

Cash Converters International Ltd

(CCV \$0.245) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	1 st March 2022	\$0.34/sh ▼ from \$0.40/sh

Fair result, 2nd half will be stronger.

Event

CCV has provided 1H'22 results, which were slightly behind expectations though all metrics points to a stronger 2H'22 and FY'23.

Revenue of \$115.1m (EHL \$112.2m) and operating NPAT of \$7.6m (EHL \$9.9m). Loan book revenue was slightly down on forecasts while earnings from stores were ahead, good result given retail stores lost 24% of available trading days to Covid-19 lockdowns though store GP margins were tighter than anticipated (42% vs 48% forecast)

Reported NPAT was \$0, which included a \$10.9m impairment (non-cash) on individual stores.

Loan books continue to recover with CCV reporting gross loan books of \$192m 23% growth on PCP; while the transition to higher quality MACC book which underwrites a stronger 2H'22 earnings profile.

Management appear to be getting front foot on messaging signalling potential acquisitions in the pipeline which will be welcome given healthy cash balance.

1c fully franked dividend declared inline forecasts.

Impact

We have revised our EBITDA and NPAT estimates lower for FY'22 and slightly lowered FY'23 (though we think this may be erring on the side of conservatism for FY'23).

We are now looking for FY'22 operating NPAT of \$17.7m (down from \$20.6m)

Action

We maintain our **Buy recommendation**; price target falls to **\$0.34/sh** with adjustments to forecasts.

Trading below NTA \$0.29/sh and 8.1% fully franked dividend and around 8x PE FY'22 normalised earnings, downside risk is minimised if forecasts prove accurate.

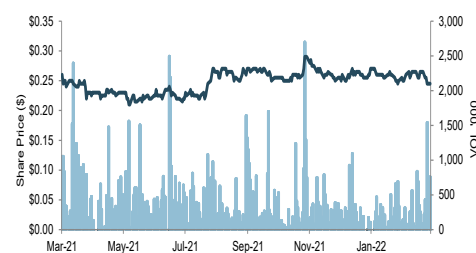
Key Catalyst

- Accretive acquisitions
- Earnings updates
- FY'22 full year results.

Cash Converters Int. Ltd	Year End 30 June	
Share Price	0.24	A\$/sh
Price Target	0.34	A\$/sh
Valuation (DCF)	0.52	A\$/sh
WACC	10.5%	
Terminal Growth	2.5%	
Shares on issue	628	m,
Market Capitalisation	147.5	A\$m
Enterprise Value	209.1	A\$m
Cash	72.2	A\$m
Debt	133.8	A\$m

Key Financials	2021A	2022F	2023F
Revenue (A\$m)	201.3	237.5	247.7
EBITDA (A\$m)	45.3	43.6	59.9
EBIT (A\$m)	28.8	27.1	43.1
Reported NPAT (A\$m)	16.2	10.0	20.2
Normalised NPAT (A\$m)	12.0	17.7	20.2
Gross Cashflow (A\$m)	10.6	29.9	10.2
Capex (A\$m)	-6.5	-6.7	-7.3
Op. Free Cashflow (A\$m)	-10.8	25.9	2.5
Revenue Growth (%)	-23%	18%	4%
EBITDA Growth (%)	174%	-4%	37%
Norm. NPAT Growth (%)	8%	4%	8%
Normalised EPS (Ac)	2.52	1.56	3.13
Norm. EPS growth (%)	-252%	-38%	101%
PER (x)	9.1	14.7	7.3
EV:EBITDA (x)	4.6	4.8	3.5
EV:EBIT (x)	7.3	7.7	4.9
DPS (Ac)	2.0	2.0	2.0
Dividend Yield (%)	8.5%	8.5%	8.5%
Net cash (A\$m)*	-61.6	-50.8	-63.5
Net Debt:Equity (%)	-0.2	-0.2	-0.2

Share Price Chart



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Analysis

We provide the following breakdown of earnings.

Half on Half				new				Old			new				Old			
Revenues	1H 21	2H 21	FY'21	1H'a 22	2H'f 22	FY'22	FY'22	\$	%	FY'23	FY'23	\$	%	FY'23	FY'23	\$	%	
Franchise Fee revenue	\$m	6.0	4.1	10.1	7.1	7.1	14.2	11.7	2.51	21.4%	14.0	12.2	1.83	15.0%				
Financial Services Interest	\$m	56.8	62.0	118.8	67.6	73.9	141.5	148.2	-6.71	-4.5%	150.1	153.8	-3.70	-2.4%				
Sale of Goods	\$m	34.0	35.9	69.9	39.3	40.0	79.3	67.6	11.67	17.3%	81.0	69.1	11.93	17.3%				
Other Revenue	\$m	1.7	0.9	2.5	1.3	1.3	2.5	2.5	0.05	1.9%	2.5	2.5	0.05	1.9%				
Total Revenue		98.4	102.9	201.3	115.2	122.3	237.5	230.0	7.51	3.3%	247.7	237.7	10.01	4.2%				
Loan Book																		
GLA	\$m	49.7	44.3	44.3	43.4	45.0	45.0	47.0	-2.00	-4.3%	50.0	47.0	3.00	6.4%				
MACC	\$m	31	49	49.4	65.1	65.0	65.0	58.0	7.00	12.1%	74.0	60.0	14.00	23.3%				
SACC	\$m	59.8	67.6	67.6	69.0	60.0	60.0	68.0	-8.00	-11.8%	68.0	68.0	0.00	0.0%				
PB	\$m	16.0	16.8	16.8	14.4	15.0	15.0	18.0	-3.00	-16.7%	15.0	20.0	-5.00	-25.0%				
Total	\$m	156.4	178.1	178.1	191.9	185.0	185.0	191.0	-6.0	-3.1%	207.0	195.0	12.00	6.2%				
Corporate Stores	#	70	72	75	78	81	80	75	5	6.7%	82	78	4	5.2%				
Cost of sales																		
Finance	\$m	-9.1	-9.0	-18.1	-15.7	-19.0	-34.7	-35.6	0.93	-2.6%	-36.0	-56.7	20.69	-36.5%				
Goods	\$m	-17.7	-22.0	-39.7	-22.6	-20.8	-43.4	-35.9	-7.54	21.0%	-44.6	-44.3	-0.26	0.6%				
Other		-0.7	-0.9	-1.6	-1.2	-0.4	-1.6	-1.6	-0.01	0.9%	-1.6	-2.3	0.67	-29.4%				
Total Cogs	\$m	-28	-32	-59	-40	-40	-80	-74	-5.73	7.7%	-82	-103.3	21.10	-20.4%				
Gross Profit	\$m	70.9	71.1	141.9	75.6	82.1	157.8	163.2	-5.41	-3.3%	165.5	181.6	-16.13	-8.9%				
GP Margin	%	72%	69%	70%	66%	67%	66%	71%			67%	76%						
Opex	\$m	-46.2	-50.4	-96.6	-51.3	-51.9	-103.2	-101.7	-1.51	1.5%	-105.6	-119.7	14.19	-11.8%				
EBITDA	\$m	24.6	20.7	45.3	13.4	30.2	43.6	63.1	59.9	59.8	59.9	60.5	-0.51	-0.8%				
Margin		25%	20%	23%	12%	25%	18%	27%			24%							
EBIT	\$m	16.4	12.4	28.8	6.1	21.0	27.1	40.8	-13.74	-33.7%	43.1	44.8	-1.76	-3.9%				
NPAT	\$m	7.7	8.5	16.2	0.0	10.0	10.0	20.0	-9.98	-49.9%	20.2	22.0	-1.85	-8.4%				
NPAT Normalised	\$m	0.0	0.0	12.0	7.5	10.2	17.7	20.0	-2.32	-11.6%	20.2	22.0	-1.85	-8.4%				

- We have pulled back our forecasts inline with 1H'22 results.
- Normalising for one off impact impairment impact of we are looking for NPAT of \$17.7m.
- Loan book growth is supportive of 2H'22 late origination growth late December 2021; though ECL provision is recognised in advance of lending earnings so expect lending margins to improve through the second half.
- We are looking for gross loan book FY'22 of \$185m (down slightly) in line with historical loan book seasonality.

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Price Target

Price target falls with adjustment to forecasts.

We apply a 10x Normalised Earnings multiple and repriced dividend yield at 5%.

Components	Multiple	Weighting	Equity	A\$/sh.
PE	10.0	50%	177	0.28
Dividend Yield	NA	50%	251	0.40
mean			213.9	0.34
(/) SOI				627.5

We look to a stronger 2H'22; while in the background management are clearly looking to execute on potential acquisition strategy which should be welcome by investors.

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Financial Statements	2020A	2021A	2022F	2023F	Performance Ratios	2020A	2021A	2022F	2023FF
Income Statement					Growth & Margins				
Revenue	262.0	201.3	237.5	247.7	Revenue Growth	-7%	-23%	18%	4%
Cost of Goods Sold	-94.2	-59.4	-79.7	-82.2	EBITDA Growth	-5%	174%	-4%	37%
Gross Profit	167.8	141.9	157.8	165.5	EBITDA margin	6%	23%	18%	24%
OPEX	-151.3	-96.6	-114.1	-105.6	EBIT margin	0%	14%	11%	17%
EBITDA	16.5	45.3	43.6	59.9	EBIT Growth	-108%	131%	-6%	59%
Depreciation & amortisation	-17.2	-16.5	-16.6	-16.9	Normalized net profit margin	-4%	8%	4%	8%
EBIT	-0.7	28.8	27.1	43.1	Effective tax rate	30%	30%	30%	30%
Net finance expense	-12.6	-11.7	-12.7	-14.3	Liquidity				
EBT	-13.3	17.1	14.3	28.8	Capex/depreciation (x)	0.2	0.4	0.4	0.4
Tax expense	2.8	-0.9	-4.3	-8.6	Current ratio (x)	2.3	2.7	2.9	2.6
Reported Earnings	-10.5	16.2	10.0	20.2	Quick ratio (x)	1.8	1.5	1.9	1.6
Abnormal Expenses / (Incomes)	29.8	-4.2	7.7	0.0	Receivable days	8	9	15	15
Normalized Net Profit	19.3	12.0	17.7	20.2	Payable days	59	53	41	46
Cash flow (A\$m)					Risk Measures				
Net Profit after Tax	-10.5	16.2	10.0	20.2	Dividend Cover (x)	na	2.6	1.4	1.6
(+) D&A	17.2	16.5	16.6	16.9	Payout ratio (%)	0%	12%	20%	10%
(-) Lease Expense	-6.5	-7.1	-7.1	-7.1	Net interest cover (x)	-0.1	2.5	2.1	3.0
(+/-) Impairments, Non-cash	2.3	0.0	11.0	0.0	Net debt/equity (%)	-2%	-14%	-10%	-10%
(+/-) FX	0.7	0.0	0.0	0.0	Returns				
(+/-) Net Loan funds change	39.4	-15.1	-0.6	-19.9	ROIC (%)	0%	5%	5%	7%
Gross Cashflow	42.6	10.6	29.9	10.2	Return on assets (%)	-2%	3%	2%	4%
(-) Capital Expenditure	-4.2	-6.5	-6.7	-7.3	Return on equity (%)	-3%	5%	3%	6%
(-) Change in WC	25.5	-14.9	2.7	-0.4	Share Data/Valuation				
Operating Free cashflow	63.9	-10.8	25.9	2.5	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	1.6	3.2
(+) Equity issued	0.0	0.0	0.0	0.0	YoY change (%)	520%	-252%	-38%	101%
Net Cashflow	-42.2	-34.3	-61.6	-50.8	Fully diluted EPS (c)	-1.7	2.5	1.6	3.1
Bop Net Cash	-42.2	-34.3	-61.6	-50.8	YoY change (%)	520%	-252%	-38%	101%
(+/-) Net Cashflow	60.9	-15.9	13.4	-10.0	Fully diluted normalised EPS (c)	-1.7	2.6	2.8	3.2
(+/-) Lease Adjustment	-53.0	-11.4	-2.7	-2.7	YoY change (%)	520%	-252%	-38%	101%
EOp Net Cash	-34.3	-61.6	-50.8	-63.5	Dividend/share (c)	0.0	2.0	2.0	2.0
Balance Sheet (\$m)					Valuation				
Cash	106.5	72.2	78.3	100.9	Franking (%)	100%	100%	100%	100%
Receivables	5.5	4.7	9.5	9.9	Gross cashflow/share (c)	6.9	1.7	4.8	1.6
Loan Receivables	97.1	120.6	118.4	134.8	NBV/share (c)	49.7	51.0	50.6	51.8
Inventories	15.2	24.1	23.9	24.7	NTA/Share (c)	31.5	32.7	32.3	33.5
Prepayments	1.5	1.2	1.5	1.5	Other Information				
Current Tax Recievables	1.4	0.0	0.0	0.0	Estimated free float				65%
Total Current Assets	227.3	222.8	231.6	271.7	12-mth High/Low (A\$/sh)				0.29/0.10
Trade and other Recievables	6.1	4.9	4.9	4.9	Average daily volume (A\$'000s)				0.664
Loan Receivables	38.1	29.7	29.2	33.2	ASX Code				CCV
Plant and Equipment	4.6	5.9	5.8	6.0	Next result				Aug-22
Right of Use Asset	50.5	59.2	48.2	48.2	Company Description				
Deferred Tax assets	18.2	19.3	19.3	19.3	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.				
Goodwill	107.0	109.3	109.3	109.3					
Other intangibles	21.4	19.6	18.9	18.3					
Prepayments	0.0	0.0	0.0	0.0					
Investments in Associates	6.6	7.2	7.2	7.2					
Total Non-Current Assets	252.5	255.1	242.8	246.4					
Total Assets	479.8	477.9	474.4	518.1					
Payables	23.3	13.0	12.0	12.3					
Lease Liabilities	6.9	6.9	6.9	6.9					
Borrowings	60.6	51.3	45.3	70.0					
Provisions	8.1	9.8	14.5	14.9					
Current Tax Payable	0.0	0.6	0.6	0.6					
Total Current Liabilities	98.9	81.7	79.2	104.7					
Lease Liabilities	46.1	57.5	57.5	57.5					
Borrowings	27.2	18.0	19.4	30.0					
Provisions	1.3	1.1	1.0	1.0					
Total Non-Current Liabilities	74.6	76.5	77.9	88.5					
Total Liabilities	173.5	158.1	157.1	193.2					
Net Assets	306.4	319.8	317.3	324.9					
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	58.4	66.1					
Total Equity	306.4	319.8	317.3	324.9					

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