5	-6.5	Net interest cover (x)	-0.1	2.6	3.3
(+/-) Impairments, Non-cash	2.3	0.0	0.0	Net debt/equity (%)	-2%	-11%	-16%
(+/-) FX	0.7	0.0	0.0	Returns			
(+/-) Net Loan funds change	45.0	-12.2	-27.2	ROIC(%)	0%	5%	7%
Gross Cashflow	48.2	8.2	2.6	Return on assets (%)	-2%	3%	4%
(-) Capital Expenditure	-4.2	-6.8	-7.0	Return on equity (%)	-3%	4%	6%
(-) Change in WC	19.9	-6.9	-6.4	Share Data/Valuation			
Operating Free cashflow	63.9	-5.5	-10.8	Share Data			
(-) Dividend Paid	0.0	-6.2	-12.3	Issued shares (m)	616.4	616.4	616.4
(-/+) Proceeds from Disposals	0.4	0.0	0.0	Weighted ave shares (m)	616.4	616.4	616.4
(-) Investments	0.0	0.0	0.0	Fully diluted shares (m)	632.3	632.3	632.3
(+/-) Other	-3.4	-4.4	0.0	Basic EPS (c)	-1.7	1.9	3.2
(+) Equity issued	0.0	0.0	0.0	YoY change (%)	520%	-210%	74%
Net Cashflow	-42.2	-34.3	-53.0	Fully diluted EPS (c)	-1.7	1.8	3.2
Bop Net Cash	-42.2	-34.3	-53.0	YoY change (%)	520%	-210%	74%
(+/-) Net Cashflow	60.9	-16.0	-23.1	Fully diluted normalised EPS (c)	-1.7	1.8	3.2
(+/-) Lease Adjustment	-53.0	-2.7	-2.7	YoY change (%)	520%	-210%	74%
EOp Net Cash	-34.3	-53.0	-78.8	Dividend/share (c)	0.0	2.0	2.0
Balance Sheet (\$m)				Valuation			
Cash	106.5	68.1	68.3	Franking (%)	100%	100%	100%
Receivables	6.7	9.0	11.1	Gross cashflow/share (c)	7.8	1.3	0.4
Loan Receivables	93.7	102.5	122.2	NBV/share (c)	49.7	50.5	51.8
Inventories	15.2	15.0	19.2	NTA/Share (c)	31.5	32.3	33.6
Prepayments	5.0	5.5	6.7	Other Information			
Current Tax Receivables	1.4	1.4	1.4	Estimated free float			65%
Total Current Assets	228.5	201.5	228.9	12-mth High/Low (A\$/sh)			0.29/0.10
Trade and other Receivables	4.9	4.9	4.9	Average daily volume (A\$'000s)			0.664
Loan Receivables	35.9	39.3	46.9	ASX Code			CCV
Plant and Equipment	4.6	4.5	4.3	Next result			Aug-21
Right of Use Asset	50.5	50.5	50.5	Company Description			
Deffered Tax assets	18.2	18.2	18.2	Cash Converters International operates as a franchisor of second hand goods and financial services stores under the Cash Converters brand name.			
Goodwill	107.0	107.0	107.0				
Other intangibles	21.4	21.4	21.4				
Prepayments	2.1	2.1	2.1				
Investments in Associates	6.6	6.6	6.6				
Total Non-Current Assets	251.3	254.5	261.9				
Total Assets	479.8	456.0	490.8				
Payables	23.3	15.0	14.4				
Lease Liabilities	6.9	6.9	6.9				
Borrowings	60.6	47.6	65.8				
Provisions	8.1	6.3	8.0				
Current Tax Payable	0.0	0.0	0.0				
Total Current Liabilities	8.1	6.3	8.0				
Lease Liabilities	46.1	47.1	47.1				
Borrowings	27.2	20.4	28.2				
Provisions	1.3	1.3	1.2				
Total Non-Current Liabilities	74.6	68.6	76.4				
Total Liabilities	173.5	144.5	171.6				
Net Assets	306.4	311.5	319.2				
Issued capital	248.7	248.7	248.7				
Reserves	7.1	7.1	7.1				
Retained profits	50.4	55.7	63.4				
Total Equity	306.1	311.5	319.2				

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Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

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