Research as a Service

Flash Comment

11 December 2023

Pioneer Credit Limited

Growth step-up and additional finance

Pioneer Credit Limited (ASX:PNC) is one of the leading acquirers and managers of impaired credit in Australia and has gained its status by maintaining positive customer engagement, an unblemished compliance record with ASIC, and strong relationships with Australia's largest bank and non-bank lenders. PNC purchases debt from 18 different Australian vendor partners with long-term partnership purchasing arrangements in place with Commonwealth Bank of Australia (ASX:CBA). The company's AGM updates highlighted the strong position PNC occupies in the marketplace and the expected improvement in NPAT following debt refinancing currently in progress. Reinforcing this strength Pioneer has now announced an additional finance arrangement with Nomura allowing an upgrade to FY24 PDP guidance from $60m to $85m. Additionally, in October proceedings were launched against PWC for negligence, breach of retainer, and misleading or deceptive conduct. PNC believes PWC was responsible for loss and damage to PNC of $27m.

Business model

Pioneer Credit Limited acquires and manages performing and non-performing consumer debt portfolios (PDPs). The company acquires portfolios of defaulted consumer (non-mortgage) debts from the "Big Four" banks and other credit providers. PNC generates revenue by recovering the debts via contacting the debtors and negotiating payment arrangements or settlements. The company borrows at a margin over bank bills to fund purchases of PDPs, paying a discounted face value typically less than $0.20/$ of debt. Profit then depends on ethical and efficient management of the debtor/customer and accurate assessment of the credit risk inherent in the debtor profile.

Investment upgrade, new finance package, re-financing continues

Pioneer announced an upgrade to guidance for FY24 purchases of debt portfolios (PDPs) from $60m to $85m This upgrade is driven by the purchase, for $24.1m, of a portfolio of CBA-originated credit card and personal loan accounts from Panthera Finance P/L with a debt face value of $367m. The portfolio has been purchased for approximately 15c per dollar of debt outstanding. PNC has managed this transaction through a (non-recourse to PNC) special purpose vehicle (SPV) which will be consolidated in Pioneer's financial statements. The SPV is financed by a two-year facility from Nomura with a limit of $35.1m, of which $17m will be drawn for this initial transaction. Benefits in FY24 will likely be offset by associated costs (1% of drawdown, fee upfront). However, we estimate PNC will see an impact in future years of +$1 - +$1.5m after tax. The company expects existing facilities to be refinanced soon. In the meantime, PNC's competitive position is clearly strengthening based on the company's strong relationships and now Panthera's withdrawal.

Valuation base case at $177m ($1.58/share)

Our valuation is based on the discounted cash-flow methodology using a discount rate of 16.5% (beta 2.0, risk-free rate 3.5%). We have modelled three cases mainly differentiated by finance margin, PDP price, and cash collection performance, and including a cyclical component in our estimates. Our base-case valuation is $177m or $1.58/share. Our downside case values PNC at $146m ($1.30/share), while we can estimate upside to $236m ($2.11/share). We will reassess valuation following finalisation of the refinancing.

Historical earnings and RaaS' estimates (in A$m unless otherwise stated)

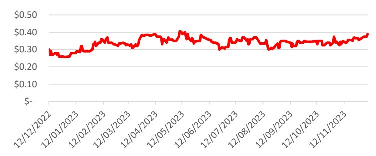
Year end	Revenue	EBITDA	EBIT	NPAT	EPS (c)	P/E (x)	Price/Book (x)
06/22a	62.6	8.9	6.1	(33.1)	(29.2)	n.a.	n.a.
06/23a	73.7	36.2	34.0	0.2	0.2	256	7.1
06/24f	89.6	41.1	37.6	3.5	3.1	12.6	7.5
06/25f	91.2	40.7	37.3	11.4	10.2	3.8	7.0

Source: Company data; RaaS Advisory estimates for FY24f and FY25f

Share Details

ASX code	PNC
Share price (8-Dec)	$0.39
Market capitalisation	$44M
Shares on issue	111.9M
Net cash 30-Jun-2023	$8.4M
Free float	~53%

Share Price Performance (12 months)



Upside Case

- PNC retains strong relationships with major banks based on quality of results
- Prices for debt portfolios weaken as majors high-grade their portfolios
- PNC refinances successfully at lower margins over BBSY bill rates

Downside Case

- Portfolio performance weakens more than expected as financial stress increases
- Banks do not sell more debt portfolios as credit growth slows
- Borrowing interest rates remain higher for longer

Catalysts

- Announcement of refinancing at commercial rather than punitive interest rates
- Increased purchases of debt portfolios
- Signs of improved efficiency allowing greater scale benefits

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FINANCIAL SERVICES GUIDE

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- how we are paid, and
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