



Regulatory tick of approval

Cash Converters International (ASX:CCV) is a consumer finance company operating as a service provider, owner and franchisor of second-hand goods and financial services stores in Australia and internationally. RaaS recently initiated coverage on CCV, pointing to a multi-layered growth strategy complemented by potential upcoming catalysts. The first of those catalysts has now been announced with the finalisation of the AUSTRAC enforceable undertaking. This process began in February 2023 in relation to Cash Converters' historical compliance with Australia's anti-money laundering and counter-terrorism financing (AML/CTF) laws. The process has now been concluded and AUSTRAC considers the matter finalised. We view this favourable outcome as a material development as it not only marks the likely end to ongoing regulatory hurdles faced by the company but is strong validation of the compliance of the systems, procedures, and products that the CCV team have worked hard to overhaul in recent years. This provides the company with a clear pathway to focus on growth of its product range and loan book over the coming periods. Our forecasts remain unchanged and we retain a DCF-based valuation of \$0.40/share, representing capital upside of 78% with a 9% fully franked yield.

Business model

Cash Converters is a diversified business generating income through many revenue streams and geographies. The store network, particularly in Australia, New Zealand, and the UK, provides the company with a well understood and loyal customer base, to which CCV offers several loan products and services, well beyond the sale and purchase of second-hand goods. That cohort of customers is showing strong demand for CCV's suite of products. Having emerged from the Covid environment, the loan book is being regenerated and growing strongly, with a composition of loan products that are highly regulated, less risky, and longer in duration than those of the past. This growth will be complemented by the corporatisation of more stores away from the franchise model, both domestically and offshore, giving CCV increased control and significant earnings upside.

AUSTRAC clearance a key milestone

CCV has worked hard to comply with the changing credit laws environment over the past decade or so. This is discussed in detail in our recent Initiation Report (<u>Cash Converters RaaS Initiation Report 24 Jan 2024</u>). This favourable outcome of the AUSTRAC EU marks the end of a lengthy process and illustrates that CCV is now well positioned to operate in a full and compliant manner in what is a highly regulated part of the consumer lending market. This relates to all parts of the Australian business.

DCF valuation of \$0.40/share

We have undertaken a discounted cash-flow valuation and derived a value of \$0.40/share. CCV also offers value on several other financial metrics, including a deep discount to intrinsic value on an ROE-based methodology and a relative PER pricing discount of 43% to peers. We see this as further validation of inherent value, particularly considering forecast EPS growth with a CAGR of 18% over a three-year forecast period. If management can deliver on its growth ambitions, CCV is a compelling investment, offering both capital growth and income. Corporate appeal from EZCorp, the largest shareholder with ~44%, cannot be ruled out.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)									
Year end	Revenue	EBITDA (adj.)	NPAT (rep.)	NPAT (adj.)	EPS (adj.) (c)	P/E (x)			
06/22a	245.9	52.7	11.2	19.0	3.3	6.8			
06/23a	302.7	57.2	(97.0)	20.2	3.1	7.3			
06/24f	385.0	57.9	18.1	18.1	2.8	8.1			
06/25f	404.6	69.5	23.3	23.3	3.6	6.3			
06/26f	432.5	86.5	32.8	32.8	5.0	4.5			
Source: C	ompany data	RaaS estimates	for FY24f FY	25f and FY26	f				

Consumer Finance

31 January 2024



Upside Case

- Acquire large franchisees in Australia and the UK to further increase corporate ownership
- Deliver loan growth in new products ahead of expectation
- Drive earnings upside from recently acquired offshore businesses

Downside Case

- Severe economic deterioration driving bad debts or prolonged increase in funding costs
- Higher for longer interest rates reduce profitability
- Regulatory or legal matters

Catalysts

- Delivery of a clean interim result with strong loan book growth (Feb-24)
- Increase of the debt facility for funding certainty and loan book growth (H1 '24)

Board of Directors

Timothy Jugmans	Non-Executive Chair
Peter Cumins	Exec. Deputy Chair
Sam Budiselik	Managing Director/CEO
Lachlan Given	Non-Executive Director
Julie Elliot	Ind. Non-Exec. Director
Robert Hines	Ind. Non-Exec. Director
Harry Shiner	Ind. Non-Exec. Director
Mark Ashby	Ind. Non-Exec. Director

RaaS Initiation Report

Cash Converters RaaS Initiation Report 24 Jan 2024

Company Contact

Sam Budiselik +61 413 790 065 sam.budiselik@cashconverters.com

RaaS Contacts

Graeme Carson +61 417 666 802

Finola Burke +61 414 354 712

finola.burke@raasgroup.com

graeme.carson@raasgroup.com



Exhibit 1: Financial Summary

Cash Converters (CCV)						Share price					A\$	0.225
Profit and Loss (A\$m)						Interim (A\$m)	1H23	2H23	1H24	2H24	1H25	2H2
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	Revenue	142.4	160.3	192.5	192.5	202.2	202.2
Sales Revenue	245.9	302.7	385.0	404.4	432.5	EBITDA	28.9	28.3	28.4	29.4	34.8	34.8
EBITDA underlying	52.7	57.2	57.9	69.5	86.5	EBIT	22.7	22.2	22.0	22.1	27.4	27.4
Depn & Amortn	(13.6)	(12.4)	(13.8)	(14.8)	(14.9)	NPAT (normalised)	10.5	9.7	9.2	8.9	11.5	11.8
EBIT underlying	39.1	44.8	44.1	54.8	71.6	Minorities	-	-	-	-	-	-
Interest	(12.5)	(15.9)	(18.3)	(20.3)	(23.5)	NPAT (reported)	(105.5)	8.5	9.2	8.9	11.5	11.8
Profit Before Tax	26.7	28.9	25.8	34.5	48.1	EPS (normalised)	1.68	1.36	1.42	1.36	1.77	1.8
Tax (adj)	(7.6)	(8.7)	(7.7)	(10.0)	(14.1)	EPS (reported)	(17.11)	1.36	1.47	1.36	1.77	1.8
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	1.00	1.00	1.00	1.00	1.00	1.00
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	1.00	1.00	-	-	1.00	1.00
NPAT pre significant items	19.0	20.2	18.1	23.3	32.8	Operating cash flow		4.3	2.6	3.1	4.4	3.4
				0.0		Free Cash flow	(15.8)	2.8		4.6	5.9	
Significant & non-cash items	(7.8)	(117.3)	0.0		0.0	Free Cash now	(17.3)	2.0	4.0	4.0	5.9	4.9
NPAT (reported)	11.2	(97.0)	18.1	23.3	32.8	D	E)/00 t	E\/004	EV0.4E	EV05E	E)/00E	
O (A¢)						Divisions	FY22A	FY23A	FY24F	FY25F	FY26F	CAGE
Cash flow (A\$m)	F1/004	E1/00 4	E1/0/E	E)/055	E1/00E	Store Operations	123.6	142.0	142.0	146.7	163.0	7%
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	Personal Finance	94.3	114.0	110.1	110.1	114.0	5%
EBITDA	52.7	57.2	57.9	69.5	86.5	Vehicle Finance	12.1	15.0	17.9	18.9	19.9	13%
Interest	(9.2)	(10.9)	(18.3)	(20.3)	(23.5)	Head Office Other	4.9	6.4	6.7	7.0	7.4	11%
Tax	(6.9)	(10.9)	(7.7)	(10.0)	(14.1)	NZ	0.0	13.8	22.1	26.1	28.2	27%
Working capital changes	(28.7)	(46.9)	(26.1)	(31.3)	(36.6)	UK	11.0	11.4	86.2	95.6	100.0	74%
Operating cash flow	7.9	(11.5)	5.7	7.7	14.7	Sales revenue	245.9	302.7	385.0	404.4	432.5	15%
Mtce capex	(1.4)	(3.0)	(3.0)	(3.1)	(3.2)	EBITDA (normalised)	52.7	57.2	57.9	69.5	86.5	13%
Free cash flow	6.5	(14.5)	2.7	4.7	11.6							
Acquisitions/Disposals	(3.6)	(13.8)	(24.0)	(8.0)	(8.0)							
Other	(3.9)	(14.3)	(6.3)	(6.6)	(7.0)	Margins, Leverage, Returns		FY22A	FY23A	FY24F	FY25F	FY26F
Cash flow pre financing	(1.0)	(42.6)	(27.6)	(10.0)	(3.4)	EBITDA		21.4%	18.9%	15.0%	17.2%	20.0%
Equity	0.0	0.0	0.0	0.0	0.0	EBIT		15.9%	14.8%	11.5%	13.5%	16.6%
Debt	0.0	68.0	13.0	17.5	25.0	NPAT pre significant items		7.7%	6.7%	4.7%	5.8%	7.6%
Dividends paid	(12.6)	(12.6)	(12.8)	(13.0)	(14.8)	Net Debt (Cash)		10.3	65.4	105.8	128.8	146.9
Net cash flow for year	(13.6)	13.4	(27.3)	(5.5)	6.8	Net debt/EBITDA (x)	(v)	0.2	1.1	1.8	1.9	1.7
Net cash now for year	(13.0)	13.4	(21.3)	(5.5)	0.0	. ,	(x)	3.4%	46.4%	99.8%	138.0%	157.7%
Delen er ek est (Aden)						ND/ND+Equity (%)	(%)					
Balance sheet (A\$m)	F1/004	E1/00 4	E1/0/E	E1/05E	E1/00E	EBIT interest cover (x)	(x)	3.1	2.8	2.4	2.7	3.0
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	ROA		8.2%	9.7%	9.5%	10.9%	13.2%
Cash	58.1	71.6	44.2	46.2	53.1	ROE		6.0%	7.7%	8.6%	10.7%	14.2%
Accounts receivable	3.6	3.6	4.4	4.6	4.9	ROIC		12.2%	31.8%	23.0%	24.0%	27.8%
Inventory	23.9	26.5	27.5	28.4	32.1							
Other current assets	144.9	184.6	201.6	203.2	233.6	Working capital		12.1	11.1	11.9	12.4	13.7
Total current assets	230.5	286.2	277.7	282.4	323.6	WC/Sales (%)		4.9%	3.7%	3.1%	3.1%	3.2%
PPE	4.8	6.6	6.6	6.5	6.5							
Intangibles and Goodwill	127.5	23.8	49.8	53.6	51.4							
Loan Receivables	32.4	42.7	46.6	73.6	75.3	Pricing		FY22A	FY23A	FY24F	FY25F	FY26F
Deferred tax asset	26.1	29.7	29.7	29.7	29.7	No of shares (y/e)	(m)	621	625	651	651	651
Other non current assets	56.8	53.7	75.8	73.8	75.0	Weighted Av Dil Shares	(m)	621	646	651	651	651
Total non current assets	247.6	156.4	208.5	237.2	238.0							
Total Assets	478.2	442.7	486.1	519.6	561.6	EPS Reported	cps	1.64	(15.52)	2.78	3.58	5.04
Accounts payable	15.4	19.0	19.9	20.6	23.3	EPS Nomalised/Diluted	cps	3.32	3.10	2.78	3.58	5.04
Short term debt	52.0	109.0	112.5	131.3	150.0	EPS growth (norm/dil)	-1	n/a	(6.5%)	(10.5%)	29.0%	40.8%
Tax payable	1.8	0.3	0.3	0.3	0.3	DPS	cps	2.0	2.0	2.0	2.0	2.3
Other current liabilities	16.7	19.1	19.1	19.1	19.1	DPS Growth	opo .	n/a	0%	0%	0%	13%
Total current liabilities	85.9	147.4	151.8	171.2	192.7	Dividend yield		8.9%	8.9%	8.9%	8.9%	10.1%
	16.4	27.9	37.5	43.8		•						
Long term debt Other non current liabs					50.0	Franking	v	100%	100%	100%	100%	100%
unuer non current lians	60.5	60.8	85.0	82.5	78.8	PEdut	X	6.8	7.3	8.1	6.3	4.5
	76.9	88.8	122.5	126.3	128.8	PE market	х	16.0	16.0	16.0	16.0	16.0
Total long term liabilities	162.8	236.2	274.3	297.5	321.5	Premium/(discount)		(57.6%)	(54.7%)	(49.3%)	(60.7%)	(72.1%)
Total long term liabilities Total Liabilities			044.0	222.1	240.1	EV/EBITDA	x	2.8	3.6	4.4	4.0	3.4
Total long term liabilities	315.3	206.5	211.8									
Total long term liabilities Total Liabilities		206.5	211.8			FCF/Share	cps	1.0	-2.3	0.4	0.7	1.8
Total long term liabilities Total Liabilities		206.5 249.9	249.9	249.9	249.9	FCF/Share Price/FCF share	cps x	1.0 21.5 -	-2.3 9.7	0.4 53.4	0.7 31.5	
Total long term liabilities Total Liabilities Net Assets	315.3				249.9 (19.5)							12.6
Total long term liabilities Total Liabilities Net Assets Share capital	315.3 249.7	249.9	249.9	249.9		Price/FCF share		21.5 -	9.7	53.4	31.5	12.6 7.9%
Total long term liabilities Total Liabilities Net Assets Share capital Accumulated profits/losses	315.3 249.7 57.3	249.9 (53.2)	249.9 (47.9)	249.9 (37.6)	(19.5)	Price/FCF share Free Cash flow Yield	х	21.5 - 4.7%	9.7 (10.3%)	53.4 1.9%	31.5 3.2%	1.8 12.6 7.9% 1.2

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

ABN 92 168 734 530
AFSL 456663

Effective Date: 6th May 2021



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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