

Cash Converters International Ltd

(CCV \$0.26) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	2 nd September 2021	\$0.36/sh

Full Year Results

Event

Cash Converters has released full year results slightly ahead of our forecasts.

Impact

- Revenue of \$201.3m (down 23%) EHL \$215.4m
 - Difference a result of changes in presentation of commissions expenses.
- EBITDA of \$45.3m (up 136%) EHL \$42m.
- NPAT of \$16.2m (up from \$10.5m loss in the PY)
 - Effective Tax rate 5.1% with recognition international business segment DTA.
 - Normalised tax rate at 30% at \$12.0m (EHL \$11.5m)
- Fully franked dividend of the 1c per share (2c full year DPS)
 - 7.7% full year fully franked dividend yield.
 - Representing a 10.9% grossed up yield.
- Loan books continue to show strong sign of recovery from covid-19 lows (up 14% on 1H) and applications up strongly, positioning the business for a strong FY'22.
- Launch of new low-cost Early Wage Access product with a fixed fee of 5% per arrangement set to launch early FY'22.

Action

We have updated our forecasts to reflect FY'21 results. We retain our **Buy Recommendation and Price Target of \$0.36/sh.**

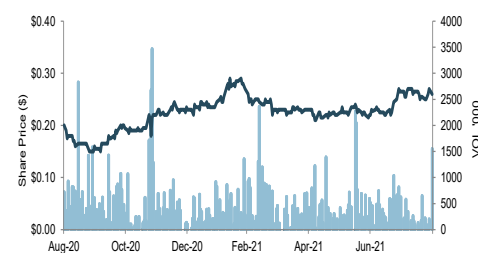
Key Catalyst

- Launch of new financial products.
- Continued recovery of loan books.
- Confirmation of dividend policy.
- 1H'22 results.

Cash Converters Int. Ltd	Year End 30 June	
Share Price	0.26	A\$/sh
Price Target	0.36	A\$/sh
Valuation (DCF)	0.47	A\$/sh
WACC	10.5%	
Terminal Growth	2.5%	
Shares on issue	628	m,
Market Capitalisation	163.2	A\$m
Enterprise Value	224.8	A\$m
Cash	72.2	A\$m
Debt	133.8	A\$m

Key Financials	2021A	2022F	2023F
Revenue (A\$m)	201.3	234.9	240.0
EBITDA (A\$m)	45.3	56.1	60.4
EBIT (A\$m)	28.8	39.5	43.6
Reported NPAT (A\$m)	16.2	20.2	21.8
Normalised NPAT (A\$m)	12.0	20.2	21.8
Gross Cashflow (A\$m)	10.6	27.0	7.5
Capex (A\$m)	-6.5	-6.7	-7.3
Op. Free Cashflow (A\$m)	-10.8	23.0	0.0
Revenue Growth (%)	-23%	17%	2%
EBITDA Growth (%)	174%	24%	8%
Norm. NPAT Growth (%)	8%	9%	9%
Normalised EPS (Ac)	2.52	3.14	3.39
Norm. EPS growth (%)	-252%	25%	8%
PER (x)	10.1	8.1	7.5
EV:EBITDA (x)	5.0	4.0	3.7
EV:EBIT (x)	7.8	5.7	5.2
DPS (Ac)	2.0	2.0	2.0
Dividend Yield (%)	7.7%	7.7%	7.7%
Net cash (A\$m)*	-61.6	-53.7	-68.9
Net Debt:Equity (%)	-0.2	-0.2	-0.2

Share Price Chart



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Analysis

We have updated our forecasts as follows

Revenues		1H 21	2H 21	FY'21	1H 22	2H 22	old	new			old	new		
							FY'22	FY'22	\$	%	FY'23	FY'23	\$	%
Franchise Fee revenue	\$m	6.0	4.1	10.1	6.2	6.2	12.3	12.3	0.00	0.0%	12.2	12.2	0.00	0.0%
Financial Services Interest	\$m	56.8	62.0	118.8	74.0	76.5	168.5	150.5	-17.98	-10.7%	185.9	154.1	-31.81	-17.1%
Sale of Goods	\$m	34.0	35.9	69.9	34.4	35.1	81.1	69.5	-11.60	-14.3%	83.6	71.1	-12.50	-15.0%
Other Revenue	\$m	1.7	0.9	2.5	1.3	1.3	3.2	2.5	-0.65	-20.2%	3.2	2.5	-0.65	-20.2%
Total Revenue		98.4	102.9	201.3	115.9	119.0	265.1	234.9	-30.23	-11.4%	284.9	240.0	-44.96	-15.8%
Loan Book														
GLA	\$m	49.7	44.3	44.3	45.0	47.0	65.0	47.0	-18.00	-27.7%	65.0	47.0	-18.00	-27.7%
MACC	\$m	31	49	49.4	53.0	58.0	50.0	58.0	8.00	16.0%	70.0	60.0	-10.00	-14.3%
SACC	\$m	59.8	67.6	67.6	68.0	68.0	70.0	68.0	-2.00	-2.9%	60.0	68.0	8.00	13.3%
PB	\$m	16.0	16.8	17.0	18.0	18.0	20.0	18.0	-2.00	-10.0%	20.0	20.0	0.00	0.0%
Total	\$m	156.4	178.1	161.3	184.0	191.0	205.0	191.0	-14.0	-6.8%	215.0	195.0	-20.00	-9.3%
Corporate Stores	#	70	72	75	75	78	75	78	4	4.7%	78	80	3	3.2%
Cost of sales														
Finance	\$m	-9.1	-9.0	-18.1	-18.5	-19.1	-51.4	-37.6	13.76	-26.8%	-56.7	-38.5	18.18	-32.1%
Goods	\$m	-17.7	-22.0	-39.7	-17.9	-18.3	-42.2	-36.2	6.03	-14.3%	-44.3	-37.0	7.33	-16.6%
Other		-0.7	-0.9	-1.6	-0.7	-0.9	-2.3	-1.6	0.67	-29.4%	-2.3	-1.6	0.67	-29.4%
Total Cogs	\$m	-28	-32	-59	-37	-38	-96	-75	20.47	-21.4%	-103.3	-77	26.19	-25.3%
Gross Profit	\$m	70.9	71.1	141.9	78.7	80.8	169.3	159.5	-9.77	-5.8%	181.6	162.9	-18.77	-10.3%
GP Margin	%	72%	69%	70%	68%	68%	64%	68%			64%	68%		
Opex	\$m	-46.2	-50.4	-96.6	-51.7	-51.7	-112.1	-103.4	8.67	-7.7%	-119.7	-102.4	17.33	-14.5%
Class Action Settlement	\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0		
EBITDA	\$m	24.6	20.7	45.3	27.0	29.0	57.2	56.1	-1.10	-1.9%	61.9	60.4	-1.44	-2.3%
EBIT	\$m	16.4	12.4	28.8	18.8	20.8	40.8	39.5	-1.26	-3.1%	44.8	43.6	-1.18	-2.6%
NPAT	\$m	7.7	8.5	16.2	9.4	10.8	20.0	20.2	0.19	0.9%	22.0	21.8	-0.17	-0.8%
NPAT Normalised	\$m	0.0	0.0	12.0	0.0	0.0	20.0	20.2	0.19	0.9%	22.0	21.8	-0.17	-0.8%

- We have adjusted our effective gross interest rate assumption to 69% across the average gross loan book which reflects adjustments recognition of commissions expense under financial services interest revenue as a consequence FY'22 revenue falls to reflect this change.
- We have updated our ECL provision to 16% conservative on FY'21 full year at 15%.
- We have pulled back our sales of goods forecasts which is conservative with the potential for further impact of covid-19 lockdowns in the Eastern State's market.
- Franchise fees were down through FY'21 with CCV offering fee relief support to the store network. As at 30 June 2021 all international stores (excluding Malaysia) have reopened, consequently we look for this to normalise through FY'22.
- Our forecasts do not include any new early Wage Access Product due to launch in the 1H'21. Any reasonable uptake is upside to our forecasts.

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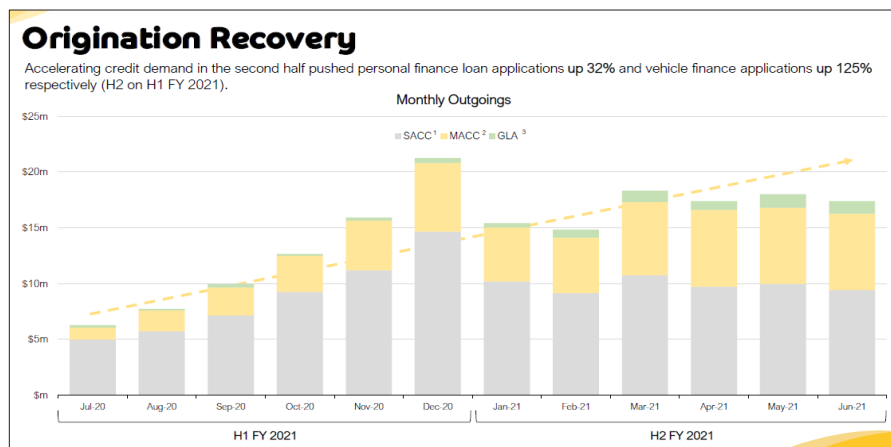
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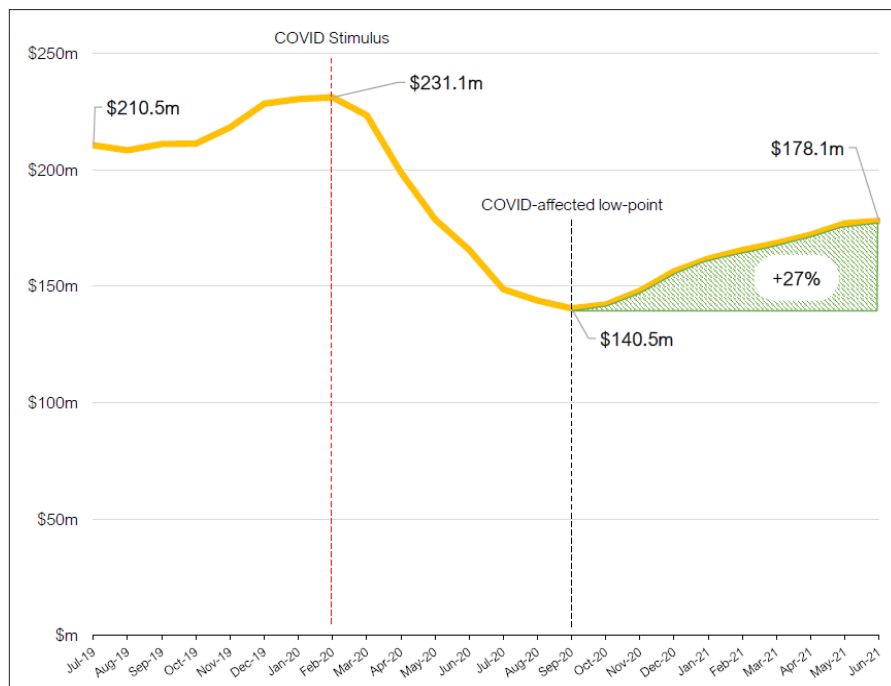
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Loan Books



- CCV saw strong lift in demand for consumer credit with finance loan applications up 32% and finance applications up 125% respectively.



- Loan books continue to show strong signs of recovery post Covid-19 low; we provide an updated build out of loan book below.

Gross Loan Receivables	1H20	2H20	1H21	2H21	1H22	2H22	2023
SACC	93	63	60	68	68	68	68
MAAC	47	32	31	49	53	58	60
Pawn broking	18	9	16	17	18	18	20
Vehicle (GLA)	70	62	50	44	45	47	47
Gross Loan book	229	166	156	178	184	191	195

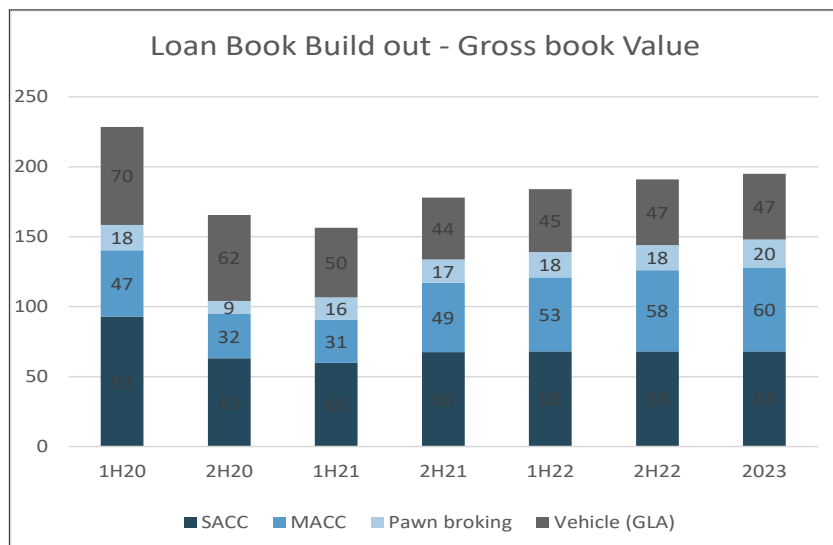
- We look for flat SACC growth profile consistent with commentary

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- We have pulled back our GLA loan book assumptions reflecting tighter financing conditions in the used car segment.

Valuation

Our price target remains at \$0.36/sh.

Components	Multiple	Weighting	Equity	A\$/sh.
PE	10.0	50%	202	0.32
Dividend Yield	NA	50%	251	0.40
mean			226.5	0.36
(/) SOI				627.5

We continue to use a blend of a 10x target multiple on our FY'22 earnings forecast and repriced FY'22 dividend yield of 5%.

Our price target remains under pinned by NTA of 31.25c and long term DCF valuation of \$0.48/sh.

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Financial Statements	2020A	2021A	2022F	2023F	Performance Ratios	2020A	2021A	2022F	2023F
Income Statement					Growth & Margins				
Revenue	262.0	201.3	234.9	240.0	Revenue Growth	-7%	-23%	17%	2%
Cost of Goods Sold	-94.2	-59.4	-75.4	-77.1	EBITDA Growth	-5%	174%	24%	8%
Gross Profit	167.8	141.9	159.5	162.9	EBITDA margin	6%	23%	24%	25%
OPEX	-151.3	-96.6	-103.4	-102.4	EBIT margin	0%	14%	17%	18%
EBITDA	16.5	45.3	56.1	60.4	EBIT Growth	-108%	131%	37%	10%
Depreciation & amortisation	-17.2	-16.5	-16.5	-16.8	Normalized net profit margin	-4%	8%	9%	9%
EBIT	-0.7	28.8	39.5	43.6	Effective tax rate	30%	30%	30%	30%
Net finance expense	-12.6	-11.7	-10.7	-12.4	Liquidity				
EBT	-13.3	17.1	28.9	31.2	Capex/depreciation (x)	0.2	0.4	0.4	0.4
Tax expense	2.8	-0.9	-8.7	-9.4	Current ratio (x)	2.3	2.7	2.8	2.6
Reported Earnings	-10.5	16.2	20.2	21.8	Quick ratio (x)	1.8	1.5	1.8	1.5
Abnormal Expenses / (Incomes)	29.8	-4.2	0.0	0.0	Receivable days	8	9	15	15
Normalized Net Profit	19.3	12.0	20.2	21.8	Payable days	59	53	43	44
Cash flow (A\$m)					Risk Measures				
Net Profit after Tax	-10.5	16.2	20.2	21.8	Dividend Cover (x)	na	2.6	1.6	1.7
(+) D&A	17.2	16.5	16.5	16.8	Payout ratio (%)	0%	12%	10%	9%
(-) Lease Expense	-6.5	-7.1	-7.1	-7.1	Net interest cover (x)	-0.1	2.5	3.7	3.5
(+/-) Impairments, Non-cash	2.3	0.0	0.0	0.0	Net debt/equity (%)	-2%	-14%	-9%	-12%
(+/-) FX	0.7	0.0	0.0	0.0	Returns				
(+/-) Net Loan funds change	39.4	-15.1	-2.7	-24.1	ROIC (%)	0%	5%	7%	7%
Gross Cashflow	42.6	10.6	27.0	7.5	Return on assets (%)	-2%	3%	4%	4%
(-) Capital Expenditure	-4.2	-6.5	-6.7	-7.3	Return on equity (%)	-3%	5%	6%	6%
(-) Change in WC	25.5	-14.9	2.7	-0.2	Share Data/Valuation				
Operating Free cashflow	63.9	-10.8	23.0	0.0	Share Data				
(-) Dividend Paid	0.0	-6.2	-12.5	-12.6	Issued shares (m)	616.4	627.5	627.5	627.5
(-/+) Proceeds from Disposals	0.4	0.0	0.0	0.0	Weighted ave shares (m)	616.4	625.4	627.5	627.5
(-) Investments	0.0	0.0	0.0	0.0	Fully diluted shares (m)	632.3	643.4	643.4	643.4
(+/-) Other	-3.4	1.1	0.0	0.0	Basic EPS (c)	-1.7	2.6	3.2	3.5
(+) Equity issued	0.0	0.0	0.0	0.0	YoY change (%)	520%	-252%	25%	8%
Net Cashflow	-42.2	-34.3	-61.6	-53.7	Fully diluted EPS (c)	-1.7	2.5	3.1	3.4
Bop Net Cash	-42.2	-34.3	-61.6	-53.7	YoY change (%)	520%	-252%	25%	8%
(+/-) Net Cashflow	60.9	-15.9	10.5	-12.5	Fully diluted normalised EPS (c)	-1.7	2.5	3.1	3.4
(+/-) Lease Adjustment	-53.0	-11.4	-2.7	-2.7	YoY change (%)	520%	-252%	25%	8%
EOp Net Cash	-34.3	-61.6	-53.7	-68.9	Dividend/share (c)	0.0	2.0	2.0	2.0
Balance Sheet (\$m)					Franking (%)	100%	100%	100%	100%
Cash	106.5	72.2	87.9	94.5	Gross cashflow/share (c)	6.9	1.7	4.3	1.2
Receivables	5.5	4.7	9.4	9.6	NBV/share (c)	49.7	51.0	52.2	53.7
Loan Receivables	97.1	120.6	120.0	139.8	NTA/Share (c)	31.5	32.7	33.9	35.4
Inventories	15.2	24.1	22.6	23.1	Valuation				
Prepayments	1.5	1.2	1.4	1.5	PER (Basic) (x)	-15.3	10.1	8.1	7.5
Current Tax Receivables	1.4	0.0	0.0	0.0	PER (Fully diluted) (x)	-15.7	10.3	8.3	7.7
Total Current Assets	227.3	222.8	241.4	268.6	PER (Fully diluted, normalized) (x)	-15.3	10.1	8.1	7.5
Trade and other Receivables	6.1	4.9	4.9	4.9	P/CFPS (x)	3.8	15.6	6.2	22.2
Loan Receivables	38.1	29.7	29.6	34.5	Price/NBV (x)	0.5	0.5	0.5	0.5
Plant and Equipment	4.6	5.9	5.9	6.1	Price/NTA (x)	0.8	0.8	0.8	0.7
Right of Use Asset	50.5	59.2	59.2	59.2	market Cap (EOFY)	160.3	163.2	163.2	163.2
Deffered Tax assets	18.2	19.3	19.3	19.3	EV	224.8	224.8	224.8	224.8
Goodwill	107.0	109.3	109.3	109.3	EV/EBITDA (x)	10.7	5.0	4.0	3.7
Other intangibles	21.4	19.6	18.9	18.3	EV/EBIT (x)	-256.6	7.8	5.7	5.2
Prepayments	0.0	0.0	0.0	0.0	EV/Revenue (x)	0.9	1.1	1.0	0.9
Investments in Associates	6.6	7.2	7.2	7.2	Other Information				
Total Non-Current Assets	252.5	255.1	254.2	258.7	Estimated free float				65%
Total Assets	479.8	477.9	495.6	527.3	12-mth High/Low (A\$/sh)				0.29/0.10
Payables	23.3	13.0	11.3	11.6	Average daily volume (A\$'000s)				0.664
Lease Liabilities	6.9	6.9	6.9	6.9	ASX Code				CCV
Borrowings	60.6	51.3	54.0	69.3	Next result				Feb-22
Provisions	8.1	9.8	13.7	14.0	Company Description				
Current Tax Payable	0.0	0.6	0.6	0.6	Cash Converters International operates as a franchisor of second hand goods and financial services stores under the Cash Converters brand name. It operates Franchise Operations, Store Operations, Personal Finance and Vehicle Financing Segments.				
Total Current Liabilities	98.9	81.7	86.5	102.4					
Lease Liabilities	46.1	57.5	57.5	57.5					
Borrowings	27.2	18.0	23.2	29.7					
Provisions	1.3	1.1	1.0	1.0					
Total Non-Current Liabilities	74.6	76.5	81.6	88.2					
Total Liabilities	173.5	158.1	168.1	190.5					
Net Assets	306.4	319.8	327.5	336.8					
Issued capital	248.7	251.2	251.2	251.2					
Reserves	7.1	7.7	7.7	7.7					
Retained profits	50.6	60.9	68.6	77.9					
Total Equity	306.4	319.8	327.5	336.8					

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