

HD FLEXIGROUP LIMITED: DARVAS BOX SELECTION FOR MARCH 31, 2014

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TD

FLEXIGROUP LIMITED

Code: FXL

Shares on issue: 304.1m.

Market Cap: \$1.09b.

Net Asset \$382m.

Last traded at: \$3.58

(Chart)

Interpretation:

What we said on October 28, 2013

Flexigroup Ltd has just risen for 6 consecutive days but it appears ready to move through \$5.00. It is already at an all-time high but has only just cleared the previous highs.

The Darvas high is at \$4.875.

What happened?

Achieved a high of \$4.99 on the date of the report and has undergone a 30% price correction since.

What next?

We are looking for a break of the Darvas box high which is at \$3.61 to carry the price to the first target at \$4.00.

Gerald Stanley

Directors:

Margaret Jackson, 60, BEc, MBA, Hon LLD (Monash), FCA, Chairman, Independent, Non-Executive. Appointed a director in November 2006. Margaret was a Partner in KPMG Peat Marwick's Management Consulting Division before beginning her career as a full time director in 1992.

She is currently President of Australian Volunteers International. She has extensive experience as a director of listed public companies, was the former chairman of Qantas.

Ms Jackson on March 5 said she would retire later this year, and no later than the AGM in November 2014

Terek Robbiati, 48, CEO, appointed a director on January 28 2013.

Terek was appointed CEO on November 1 2012 and commenced work at FlexiGroup on January 21 2013. He was appointed a director on January 28 2013. Prior to joining FlexiGroup, from 2009-2012 he was **group** managing director of Telstra International **Group** and Chairman of CSL Ltd, the mobile service provider of Telstra International **Group** based in **Hong Kong**.

Prior to 2007 between 2005-2007 he was Deputy Chief Financial Officer of Telstra Corporation Ltd in Melbourne.

Andrew Abercrombie, BEc, LLB, MBA, Founding Director, Non-Independent, Non-Executive.

Rajeev Dhawan BCom, ACA, MBA, independent, Non-Executive

R John Skippen, independent non exec director

Anne Ward, **B.A.**, LLB (Melb), FAICD, Independent, Non-Executive, appointed as a director on January 1 2013

Snapshot:

FlexiGroup, founded in 1991, listed on December 12 2006, closing at \$2.61 with 34.86 **million** shares changing hands in a gala debut following an issue of 213m shares at \$2 each.

The **company** is a diversified financial services **group** providing “no interest ever”, leasing, vendor finance programs, interest free and visa cards, mobile broadband, lay-by and other payment solutions to consumers and businesses.

Through its network of 11,000 merchant, vendor and retail partners the **Group** has extensive access to four key markets, Business to Consumer, Business to Business, Retail to Consumers (and small business customers) and online.

Performance has been characterised by solid profitable growth as the **company** has expanded and diversified its business through organic growth, **acquisition** and product innovation. FlexiGroup operates in Australia, New Zealand and Ireland within a diverse range industries including: home improvement, **solar energy**, fitness, IT, electrical appliance, navigation systems, trade equipment and point of **sale** systems. Services are offered through four business units: Certegy (no interest ever & lay-by), Flexirent (lease), FlexiCommercial (vendor leasing programs) and Lombard (credit card and interest free).

Certegy – Interest Free (No interest ever and take home lay-by plan) and cheque guarantee services offered through diverse merchants. Key Partners: Modern **Group**, Midas and Michael Hill Jewellers.

Flexirent – Leases & Loans (consumer and **commercial**), includes valuable services such as Protect and Loaner. Products offered via Computer, Electrical and other retailers. Key Partners: Harvey Norman, The Good Guys, Bing Lee, Noel Leeming, Apple Resellers, Flight Centre.

Blink – Mobile Broadband products and plans available from major national retail chains and many independent outlets. Launched in 2009 and operating on the latest Optus dual band network Blink is a natural inclusion when Flexirenting a notebook.

Paymate - Sellers can receive online and mobile credit card payments without an expensive merchant facility issued by a bank, a secure website or gateway processor service. Paymate is recommended as a safer payment method by eBay and is fully integrated in the eBay.com.au checkout.

FlexiCommercial – Lease (typically **commercial** and larger sized **transactions**). Offered via Vendor Programs and direct to Medium and large businesses. Key Partners: M2, Kodak, Fuji Xerox, Low Carbon Australia, Comcentre.

Lombard Finance – Credit Card and Interest Free finance. Key Partners: IKEA, Fantastic Furniture and Beaurepaires.

*On December 12 2013 Flexigroup announced the **acquisition** of ThinkSmart's Australia and New Zealand business for \$43 **million**, "RentSmart ANZ" including the **acquisition** of the Australian patent and intellectual **property** software. RentSmart provides proprietary online credit capability for leasing, enabling FlexiGroup to deliver online.

For the half year ended December 31 2013

On February 2 2014 for the half year ended December 31 2013 announced profit from ordinary activities for the half year was up 14.2% to \$34.544 million on total portfolio income up 9.6% to \$151.556 million.

An 8c fully franked interim dividend was announced vs 7c for the previous corresponding period (pcp). Record date is March 14. The board has decided the DRP will not operate in relation to this dividend.

NTA backing per security is 85c vs 63c for the previous corresponding period (pcp).

Cash net profit after tax rose 20% to \$39 million with 21% like for like receivables growth for the six months to December 31.

Managing director and CEO Tarek Robbiati said in the report the strong result was driven by the group's strategy of business diversification, innovation and disciplined execution.

Certegy volume has been robust, with almost \$100 million of solar volumes in first half 2014 despite significant wind back of government subsidiaries that occurred in December 2012. Receivables of \$445 million are up 8% on first half 2013.

FlexiGroup paid \$46 million net of cash acquired for the Lombard and Once Credit acquisitions over 13 months and these combined businesses have added 500 new distribution relationships with key players including Dick Smith and IKEA and are on track to deliver more than \$10 million in NPAT in the first full year.

The successful acquisition of Thinksmart's Australian and New Zealand assets (acquired for \$43 million) is also expected to drive NPAT growth in 2015.

The CEO said over the next 18 months FlexiGroup's focus will be on transforming itself to becoming an integrated full service provider of finance solutions to consumers and businesses, with increased focus on digital across the business.

Analysts expectations: On January 5 a leading broker in a preview of FlexiGroup's interim result forecast cash NPAT of \$39.5 million, up 21% on the pcp, cash eps of 13c, up 14% on the pcp and DPS up 8c up 4% on the pcp.

The broker expects earnings skewed to the second half, in line with results over the last three years.

The broker said it is positive on the long term prospects for FXL, with an acquisition the likely catalyst to drive growth beyond full year 2015. "However we see some risk first half 2014 may miss consensus expectations and are therefore slightly cautious buying ahead of the result".

Most recently

On March 3 Flexigroup announced it has entered into an agreement to acquire managed print, IT and office solutions provider Think Office Technology. Think Office Technology provides a full suite of office equipment, tailored print services, cloud computing solutions and traditional technology services throughout regional Queensland. The business was established in 1993, has 4,950 customers and 106 full time employees.

Think Office Technology is an authorised sales and service supplier for Konica Minolta, Hewlett Packard, Fuji Xerox, Kyocera and Canon.

Flexigroup's CEO Tarek Robbiati said in the report "Think Office Technology fits with our approach of identifying vertical opportunities in market segments where we already have strong knowledge and exposure".

The acquisition is expected to generate annual cash NPAT contribution of \$1.5/2 million as of 2015 and will be funded from Flexigroup's cash reserves and cash flows from the acquired business.

Major shareholders:

Stable register.

National Nominees Ltd 20.18%

The Abercrombie Group Pty Ltd 18.98%

JPMorgan Nominees Australia Ltd 12.82%

HSBC Custody Nominees 10.7%

Citicrop Nominees 6.34%

BNP Paribas Nominees Pty Ltd 5.54%

The Top 20 hold 84.08% of the **company**

Broker recommendations:

Flexigroup on its web page says BBY, Bligh Capital, Comsec/CBA, Goldman Sachs, Macquarie, Ord Minnett, UBS are among brokers who follow the **company**.

*On March 28 a leading broker (not one of those listed above) placed an "add" on Flexigroup and retained a price target of \$4.60.

the broker said changes to the Small-scale Renewable **Energy** Scheme (SRES) is a potential risk to FXL's **Solar** PV financing volumes, that contribute 20% of **group** total and is the biggest asset concentration within the business.

The broker said there are three basic scenarios - no change to **solar** incentives' a reduction to incentives or the full removal of incentives.

As a reference point, industry installation volumes declined by 30% post the most recent incentive change in December 2012.

"All things being equal, the broker said, "Our earnings sensitivity suggests FXL's **solar** volumes would need to decline by 60% to see earnings contraction. Whilst we see this scenario as highly unlikely, the **acquisition** of Think Office (expected 2015 \$A1.5/2 **million** contribution) looks timely to help offset any volume pressure".

The broker added, while it is cautious on investor sentiment leading up to the review outcome (mid year), ultimately it believes that **solar** demand will not be decimated in a non aided environment.

"Assuming limited volume impact from the review, the current share price looks attractive" the broker concludes.

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