Pioneer Credit Limited

Refinancing completed

Financial Services

9 July 2024

Pioneer Credit Limited (ASX:PNC) is one of the leading acquirers and managers of impaired credit in Australia. It 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 numerous Australian vendor partners (18 different vendors in the past 12 months) with long-term partnership purchasing arrangements in place with Commonwealth Bank of Australia (ASX:CBA). We believe Pioneer's success in purchasing large debt portfolios at attractive IRRs highlights the strong position the company occupies in the marketplace. PNC has now finalised refinancing of the business – signing a $272.5m four-year, syndicated facility. Management has previously estimated the benefit of the restructure is in the range of $8-11m in savings which will fall directly to NPAT in FY25. Our forecasts do not take this fully into account. In addition, as part of the facility, PNC has secured $50m in expansion capital and realigned $55m in medium-term notes to be consistent with the new senior facility through an exchange offer and issue of new notes.

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. Operations involve purchasing distressed debt portfolios at a discounted rate and then collecting the outstanding amounts from the debtors. 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.

Lower finance costs drop to the bottom line

Pioneer's success in signing a lower cost four-year senior debt facility translates directly to lower interest costs, increases net margin and (due to previous tax losses) directly increases net profit. Accordingly, we have raised our valuation to reflect improved cashflow over our forecast period. In addition, PNC's position in the marketplace has strengthened in the past six months, in our view. We feel confident that the company will achieve the management incentive hurdle of Statutory NPAT of >$18m in FY26.

Valuation base case at $250m (prev. $217m) or $1.94/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 $250m (previously $217m) or $1.94/share (previously $1.93/share but on a lower share count). Our downside case values PNC at $216.1m ($1.67/share), while we can see upside potential to $324m ($2.54/share) using a range of more positive factors. Finance interest margin and cash collection performance are the crucial determinants of value, in our view. We believe PNC remains undervalued relative to the improved outlook for FY 2025 and beyond, and the additional capital now available to utilise in the PDP market.

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

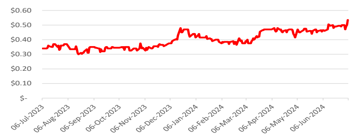
Year end	Revenue	EBITDA	EBIT	NPAT	EPS (c)	P/E (x)	Price / Book (x)
06/22a	62.6	8.9	6.1	(33.1)	(29.2)	n.a.	5.0
06/23a	73.7	36.2	34.0	0.2	0.2	336.8	5.4
06/24f	89.3	42.1	39.9	3.4	3.1	22.3	4.8
06/25f	99.8	45.0	42.5	14.2	10.6	5.3	5.6

Source: Company data, Management accounts presentation, RaaS Advisory estimates

Share Details

ASX code	PNC
Share price (intraday)	$0.56
Market capitalisation	$75.6M
Shares on issue	134.4M
Cash at 31-Dec-2023	$9.2M
Free float	60%

Share 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
- The impact of lower finance costs is seen in higher NPAT

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

Company Interview

Pioneer Credit RaaS Interview 2 July 2024

Board and Management

Stephen Targett	Non-Executive Chairman
Peter Hall	Non-Executive Director
Suzan Pervan	Non-Executive Director
Pauline Gately	Non-Executive Director
Keith John	Managing Director
Barry Hartnett	Chief Financial Officer
Sue Symmons	Co. Sec./General Counsel

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Reiterating Investment Case

We believe Pioneer Credit Limited is positioned to grow strongly due to:

- Maintenance of strong credit purchasing discipline;
- Competition in the market for debt portfolios is declining due to corporate failures, consolidation and strategic withdrawal;
- Volumes of PDPs offered for sale by major banks and non-bank institutions have increased in a higher inflation, higher interest rate environment;
- Pioneer has maintained strong relationships with vendor partners including a five-year partnership agreement with Commonwealth Bank and relationships with 18 bank and non-bank vendors which has been reflected in recent portfolio acquisitions;
- PNC's valuation reflects the difficulties (funding cost increases, COVID) and the impact of the past three years without recognition of the change in market and corporate circumstances in FY23/24, in our opinion;
- Under either our base or upside case we believe Pioneer should be capable of paying a significant dividend from FY25 onward (depending upon external/internal financing choices when making PDP purchases); and
- Management interests appear strongly aligned with shareholders through ownership and a long-term incentive plan with three years of annual targets and the final LTI hurdle of NPAT >$18m in FY26. Our base case for FY26 now slightly exceeds this level (previously our upside case).

Valuation and Forecast Changes following refinancing

Valuation improves due to:

- FY25 finance costs are unchanged due to deal related expenses.
- FY26 finance costs are estimated to decline by circa $8m to ($20m)
- FY25 NPAT is consequently unchanged however cashflow improves over the longer term..
- Base case valuation rises from $217.3m to $250.6m (with an increase in shares on issue relative to our previous weighted capital used) taking valuation per share to $1.94 (previously $1.93);

Note PNC's deferred tax asset of $25m will likely be recognised and reduce tax paid.

Our base-case DCF has risen 15% from $217m to $250m or $1.94/share (the stock traded at $221m in August 2018) and taking into account the additional 22m shares issued in March 2024.

Exhibit 1: Valuation range

	New valuation			Previous valuation		
	Base case	Downside case	Upside case	Base case	Downside case	Upside case
DCF valuation/share	$1.94	$1.67	$2.54	$1.932	$1.655	$2.542
DCF value (A$m)	250.0	216.1	324.0	217.3	186.1	285.9
Weighted shares on issue (m)	129	129	129	112	112	112

Source: RaaS estimates

Exhibit 3: Financial Summary

Pioneer Credit Ltd | Share price (Date) 9/07/2024 | A$ 0.563

Profit and Loss (A$m)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F
Sales Revenue	57.0	62.6	73.7	89.3	99.8
Other net income	(3.6)	(8.3)	9.0	5.3	0.0
EBITDA	11.2	8.9	36.2	42.1	45.0
Depn	(3.3)	(2.1)	(1.6)	(2.0)	(2.2)
Amort	(0.5)	(0.7)	(0.7)	(0.2)	(0.3)
EBIT	7.4	6.1	34.0	39.9	42.5
Finance Costs	(26.7)	(39.1)	(33.8)	(36.5)	(28.3)
Tax	(2.8)	(0.1)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	(3.8)	0.0	0.0
NPAT pre significant item	(22.1)	(33.1)	0.2	3.4	14.2
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**(22.1)**	**(33.1)**	**0.2**	**3.4**	**14.2**
Cash flow (A$m)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F
Cash Collections	95.4	106.8	138.8	140.7	143.1
EBITDA	11.2	8.9	36.2	42.1	45.0
Interest	(42.0)	(25.7)	(29.9)	(34.2)	(28.3)
Tax	0.6	0.0	0.0	0.0	0.0
Operating cash flow	12.8	29.0	61.6	51.1	60.1
Mtce capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	12.8	29.0	61.6	51.1	60.1
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(29.8)	(75.8)	(80.7)	(71.6)	(85.0)
Other	0.0	0.0	0.0	0.0	0.0
Cash flow pre financing	(17.0)	(46.8)	(19.2)	(20.5)	(24.9)
Equity	(0.7)	10.2	0.0	10.0	0.0
Debt	24.7	56.8	5.8	17.8	15.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	7.0	20.2	(13.4)	7.3	(9.9)
Balance sheet (A$m)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F
Cash	10.4	23.1	8.4	15.0	4.4
Accounts receivable	0.9	6.2	1.5	5.2	5.9
Purchased Debt Portfolio	73.4	96.3	106.1	121.8	136.3
Other current assets	3.1	4.5	4.0	5.4	0.0
Total current assets	*87.8*	*130.0*	*120.0*	*147.3*	*146.6*
PPE	5.3	9.3	8.1	7.7	8.4
Intangibles and Goodwill	1.6	1.0	0.5	0.7	0.7
Purchased Debt Portfolio	175.7	199.2	198.2	227.4	254.6
Deferred tax asset	0.0	0.0	0.0	0.0	20.3
Other non current assets	0.0	0.0	0.0	1.0	0.5
Total non current assets	*182.5*	*209.4*	*206.8*	*236.9*	*284.5*
Total Assets	270.3	339.5	326.8	384.2	431.0
Accounts payable	4.8	29.2	6.2	3.5	5.3
Short term debt	0.4	20.4	11.3	34.4	37.1
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	6.4	3.4	4.1	3.4	3.4
Total current liabilities	*11.7*	*53.0*	*21.6*	*41.3*	*45.8*
Long term debt	204.0	245.4	263.3	267.5	313.8
Other non current liabs	0.0	0.0	0.0	18.1	0.0
Total long term liabilities	*204.0*	*245.4*	*263.3*	*285.6*	*313.8*
Total Liabilities	215.7	298.4	284.8	326.9	359.6
Net Assets	**54.7**	**41.1**	**41.9**	**57.3**	**71.5**
Share capital	93.6	113.1	113.8	125.8	125.8
Accumulated profits/losse	0.0	0.0	0.0	3.4	17.6
Reserves	(39.0)	(72.1)	(71.9)	(71.9)	(71.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder func	**54.7**	**41.1**	**41.9**	**57.3**	**71.5**

Interim (A$m)	1H23 A	2H23 A	1H24 F	2H24 F	1H25 F	2H25 F
Revenue	36.3	37.4	41.2	48.1	46.9	52.9
EBITDA	15.7	20.5	20.7	21.4	19.3	25.7
EBIT	14.6	19.4	19.7	20.2	18.1	24.3
NPAT (normalised)	(1.2)	1.3	0.0	3.4	4.2	10.0
Minorities	-	-	-	-	-	-
NPAT (reported)	(1.2)	1.3	0.0	3.4	4.2	10.0
EPS (normalised)	(1.16)	1.27	0.02	3.08	3.37	7.46
EPS (reported)	(1.17)	1.27	0.02	3.18	3.92	9.46
Dividend (cps)	-	-	-	-	-	-
Imputation	30	30	30	30	30	30
Operating cash flow	35.9	25.7	25.6	25.4	25.8	34.2
Free Cash flow	35.9	25.7	25.6	25.4	25.8	34.2
Divisions	1H23 A	2H23 A	1H24 F	2H24 F	1H25 F	2H25 F
PNC trades as a single operational entity						
Revenue	36.3	37.4	41.2	48.1	46.9	52.9
COGS	(3.9)	(3.7)	(4.9)	(5.1)	(5.3)	(5.4)
Employment	(16.7)	(17.7)	(18.2)	(18.8)	(19.3)	(18.8)
Other costs	(2.2)	(2.2)	(2.4)	(2.8)	(2.9)	(3.0)
EBITDA	15.7	20.5	20.7	21.4	19.3	25.7

Margins, Leverage, Returns		FY21A	FY22A	FY23A	FY24F	FY25F
EBITDA		20%	14%	49%	47%	45%
EBIT		13%	10%	46%	45%	43%
NPAT pre significant items		n.a.	n.a.	0.2%	3.8%	14.2%
Net Debt (Cash)		194.0	242.7	266.2	286.9	346.5
Net debt/EBITDA (x)	(x)	17.4	27.2	7.3	6.8	7.7
ND/ND+Equity (%)	(%)	139%	120%	119%	125%	126.0%
EBIT interest cover (x)	(x)	3.6	6.4	1.0	0.9	0.7
ROA			2%	10%	11%	10%
ROE			(69%)	0%	7%	22%
ROIC			(12%)	0%	1%	3%
NTA (per share)		0.65	0.38	0.39	0.42	0.53
Working capital		69.5	73.2	101.4	123.5	137.0
WC/Sales (%)		122%	117%	138%	138%	137%
Revenue growth		n.a.	10%	18%	21%	12%
EBIT growth pa		n.a.	-17%	457%	17%	7%
Pricing		FY21A	FY22A	FY23A	FY24F	FY25F
No of shares (y/e)	(m)	81	107	107	134	134
Weighted Av Dil Shares	(m)	59	113	107	109	134
EPS Reported	cps	(27.1)	(31.0)	0.2	2.5	10.6
EPS Normalised/Diluted	cps	(37.4)	(29.2)	0.2	3.1	10.6
EPS growth (norm/dil)		n.a.	n.a.	n.a.	1414%	317%
DPS	cps	-	-	-	-	-
DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		30	30	30	30	30
PE (x)		n.a.	n.a.	336.8	22.3	5.3
PE market		14.5	14.5	14.5	14.5	14.5
Premium/(discount)		n.a.	n.a.	2223%	53%	(63%)
EV/EBITDA		21.5	33.9	9.0	8.6	9.4
FCF/Share	cps	71.2	12.0	27.2	45.8	38.0
Price/FCF share		0.8	4.7	2.1	1.2	1.5
Free Cash flow Yield		126.5%	21.3%	48.4%	81.4%	67.5%

Source: Company data, Management presentation basis, RaaS analysis

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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