

Cash Converters International Ltd

(CCV \$0.24) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	3 rd June 2022	\$0.34/sh

Loan Books Continue to Grow

Event

CCV has recently provided an operating update highlighting strong loan book growth (up 21%) ahead of EHL expectations (EHL \$185m FY'22). Growth in loan books is unseasonably strong and as a result we have pushed through a slight earnings adjustment to our FY'23 forecasts. We note loan book growth will lag future earnings (~6 months); current loan books now support \$64.3m earnings (~40% of EHL FY'23 forecasts).

Pleasingly store network trading appears to be normalising as Eastern States foot traffic returns to physical store locations.

While PayAdvance product pilot is progressing with over 70% of the clients new to the business.

Impact

We have pushed through adjustment to reflect market update; we have pulled back our FY'22 earnings which reflects adjustments to ECL provisions recognised at the time of loan origination vs income recognised over the life of the loan.

As a result FY'22 Adjusted Net Profit \$16.0m (down from \$17.7m) and FY'23 NPAT \$20.3m

Action

We maintain our Buy Recommendation and Price Target remains unchanged at \$0.34/sh.

On current forecasts CCV continues to trade on an attractive 7.4x FY'23 EPS and undemanding 8.3% fully franked yield, somewhat underwriting downside risk should our forecasts prove accurate.

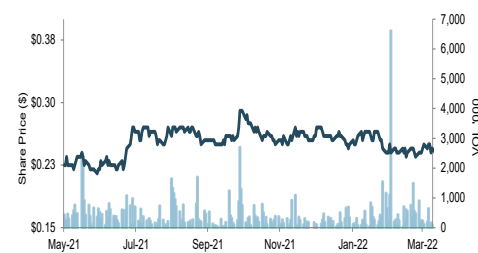
Key Catalysts

- FY'22 Results
- AGM Update
- Accretive acquisitions

Cash Converters Intl 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	2.0%	
Shares on issue	628	m,
Market Capitalisation	150.6	A\$m
Enterprise Value	212.2	A\$m
Cash	72.2	A\$m
Debt	133.8	A\$m

Key Financials	2021a	2022f	2023f
Revenue (A\$m)	201.3	238.9	257.7
EBITDA (A\$m)	45.3	42.8	59.3
EBIT (A\$m)	28.8	26.2	42.4
Reported NPAT (A\$m)	16.2	8.3	20.3
Normalised NPAT (A\$m)	12.0	16.0	20.3
Gross Cashflow (A\$m)	10.6	-9.5	20.2
Capex (A\$m)	-6.5	-6.7	-7.3
Op. Free Cashflow (A\$m)	-10.8	-7.8	12.8
Revenue Growth (%)	-23%	19%	8%
EBITDA Growth (%)	174%	-6%	39%
Norm. NPAT Growth (%)	8%	3%	8%
Normalised EPS (Ac)	2.52	1.30	3.16
Norm. EPS growth (%)	-252%	-48%	143%
PER (x)	9.3	18.1	7.4
EV:EBITDA (x)	4.7	5.0	3.6
EV:EBIT (x)	7.4	8.1	5.0
DPS (Ac)	2.0	2.0	2.0
Dividend Yield (%)	8.3%	8.3%	8.3%
Net cash (A\$m)*	-61.6	-84.6	-86.9
Net Debt:Equity (%)	-0.2	-0.3	-0.3

Share Price Chart



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Analysis

We have pushed through the following changes to earnings.

Revenues		1H 21	2H 21	FY'21	1H'A 22	2H'F 22	new	Old	\$	%	new	Old	\$	%
							FY'22	FY'22			FY'23	FY'23		
Franchise Fee revenue	\$m	6.0	4.1	10.1	7.1	7.1	14.2	14.2	0.01	0.0%	14.0	14.0	0.03	0.2%
Financial Services Interest	\$m	56.8	62.0	118.8	67.6	75.3	142.8	141.5	1.34	0.9%	160.1	150.1	9.97	6.6%
Sale of Goods	\$m	34.0	35.9	69.9	39.3	40.0	79.3	79.3	-0.03	0.0%	81.0	81.0	0.03	0.0%
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	123.7	238.9	237.5	1.36	0.6%	257.7	247.7	9.98	4.0%
Loan Book														
GLA	\$m	49.7	44.3	44.3	43.4	45.0	45.0	45.0	0.00	0.0%	50.0	50.0	0.00	0.0%
MACC	\$m	31	49	49.4	65.1	78.0	78.0	65.0	13.00	20.0%	85.8	74.0	11.80	15.9%
SACC	\$m	59.8	67.6	67.6	69.0	74.0	74.0	60.0	14.00	23.3%	70.0	68.0	2.00	2.9%
PB	\$m	16.0	16.8	16.8	14.4	15.0	15.0	15.0	0.00	0.0%	18.0	15.0	3.00	20.0%
Total	\$m	156.4	178.1	178.1	191.9	212.0	212.0	185.0	27.0	14.6%	223.8	207.0	16.80	8.1%
Corporate Stores														
	#	70	72	75	78	81	80	80	0	0	82	82	0	0.0%
Cost of sales														
Finance	\$m	-9.1	-9.0	-18.1	-15.7	-20.0	-35.7	-34.7	-0.99	2.9%	-41.6	-36.0	-5.62	15.6%
Goods	\$m	-17.7	-22.0	-39.7	-22.6	-20.8	-43.4	-43.4	-0.04	0.1%	-45.4	-44.6	-0.78	1.7%
Other		-0.7	-0.9	-1.6	-1.2	-0.4	-1.6	-1.6	-0.01	0.9%	-1.6	-1.6	-0.01	0.9%
Total Cogs	\$m	-28	-32	-59	-40	-41	-81	-80	-0.75	0.9%	-89	-82.0	-6.61	8.1%
Gross Profit	\$m	70.9	71.1	141.9	75.6	82.5	158.1	157.8	0.31	0.2%	169.1	165.5	3.57	2.2%
GP Margin	%	72%	69%	70%	66%	67%	66%	66%			66%	67%		
Opex	\$m	-46.2	-50.4	-96.6	-51.3	-53.1	-104.4	-103.2	-1.17	1.1%	-109.8	-105.6	-4.15	3.9%
EBITDA	\$m	24.6	20.7	45.3	13.4	29.4	42.8	43.6	-0.79	-1.8%	59.3	59.9	-0.58	-1.0%
Margin		25%	20%	23%	12%	24%	18%	18%			23%	24%		
EBIT	\$m	16.4	12.4	28.8	6.1	20.2	26.2	40.8	-14.57	-35.7%	42.4	43.1	-0.67	-1.6%
NPAT	\$m	7.7	8.5	16.2	0.0	8.3	8.3	10.0	-1.66	-16.6%	20.3	20.2	0.10	0.5%
NPAT Normalised	\$m	0.0	0.0	12.0	7.5	8.5	16.0	17.7	-1.70	-9.6%	20.3	20.2	0.10	0.5%

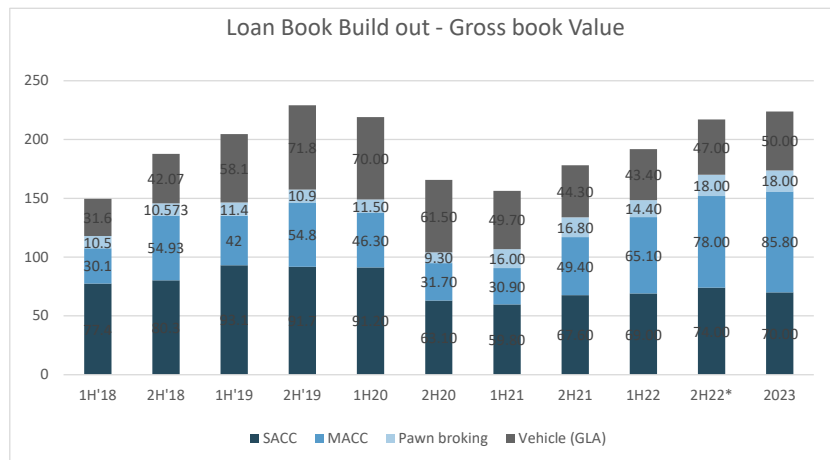
- Across loan book average term of loan is 10 months; resulting in a lag between the principal advance and earnings recognition. The company accounts for any potential credit losses (currently running at 4.1%) at the point of loan. Though loan books are ahead of expectations the net impact is an increase to loan provision (FY'22) and \$1.0m impact to cost of sales. We remain cautious FY'23 bad debt expense given rising interest environment more broadly.
- We have pushed through an additional \$1m OVH to FY'23, with company citing plans for acquisitions in medium term.
- We have increased our FY'22 and FY'23 gross loan books to \$212.0m and \$223.8m; inline with current growth. We hold SACC book relatively flat YoY with transition to higher quality MACC lending profile.

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- CCV has signalled intention to launch new PayAdvance product through Q4 FY'22 designed to aid in retention of high value customers and lower customer acquisition costs; uptake looks to be well received with 80% of applicants new to the business. Our forecasts are ex-pay advance earnings contribution, given strategy appears to lower customer acquisition costs to MACC and SACC loans over time.

CCV vs Peer Group Multiples

Company	Ticker	Last Price	Mkt Cap	EV	P/E		Gross Loan	EV/Loan Book
					FY'21	FY'22		
Latitude Group	LFS	1.78	1,859	2191.2	10.3	10.9	6521.6	0.3
Money3	MNY	2.25	477	745.4	10.4	9.2	690.8	1.1
Harmony	HMY	1.09	111	458.1	na	na	557.0	0.8
Wisr	WZR	0.10	136	624.8	na	na	565.0	1.1
Plenti	PLT	0.67	117	1351.9	na	na	1300.0	1.0
Average					10.3	10.0		0.9
Medium					10.3	10.0		1.0
Cash Converters	CCV	0.24	154	209.1			203.7	1.0

We set our CCV price target on a blended, forecast P/E, 5% repriced dividend yield and 1x EV/Gross Loan book basis.

Deriving an unchanged \$0.34/sh Price Target.

Components	Multiple	Weighting	Equity	A\$/sh.
PE	10.0	33%	160	0.36
Dividend Yield	NA	33%	251	0.40
EV/Gross Loan Book	1	33%	155	0.25
mean			205.5	0.34
(/) SOI				627.5

- Earnings and balance sheet continue to support forecast 2c full year (1c+1c) fully franked dividend.

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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	238.9	257.7	Revenue Growth	-7%	-23%	19%	8%
Cost of Goods Sold	-94.2	-59.4	-80.7	-88.6	EBITDA Growth	-5%	174%	-6%	39%
Gross Profit	167.8	141.9	158.1	169.1	EBITDA margin	6%	23%	18%	23%
OPEX	-151.3	-96.6	-115.3	-109.8	EBIT margin	0%	14%	11%	16%
EBITDA	16.5	45.3	42.8	59.3	EBIT Growth	-108%	131%	-9%	62%
Depreciation & amortisation	-17.2	-16.5	-16.6	-16.9	Normalized net profit margin	-4%	8%	3%	8%
EBIT	-0.7	28.8	26.2	42.4	Effective tax rate	30%	30%	30%	30%
Net finance expense	-12.6	-11.7	-14.3	-13.4	Liquidity				
EBT	-13.3	17.1	11.9	29.0	Capex/depreciation (x)	0.2	0.4	0.4	0.4
Tax expense	2.8	-0.9	-3.6	-8.7	Current ratio (x)	2.3	2.7	2.6	2.5
Reported Earnings	-10.5	16.2	8.3	20.3	Quick ratio (x)	1.8	1.5	1.2	1.2
Abnormal Expenses / (Incomes)	29.8	-4.2	7.7	0.0	Receivable days	8	9	15	15
Normalized Net Profit	19.3	12.0	16.0	20.3	Payable days	59	53	46	53
Cash flow (A\$m)					Risk Measures				
Net Profit after Tax	-10.5	16.2	8.3	20.3	Dividend Cover (x)	na	2.6	1.3	1.6
(+) D&A	17.2	16.5	16.6	16.9	Payout ratio (%)	0%	12%	24%	10%
(-) Lease Expense	-6.5	-7.1	-7.1	-7.1	Net interest cover (x)	-0.1	2.5	1.8	3.2
(+/-) Impairments, Non-cash	2.3	0.0	11.0	0.0	Net debt/equity (%)	-2%	-14%	-19%	-19%
(+/-) FX	0.7	0.0	0.0	0.0	Returns				
(+/-) Net Loan funds change	39.4	-15.1	-38.3	-10.0	ROIC (%)	0%	5%	5%	7%
Gross Cashflow	42.6	10.6	-9.5	20.2	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	8.4	-0.1	Share Data/Valuation				
Operating Free cashflow	63.9	-10.8	-7.8	12.8	Share Data	2020a	2021a	2022f	2023f
(-) 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	1.3	3.2
(+) Equity issued	0.0	0.0	0.0	0.0	YoY change (%)	520%	-252%	-48%	143%
Net Cashflow	60.9	-15.9	-20.3	0.3	Fully diluted EPS (c)	-1.7	2.5	1.3	3.2
Bop Net Cash	-42.2	-34.3	-61.6	-84.6	YoY change (%)	520%	-252%	-48%	143%
(+/-) Net Cashflow	60.9	-15.9	-20.3	0.3	Fully diluted normalised EPS (c)	-1.7	2.6	2.5	3.2
(+/-) Lease Adjustment	-53.0	-11.4	-2.7	-2.7	YoY change (%)	520%	-252%	-48%	143%
EoP Net Cash	-34.3	-61.6	-84.6	-86.9	Dividend/share (c)	0.0	2.0	2.0	2.0
Balance Sheet (\$m)					Franking (%)	100%	100%	100%	100%
Cash	106.5	72.2	60.4	67.0	Gross cashflow/share (c)	6.9	1.7	-1.5	3.2
Receivables	5.5	4.7	9.6	10.3	NBV/share (c)	49.7	51.0	50.3	51.5
Loan Receivables	97.1	120.6	148.6	157.1	NTA/Share (c)	31.5	32.7	32.1	33.3
Inventories	15.2	24.1	20.2	22.2	Valuation				
Prepayments	1.5	1.2	1.5	1.6	PER (Basic) (x)	-14.1	9.3	18.1	7.4
Current Tax Recievables	1.4	0.0	0.0	0.0	PER (Fully diluted) (x)	-14.5	9.5	18.5	7.6
Total Current Assets	227.3	222.8	240.2	258.1	PER (Fully diluted, normalized) (x)	-14.1	9.3	9.4	7.4
Trade and other Recievables	6.1	4.9	4.9	4.9	P/CFPS (x)	3.5	14.1	-15.9	7.5
Loan Receivables	38.1	29.7	36.7	38.7	Price/NBV (x)	0.5	0.5	0.5	0.5
Plant and Equipment	4.6	5.9	5.8	6.0	Price/NTA (x)	0.8	0.7	0.7	0.7
Right of Use Asset	50.5	59.2	48.2	48.2	market Cap (EOFY)	147.9	150.6	150.6	150.6
Deferred Tax assets	18.2	19.3	19.3	19.3	EV	212.2	212.2	212.2	212.2
Goodwill	107.0	109.3	109.3	109.3	EV/EBITDA (x)	10.7	4.7	5.0	3.6
Other intangibles	21.4	19.6	18.9	18.3	EV/EBIT (x)	-256.6	7.4	8.1	5.0
Prepayments	0.0	0.0	0.0	0.0	EV/Revenue (x)	0.8	1.1	0.9	0.8
Investments in Associates	6.6	7.2	7.2	7.2	Other Information				
Total Non-Current Assets	252.5	255.1	250.3	251.9	Estimated free float				65%
Total Assets	479.8	477.9	490.5	510.0	12-mth High/Low (A\$/sh)				0.29/0.10
Payables	23.3	13.0	13.7	15.1	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	56.4	62.7	Next result				Aug-22
Provisions	8.1	9.8	14.6	16.1	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	92.3	101.3					
Lease Liabilities	46.1	57.5	57.5	57.5					
Borrowings	27.2	18.0	24.2	26.9					
Provisions	1.3	1.1	1.0	1.0					
Total Non-Current Liabilities	74.6	76.5	82.6	85.3					
Total Liabilities	173.5	158.1	174.9	186.6					
Net Assets	306.4	319.8	315.6	323.4					
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	56.8	64.5					
Total Equity	306.4	319.8	315.6	323.4					

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