

# S & U plc

## Quick Take

8<sup>th</sup> August 2019

### Price

2,120p

### Ticker

SUS

### Market Cap

£253.3m

### Net Debt (FY19a)

£108m

### Free Float

33.4%

### Average Daily Volume

2.8k

### 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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### Resilient Performance

Today's trading update shows that both divisions, Advantage Finance and Aspen, continue to perform well. Advantage has outshone its market, providing more loans (transactions "ahead") than last year despite lower consumer confidence.

Aspen has continued to grow profitably, though has not met management expectations due to a housing market in which transactions fell 9% YoY in the quarter. In light of this the 47% growth in the loan book, albeit from a low base, is doubly impressive.

We see nothing in this update to lead us to change our forecasts at this stage, as both divisions are trading within our expected range. We will provide a full update upon release of the half year results on 24<sup>th</sup> September 2019.

Year to	PBT	EPS	DPS	PER	PEG	Yield
January	£m	P	P	x	X	%
FY19a	34.6	233.2	118.0	9.0	0.6	5.6%
FY20e	36.4	245.6	119.0	8.6	1.6	5.7%
FY21e	41.7	285.1	130.0	7.4	0.5	6.2%
FY22e	46.0	314.6	143.0	6.7	0.6	6.8%

- Advantage**, the motor finance business, has performed ahead of the broader used car market.
  - It has continued to post strong growth numbers – customer numbers are up 7% YoY and still represent a tiny proportion of applications (110k/month).
  - Further, collections are up 7% YoY, and early stage repayment indicators on new business continue to improve, suggesting lending standards remain tight.
  - According to the Finance & Leasing Association the value of advances for used car finance in May 2019 (latest data) was flat YoY, and the number of cars bought on finance fell 3%. In the 3 months to May, the value of advances rose 4% and the number of cars bought rose 1%, suggesting trends may have deteriorated slightly in recent months. Against this backdrop the growth achieved in Advantage is even more impressive.
  - Management also noted in the release that it is strengthening its relationships with introducer partners by changing the reward programme and IT platform, but no further details were provided at this stage.
- Aspen**, the secured bridging loan business, has also outperformed the growth of its operating market.
  - Aspen is dependent upon property market transactions and values, both of which have seen headwinds. In calendar 2Q19 c.273k houses transacted in the UK, 9% down on 2Q18. Against this backdrop Aspen posted 47% growth.
  - We had forecast an FY20 net loan book of c.£28m, so reaching £24m at this stage of the year suggests Aspen can meet our expectations for the full year, even given ongoing property market headwinds, and so we do not reforecast at this stage.
  - Management attributes this performance to improvements in the loan product itself, provision of a broader product range, and improvements in its IT platform.
- Finance**: Group borrowing (which we take as a proxy for net debt given near-zero cash holdings and other debt, stood at £125m, well within the facilities of £160m.
- Outlook**: nothing in this update leads us to believe a reforecast is required. Whilst the backdrop is disappointing, and management had hoped for more growth from Aspen, both businesses are on track to meet our expectations and are demonstrating resilience in the face of a significant drop in consumer confidence.

## Data Bank

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

Source: Bloomberg

**Figure 2: Share Price Performances (comparative group)**

	1 Month	3 Months	12 Months
<b>S &amp; U Plc</b>	<b>(11.8%)</b>	<b>(3.7%)</b>	<b>(13.8%)</b>
International Personal Finance Plc	(21.5%)	(42.9%)	(60.1%)
Paypoint Plc	1.8%	(5.0%)	4.6%
Morses Club Plc	(5.1%)	(21.8%)	(23.4%)
Close Brothers Group Plc	(11.1%)	(15.6%)	(17.3%)
Non-Standard Finance Plc	(0.6%)	(31.3%)	(42.1%)
OneSavings Bank Plc	(7.8%)	(21.8%)	(22.5%)
Paragon Banking Group Plc	(12.7%)	(14.8%)	(20.8%)
Provident Financial Plc	(9.0%)	(26.8%)	(44.4%)
Secure Trust Bank Plc	(10.2%)	(10.8%)	(18.3%)
Lookers Plc	(11.2%)	(54.6%)	(60.6%)
Marshalls Plc	(8.9%)	(6.5%)	43.4%
BCA Marketplace Plc	(1.7%)	22.9%	3.6%
Motorpoint Group Plc	(1.3%)	17.8%	(6.0%)
Auto Trader Group Plc	(5.9%)	(9.4%)	23.1%
<b>AVERAGE (FINANCE)</b>	<b>(8.8%)</b>	<b>(19.5%)</b>	<b>(25.8%)</b>
<b>AVERAGE (MOTOR DEALERS)</b>	<b>(5.8%)</b>	<b>(6.0%)</b>	<b>0.7%</b>
<b>AVERAGE (TOTAL)</b>	<b>(7.8%)</b>	<b>(15.0%)</b>	<b>(17.0%)</b>

Source: Bloomberg

Figure 3: Comparative Valuation Analysis (prices as @ 7<sup>th</sup> August 2019)

	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	98.1	947.0	129.0	1,294.0	35.6	333.2	392.0	371.2	1,320.0	N/A
Market Capitalisation	219.4	647.3	168.9	1,959.1	111.1	817.1	1,021.8	940.5	243.9	681.0
Enterprise Value	871.1	609.8	175.1	3,234.8	363.5	9,184.3	11,939.3	2,560.3	292.9	3,247.9
EV/Revenue	1.0	2.9	1.5	3.3	2.3	22.7	23.9	2.3	1.6	6.8
EV/EBITDA	4.5	9.6	7.1	N/A	11.7	N/A	31.3	12.2	4.0	11.5
PER	2.9	14.5	10.3	9.6	N/A	6.0	7.0	14.7	8.6	9.2
PEG	12.7	4.2	0.4	2.1	N/A	0.7	0.2	N/A	0.2	2.9
Yield	12.6%	4.9%	4.0%	4.9%	7.3%	5.7%	4.9%	N/A	6.3%	6.3%

Source: Bloomberg &amp; Capital Access Group

Figure 4: Theoretical Value

2019/20	Comparative Ratio	Implied Value	Movement against Current Price (2100p)
PER	11.5x	2,676	27%
Yield	5%	2,460	17%
PEG	1.1x	2,999	43%
<b>Average</b>		<b>2,711</b>	<b>29%</b>

Source: Capital Access Group Forecasts

Figure 5: Implied Value at Theoretical Level (2,711p)

Year to January	FY20e	FY21e	FY22e
PER	11.0x	9.5x	8.6x
Yield	4.4%	4.8%	5.3%
PEG	2.1x	0.6x	0.8x

Source: Capital Access Group Forecasts

Figure 6: S &amp; U plc Income Statement Analysis

Year to January					Growth		
	FY19a	FY20e	FY21e	FY22e	FY20e	FY21e	FY22e
<b>Revenue</b>	<b>89.2</b>	<b>95.4</b>	<b>105.8</b>	<b>118.1</b>	<b>6.9%</b>	<b>10.9%</b>	<b>11.7%</b>
Impairment (Motor)	(23.0)	(23.4)	(23.3)	(24.8)	1.7%	-0.4%	6.6%
Impairment (Aspen)	(0.2)	(0.3)	(0.4)	(0.6)			
Other Costs	(15.8)	(17.6)	(20.4)	(23.9)	11.5%	16.3%	17.3%
Total COGS	(38.9)	(41.2)	(44.1)	(49.3)	5.8%	6.9%	11.9%
Impairment/Revenue	26.0%	24.5%	22.0%	21.0%			
Gross Profit	50.3	54.2	61.7	68.8	7.7%	13.9%	11.5%
Gross Margin	56.4%	56.8%	58.3%	58.3%			
EBITDA	39.5	42.3	48.9	55.3	7.1%	15.6%	13.0%
D&A	(0.4)	(0.5)	(0.5)	(0.6)	12.1%	10.8%	9.7%
EBITDA Margin	44.3%	43.5%	43.5%	43.5%			
Administrative Expenses	(11.2)	(12.3)	(13.3)	(14.1)	10.0%	8.0%	6.0%
Operating Profit	39.1	41.9	48.4	54.7	7.1%	15.7%	13.1%
Operating Margin	43.8%	43.9%	45.8%	46.3%			
Net Finance Costs	(4.5)	(5.5)	(6.7)	(8.7)	20.4%	22.3%	30.1%
<b>PBT</b>	<b>34.6</b>	<b>36.4</b>	<b>41.7</b>	<b>46.0</b>	<b>5.3%</b>	<b>14.7%</b>	<b>10.3%</b>
ETR	19.0%	19.0%	18.0%	18.0%			
Tax Charge	(6.6)	(6.9)	(7.5)	(8.3)	5.3%	8.6%	10.3%
Attributable Earnings	28.0	29.5	34.2	37.8	5.3%	16.1%	10.3%
Average Number of Shares	12.0	12.0	12.0	12.0			
<b>EPS (p)</b>	<b>233.2</b>	<b>245.6</b>	<b>285.1</b>	<b>314.6</b>	<b>5.3%</b>	<b>16.1%</b>	<b>10.3%</b>
<b>DPS (p)</b>	<b>118.0</b>	<b>119.0</b>	<b>130.0</b>	<b>143.0</b>	<b>0.8%</b>	<b>9.2%</b>	<b>10.0%</b>
Dividend Cover	2.0	2.1	2.2	2.2			

Source: Capital Access Group

Figure 7: S &amp; U plc Condensed Cash Flow

Year to January	FY19a	FY20e	FY21e	FY22e
Balance Brought Forward	(105.0)	(108.0)	(124.6)	(145.1)
Advantage (Outflow)/Inflow	5.9	(2.1)	(1.1)	(1.8)
Aspen Outflow/inflow	(6.5)	(12.1)	(17.0)	(24.1)
Other Outflow	(2.4)	(2.4)	(2.4)	(2.4)
<b>Balance Carried Forward</b>	<b>(108.0)</b>	<b>(124.6)</b>	<b>(145.1)</b>	<b>(173.5)</b>

Source: Capital Access Group

Figure 8: Advantage Cash Flow

Year to January	FY19a	FY20e	FY21e	FY22e
Balance Brought Forward	(171.9)	(166.0)	(168.1)	(169.2)
Advances	(129.2)	(140.5)	(156.5)	(175.5)
Collections	138.1	146.5	164.0	183.2
Settlements/re-loans	27.9	30.8	34.4	38.5
Debt Recovery	15.5	12.8	14.4	16.2
Overheads/Interest	(30.4)	(33.1)	(36.8)	(41.3)
Tax Paid (corp. rate)	(5.5)	(6.9)	(7.5)	(8.3)
Dividend (to S&U plc)	(10.5)	(11.8)	(13.1)	(14.7)
<b>Balance Carried Forward</b>	<b>(166.0)</b>	<b>(168.1)</b>	<b>(169.2)</b>	<b>(171.0)</b>

Source: Capital Access Group

Figure 9: Aspen Cash Flow

Year to January	FY19a	FY20e	FY21e	FY22e
Balance Brought Forward	(11.2)	(17.7)	(29.8)	(46.9)
Advances	(23.1)	(34.9)	(51.9)	(76.9)
Collections/Retentions/Debt Recovery	18.3	25.5	38.3	57.0
Overheads/Interest	(1.7)	(2.6)	(3.0)	(3.4)
Tax Paid (corp. rate)	0.0	(0.2)	(0.4)	(0.8)
<b>Balance Carried Forward</b>	<b>(17.7)</b>	<b>(29.8)</b>	<b>(46.9)</b>	<b>(70.9)</b>

Source: Capital Access Group

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