

Cash Converters International Ltd

(CCV \$0.25) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Harry Stevenson	7 th September 2022	\$0.35/sh ▲ from \$0.34/sh

NTA backed

Event

Cash Converters has delivered FY'22 results with slight beats to our estimates providing opportunity for minor adjustments to our FY'23 forecasts.

- Revenue of \$245.9m (we expected \$238.9m) with YoY growth at 22% Revenue for 2H'22 providing runway into FY'23 at \$262.2m.
- Operating EBITDA of \$52.7m and reported EBITDA of \$41.5m (EHL \$42.8m). Operating results for FY'22 include a non-cash impairment of \$11.2m on the carrying value of assets of individual stores where the forecasted cashflows have been negatively impacted by Covid-19.
- Operating NPAT of \$19.0m, up 26%. We expected \$16.0m. Reported NPAT of \$11.2m (EHL \$8.3m).
- As reported at Q'4 update gross loan books continue to grow with total gross loan books up 20% to \$213.9m. The company highlighted continued momentum in credit demand and earnings are expected to continue grow through 1H'23.
- CCV funding facility remains minimum drawn. We have pushed through the adjustments to our FY'23 gross loan assumptions now to \$231.0m

Impact

We have pushed through minor updates to our FY'23 forecasts:

- Revenue now \$262.2m, up from \$257.2m.
- EBITDA of \$57.4m, down from \$59.1m.
- NPAT of \$20.5m (up from the \$20.2m).
- On updated FY'23 forecast CCV trades on 4.1x EBITDA / 5.6x EBIT / 7x PE and 8% dividend yield.

Action

Price target increases slightly to \$0.35/sh; we maintain Buy Recommendation.

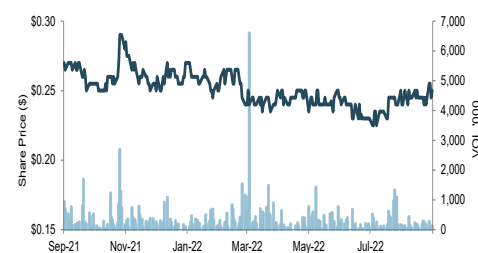
Key Catalysts

- Q'1 FY'23 operating updates
- 1H'22 Results
- AGM update
- Accretive acquisitions

Cash Converters Intl Ltd	Year End 30 June	
Share Price	0.25	A\$/sh
Price Target	0.35	A\$/sh
Valuation (DCF)	0.50	A\$/sh
WACC	10.5%	
Terminal Growth	2.5%	
Shares on issue	628	m,
Market Capitalisation	160.9	A\$m
Enterprise Value	236.0	A\$m
Cash	58.1	A\$m
Debt	133.2	A\$m

Key Financials	2022a	2023f	2024f
Revenue (A\$m)	245.9	262.2	274.4
EBITDA (A\$m)	41.5	57.4	63.2
EBIT (A\$m)	27.8	42.2	47.6
Reported NPAT (A\$m)	11.2	20.5	23.5
Normalised NPAT (A\$m)	19.0	21.9	23.5
Gross Cashflow (A\$m)	1.5	13.6	17.6
Capex (A\$m)	-6.3	-7.8	-8.4
Op. Free Cashflow (A\$m)	1.2	11.5	9.4
Revenue Growth (%)	22%	7%	5%
EBITDA Growth (%)	-8%	38%	10%
Norm. NPAT Growth (%)	5%	1%	9%
Normalised EPS (Ac)	1.74	3.18	3.65
Norm. EPS growth (%)	17%	15%	7%
PER (x)	14.0	7.7	6.7
EV:EBITDA (x)	5.7	4.1	3.7
EV:EBIT (x)	8.5	5.6	5.0
DPS (Ac)	2.0	2.0	3.0
Dividend Yield (%)	8.0%	8.0%	12.0%
Net cash (A\$m)*	-75.1	-76.5	-83.1
Net Debt:Equity (%)	-0.2	-0.2	-0.3

Share Price Chart



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Analysis

Revenues	FY'21	Actual		Forecast		new		Old		YoY Change				
		1H'A 22	2H'F 22	FY'22	FY'22	FY'23	FY'23	\$	%	FY'24F	\$	%		
Franchise Fee revenue	\$m 10.1	7.1	7.5	14.6	14.2	0.37	2.6%	14.5	14.0	0.43	3.0%	14.3	-0.12	-0.8%
Financial Services Interest	\$m 118.8	67.6	80.9	148.5	143.0	5.42	3.8%	160.9	159.6	1.30	0.8%	168.9	7.97	5.0%
Sale of Goods	\$m 69.9	39.3	41.1	80.4	79.3	1.12	1.4%	84.3	81.0	3.28	4.0%	88.7	4.36	5.2%
Other Revenue	\$m 2.5	1.3	1.2	2.5	2.5	-0.04	-1.5%	2.5	2.5	-0.04	-1.5%	2.5	0.00	0.0%
Total Revenue	201.3	115.2	130.7	245.9	239.1	6.88	2.9%	262.2	257.2	4.96	1.9%	274.4	12.21	4.7%
Loan Book														
GLA	\$m 44.3	43.4	46.7	46.7	46.6	0.10	0.2%	49.0	50.0	-0.96	-1.9%	51.5	2.45	5.0%
MAcc	\$m 49.4	65.1	76.1	76.1	76.1	0.00	0.0%	85.0	83.7	1.29	1.5%	93.5	8.50	10.0%
SACC	\$m 67.6	69.0	75.6	75.6	75.8	-0.20	-0.3%	80.0	70.0	10.00	14.3%	82.4	2.40	3.0%
PB	\$m 16.8	14.4	15.5	15.5	15.5	0.00	0.0%	17.0	18.0	-1.00	-5.6%	20.0	3.00	17.6%
Total	\$m 178.1	191.9	213.9	213.9	214.0	-0.1	0.0%	231.0	221.7	9.33	4.2%	247.4	16.35	7.1%
Corporate Stores	# 75	78	81	80	80	0	0.0%	85	82	0	0.0%	88	0	0.0%
Cost of sales														
Finance	\$m -18.1	-15.7	-21.5	-37.1	-35.7	-1.40	3.9%	-39.5	-41.5	1.98	-4.8%	-41.5	-1.96	5.0%
Margin %	% 85%	77%	73%	75%	75%	na	na	75%	74%	na	na	75%		
Goods	\$m -39.7	-22.6	-23.5	-46.1	-43.4	-2.65	6.1%	-48.9	-45.4	-3.52	7.8%	-51.4	-2.53	5.2%
Margin %	% 43%	42%	43%	43%	45%	na	na	42%	44%	na	na	42%		
Other	-1.6	-1.2	-1.2	-2.5	-1.6	-0.86	53.4%	-2.5	-1.6	-0.86	53.4%	-2.5	0.00	0.0%
Total Cogs	\$m -59	-40	-46	-86	-81	-4.91	6.1%	-91	-88	-2.40	2.7%	-95	-4.49	4.9%
Gross Profit	\$m 141.9	75.6	84.6	160.2	158.3	1.97	1.2%	171.3	168.7	2.56	1.5%	179.0	7.73	4.5%
GP Margin	% 70%	66%	65%	65%	66%			65%	66%			65%		
Opex	\$m -96.6	-51.3	-56.2	-107.5	-104.4	-3.06	2.9%	-113.9	-109.6	-4.34	4.0%	-115.9	-1.93	1.7%
Impairment expense	\$m 0.0	-10.9	-0.3	-11.2	-10.9	-0.26	2.4%	0.0	0.0	0.00	0.00	0.00	0.00	0.00
EBITDA	\$m 45.3	13.4	28.1	41.5	42.9	-1.35	-3.2%	57.4	59.1	-1.78	-3.0%	63.2	5.80	10.1%
Margin	23%	12%	22%	17%	18%	na	na	22%	23%	na	na	23%	na	na
EBIT	\$m 28.8	6.1	21.8	27.8	26.3	1.54	5.8%	42.2	42.2	0.01	0.0%	47.6	5.31	12.6%
NPAT	\$m 16.2	0.0	11.2	11.2	8.5	2.63	30.8%	20.5	20.2	0.25	1.2%	23.5	3.03	14.8%
NPAT Normalised	\$m 12.0	7.7	11.3	19.0	16.2	2.81	17.4%	21.9	20.2	1.65	8.2%	23.5	1.63	7.5%

- Corporate store sales were impacted by Covid-19 lockdowns through out FY'22. Assume some normalisation of operations through FY'23 at \$1.05m per store (up from average of \$1.0m across store network) and a further 3 stores acquired through FY'23 in line with historical addition rates.
- We have assumed an additional \$2m in corporate overhead given on going strategy to capitalise on inorganic and organic growth opportunities.

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The following considers net loss* on an annual basis. We model FY'23 at 4.2% across the average gross loan book, in line with Q'4 quarterly update; looking for some normalisation on FY'21/FY'22.

	FY'19	FY'20	FY'21	FY'22	FY'23	FY'23*
Total Gross loan	219.1	165.6	178.1	213.9	231	222
Quarterly "Net Loss"/ Average Loan Book	6.1%	5.4%	2.8%	3.8%	4.0%	4.2%
	53.46	35.77	19.95	32.51	37.0	
EHL net loss					-37.0	-37.0

* Net loss bad debt written off expense net of recoveries compared to average gross loan book.

**implied net loss on average gross loan book against EHL bad debt expense.

Valuation

We set our CCV price target on a blended methodology as follows:

Components	Multiple	Weighting	Equity	A\$/sh.
PE	10.0	35%	190	0.35
Dividend Yield	NA	35%	251	0.40
EV/Gross Loan	1	15%	156	0.25
NTA	1	15%	182	0.29
mean			194.8	0.35

Current trading levels continue to be supported by NTA of \$0.29/sh and 8% fully franked dividend yield.

BUY

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Financial Statements	2021a	2022a	2023f	2024f	Performance Ratios	2021a	2022a	2023f	2024f
Income Statement					Growth & Margins				
Revenue	201.3	245.9	262.2	274.4	Revenue Growth	-23%	22%	7%	5%
Cost of Goods Sold	-59.4	-85.7	-90.9	-95.4	EBITDA Growth	174%	-8%	38%	10%
Gross Profit	141.9	160.2	171.3	179.0	EBITDA margin	23%	17%	22%	23%
OPEX	-96.6	-118.7	-113.9	-115.9	EBIT margin	14%	11%	16%	17%
EBITDA	45.3	41.5	57.4	63.2	EBIT Growth	131%	-3%	52%	13%
Depreciation & amortisation	-16.5	-13.7	-15.1	-15.6	Normalized net profit margin	8%	5%	1%	9%
EBIT	28.8	27.8	42.2	47.6	Effective tax rate	30%	30%	30%	30%
Net finance expense	-11.7	-12.5	-13.0	-14.0	Liquidity				
EBT	17.1	15.4	29.2	33.6	Capex/depreciation (x)	0.4	0.5	0.5	0.5
Tax expense	-0.9	-4.2	-8.8	-10.1	Current ratio (x)	2.7	2.7	2.7	2.7
Reported Earnings	16.2	11.2	20.5	23.5	Quick ratio (x)	1.5	1.2	1.4	1.3
Abnormal Expenses / (Incomes)	-4.2	7.8	1.4	0.0	Receivable days	9	5	11	11
Normalized Net Profit	12.0	19.0	21.9	23.5	Payable days	53	50	59	61
Cash flow (A\$m)					Risk Measures				
Net Profit after Tax	16.2	11.2	20.5	23.5	Dividend Cover (x)	na	0.9	1.7	1.5
(+) D&A	16.5	13.7	15.1	15.6	Payout ratio (%)	12%	18%	10%	13%
(-) Lease Expense	-7.1	-7.4	-7.4	-7.4	Net interest cover (x)	2.5	2.2	3.2	3.4
(+/-) Impairments, Non-cash	0.0	19.6	0.0	0.0	Net debt/equity (%)	-14%	-19%	-17%	-18%
(+/-) FX	0.0	0.0	0.0	0.0	Returns				
(+/-) Net Loan funds change	-15.1	-35.5	-14.6	-14.1	ROIC (%)	5%	5%	7%	8%
Gross Cashflow	10.6	1.5	13.6	17.6	Return on assets (%)	3%	2%	4%	5%
(-) Capital Expenditure	-6.5	-6.3	-7.8	-8.4	Return on equity (%)	5%	4%	6%	7%
(-) Change in WC	-14.9	6.0	5.7	0.2	Share Data/Valuation				
Operating Free cashflow	-10.8	1.2	11.5	9.4	Share Data				
(-) Dividend Paid	-6.2	-12.5	-12.6	-15.7	Issued shares (m)	627.5	627.5	627.5	627.5
(-/+) Proceeds from Disposals	0.0	0.0	0.0	0.0	Weighted ave shares (m)	622.0	625.4	627.5	627.5
(-) Investments	0.0	0.0	0.0	0.0	Fully diluted shares (m)	643.4	643.4	643.4	643.4
(+/-) Other	1.1	-1.8	0.0	0.0	Basic EPS (c)	2.6	1.8	3.3	3.7
(+) Equity issued	0.0	0.0	0.0	0.0	YoY change (%)	-252%	-31%	83%	15%
Net Cashflow	-15.9	-13.1	-1.1	-6.3	Fully diluted EPS (c)	2.5	1.7	3.2	3.7
Bop Net Cash	-34.3	-61.6	-75.1	-76.5	YoY change (%)	-252%	-31%	83%	15%
(+/-) Net Cashflow	-15.9	-13.1	-1.1	-6.3	Fully diluted normalised EPS (c)	2.6	3.0	3.5	3.7
(+/-) Lease Adjustment	-11.4	-0.4	-0.3	-0.3	YoY change (%)	-252%	17%	15%	7%
EoP Net Cash	-61.6	-75.1	-76.5	-83.1	Dividend/share (c)	2.0	2.0	2.0	3.0
Balance Sheet (\$m)					Valuation				
Cash	72.2	58.1	64.6	62.5	PER (Basic) (x)	9.7	14.0	7.7	6.7
Receivables	4.7	3.6	7.9	8.2	PER (Fully diluted) (x)	9.9	14.4	7.9	6.8
Loan Receivables	120.6	143.3	155.2	166.7	PER (Fully diluted, normalized) (x)	9.7	8.3	7.2	6.7
Inventories	24.1	23.9	18.2	19.1	P/CFPS (x)	14.7	104.5	11.6	8.9
Prepayments	1.2	1.7	1.8	1.9	Price/NBV (x)	0.5	0.5	0.5	0.5
Current Tax Receivables	0.0	0.0	0.0	0.0	Price/NTA (x)	0.8	0.8	0.8	0.7
Total Current Assets	222.8	230.5	247.6	258.4	market Cap (EOFY)	156.9	156.9	156.9	156.9
Trade and other Receivables	4.9	1.8	1.8	1.8	EV	236.0	236.0	236.0	236.0
Loan Receivables	29.7	32.4	35.0	37.6	EV/EBITDA (x)	5.2	5.7	4.1	3.7
Plant and Equipment	5.9	4.8	4.2	3.6	EV/EBIT (x)	8.2	8.5	5.6	5.0
Right of Use Asset	59.2	50.2	51.3	53.0	EV/Revenue (x)	1.2	1.0	0.9	0.9
Deferred Tax assets	19.3	26.1	26.1	26.1	Other Information				
Goodwill	109.3	110.5	110.5	110.5	Estimated free float				65%
Other intangibles	19.6	17.0	18.3	17.6	12-mth High/Low (A\$/sh)				0.29/0.10
Prepayments	0.0	0.0	0.0	0.0	Average daily volume (A\$'000s)				0.664
Investments in Associates	7.2	4.9	4.9	4.9	ASX Code				CCV
Total Non-Current Assets	255.1	247.7	252.0	255.1	Next result				Aug-22
Total Assets	477.9	478.2	499.6	513.5	Company Description				
Payables	13.0	15.4	17.3	18.1	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.				
Lease Liabilities	6.9	6.9	6.9	6.9					
Borrowings	51.3	52.0	53.4	56.6					
Provisions	9.8	9.9	13.2	13.8					
Current Tax Payable	0.6	1.8	1.8	1.8					
Total Current Liabilities	81.7	85.9	92.5	97.2					
Lease Liabilities	57.5	58.0	58.0	58.0					
Borrowings	18.0	16.4	22.9	24.2					
Provisions	1.0	2.6	2.5	2.5					
Total Non-Current Liabilities	76.5	76.9	83.4	84.8					
Total Liabilities	158.1	162.8	175.9	182.0					
Net Assets	319.8	315.4	323.7	331.6					
Issued capital	251.2	249.7	249.7	249.7					
Reserves	7.7	8.4	8.4	8.4					
Retained profits	60.9	57.3	65.6	73.5					
Total Equity	319.8	315.4	323.7	331.6					

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