

8 December 2016

Equity Research

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## GENERAL FINANCIAL FLASH PRIVATE AND COMMERCIAL FINANCE



BUY

(Remains Unchanged)

Target Price: 38p

Share Price: 29p

(Price at close 6 December 2016)

Stock Codes PCF.L / PCF LN

Market Cap £49m

Last Published Research: 7 December 2016

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### Absolute & Relative Performance



— Absolute

— Relative to DS Total UK Market

Source Datastream

This is a marketing communication

### Mobilising the strategy

PCF has reported a good set of FY16 figures this morning. Pro forma 12 month adjusted pre-tax profit increased 38% YoY to £4.0m (FY15: £2.9m), 5% ahead of our estimate of £3.8m. Fully diluted return on equity remained broadly stable YoY at 13% but beat our forecast of 12.6%, driven by good loan book growth, up 14% YoY to £122m. Given the strength of the results the board has reinstated a dividend of 0.1p per share. Following Tuesday's announcement of the approval of a banking licence, we believe that the group now has the capacity to accelerate its growth prospects. While the shares trade at 12.0x earnings and 2.0x reported book value, we do not believe this valuation captures the growth potential of the business.

- ▶ **Ahead of estimates and reinstatement of dividend** Pro forma adjusted pre-tax profit for the 12 months to September increased 38% YoY to £4m (FY15: £2.9m), 5% ahead of our estimate of £3.8m. Diluted EPS was 1.9p which was also 5% ahead of our expectation of 1.85p. Pre-tax return on assets increased by 15% to 3.1% (PGe 2.8%), and fully diluted return on equity remained broadly stable YoY at 13% but beat our forecast of 12.6%. Both figures are ahead of management's guidance of 2.5% and 12.5% respectively. Pending approval at the AGM on the 10<sup>th</sup> March 2017, the company plans to reinstate a progressive dividend policy, and has proposed a final dividend of 0.1p per share.
- ▶ **Impairments at record lows as loan book continues to grow** The loan book grew 14% to £122m, which is 2% ahead of our £120m estimate. Of this, £70m was in the consumer finance division and £52m in the business finance division. Despite this strong growth, impairments fell to a record low of 1.0% (FY15: 1.2%) (as a proportion of the average loan book) and the percentage of the book that was neither past due nor impaired remained flat at 96%. Unearned income, which will be realised in future years, was healthy at £28.2m (FY15: £25.7m).
- ▶ **Plenty of dry powder for continued growth** The group has £174m of committed debt facilities available, of which £83m is provided by the majority shareholder, Bermuda Commercial Bank. Net assets increased 15% to £24.7m.

*continued*

Year End Sep	Revenue £m	Adj PBT	Adj EPS p	P/E x	DPS p	Yield %
2015A	45.3	2.1	1.3	22.3	0.0	0.0
2016E	55.0	3.8	1.8	15.7	0.1	0.4
2017E	64.1	4.5	1.7	16.7	0.2	0.7
2018E	78.4	7.3	2.6	11.0	0.3	0.9

Source Company Data, Panmure Gordon

- ▶ **Bank to transform the group** Our investment case is built on the benefits and opportunities that we believe are created by adding deposit funding to a well-established lending business. The scale that can be achieved by utilising deposit funding could be transformational for the group whilst at the same time removing the company's reliance on wholesale funding. As announced on the 7<sup>th</sup> December, the company has been granted a banking licence, and aims to start taking deposits in summer 2017.
- ▶ **New Chairman appointed** Timothy Franklin, who was appointed as a non-executive director on Tuesday received a rapid promotion to chairman this morning. He has over 30 years' experience in financial services so we believe he will prove to be an important asset to the group.

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Distribution of investment ratings for equity research (as of 1 Jun 16)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			<b>Buy</b>	Total return of >10% in next 12 months
<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Hold</b>	Total return >-10% and <+10% in next 12 months
74% (45%)	20% (3%)	6% (0%)	<b>Sell</b>	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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