

S & U plc

Update Note

7th February 2019

Price 2150p

TDIM

SUS

Market Cap

£258.2m

Net Debt (F)

£108m

Free Float

32.4%

Average Daily Volume

3.2k

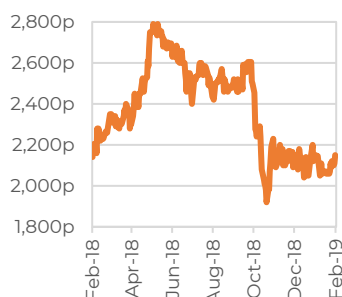
Broker

Peel Hunt

Listing

Main

Share Price Performance



Source: Bloomberg

S & U is one of the UK's leading non-prime motor finance lenders. It operates within the second-hand car market, providing finance via hire purchase agreements, and bridging finance for residential refurbishment.

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Positive Trading Update

This week's trading update from S & U confirmed the trends highlighted in December. The market for its core Advantage non-prime motor finance business remains positive notwithstanding UK economic uncertainty and greater competition. Since the November 2018 decision to increase investment in the bridging business, Aspen Bridging Finance's experience has been positive. This fledgling business is set to contribute to earnings in the year to January 2019. We reflected the slower pace of Advantage loan growth in forecasts immediately following December 2018's trading update, and do not feel further adjustments are necessary based on the release yesterday. Current year and 2020/21 income (PBT, EPS and DPS) forecasts, however, are adjusted further to reflect the slower loan growth at Advantage in 2018 and our expectation that this will continue for at least the first half of calendar 2019. We view this as a timing issue and one which highlights the continuing benefits of S & U's approach. It continues to invest in its market-leading systems, is a sensible competitor and maintains a healthy funding position.

Year to	PBT	EPS	DPS	PER	PEG	Yield
January	£m	P	P	x	X	%
FY18a	30.2	203.8	105.0	10.4	0.5	5.0%
FY19e	34.5	231.2	115.6	9.1	0.7	5.5%
FY20e	37.0	248.4	124.2	8.5	1.1	5.9%
FY21e	41.0	279.8	139.9	7.5	0.6	6.6%

- S & U's trading update (6th February 2019) confirmed the operating trends highlighted on 7th December 2018 and revealed that net debt had fallen from £118m to £108m in the period.
- Advantage "continues to produce record profits" despite a greater than usual slowdown over Christmas and the advent of increased competition on rates. Advantage is unlikely to compete aggressively on this basis given that it has been raising underwriting criteria for 12 months and seeking to improve loan quality. This is working, and we do not believe that the Group would compromise this position for short term market share.
- As a result, we have revised our loan growth estimates for the years to January 2020 and 2021 from 11.0% and 10.0% respectively to under 8.0% in both years. Maintaining our forecasts for impairment as a percentage of revenue and reflecting S & U's investment in systems in the current year, slower loan growth reduces 2020 PBT by 2.6% to £37.0m.
- Despite some mitigation in expected impairment and finance charges in 2021, our PBT forecast is reduced by 6.9% to £41.0m. We believe that this is the transition year for Advantage as it could increase loan growth but will continue to impair c 26.0% of revenue and face slightly higher finance charges as it expands net debt.
- Aspen Bridging Finance's net receivables now stand at £18.0m from £11.2m at mid-year. The business has advanced 97 loans to date at an average of £375,000 (gross). Of these, 43 have been repaid. S & U announced its intention to expand this business to a potential £30.0m book in November 2018 and we believe that this scale will be achieved through calendar 2020. Although initial gross margins appear stronger than expected, we retain our forecasts for each of the next three reported years.
- S & U confirmed that its net debt as at 31st January 2019 was £108.0m compared to our forecast of £119.5m. We believe that this reflects gains in monthly collections at Advantage which exceeded £12.0m per month for the first time in January 2019. Slower loan growth but continued improvements in Advantage collections through the next two years result in lower net debt forecasts, falling by 18.0% in 2020 and 21.0% in 2021. At these levels, S & U retains significant headroom within its current funding limit of £135.0m.
- As a reflection of S & U's stability, the share price has outperformed its lending peers over the last quarter. Based on a comparative ratio analysis, the share's theoretical value is lower than previously indicated as a function of weakness elsewhere. However, at 2739p, it still represents material upside from the current level.

Data Bank

Figure 1: S&U Share Price (January 2018 to date)



Source: Bloomberg

Figure 2: Share Price Performances (comparative group)

	1 Month	3 Months	12 Months
S & U Plc	0.2%	(0.2%)	0.5%
International Personal Finance Plc	(10.1%)	0.4%	0.2%
Paypoint Plc	8.4%	11.0%	6.8%
Morses Club Plc	(5.5%)	4.9%	18.2%
Close Brothers Group Plc	(2.1%)	(0.3%)	(6.6%)
Non-Standard Finance Plc	(12.8%)	(11.0%)	(20.9%)
OneSavings Bank Plc	4.7%	(1.2%)	(6.4%)
Paragon Banking Group Plc	2.2%	(4.0%)	(13.7%)
Provident Financial Plc	(18.5%)	(7.1%)	(4.9%)
Secure Trust Bank Plc	20.4%	(2.1%)	(18.6%)
Lookers Plc	11.8%	5.5%	27.8%
Marshalls Plc	6.5%	13.3%	28.4%
BCA Marketplace Plc	(4.5%)	(4.0%)	18.5%
Motorpoint Group Plc	0.3%	(5.2%)	(14.9%)
Auto Trader Group Plc	0.1%	2.3%	23.7%
AVERAGE (FINANCE)	(1.3%)	(1.0%)	(4.6%)
AVERAGE (MOTOR DEALERS)	2.8%	2.4%	16.7%
AVERAGE (TOTAL)	0.1%	0.1%	2.5%

Source: Bloomberg

Figure 3: Comparative Valuation Analysis (prices as @ 10th December 2018)

Year End	IPF December	Paypoint March	Morses Club February	Close Bros July	NSF December	OneSavings December	Paragon September	Provident Fin December	Secure Trust December	Average
Share Price	202.2	876.0	151.3	1461.0	55.2	373.2	417.6	512.6	1375.0	
Market Capitalisation	452.2	597.7	196.3	2,210.8	172.3	912.4	1,089.3	1,298.3	254.0	7,183.4
Enterprise Value	1,102.5	551.7	207.0	3,486.5	360.6	7,661.9	12,006.8	3,143.7	-	28,520.8
EV/Revenue	1.3	2.6	1.8	3.6	3.3	23.4	24.1	2.6	-	7.8
EV/EBITDA	-	8.6	-	-	27.3	-	-	-	-	18.0
PER	12.3	13.9	15.0	10.8	-	7.3	7.5	-	10.7	11.1
PEG	-	-	0.3	2.4	0.7	2.1	0.3	-	-	1.1
Yield	6.1%	5.2%	3.2%	4.3%	4.0%	3.4%	4.6%	0.0%	5.7%	4.1%

Source: Bloomberg & Capital Access Group

Figure 4: Theoretical Value

2018/19	Comparative Ratio	Implied Value	Movement against Current Price (2100p)
PER	10.3x	2557p	21.2%
Yield	4.9%	2838p	34.5%
PEG	1.1x	2823p	31.3%
Average		2739p	27.4%

Source: Capital Access Group Forecasts

Figure 5: Implied Value at Theoretical Level (2739p)

Year to January	2019F	2020F	2021F
PER	11.8x	11.0x	9.8x
Yield	4.2%	4.5%	5.1%
PEG	0.9x	1.5x	0.8x

Source: Capital Access Group Forecasts

Figure 6: S & U Income Statement Analysis

Year to January					Growth		
	2018A	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	79.8	92.0	98.4	106.0	15.3%	7.0%	7.7%
Impairment (Motor)	(19.4)	(23.9)	(25.1)	(27.0)	23.3%	4.9%	7.7%
Impairment (Aspen)	(0.2)	(0.2)	(0.2)	(0.2)			
Other Costs	(17.3)	(17.0)	(19.0)	(19.2)	-1.6%	11.7%	1.0%
Total COGS	(36.9)	(41.1)	(44.3)	(46.4)	11.5%	7.7%	4.8%
Impairment/Revenue	24.3%	26.0%	25.5%	25.5%			
Gross Profit	42.9	50.9	54.1	59.6	18.6%	6.4%	10.0%
Gross Margin	53.8%	55.3%	55.0%	56.2%			
EBITDA	33.3	39.3	41.8	46.8	18.0%	6.5%	11.8%
D&A	(0.3)	(0.3)	(0.3)	(0.3)	2.0%	0.0%	0.0%
EBITDA Margin	41.7%	42.8%	43.5%	43.5%			
Administrative Expenses	(9.9)	(11.6)	(12.3)	(12.8)	16.9%	6.0%	4.1%
Operating Profit	33.0	39.0	41.5	46.5	18.2%	6.6%	11.9%
Operating Margin	41.3%	42.4%	42.2%	43.8%			
Net Finance Costs	(2.8)	(4.5)	(4.5)	(5.5)	59.7%	0.0%	22.2%
PBT	30.2	34.5	37.0	41.0	14.3%	7.4%	10.6%
ETR	19.1%	19.5%	19.5%	18.0%			
Tax Charge	(5.7)	(6.7)	(7.2)	(7.4)	17.0%	7.3%	2.2%
Attributable Earnings	24.4	27.7	29.8	33.6	13.6%	7.5%	12.6%
Average Number of Shares	12.0	12.0	12.0	12.0			
EPS (p)	203.8	231.2	248.4	279.8	13.4%	7.5%	12.6%
DPS (p)	105.0	115.6	124.2	139.9	10.1%	7.5%	12.6%
Dividend Cover	1.9	2.0	2.0	2.0	0.0%	0.0%	0.0%

Source: Capital Access Group

Figure 7: S & U plc Statutory Cash Flow

Year to January	2018A	2019F	2020F	2021F
Operating Profit	33.0	39.0	41.5	46.5
Net Finance (Cost)/Income	(2.8)	(4.5)	(4.5)	(5.5)
Tax Paid	(5.3)	(6.0)	(7.2)	(13.3)
Depreciation	0.3	0.3	0.3	0.3
Loss on Disposal	0.1	0.0	0.0	0.0
Receivables (Customers)	(68.5)	(20.0)	(23.7)	(26.0)
Receivables (Trade)	(0.1)	(0.2)	(0.4)	(0.4)
Payables	0.5	1.2	1.0	1.0
Accruals and Deferred Income	(0.8)	0.0	0.0	0.0
Share-Based Payments	0.3	0.5	0.5	0.5
Other	(0.0)	0.0	0.0	0.0
Operating Cash Flow	(43.4)	10.3	7.5	3.1
Disposal Proceeds	0.0	0.0	0.0	0.0
Capex	(1.1)	(0.8)	(0.5)	(0.5)
Investing Activities	(1.0)	(0.8)	(0.5)	(0.5)
Dividends	(11.4)	(12.5)	(13.5)	(15.2)
Issue of New Shares	0.0	0.0	0.0	0.0
Movement in Borrowings	0.0	0.0	0.0	0.0
Financing Activities	(11.4)	(12.5)	(13.5)	(15.2)
Net Cash Flow	(55.8)	(3.1)	(6.4)	(12.6)
Opening Net Debt	(49.2)	(104.9)	(108.0)	(114.5)
Closing Net Debt	(104.9)	(108.0)	(114.5)	(127.1)
Shareholders Funds	152.8	165.0	179.9	196.7
Gearing	69%	65%	64%	65%

Source: Capital Access Group

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