

Buy

10 August 2022

DATA

Price (close 8/8)	2,100p
Target price	3,314p
Market cap	£255m
EV	£392m
Net debt (FY1)	£137m
Index	FTSE SmallCap
Sector	Banks

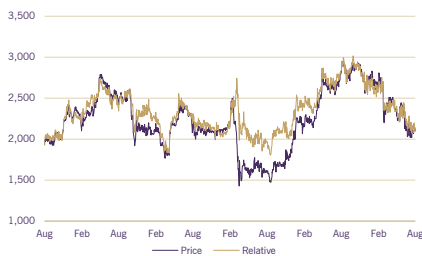
STATS

Source: Company accounts, Peel Hunt estimates

Y/E Jan	2022A	2023E	2024E	2025E
Sales (£m)	87.9	98.5	110.3	121.5
EBITDA (£m)	51.3	46.5	54.0	60.4
Op Margin (%)	58.4	47.2	48.9	49.7
Adj PBT (£m)	47.0	41.0	47.3	52.5
Adj EPS (p)	312.8	272.4	293.1	319.5
EPS growth (%)	159.1	(12.9)	7.6	9.0
PER (x)	6.7	7.7	7.2	6.6
DPS (p)	126.0	135.8	146.0	160.2
Div yield (%)	6.0	6.5	7.0	7.6
FCF yield (%)	15.0	13.2	14.2	15.6
EV/EBITDA (x)	7.2	8.5	7.8	7.3
ROIC (%)	0.0	0.0	0.0	0.0

PERFORMANCE

Source: Bloomberg



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#Corporate client of Peel Hunt

S&U#
SUS**1H23 trading update: receivables growth above expectations**

For the 6M to July 2022 (1H23) S&U has reported strong receivables growth of 14.6%. Economic deterioration may exert future pressure on operating expenses, impairment and finance costs but the top line performance is tracking ahead of our estimates and the good momentum highlights the attractive valuation of the shares, We retain our Buy recommendation.

Strong receivables growth. At July 2022 net receivables of £370m were up 14.6% in 1H23 and were 8.8% higher than in late May. S&U has already achieved our FY23 receivables forecast of £370m and with demand dynamics remaining positive, we will need to raise our projections for balance sheet growth.

Exceptional growth in Aspen. Bridging Finance balances grew c.41% in 1H23 to £90m boosted by larger loan sizes and the expansion of the franchise. We expect growth to slow due to macro factors including higher interest rates, but receivables are already larger than our current estimate for FY25. Impairments remain at a low level, reinforced by a focus on higher quality borrowers.

Advantage (Motor Finance) performance has been robust. Receivables growth of c.8% in 1H23 to £280m suggests upside potential to our FY23 estimate of £297m, as the used car market remains healthy and the business is benefiting from a diverse range of management initiatives. Credit quality remains high, bolstered by robust used car prices and a strong collections performance.

Our income estimates are too low. Although revenue yields are likely to be modestly lower due principally to an increasing focus on higher quality business, receivables growth is running comfortably ahead of our forecast. We see scope for pricing to increase in 2H23 in both businesses to reflect rising interest rates and also to compensate for changes in the macro outlook.

Operating expenses, impairment and cost of funds likely to rise. Like most UK companies, S&U is exposed to UK inflationary pressures which have risen significantly since we last prepared estimates, and in Advantage payments are being made to lower income employees. Current benign credit conditions are likely in our view to become more challenging due to economic factors in 2H23 whilst finance costs will increase following rises in UK interest rates.

Profit estimates unlikely to change materially. Based on the above we think that our current income estimates are too low but in terms of PBT this might be broadly offset by higher operating costs, finance costs and impairments in future periods. We will refresh our forecasts shortly but note that group profitability in 1H23 is above that of 1H22.

Valuation. S&U is trading at a PER for the current year of <8x with a dividend yield of c.6.5%. We regard this as too low in view of the strong growth momentum in the business and reiterate our Buy recommendation and TP of 3,314p.

Recommendation structure and distribution

	Recommendation distribution at 9 August 2022				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	129	93	269	69	95	70
Add	1	1	44	11	1	11
Hold	7	5	62	16	3	15
Reduce	0	0	8	2	0	2
Sell	0	0	3	1	0	1
Under Review	1	1	4	1	1	1

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Buy, > +15% expected absolute price performance over 12 months

Add, +5-15% range expected absolute price performance over 12 months

Hold, +/-5% range expected absolute price performance over 12 months

Reduce, -5-15% range expected absolute price performance over 12 months

Sell, > -15% expected absolute price performance over 12 months

Under Review (UR), Recommendation, Target Price and/or Forecasts suspended pending market events/regulation

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

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Recommendation history

Company	Disclosures	Date	Rec	Price	Target Price
S&U	1,4,5,6	01 Apr 22	Buy	2,430p	3,314p
		14 Feb 22	Buy	2,800p	3,241p
		01 Oct 21	Buy	2,870p	3,025p
		11 Aug 21	Buy	2,930p	3,000p
		20 May 21	Buy	2,690p	2,669p

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