

PCF GROUP PLC (LON:PCF)

Forecast Update

SCOPE OF CHANGES

Following the release of the 2017 full year results for the financial year to end September 2017 on the 5th December 2017, and ahead of the release of the 2017 annual report due on the 6th February 2018, we have updated our forecasts for profit and earnings for the period 2018e to 2020e.

PCF GROUP MANAGEMENT GUIDANCE

PCF GROUP PLC (LON:PCF) gave market guidance that they expect to grow portfolio assets to £350m by financial year 2020 and to £750m by 2022. In addition, the group expects to deliver an ROE of 12.5% within 3 years (2017, 8.7% reported after costs) and an ROE of 17.5% in 5 years. Guidance for NIM (net interest margin) on portfolio assets is a target of 7 – 8% (2017, 8.3% reported). Previous guidance for ROAA (return on average assets) released with the 2017 interim results was for a 3 year medium term target of 2.5%.

CAPITAL NETWORK BUSINESS ASSUMPTIONS

We are confident of the Group's aspiration for portfolio asset growth to £350m by 2020 and to £750m by 2022. Whilst relying to some extent on the UK macroeconomic and monetary environment between now and 2020/2022 and the asymmetric impact that could have on consumer and business finance markets, we see no particular reason why PCF specifically should be more exposed to any turndown compared to other firms. On the contrary, the strategic move towards greater prime market exposure should lessen any market impact in our view as the Group seeks greater prime market, and thus lower credit risk, share.

In our view, the strategic initiative to directly raise competitively priced funding from the retail, and potentially commercial, deposit markets enabling greater prime market exposure is a structural shift in capability which lowers credit risk and reduces more cyclical performances from lower credit grade lending. Prime credit performance should deliver more consistent and lower credit risk compared to lower credit grades, and, furthermore, the term retail deposit funding should lower the funding liquidity risk compared to the dependence on wholesale markets.

CAPITAL NETWORK FINANCIAL ASSUMPTIONS

We see average portfolio assets rising to £315m in 2020e, in line with the end of year Group management forecast of £350m. Our estimates for NIM (based on average assets) in years 2018e – 2020e ranges between 8.1% and 8.3% driven by the considerable success in raising retail deposits. Annualised banking costs of £2m are fully expensed in each year, and we see further increases in administrative and group costs as regulatory, scale, organisation, and management of the Group increases with business success. Impairment losses on average portfolio assets rise back to c.1% of the net balance which allows for some increase in portfolio stress to be absorbed from the current low rate of 0.5%.

FINANCIAL SERVICES

29/01/2017

SHARE PRICE	52 WEEK LOW
▲ 26.20p	▲ 22.25p
MARKET CAP	52 WEEK HIGH
▲ £55.6m	▲ 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
66,979	97,768
Primary index	AIM
EPIC	LON:PCF
Next Key Announcement	-
Sector	Financial Services

SHARE PRICE CHART



Important: All disclaimer information can be found on the last page of this document. Please note that this publication has been commissioned by the company to which this publication relates and therefore it cannot be considered independent.

Company Information

UK Address – Pinnars Hall, 105-108 Old Broad Street, London, EC2N 1ER
www.pcf.bank

Analyst Details

James Dolman, CFA
james.dolman@capitalnetwork.com
+44(0)20 7264 3921

SUMMARY PROFITS, EARNINGS AND DIVIDENDS

According to our estimates, PCF Group pre-tax profits will rise in each year to c.£10m by 2020 (2017 comparable basis, £3.6m) with EPS rising by roughly 1p per year to 3.84p. We were surprised with the level of dividend increase in 2017 of 90% to 1.9p per share. Our original estimate was driven by our appreciation of PCF as a growth business, one typified by a low dividend as the company retained earnings within the business to support growth. However, management have made it clear that they intend to adhere to the discipline of paying a dividend and sought to provide a more meaningful pay out and ratio in 2017. Our new estimates see DPS rise by a notional 10% pa from this new base, reflecting a more ordinary increase in subsequent years.

This decision to pay a more substantial dividend pay-out in 2017 does not exclude the potential longer term need for further capital, in our view. PCF may return to the market once initial growth to 2020 has been delivered and capital requirements fully understood in the context of the future business plans and potential portfolio asset acquisitions.

PCF Group Plc: Profit, Earnings, and Dividend Forecasts.

Report Date	Mar	Sept	Sept	Mar	Sept	Sept	Sept	Sept
Months Reported	6	18	12	6	12	12	12	12
Financial Period	1H16	2016	2016	1H17	2017	2018e	2019e	2020e
Profit before taxation, £'000	1767	5127	3602	1716	3633	4826	7466	10182
Annualised Pbt margin (%)	2.14%	2.80%	2.95%	2.68%	2.49%	2.41%	2.67%	2.91%
Profit after tax, £'000	1414	4021	2801	1369	2786	3861	5973	8146
Eps - Basic	0.92	3.24	1.79	0.80	1.46	1.82	2.81	3.84
Eps - Diluted	0.88	2.62	1.74	0.80	1.46			
Eps - Adjusted	1.02	3.56	2.01	1.06	2.01			
DPS		0.1	0.1		0.19	0.23	0.25	0.28
Payout ratio		3.8%	5.7%		13.0%	12.6%	9.0%	7.2%
Average assets	110341	114733	110894	125659	133839	172500	240000	315000

Source: PCF reports, CN estimates

VALUATION

Looking to our estimates for 2018e and based on a 27p share price, we see PCF currently trading on a P/E ratio of 14.8x after tax EPS, and a DPS yield of <1%. Turning to 2020e we see the current P/E ratio fall to 7.0x after EPS and the DPS yield rise to c.1.0%.

KEY RISKS

The key risks, in our view, are as follows:

- . Credit risk in the existing book and in new business.
- . Macroeconomic risks to either aggregate demand and/or monetary policy in the UK.
- . Competitive pressures from other market firms.

Important – Please read this information: This report has been commissioned by PCF Group Plc and prepared and issued by Capital Network for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however, we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Capital Network at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. Capital Network does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Capital Network's solicitation to effect, or attempt to effect, any transaction in a security. This document is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Capital Network has a restrictive policy relating to personal dealing. Capital Network does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Capital Network may have a position in any or related securities mentioned in this report. Capital Network or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Capital Network within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Capital Network, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.