

S & U plc

Reaction Note

8th August 2018

Price 2,435p

TDIM

SUS

Market Cap

£292.2m

Net Debt (F)

£144.7m

Free Float

32.4%

Average Daily Volume

3.2k

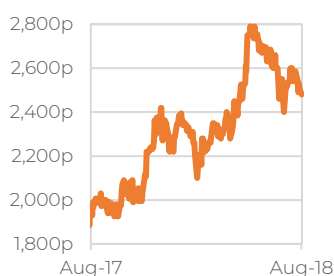
Broker

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 exclusively within the second-hand car market and provides finance via hire purchase agreements.

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Cautiously Positive Trading Update

S & U's trading update reinforced the positive messages contained in May's AGM statement. Average monthly applications for Advantage (non-prime motor lending) have continued to grow, allowing the Group to further improve new loan quality. As a result, while lending growth lags total demand, the potential for lower impairment charges in the medium term has increased in our view. Current year impairment is likely to be slightly higher than we previously forecast but we are confident that slower cost growth elsewhere will mitigate this impact on earnings. More importantly, we believe that impairment charges are likely to peak in the current year and could start to fall by the end of calendar 2019. This is critical to the Group's status within the sector. It has continued to build the Advantage customer base at the same time as improving the quality of the associated loan book. This augurs well for 2020 and beyond; an outlook which is not fully recognised in the current valuation.

Year to	PBT	EPS	DPS	PER	PEG	Yield
January	£m	P	P	x	X	%
FY18a	30.2	203.1	105.0	12.0	0.6	4.3
FY19e	36.0	241.8	121.0	10.1	0.6	5.0
FY20e	41.0	274.8	137.4	8.9	0.7	5.6
FY21e	46.0	314.0	156.8	7.8	0.6	6.4

Trading Update

S & U followed up its positive AGM statement (18th May 2018) with an equally upbeat trading update (3rd August 2018). Commenting on the period since the AGM, the Group noted that the market for its principal business (second-hand cars) had increased in value by 12.0% year-on-year. This strength had resulted in average monthly applications to Advantage remaining at over 80,000. Given this background, S & U has continued to raise underwriting criteria, moving to acceptance on 25.0% of total applications compared to 31.0% in the previous period. Completed transactions in the period were 9.0% of acceptances, implying 1,800 new loans per month; a similar level to H1 2017/18.

Notwithstanding maintained gross monthly lending, Advantage highlighted an 18.0% gain in total customers (to 58,100) and net receivables up 15.0% to £263.0m in the period. Reflecting previous lending growth and the Group's conservative approach to impairment, S & U commented that charges at Advantage continue "to run at higher levels than last year". Acknowledging this statement, we have increased our full year impairment charge from 25.0% of revenue to 26.0%. However, we believe that there are further efficiencies to be gained through the Group's deployment of Dealflo and have lower acquisition cost growth on maintained gross lending.

Aspen Bridging, a pilot scheme addressing funding demand for, principally, residential RM&I, has continued its positive performance. The loan book is now over £16.0m, some 45.0% higher than the previous year.

We make no changes to our key income statement or cash flow metrics on the back of this announcement.

Share Price

Non-standard finance providers have continued to see share price strength on average over the last quarter; largely as a function of positive, individual news flow. By contrast, motor dealers' rally appears to be stalling as the divergence between second hand strength and new sales weakness expands. While S & U has recovered some of the lost ground post the AGM statement – which we ascribe to profit taking after a strong run – there remains implied upside from comparative valuations.

Theoretical Value

The comparative valuation basis (non-standard lending peers) has worsened slightly since May as consensus forecasts for the key constituents have moderated. However, average PER, yield and PEG are within basis points of our previous analysis. As such the impact on our theoretical valuation is not marked. The analysis produces 3110p, some 8.0% lower than the figure in May but still over 22.0% higher than the current traded 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	5.8	(7.6)	31.7
International Personal Finance Plc	24.2	5.3	23.9
Paypoint Plc	(0.5)	11.3	12.8
Morses Club Plc	6.8	8.7	47.4
Close Brothers Group Plc	3.8	1.6	0.3
Non-Standard Finance Plc	14.1	(2.2)	(11.6)
OneSavings Bank Plc	(3.1)	9.1	7.7
Paragon Banking Group Plc	(3.4)	(5.9)	16.1
Provident Financial Plc	16.0	10.4	(54.9)
Secure Trust Bank Plc	(9.0)	(16.3)	(13.7)
Lookers Plc	(0.9)	4.8	(5.4)
Marshall Motor Holdings Plc	(3.1)	(6.6)	4.0
BCA Marketplace Plc	4.0	20.5	18.0
Motorpoint Group Plc	(1.3)	(10.7)	71.0
Auto Trader Group Plc	2.2	12.9	15.5
AVERAGE (FINANCE)	5.4	2.5	3.1
AVERAGE (MOTOR DEALERS)	0.2	4.2	20.6
AVERAGE (TOTAL)	3.6	3.1	9.4

Source: Bloomberg

Figure 3: Comparative Valuation Analysis (prices as @ 6th August 2018)

	IPF	Paypoint	Morses Club	Close Bros	NSF	OneSavings	Paragon	Provident Fin	Secure Trust	Average
Share Price	248	929	168	1565	58	431	498	692	1670	
Market Capitalisation	552.7	615.9	220.8	2,371.0	181.9	1,046.6	1,311.2	1,040.2	309.0	
Enterprise Value	1,182.7	586.9	234.6	1,608.0	387.9	946.6	13,385.2	2,126.7	89.0	
Revenue	850.3	119.5	123.5	813.8	164.2	273.6	273.5	1,128.6	160.3	
EPS	31.2	62.4	13.2	137.3	3.9	53.4	47.2	52.4	153.0	
EPS Growth	-	(3.0%)	57.5%	4.3%	13.7%	4.5%	12.7%	15.1%	12.1%	
DPS	12.4	58.8	7.7	63.5	2.4	14.5	18.7	10.0	83.0	
EV/Revenue	1.4	4.9	1.9	2.0	2.4	3.5	48.9	1.9	0.6	7.5
PER	8.0	14.9	12.7	11.4	14.9	8.1	10.5	13.2	10.9	11.6
PEG	-	-	0.2	2.7	1.1	1.8	0.8	0.9	-	1.2
Yield	5.0%	6.3%	4.6%	4.1%	4.1%	3.4%	3.8%	1.4%	5.0%	4.2%

Source: Bloomberg & Capital Access Group

Figure 4: Theoretical Value

2018/19	Comparative Ratio	Implied Value	Movement against Current Price (2540p)
PER	11.6	2811	10.7%
Yield	4.2%	2892	13.9%
PEG	1.0	3627	42.8%
Average/Theoretical Value		3110	22.4%

Source: Capital Access Group Forecasts

Figure 5: Implied Value at Theoretical Level (3110p)

Year to January	2019	2020	2021
PER	12.8	11.6	11.0
Yield	3.9%	4.4%	5.1%
PEG	0.7	0.8	0.7

Source: Capital Access Group Forecasts

Figure 6: Motor Finance Loan Book (2017 – 2021)

Year to January	2017A	2018A	2019F	2020F	2021F	CAGR
Motor Finance Gross Book	224.3	295.7	324.6	355.8	391.7	23.1%
Impairment Provision	(30.8)	(44.5)	(50.3)	(56.9)	(64.6)	15.2%
Percentage of Book	13.7%	15.0%	15.5%	16.0%	16.5%	18.5%
Net Motor Finance Book	193.5	251.2	274.3	312.7	347.1	26.4%
Number of New Loans	20,042	24,518	27,018	29,718	32,823	24.0%
Average Advance	6,068	6,207	6,250	6,250	6,250	2.5%
Acquisition Costs	642	692	700	710	715	2.3%
Average Term (months)	50	51	51	51	51	1.7%

Source: Capital Access Group

Figure 7: S & U Income Statement Analysis

Year to January	2018A	2019F	2020F	2021F	Growth		
					2019F	2020F	2021F
Revenue	79.8	95.7	110.0	121.0	19.9%	15.0%	10.0%
Impairment (Motor)	(19.4)	(24.9)	(28.6)	(30.9)	23.3%	19.6%	7.9%
Impairment (Aspen)	(0.2)	(0.2)	0.0	0.0			
Other Costs	(17.3)	(18.3)	(21.2)	(23.6)	11.3%	10.4%	11.1%
Total COGS	(36.9)	(43.3)	(49.8)	(54.5)	17.5%	15.0%	9.3%
Impairment/Revenue	24.3%	26.0%	26.0%	25.5%			
Gross Profit	42.9	52.3	60.2	66.6	22.0%	15.0%	10.6%
Gross Margin	53.8%	54.7%	54.7%	55.0%			
EBITDA	33.3	40.3	46.9	52.3	21.0%	16.2%	11.5%
D&A	(0.3)	(0.3)	(0.3)	(0.3)	0.0%	0.0%	0.0%
EBITDA Margin	42.6%	42.8%	43.5%	43.5%			
Administrative Expenses	(9.9)	(11.5)	(13.3)	(14.3)	16.0%	10.8%	7.5%
Operating Profit	33.0	40.5	46.6	52.0	22.9%	16.3%	11.6%
Operating Margin	41.3%	41.8%	42.3%	42.9%			
Net Finance Costs	(2.8)	(4.5)	(5.6)	(6.0)	68.9%	40.0%	7.1%
PBT	30.2	36.0	41.0	46.0	19.5%	13.7%	12.2%
ETR	19.1%	19.5%	19.5%	18.0%			
Tax Charge	(5.7)	(7.0)	(8.0)	(8.3)	22.3%	13.7%	3.5%
Attributable Earnings	24.4	29.0	33.0	37.7	18.8%	13.7%	14.2%
Average Number of Shares	12.0	12.0	12.0	12.0			
EPS (p)	203.8	241.8	274.8	314.0	18.6%	13.7%	14.2%
DPS (p)	105.0	121.0	137.4	156.8	15.2%	13.6%	14.1%
Dividend Cover	1.9	2.0	2.0	2.0			

Source: Capital Access Group

Figure 8: Advantage Cash Flow

Year to January	2017A	2018A	2019F	2020F	2021F
Balance Brought Forward	(96.8)	(130.0)	(171.9)	(199.6)	(223.2)
Advances	(121.6)	(152.2)	(168.9)	(185.7)	(205.1)
Collections	95.0	118.8	147.3	169.4	189.7
Settlements/re-loans	19.9	24.6	30.5	35.1	39.3
Debt Recovery	6.9	9.9	13.5	14.9	15.4
Overheads/Interest	(22.7)	(29.4)	(32.1)	(35.3)	(39.0)
Tax Paid	(4.6)	(5.4)	(6.0)	(8.0)	(13.7)
Dividend (to S & U plc)	(6.1)	(8.2)	(12.0)	(14.0)	(16.3)
Balance Carried Forward	(130.0)	(171.9)	(199.6)	(223.2)	(252.9)

Source: Capital Access Group

Figure 9: S & U plc Cash Flow

Year to January	2017A	2018A	2019F	2020F	2021F
Balance Brought Forward	(11.9)	(49.2)	(105.0)	(144.0)	(170.1)
Motor Finance Outflow	(33.2)	(41.9)	(27.7)	(23.7)	(29.7)
Property Bridging Outflow	0.0	(11.2)	(8.8)	0.0	0.0
Other Outflow	(4.1)	(2.7)	(2.5)	(2.5)	(2.5)
Balance Carried Forward	(49.2)	(105.0)	(144.0)	(170.1)	(202.3)

Source: Capital Access Group

Figure 10: S & U plc Statutory Cash Flow

Year to January	2017A	2018A	2019F	2020F	2021F
Operating Profit	26.9	33.0	40.0	46.6	52.0
Net Finance (Cost)/Income	(1.7)	(2.8)	(4.0)	(5.6)	(6.0)
Tax Paid	(4.9)	(5.3)	(6.0)	(8.0)	(13.6)
Depreciation	0.3	0.3	0.3	0.3	0.3
Loss on Disposal	0.0	0.1	0.0	0.0	0.0
Receivables (Customers)	(48.4)	(68.5)	(56.3)	(44.9)	(48.1)
Receivables (Trade)	(0.0)	(0.1)	(0.4)	(0.5)	(0.6)
Payables	0.4	0.5	1.0	1.0	1.0
Accruals and Deferred Income	(0.5)	(0.8)	0.0	0.0	0.0
Share-Based Payments	0.4	0.3	0.4	0.4	0.4
Other	(0.0)	(0.0)	0.0	0.0	0.0
Operating Cash Flow	(27.5)	(43.4)	(25.0)	(10.7)	(14.7)
Disposal Proceeds	0.1	0.0	0.0	0.0	0.0
Capex	(0.4)	(1.1)	(1.0)	(0.5)	(0.5)
Investing Activities	(0.3)	(1.0)	(1.0)	(0.5)	(0.5)
Dividends	(9.5)	(11.4)	(13.1)	(14.9)	(17.0)
Movement in Borrowings	19.0	0.0	0.0	0.0	0.0
Financing Activities	9.5	(11.4)	(13.1)	(14.9)	(17.0)
Net Cash Flow	(18.3)	(55.8)	(39.1)	(26.1)	(32.1)
Opening Net Debt	(30.9)	(49.2)	(104.9)	(144.0)	(170.1)
Closing Net Debt	(49.2)	(104.9)	(144.0)	(170.1)	(202.3)
Shareholders' Funds	139.5	152.8	167.3	183.8	205.0
Gearing	35.2%	68.7%	86.1%	92.6%	98.7%

Source: Capital Access Group

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