COMPANY REPORT

30 March 2023

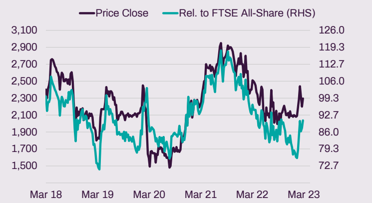
MARKETING COMMUNICATION | PH

Company Update

DATA	SUS LN
RIC	SUS.L
Price (27/3/2023)	2,400p
Up/Downside	31.3%
Market cap	£292m
3m ADV	£0.129m
Index	FTSE All-Share
Next news	1Q trading update
Date	25 May 2023

Source: Peel Hunt, Refinitiv

SHARE PRICE PERFORMANCE



Source: Refinitiv

FORECAST CHANGES

Y/E Jan FY1	Old	New
PBT - adj (£m)	42.9	42.3
EPS - adj basic (p)	265.7	262.8
Total DPS (p)	136.0	136.0

Source: Peel Hunt estimates

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#Corporate client of Peel Hunt

S&U#

BUY

FINANCIAL SERVICES

TP: 3,150p (was 3,114p)

FY23: re-scaling the business, more to come

- For the year to January 2023 (FY23), group net receivables increased 30%, with strong growth evident in both divisions.
- FY23 PBT of £41m (Fy22: £47m) was in line with our estimates, and the outlook is essentially unchanged. Current trading is strong.
- UK economic prospects are uncertain, but S&U's momentum remains robust, allowing it to drive further significant growth as conditions allow.

FY23 demonstrated the potential for S&U's business to grow. Growth is likely to slow short term given macro uncertainties, but income and asset trends should remain positive. Our TP rises 1% to 3,150p. Buy.

High-quality growth. In FY23 S&U focused on lending to higher-quality borrowers (in both Advantage motor finance and Aspen bridging finance), in a shifting economic environment impacted by war, rising interest rates, inflationary pressures and the de-stabilising effects of the mini-budget. S&U steered a steady growth course despite the external challenges, with momentum remaining positive into the current year.

Returns remain high, despite increasing finance and tax costs. S&U has absorbed significant increases in its borrowing rates and faces a hike in its effective tax rate as UK corporation tax rises from April 2023. We nonetheless expect the ROE to remain at around the mid-teens level into the medium term, reflecting the active management of pricing and credit quality inputs.

Earnings are little changed. Our EPS estimates on an adjusted, diluted basis decline -1%/-3% for FY24/25E and fall from the FY23 level, due to higher funding costs and effective tax rate assumptions. We forecast operating profits (pre financing costs) will increase c.17% in FY24E and a further 12% in FY25E, which provides a better guide for underlying performance.

Valuation. We have refreshed our TP, which rises 1% to 3,150p, reflecting minor earnings changes and rolling forward our DCF model. Valuation multiples are supportive of our Buy recommendation: the single-digit PE in our view does not reflect the growth potential and conservative risk provisioning, the yield of 5.7% (growing thereafter) is 2x covered by earnings, and the mid-teens ROE would suggest a P/NAV ratio above the 1.3x at which the shares currently trade.

VALUATION & PERFORMANCE

	Jan 24E	Jan 25E	Jan 26E
PE (x)	9.1	8.2	7.7
EPS growth	*(5.3%)*	*10.8%*	*6.6%*
Div yield	*5.7%*	*6.3%*	*6.5%*

SUMMARY FINANCIALS

£	Jan 22	Jan 23	Jan 24E	Jan 25E	Jan 26E
Total income (m)	88	103	121	132	143
PBT - adj (m)	47.0	41.4	42.3	47.7	51.1
EPS adj fully diluted (p)	312.7	277.5	262.8	291.1	310.4
Total DPS (p)	126.0	133.0	136.0	150.0	155.8

Source: Company accounts, Peel Hunt estimates, Refinitiv

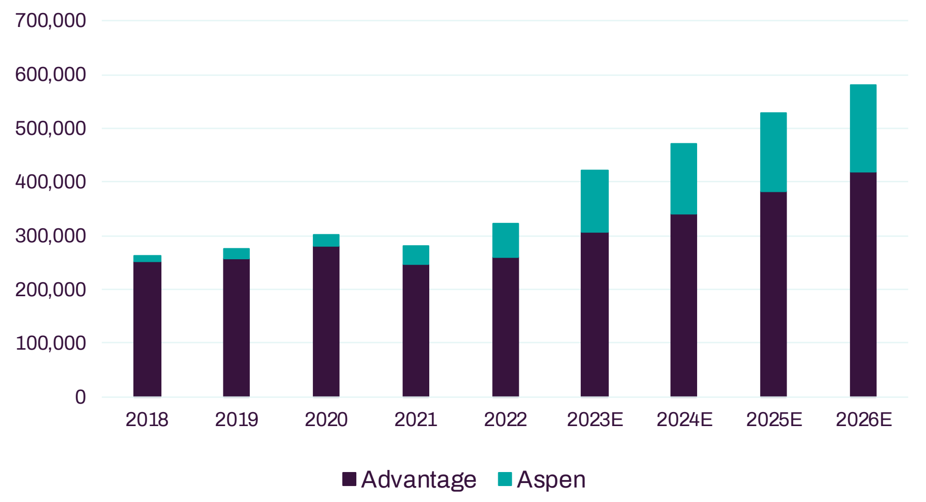
Growing in spite of the environment

S&U reported strong results for the year to the end of January 2023 (FY23), in spite of an increasingly difficult operating environment. We discuss the principal themes of receivables growth, impairment and funding costs below.

Receivables growth: re-scaling the balance sheet

Group net receivables increased 30% to £421m in FY23. In our view this demonstrates the growth potential of S&U's two lending businesses and its ability to lean into attractive market circumstances to accelerate the expansion of its franchise.

FIGURE 1: Net receivables (£'000)



Source: Company accounts, Peel Hunt estimates

The 30% increase represents a transformational re-scaling of the business:

- In Advantage motor finance, net receivables grew 18.5% to £307m. Strong demand was manifested by the record number of new transactions (nearly 24k, up 21% from FY22), in combination with a 9.3% increase in the average loan size to £7.8k. These dynamics were supported by a multitude of management initiatives, including expansion into near-prime markets, as reflected in the increased focus on higher-quality business, with lower yield and impairment characteristics. Used car values have remained at historically high levels, in spite of cost-of-living pressures, and as yet there are no signs of price weakness, suggesting ongoing strong demand.

  We expect net receivables growth will slow in FY24 due to macro factors and management conservatism, although we note that momentum entering FY24 was positive.

- Aspen net receivables increased 78% to £114m. Transaction numbers grew 33% to 148 (excluding CBILS business, included in the comparative period) and the average loan size increased 46% to £905k. Although the revenue yield declined to 0.90% (FY22: 0.95%), it is likely to tick up in coming periods following increases to UK interest rates, and the cost of sales as a percentage of the gross advance reduced 10bps to 1.5%.

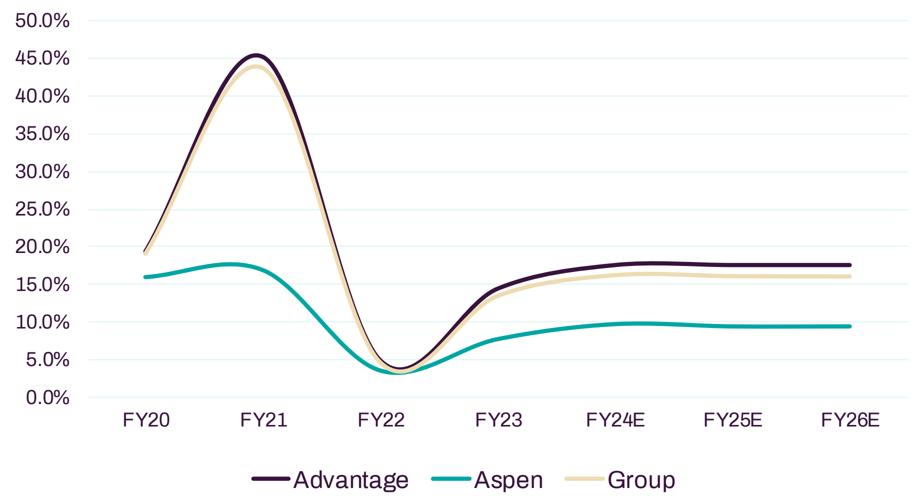
  Mathematically, Aspen's growth rate in FY23 is unlikely to be repeated, but the business remains highly scalable from its current size, and management remains confident of its longer-term prospects.

The re-basing of the receivables portfolio provides a natural tailwind for income in FY24.

Impairment: S&U remains conservatively provisioned

As previously guided, group impairment charges normalised in FY23 to 13.5% of revenues, up from the low FY22 level of 4.7% (which benefited from write-backs of provisions raised in FY21 as a response to Covid). We think that a return to the pre-Covid levels of c.20% is unlikely, both due to shifts in new business mix towards higher-quality borrowers, and the increasing proportion of group receivables contributed by Aspen, which has structurally lower loan loss characteristics (and revenue yields) than Advantage.

FIGURE 2: Impairment as a % of revenues



Source: Company accounts, Peel Hunt estimates

S&U remains conservatively provisioned. At Advantage, end-FY23 provisions were 23.9% of gross balances, down from 26.1% at January 2022, but still significantly above the pre-Covid levels of 18.4% at January 2020. Whilst Covid-related provisions have proved not needed and are now being released, we also note that the quality of the book has generally improved since early 2020, and yet it is more conservatively reserved.

In terms of the credit outlook, collections – which reached 93.6% in FY23 – remain above expectations. A higher proportion of provisions relate to Stage 1 loans (and therefore appear precautionary), and used car values remain supportive: at the yearend there was a used vehicle price overlay of £6.7m, predicated on a 13.5% price fall from current levels; if prices fall by just 8.5%, the provisions would reduce to £3.8m.

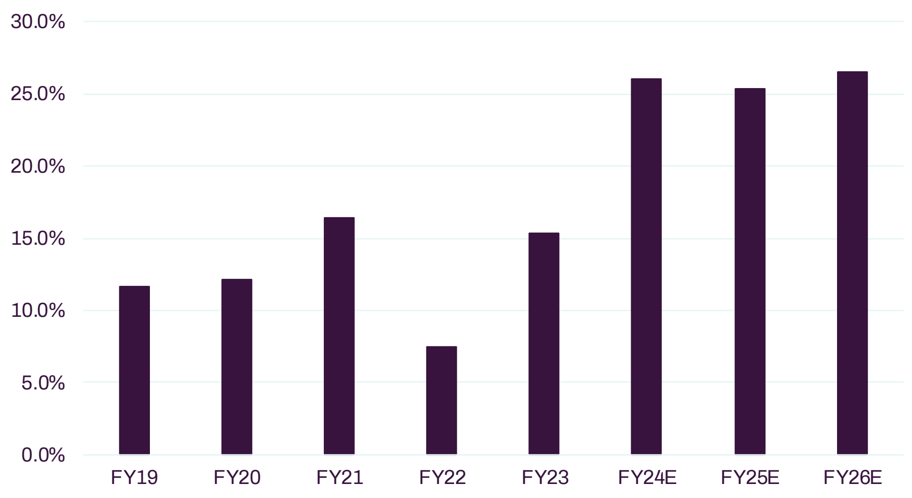
We model a further increase in impairment in FY24 based on macro concerns, and currently view this as a conservative assumption given the supporting factors listed above.

Funding costs and tax rates: external headwinds

For FY24 (see below) we project a modest decline in EPS due to two main factors:

- Higher finance costs, as S&U's borrowings have increased in size due to growth in the receivables book, and related servicing costs have risen due to higher UK interest rates (S&U's borrowings are variable rate in nature). We estimate that finance costs, which roughly doubled in FY23 to £7.5m, will double again in FY24 to c.£14.9m. This has placed a significant burden on profit generation, as we illustrate in Figure 3 below, which compares finance costs to profits pre finance costs.

FIGURE 3: Finance costs as a % of profit pre finance costs



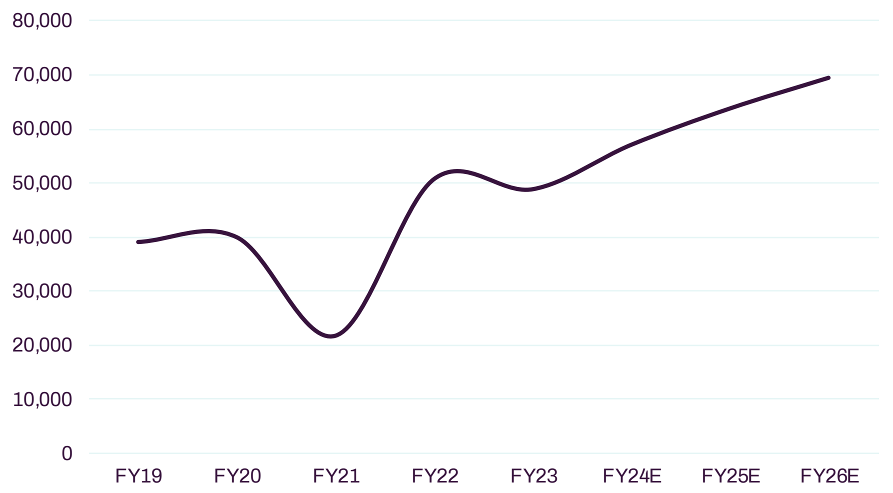
Source: Company accounts, Peel Hunt estimates

Recently expectations for movements in UK base rates have moderated, as inflation appears to be peaking and regulators are concerned to calm fears surrounding banks following the failures of Silicon Valley Bank and Credit Suisse.

- We forecast the effective rate of tax will rise from 18.6% in FY23 to c.24% in FY24E and then to c.25% for years thereafter.

These factors should wash through over time. We believe underlying progress is better illustrated by operating profits (pre finance costs).

FIGURE 4: Operating profits (£'000)



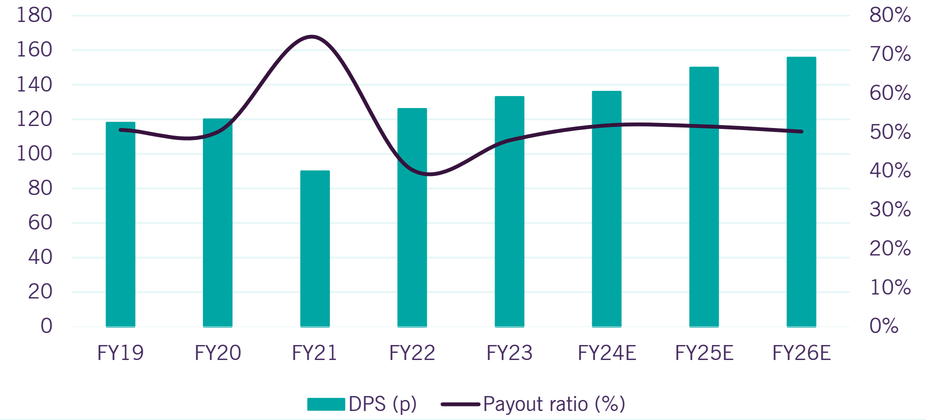
Source: Company accounts, Peel Hunt estimates

Excluding distortions caused by the successive charging then release of provisions relating to Covid in FY21 and FY22, operating profits have progressed steadily upwards over time, a trend we expect to continue.

Dividends: scope to grow again in FY24

S&U declared a final dividend of 60.0p (FY22: 57.0p) making 133.0p for FY23 (FY22: 126.0p). This represented a payout ratio of 48%, in line with the c.2x cover ratio that has prevailed over time.

FIGURE 5: DPS (p) and dividend payout ratio (%)



Source: Company accounts, Peel Hunt estimates

We continue to forecast a FY24E DPS of 136.0p, in spite of lower expected EPS, as we consider there is scope for the pay-out ratio to rise modestly above the 50% level. We believe that a progressively rising dividend provides a better reflection of the positive momentum in the business, and once the effects of higher interest and tax rates have become embedded in comparatives, earnings should resume an upward path, in closer alignment with future receivables growth.

Estimate changes

We are adjusting estimates slightly as follows.

FIGURE 6: Estimate changes

	2024E	2024E		2025E	2025E		2026E
	Old	New	%	Old	New	%	New
Revenue (£m)	119.9	120.9	1%	132.0	132.4	0%	143.1
Profit before tax (£m)	42.9	42.3	-1%	49.2	47.7	-3%	51.1
EPS, diluted (p)	265.6	262.8	-1%	298.8	291.1	-3%	310.4
DPS (p)	136.0	136.0	0%	150.0	150.0	0%	155.8
Receivables, net (£'000)	475,584	471,251	-1%	533,820	528,951	-1%	581,846
Impairment charge as % of revenue	16.3%	16.3%	n/a	16.1%	16.1%	n/a	16.1%

Source: Company accounts, Peel Hunt estimates

Our TP, based on a DCF model, rises 1%, principally reflecting our revised financial projections as summarised above, and the roll forward of our DCF.

Our Buy recommendation is unchanged and supported by valuation multiples:

FIGURE 7: Valuation multiples

	PER	Dividend yield	P/NAV	EPS growth	Pay out ratio	ROE
	x	%	x	%	%	%
FY22	7.7	5.3%	1.4	159%	40%	19.6%
FY23	8.6	5.5%	1.3	-11%	48%	15.6%
FY24E	9.1	5.7%	1.2	-5%	52%	13.8%
FY25E	8.2	6.3%	1.1	11%	52%	14.3%
FY26E	7.7	6.5%	1.0	7%	50%	14.2%

Source: Company accounts, Peel Hunt estimates

- A sub-10x PE for all covered periods is low relative to the underlying double-digit growth potential of the business.
- The yield of 5.7% for FY24E is based on a DPS well covered by earnings. Management interest is aligned with that of third-party investors, in view of its continuing significant holding in the company.
- The P/NAV of 1.3x based on January 2023, falling to 1.0x over the subsequent three years, which appears too low given our expectation of a mid-teens normalised ROE.

FIGURE 8: Estimates

Years ending January	2022	2023	2024E	2025E	2026E
Income statement (£'000)					
Revenue					
Motor Finance	78,898	89,801	101,907	110,187	118,427
Bridging	8,991	12,913	18,983	22,213	24,632
Total revenue	87,889	102,714	120,889	132,400	143,059
Loan loss provisions	-4,120	-13,877	-19,671	-21,365	-23,034
Other cost of sales	-18,771	-23,676	-26,400	-28,300	-30,424
Gross profit	64,998	65,161	74,819	82,735	89,601
Operating costs	-14,208	-16,256	-17,658	-18,837	-20,003
Operating profit	50,790	48,905	57,161	63,898	69,598
Net finance costs	-3,772	-7,495	-14,891	-16,207	-18,491
Profit before tax	47,018	41,410	42,269	47,691	51,108
Tax	-9,036	-7,692	-10,187	-11,970	-12,828
Profit after tax	37,982	33,718	32,082	35,721	38,280
Per share metrics (p per share)					
EPS, basic	313	278	263	291	310
EPS, diluted	313	278	263	291	310
DPS	126	133	136	150	156
NAV	1,693	1,842	1,971	2,124	2,286
Balance sheet (£'000)					
Net receivables	322,915	420,710	471,251	528,951	581,846
Total assets	327,229	428,174	478,715	536,415	589,310
Equity	206,547	224,685	240,445	259,124	278,918
Performance ratios					
Revenue margin	29.1%	27.6%	27.1%	26.5%	25.8%
Cost of risk	1.04%	2.97%	3.58%	3.50%	3.43%
Operating margin	57.8%	47.6%	47.3%	48.3%	48.6%
RoE	19.6%	15.6%	13.8%	14.3%	14.2%
Dividend payout ratio	40%	48%	52%	52%	50%
Borrowings/receivables	34.4%	46.5%	48.8%	50.8%	51.6%
Gearing	54.9%	85.5%	94.3%	102.4%	106.4%
Net receivables growth	15.0%	30.3%	12.0%	12.2%	10.0%
Income growth	4.9%	16.9%	17.7%	9.5%	8.1%
PBT growth	159.4%	-11.9%	2.1%	12.8%	7.2%
EPS growth	159.1%	-11.3%	-5.3%	10.8%	6.6%

Source: Company accounts, Peel Hunt estimates

	Recommendation distribution at Today's Date					Recommendation distribution for publications in the last 90 days				
	Total	Investment Banking Clients		Other		Total	Investment Banking Clients		Other	
Structure	**No.**	**No.**	**%**	**No.**	**%**	**No.**	**No.**	**%**	**No.**	**%**
Buy	269	124	46	145	54	518	255	49	263	51
Add	48	3	6	45	94	71	4	6	67	94
Hold	60	6	10	54	90	92	7	8	85	92
Reduce	6	0	0	6	100	7	0	0	7	100
Sell	2	0	0	2	100	5	0	0	5	100
Under Review	4	2	50	2	50	5	1	20	4	80

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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Number Disclosure

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3. The Company holds >3% in Peel Hunt
4. Peel Hunt makes a market in this Company
5. Peel Hunt is Broker to this Company and therefore provides investment services to the Company
6. During the last 12 months Peel Hunt has received compensation from this company for the provision of investment banking services
7. During the last 12 months Peel Hunt has acted as a sponsor/broker/ NOMAD/ financial advisor for an offer of securities from this company
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9. 1% beneficial ownership (calculated for purposes of FINRA under Section 13(d)/(g) of the Securities Exchange Act of 1934 and IIROC Rule 3400)
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11. Peel Hunt holds a net short position that exceeds 0.5% in the Company (calculated under Market Abuse Regulation (EU) 596/2014).

Company	Date	Disclosures/Rating	Target Price	Price
S&U		1, 4, 5, 6		
	10 Feb 23	Buy	3110p	2090p
	09 Feb 23	Buy	3310p	2070p
	16 Jun 22	Buy	3240p	2290p
	26 May 22	Buy	3310p	2400p

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