

S & U plc

Update Note

11th December 2018

Price 2145p

TDIM

SUS

Market Cap

£256.9m

Net Debt (F)

£119.5m

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.

Scott Fulton

+44 20 3763 3405

ScottF@capitalaccessgroup.co.uk

Oliver Juggins

+44 20 3763 3419

Oliver.Juggins@capitalaccessgroup.co.uk

Prudence & Sense

The trading update (7th December 2018) confirmed that S & U's strategy is progressing according to plan. Specifically, against an uncertain economic backdrop, it has continued to impose tighter lending criteria at Advantage (motor loans) while it is proceeding cautiously with Aspen Bridging Finance (residential refurbishment). In combination, this has prompted slight reductions in our top of the range profit forecasts, but it has served, also, to reduce our expectations for net debt. Thus, we believe that S & U is improving prudently the quality of its medium-term loan book while sensibly maintaining its ability to grow this further as uncertainty subsides.

Year to	PBT	EPS	DPS	PER	PEG	Yield
January	£m	P	P	x	X	%
FY18a	30.2	203.8	105.0	10.5	0.5	4.9
FY19e	34.5	231.2	115.6	9.3	0.7	5.4
FY20e	38.0	254.9	127.5	8.4	0.8	5.9
FY21e	44.0	301.0	150.5	7.1	0.4	7.0

- S & U confirmed that it expects to report full year results to January 2019 "broadly in-line with expectations". The detail of the update highlighted the impact of tighter lending criteria at Advantage and the recent experience at Aspen. Focusing on the former, this has prompted a reduction in our PBT forecasts by 4.3% in the current year, 7.3% in 2020 and 4.3% in 2021. Having been at the top of the range ahead of the update, we now believe that we are consistent with the current year consensus (2019 PBT £35.2m; source Bloomberg).
- Advantage implemented tighter lending criteria from the start of the financial year. This was in response to historic experience, where impairment rose to c. 26.0% of revenue, but also the company's view that the UK economic environment would become uncertain. As a result, new loans in the year to date are 7.0% lower at 18,710, implying a H2 figure so far of just under 7,000. Given the slower Christmas period, this lower performance is unlikely to improve before the end of January. Thus, while current year revenue for Advantage will be slightly lower than we forecast previously, the biggest impact on our numbers is in 2020 until growth in loan numbers can resume under the tighter criteria.
- The continuing success of on-line applications has also impacted the cost of acquisition in Advantage. We now believe that this is over £700 from £692 in the comparable period. Together with a broadly maintained impairment ratio, reflected by a risk adjusted yield of 25.0% compared to 25.4%, this suggests that gross profits at Advantage will be modestly lower in the current year than previously expected while growth will be mitigated in 2020.
- Following the decision to extend the Aspen loan book to £30m (see *Aspen Decision Positive*, 26th November 2018), we have input a debut EBIT forecast of £0.75m in the current year from an £18.0m book generating £2.2m of revenue. We expect the book to grow to over £25.0m in 2020, reaching £30.0m in early 2021. Given the completely different lending criteria, we do not expect impairment to be a significant factor and forecast a margin of 10.0% by mid-2020. As a result, we look for EBIT of c. £1.0m in 2020 and £1.5m in 2021.
- The corollary of moderated lending at Advantage is improved cash generation. We have reduced loan growth in our forecasts in both 2019 and 2020 but maintained collections. Thus, we have reduced our current year net debt forecast from £128.7m previously to £119.5m. Underlying, Advantage reports a lower carry forward in 2020 but total forecast net debt rises to reflect the increased lending at Aspen. Despite this, S & U retains significant current headroom against its £135.0m facility.

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	1.4%	(13.5%)	(9.2%)
International Personal Finance Plc	8.1%	(7.4%)	4.8%
Paypoint Plc	0.7%	(13.2%)	(10.4%)
Morses Club Plc	(8.3%)	(5.7%)	(0.8%)
Close Brothers Group Plc	(5.2%)	(9.9%)	0.8%
Non-Standard Finance Plc	8.4%	9.2%	(10.8%)
OneSavings Bank Plc	(14.7%)	(18.6%)	(17.2%)
Paragon Banking Group Plc	(9.4%)	(14.2%)	(18.0%)
Provident Financial Plc	8.9%	(6.8%)	(24.3%)
Secure Trust Bank Plc	(5.3%)	(22.9%)	(24.8%)
Lookers Plc	(3.2%)	(10.1%)	(6.5%)
Marshalls Plc	20.5%	(1.8%)	(5.2%)
BCA Marketplace Plc	(2.3%)	(5.2%)	(5.0%)
Motorpoint Group Plc	(11.4%)	(15.2%)	(6.3%)
Auto Trader Group Plc	(2.7%)	(1.3%)	25.2%
AVERAGE (FINANCE)	(1.5%)	(10.3%)	(11.0%)
AVERAGE (MOTOR DEALERS)	0.2%	(6.7%)	0.5%
AVERAGE (TOTAL)	(1.0%)	(9.1%)	(7.2%)

Source: Bloomberg

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

	IPF	Paypoint	Morses Club	Close Bros	NSF	OneSavings	Paragon	Provident Fin	Secure Trust	Average
Year End	December	March	February	July	December	December	September	December	December	
Share Price	207.2	811.0	132.0	1,423.0	66.0	335.4	396.2	604.2	1,350.0	
Market Capitalisation	461.0	537.7	173.4	2,155.8	206.3	813.7	1,044.0	908.7	249.8	
Enterprise Value	1,111.0	508.7	179.7		412.3	663.7	13,404.0	1,995.2		
EV/Revenue	1.3	4.3	1.5		2.5	2.4	48.2	1.8		8.9
EV/EBITDA	-	8.3	-	-	13.1	-	-	-	-	10.7
PER	6.7	13.1	9.9	10.2	16.5	6.2	8.6	12.1	8.9	10.3
PEG	-	-	0.2	1.9	1.0	1.1	0.9	1.3	-	1.1
Yield	5.8%	7.3%	5.8%	4.6%	3.7%	4.3%	4.7%	1.5%	6.1%	4.9%

Source: Bloomberg & Capital Access Group

Figure 4: Theoretical Value

2018/19	Comparative Ratio	Implied Value	Movement against Current Price (2145p)
PER	10.3x	2372	10.6%
Yield	4.9%	2381	11.0%
PEG	1.1x	3408	58.9%
Average		2720	26.8%

Source: Capital Access Group Forecasts

Figure 5: Implied Value at Theoretical Level (2720p)

Year to January	2019F	2020F	2021F
PER	11.8	10.7	9.0
Yield	4.3%	4.7%	5.5%
PEG	0.9	1.0	0.5

Source: Capital Access Group Forecasts

Figure 6: Interim Income Statement Analysis

Year to January	H2 2018A	H1 2019A	H2 2019E	Growth	
				H1/H1	H2/H2
Revenue	42.2	44.5	47.5	18.5%	12.4%
Impairment	(11.0)	(11.4)	(12.5)	32.7%	13.7%
Other COGS	(8.6)	(8.6)	(8.4)	-0.4%	-2.9%
COGS	(19.7)	(20.0)	(21.1)	16.1%	7.4%
Impairment/Revenue	26%	26%	26%		
Gross Profit	22.6	24.5	26.4	20.5%	16.8%
Gross Margin	53%	55%	56%		
EBITDA	17.7	18.9	20.3	21.7%	14.8%
D&A	(0.2)	(0.1)	(0.2)	0.0%	3.7%
EBITDA Margin	42%	43%	43%		
Administrative Expenses	(5.0)	(5.7)	(5.9)	16.3%	17.5%
Operating Profit	17.6	18.8	20.5	21.9%	16.6%
Operating Margin	42%	42%	43%		
Net Finance Costs	(1.7)	(2.1)	(2.4)	82.3%	44.1%
PBT	15.9	16.7	17.8	17.0%	11.8%
ETR	19%	19%	20%		
Tax Charge	(3.0)	(3.2)	(3.5)	14.6%	19.2%
Attributable Earnings	12.9	13.5	14.2	17.6%	10.1%
Average No. Shares	12.0	12.0	12.0		
EPS (p)	107.8	112.6	118.6	17.3%	10.0%
DPS (p)	77.0	32.0	83.6	14.3%	8.6%
Dividend Cover	1.4	3.5	1.4		

Source: Capital Access Group Forecasts

Figure 7: S & U Income Statement Analysis

Year to January					Growth		
	2018A	2019F	2020F	2021F	2019F	2020F	2021F
Revenue	79.8	92.0	102.0	112.0	15.3%	10.9%	9.8%
Impairment (Motor)	(19.4)	(23.9)	(26.0)	(28.6)	23.3%	8.7%	9.9%
Impairment (Aspen)	(0.2)	(0.2)	(0.2)	(0.2)			
Other Costs	(17.3)	(17.0)	(19.7)	(20.3)	-1.6%	15.8%	3.0%
Total COGS	(36.9)	(41.1)	(45.9)	(49.1)	11.5%	11.6%	6.9%
Impairment/Revenue	24.3%	26.0%	25.5%	25.5%			
Gross Profit	42.9	50.9	56.1	62.9	18.6%	10.3%	12.2%
Gross Margin	53.8%	55.3%	55.0%	56.2%			
EBITDA	33.3	39.3	43.4	49.9	18.0%	10.5%	15.1%
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)	(12.7)	(13.0)	16.9%	9.5%	2.4%
Operating Profit	33.0	39.0	43.1	49.6	18.2%	10.6%	15.2%
Operating Margin	41.3%	42.4%	42.3%	44.3%			
Net Finance Costs	(2.8)	(4.5)	(5.1)	(5.6)	59.7%	13.3%	9.8%
PBT	30.2	34.5	38.0	44.0	14.3%	10.2%	15.9%
ETR	19.1%	19.5%	19.5%	18.0%			
Tax Charge	(5.7)	(6.7)	(7.4)	(7.9)	17.0%	10.1%	7.1%
Attributable Earnings	24.4	27.7	30.6	36.1	13.6%	10.3%	18.1%
Average Number of Shares	12.0	12.0	12.0	12.0			
EPS (p)	203.8	231.2	254.9	301.0	13.4%	10.3%	18.1%
DPS (p)	105.0	115.6	127.5	150.5	10.1%	10.3%	18.1%
Dividend Cover	1.9	2.0	2.0	2.0	0.0%	0.0%	0.0%

Source: Capital Access Group

Figure 8: Advantage Cash Flow

Year to January	2018A	2019F	2020F	2021F
Balance Brought Forward	(130.0)	(171.9)	(175.1)	(175.8)
Advances	(152.2)	(140.0)	(165.0)	(180.0)
Collections	118.8	140.0	168.0	180.0
Settlements/re-loans	24.6	28.0	33.0	36.0
Debt Recovery	9.9	15.0	14.9	16.2
Overheads/Interest	(29.4)	(28.9)	(31.4)	(34.2)
Tax Paid	(5.4)	(5.9)	(7.4)	(7.9)
Dividend (to S&U plc)	(8.2)	(11.4)	(12.8)	(15.6)
Balance Carried Forward	(171.9)	(175.1)	(175.8)	(181.3)

Source: Capital Access Group

Figure 9: S & U plc Statutory Cash Flow

Year to January	2018A	2019F	2020F	2021F
Operating Profit	33.0	39.0	43.1	49.6
Net Finance (Cost)/Income	(2.8)	(4.5)	(5.1)	(5.6)
Tax Paid	(5.3)	(6.0)	(7.4)	(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)	(30.8)	(37.0)	(37.0)
Receivables (Trade)	(0.1)	(0.4)	(0.4)	(0.4)
Payables	0.5	1.0	1.0	1.0
Accruals and Deferred Income	(0.8)	0.0	0.0	0.0
Share-Based Payments	0.3	0.4	0.4	0.4
Other	(0.0)	0.0	0.0	0.0
Operating Cash Flow	(43.4)	(1.0)	(5.1)	(5.0)
Disposal Proceeds	0.0	0.0	0.0	0.0
Capex	(1.1)	(1.0)	(0.5)	(0.5)
Investing Activities	(1.0)	(1.0)	(0.5)	(0.5)
Dividends	(11.4)	(12.5)	(13.8)	(16.3)
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)	(13.8)	(16.3)
Net Cash Flow	(55.8)	(14.6)	(19.4)	(21.8)
Opening Net Debt	(49.2)	(104.9)	(119.5)	(138.9)
Closing Net Debt	(104.9)	(119.5)	(138.9)	(160.7)
Shareholders Funds	152.8	166.7	182.0	200.0
Gearing	69%	72%	76%	80%

Source: Capital Access Group

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Capital Access Group

Skylight City Tower

50 Basinghall Street

EC2V 5DE

www.capitalaccessgroup.co.uk