

PCF GROUP PLC (LON:PCF)

Final Results 2017: Strong Underlying Business Performance

ANNOUNCEMENT AND SUMMARY RESULT HEADLINE

PCF Group Plc (LON:PCF) announced full year results to the end of September 2017, on the 5th December. The newly established specialist bank, which only received UK regulatory approval to accept retail deposits in July, has delivered a strong set of results, exceeding market expectations and beating our forecast for portfolio asset growth by £1m. The recent strategy to diversify funding away from wholesale bank funding has paid dividends with a stunning £53m raised in retail deposits in a little over 2 months.

The business performance was all the more impressive given the operational and market headwinds that developed during the financial year, from structural pressures in Consumer Finance markets where PCF new business advances fell 3%, to Group NIM (net interest margin) pressure affected by a squeeze in market finance rates, and the increase in planned expenditure on banking project costs (£1.4m). Reported statutory PBT (profit before tax) as a result was £3.6m, and PAT (profit after tax) was £2.8m, both flat yoy.

GROUP OUTLOOK AND GUIDANCE

As to outlook, PCF Group Plc (LON:PCF) are guiding that the successes achieved to date support the bank and its momentum going into the 2018 calendar year albeit cautious of the benign credit environment and loan default performance. The Group has been built on 'sound financial and operational foundations' and remains confident that 'prudent practices' will stand the Group in good stead for the future. Company management maintain the outlook for portfolio assets at £350m by 2020 and £750m by 2022 generating a ROE (return on equity) of 12.5% within 3 years and 17.5% within 5 years.

FORECASTS AND ASSUMPTIONS

Following these results we have maintained our EPS target for 2020 at 3.84p based on a NIM (net interest margin) of 8.0% and shares in issue of 212.220m which we consider inexpensive especially given the portfolio asset growth of 20% in the financial year.

FINANCIAL SERVICES

11/12/2017

SHARE PRICE	52 WEEK LOW
▲ 28.00p	▲ 22.25p
MARKET CAP	52 WEEK HIGH
▲ £59.42m	▲ 30.50p
NAV	CET1
▲ £38.7m	▲ 26.3%

MAJOR SHAREHOLDERS

- 1) Bermuda Commercial Bank – 54.47%
- 2) Somers Limited – 10.93%
- 3) Miton Asset Management – 4.20 %

Shares in Issue	212.22m
Avg Volume	97,768
Primary index	AIM
EPIC	LON:PCF
Next Key Announcement	June 2018
Sector	Financial Services

SHARE PRICE CHART



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We forecast that the bank will need just over £52m in tangible equity in 2020 to support RWA close to the net loan balance figure forecasted for that year of £350m. The total CET1 (Core Equity Tier 1) ratio would equate to 15.0% exceeding the capital requirement. This is open to revision once we have greater clarity on bank specific Pillar 2a and buffers. Our forecast for ROE in 2020 is similar to previous company guidance of 13%. Greater portfolio growth than that already forecast by the Group will require further future equity injection, in our opinion.

IMPROVED UNDERLYING PROFIT PERFORMANCE

The underlying profit performance was much more positive than the statutory result, underlying profit before banking project expenditure and tax grew 25% to £5m and portfolio assets grew 20% to £146m. We consider these measures to be better indicators of the group's actual demonstrable performance achieved during the year. Furthermore, the Company is confident that the interim negative impacts to the statutory financial results are short term once the expenditure on the operational platform is increasingly leveraged over the next 2 years.

BUSINESS PERFORMANCES

Turning to individual divisional performances, in Consumer Finance (CFD) the market has endured competitive pricing pressure during the year forcing PCF to consider margins and selectively withdraw capacity. PCF does not offer PCP contract motor financing, a potential source of considerable industry risk, but is responsible for financing c.80% of new car sales in the UK. The move to lower the cost of Group funding and targeted changes to future divisional sales mix, most notably a higher percentage of prime market sales, has allowed PCF to forecast a return to growth in CFD in 2018. In the meantime, the portfolio remains a considerable source of value and grew £2m to £72m during the year. The new prime terms of business in CFD will be launched in Q1, 2018.

In Business Finance (BFD), PCF achieved considerable sales successes with new business volumes climbing 45% to £49m and portfolio assets growing 41% to £73m. PCF was able to launch its new prime terms of business before the end of the financial year. Average customer deal sizes extended to the mainly SME hire purchases and leasing market also grew to £32,800 from £26,250 in 2016. BFD has staged a considerable comeback in recent years recovering as a percentage of Group portfolio assets, from under 40% in 2012 to parity in 2017 as a result of both the asset diversification strategy and recovering market conditions.

PORTFOLIO QUALITY

Portfolio quality, in particular credit quality, in 2017 was also an area of performance for PCF with a further fall in the impairment rate to 0.5% from 1.0% in 2016. Performing loans continue to be very consistent at >90% of the gross loan book. Non-performing loans persist in reducing as a percentage of the total book, falling in 2017 to 5.0%. The loan loss provision as a result remains steady at c.£4m, with in-year utilisations covered by the lower impairment charged for the year of £679k. The closing provision covers 43.6% of the non-performing loan balance and the loan loss provision as a percentage of the gross loan book is 2.2%.

GROWTH DRIVERS

Turning to the drivers of growth, the Group is keen to point out considerable continuing temporal and financial investment into infrastructure and IT as support and sales channels broaden to include direct customers sales other than the current third-party broker relationships. These efforts underpin the future sales capabilities of the Group as it seeks out new strategic initiatives to broaden lending to prime customers in existing markets and to look at new parallel markets which offer similar risk return characteristics to existing consumer and SME business finance customers. Whilst still no greater than 0.5% of each of these respective markets, PCF are looking to unlock the value in the new banking model and accelerate growth where feasible to do so and are therefore exploring these market opportunities.

GROUP FUNDING AND UK MONETARY POLICY

Turning lastly to funding and the macro environment, PCF are currently only operating with new funding drawn from consumer retail deposits which have proved popular with savers who lent £53m at a blended rate of just over 2.0%. In the near future the Group are planning to extend deposit taking to business banking customers where economic to do so. In the meantime, retail deposits will continue to both pay down wholesale market debt and support new business lending. The Bank of England's recent increase in base rates has had no impact on the existing portfolio, but future terms will reflect the higher market rates for new business.

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