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Equity Research

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GENERAL FINANCIAL FLASH PRIVATE AND COMMERCIAL FINANCE

1H17 Results – PCF bank launch in sight

1H17 results to March demonstrate that the bank mobilisation is well underway and on target to launch PCF bank this summer. 1H17 underlying PBT is 16% YoY higher at £2.3m as lower revenue growth of 6% YoY to £5.1m was more than offset by a 46% reduction of loan loss provisioning charge to 0.5%. Loans increased by 14% YoY to £128m but NIM fell by 60bp YoY to 8.2% due to a focus towards prime lending. Reported RoE (including banking costs) was 10.5% with equity increasing by 11% HoH. Overall, these are a good set of results with good cost control and impairments likely to more than offset slightly lower loan and revenue growth as management focus on maintaining their credit underwriting discipline. We maintain our TP of 38p, implying a 2017E P/B of 2.1 which we think is fair for a bank in its infancy and in the medium term targeting RoE of 17.5% and loan growth of 35% CAGR.

► **Good Profitability** – PCF reported good 1H17 RoA of 2.8% ahead of its medium term target of 2.5% and RoE of 10.5% (including banking costs of £0.6m) driven by loan loss charges falling to 0.5% (compared to management guidance of 1.0%) and more than offsetting NIM compression due to lower yielding but better quality lending. Underlying cost growth of 9.7% was also well controlled and slightly better than our expectations. Nonetheless, NIM of 8.2% was ahead of mid-term guidance of 8.0%. Banking costs of £0.6m compare to our FY2017 costs of £1.5m with management now expecting the ongoing additional cost of running the bank to be £1.9m per annum, up from £1.8m previous guidance.

► **Balance sheet progress** – New business volumes were up 13% YoY to £35m with net loan growth of 14% to £128m. While this is below our run rate growth forecast for FY2017 of 25%, given the competition in the market we believe that management has rightly chosen to chase volumes until their cost of funding falls from deposit gathering later this year. The portfolio continues to perform well with 96% of the portfolio reported as neither past due nor impaired. The group continues to target a portfolio of £350m within three years and £750m within five years. Book value per share increased by 10% HoH to 16.0p and does not include the £10m of equity raising in April.

continued



BUY

(Remains Unchanged)

Target Price: 38p

Share Price: 23p

(Price at close 5 June 2017)

Stock Codes PCF.L / PCF LN

Market Cap £48m

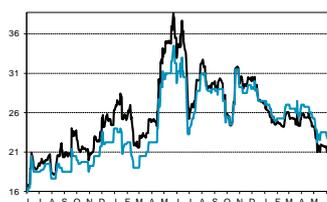
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Absolute & Relative Performance



— Absolute

— Relative to DS Total UK Market

Source Datastream

This is a marketing communication

Year End Sep	Revenue £m	Adj PBT	Adj EPS p	P/E x	DPS p	Yield %
2016A	55.8	4.1	1.9	12.1	0.1	0.4
2017E	64.3	4.3	1.8	12.8	0.3	1.3
2018E	83.7	5.1	1.9	12.0	0.4	1.8
2019E	103.5	8.0	3.0	7.6	0.5	2.2

Source Company Data, Panmure Gordon

- ▶ **Launching PCF bank** – The group is confident of successfully executing mobilisation within the 12 months set by the PRA and FCA, and are on track to raise retail deposits in the summer and now have the platform in place to commence retail banking operations, reduce our cost of funds and significantly grow the business.
- ▶ **Current trading and outlook** - New business levels have remained buoyant with the group achieving a record month for new business originations in May 2017. There are competitive pressures in both their markets and while economic uncertainty exists over the General Election, falling real incomes and the Brexit negotiations. The group believes that with a small market share, a focus on delivering excellent customer service and the upcoming ability to fund through retail deposits, the outlook for growth in both its markets is favourable.
- ▶ **Valuation** – Our TP of 38p is based on a 10% sector premium given the outstanding growth prospects in prime lending following the obtaining of a banking licence, coupled with the low risk secured lending proposition with a 23 year track record.

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Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
75% (45%)	16% (0%)	9% (0%)	Sell	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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