PEEL HUNT

MARKETING COMMUNICATION

Buy

29 March 2022

S&U#

SUS

DATA

Price (close 25/3)	2,400p
Target price	3,241p
Market cap	£291m
EV	£404m
Net debt (FY1)	£113m
Index	FTSE SmallCap
Sector	Banks

STATS

Source: Company accounts, Peel Hunt estimates

Y/E Jan	2021A	2022E	2023E	2024E
Sales (£m)	83.8	87.3	97.6	109.9
EBITDA (£m)	22.2	49.7	44.4	52.2
Op Margin (%)	26.5	56.9	45.5	47.5
Adj PBT (£m)	18.1	45.6	39.5	46.2
Adj EPS (p)	120.7	303.0	260.9	285.0
EPS growth (%)	(49.6)	151.0	(13.9)	9.2
PER (x)	19.9	7.9	9.2	8.4
DPS (p)	90.0	120.0	130.0	142.0
Div yield (%)	3.8	5.0	5.4	5.9
FCF yield (%)	5.2	12.8	11.1	12.2
EV/EBITDA (x)	17.6	8.2	9.6	8.6
ROIC (%)	0.0	0.0	0.0	0.0

PERFORMANCE

Source: Bloomberg

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#Corporate client of Peel Hunt

Record profits, recovering momentum

Lending growth is now back close to pre-Covid levels in motor finance and remains strong in bridging finance. Low impairment charges boosted the record PBT in the year to January 2022 and credit quality remains good, provisioning is conservative and the outlook positive. We keep our Buy recommendation.

PBT for the year to January 2022 (FY22) was a record £47.0m (FY21: £18.1m), 3% ahead of our estimate. Customer receivables grew 28% to £141.3m, income increased 5% to £87.8m and impairment charges fell 89% to £4.1m.

Advantage (motor finance) PBT rose by a factor of 2.5x to £47m. Motor finance receivables increased 5% in FY22, heavily skewed towards 2H22, in part held back by strong collections performance. Sales volumes have now returned to close to pre-Covid levels in the 2022 calendar YTD, and refinements to credit scorecards are allowing Advantage to lend to a wider range of customers.

Aspen (bridging finance) PBT rose 4.2x to £3.4m. Net receivables rose 87% yet management remains confident of further strong growth in FY23 as it scales up to deliver its PBT target of >£5m which we expect will be delivered in FY24.

Low cost of risk, high balance sheet provisions. Group impairment charges in FY22 were 4.6% of revenue in FY22 or 1.0% of average gross receivables. Advantage's balance sheet provisions remained at £91.5m (FY21: £92.6m), so the business is still prudently provided against any economic deterioration (provisions include a more conservative assumption for inflation in the coming year). We currently model a normalisation of the impairment charge for S&U as for all UK lenders in FY23 and conservatively assume it returns to a high teens % of revenues on a group basis in the current year, close to pre-Covid levels. This is likely to result in a reduction in PBT for FY23 from the high FY22 level before income and earnings growth re-align more closely in periods thereafter.

Total DPS for FY22 increased 40% to 126.0p. The dividend has now been restored to above the pre-Covid FY20 level of 120p and represents a payout ratio of 40%. Removing the effect of swings in the impairment charge between FY21 and FY22 by averaging both the EPS and DPS for the two years provides a more meaningful underlying payout ratio of 50% (consistent with pre-Covid levels) and we expect that this underlying c.50% payout ratio will be continued into future years. Based on our estimates this should allow for a further rise in DPS to 130p for FY23 despite a lower expected EPS.

Valuation and estimates. Our estimates are unlikely to move significantly, although there is some upward pressure from higher than expected loan growth in FY22. We view double-digit loan growth as achievable for FY23 and later years and expect EPS growth will follow this trajectory post FY23 once impairment-distortions have worked through. The yield of >5% is attractive, momentum is strengthening and we see significant share price upside to our TP of 3,241p.

Recommendation structure and distribution

	Recommendation distribution at 28 March 2022				All research published in the last 90 days	
	Corporate No	Corporate %	No	%	Corporate %	%
Buy	135	94	285	69	95	69
Add	1	1	51	12	1	12
Hold	4	3	65	16	3	16
Reduce	0	0	3	1	0	1
Sell	0	0	3	1	0	1
Under Review	3	2	5	1	2	1

Peel Hunt's Recommendation Structure is as follows:

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	14 Feb 22	Buy	2,800p	3,241p
		01 Oct 21	Buy	2,870p	3,025p
		11 Aug 21	Buy	2,930p	3,000p
		09 Apr 21	Buy	2,310p	2,669p
		11 Feb 21	Add	2,200p	2,121p

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