

### Regulatory tick of approval

Cash Converters International (ASX:CCV) is a consumer finance company operating as a service provider, owner and franchisor of second-hand goods and financial services stores in Australia and internationally. RaaS recently initiated coverage on CCV, pointing to a multi-layered growth strategy complemented by potential upcoming catalysts. The first of those catalysts has now been announced with the finalisation of the AUSTRAC enforceable undertaking. This process began in February 2023 in relation to Cash Converters' historical compliance with Australia's anti-money laundering and counter-terrorism financing (AML/CTF) laws. The process has now been concluded and AUSTRAC considers the matter finalised. We view this favourable outcome as a material development as it not only marks the likely end to ongoing regulatory hurdles faced by the company but is strong validation of the compliance of the systems, procedures, and products that the CCV team have worked hard to overhaul in recent years. This provides the company with a clear pathway to focus on growth of its product range and loan book over the coming periods. Our forecasts remain unchanged and we retain a DCF-based valuation of \$0.40/share, representing capital upside of 78% with a 9% fully franked yield.

### Business model

Cash Converters is a diversified business generating income through many revenue streams and geographies. The store network, particularly in Australia, New Zealand, and the UK, provides the company with a well understood and loyal customer base, to which CCV offers several loan products and services, well beyond the sale and purchase of second-hand goods. That cohort of customers is showing strong demand for CCV's suite of products. Having emerged from the Covid environment, the loan book is being regenerated and growing strongly, with a composition of loan products that are highly regulated, less risky, and longer in duration than those of the past. This growth will be complemented by the corporatisation of more stores away from the franchise model, both domestically and offshore, giving CCV increased control and significant earnings upside.

### AUSTRAC clearance a key milestone

CCV has worked hard to comply with the changing credit laws environment over the past decade or so. This is discussed in detail in our recent Initiation Report ([Cash Converters RaaS Initiation Report 24 Jan 2024](#)). This favourable outcome of the AUSTRAC EU marks the end of a lengthy process and illustrates that CCV is now well positioned to operate in a full and compliant manner in what is a highly regulated part of the consumer lending market. This relates to all parts of the Australian business.

### DCF valuation of \$0.40/share

We have undertaken a discounted cash-flow valuation and derived a value of \$0.40/share. CCV also offers value on several other financial metrics, including a deep discount to intrinsic value on an ROE-based methodology and a relative PER pricing discount of 43% to peers. We see this as further validation of inherent value, particularly considering forecast EPS growth with a CAGR of 18% over a three-year forecast period. If management can deliver on its growth ambitions, CCV is a compelling investment, offering both capital growth and income. Corporate appeal from EZCorp, the largest shareholder with ~44%, cannot be ruled out.

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

Year end	Revenue	EBITDA (adj.)	NPAT (rep.)	NPAT (adj.)	EPS (adj.) (c)	P/E (x)
06/22a	245.9	52.7	11.2	19.0	3.3	6.8
06/23a	302.7	57.2	(97.0)	20.2	3.1	7.3
06/24f	385.0	57.9	18.1	18.1	2.8	8.1
06/25f	404.6	69.5	23.3	23.3	3.6	6.3
06/26f	432.5	86.5	32.8	32.8	5.0	4.5

Source: Company data, RaaS estimates for FY24f, FY25f and FY26f

### Consumer Finance

31 January 2024

#### Share Details

ASX code	CCV
Share price (30-Jan)	\$0.225
Market capitalisation	\$141.2M
Shares on issue	627M
Net debt (30-Jun-2023)	\$65.4M

#### Share Performance (12 months)



#### Upside Case

- Acquire large franchisees in Australia and the UK to further increase corporate ownership
- Deliver loan growth in new products ahead of expectation
- Drive earnings upside from recently acquired offshore businesses

#### Downside Case

- Severe economic deterioration driving bad debts or prolonged increase in funding costs
- Higher for longer interest rates reduce profitability
- Regulatory or legal matters

#### Catalysts

- Delivery of a clean interim result with strong loan book growth (Feb-24)
- Increase of the debt facility for funding certainty and loan book growth (H1 '24)

#### Board of Directors

Timothy Jugmans	Non-Executive Chair
Peter Cumins	Exec. Deputy Chair
Sam Budiselik	Managing Director/CEO
Lachlan Given	Non-Executive Director
Julie Elliot	Ind. Non-Exec. Director
Robert Hines	Ind. Non-Exec. Director
Harry Shiner	Ind. Non-Exec. Director
Mark Ashby	Ind. Non-Exec. Director

#### RaaS Initiation Report

[Cash Converters RaaS Initiation Report 24 Jan 2024](#)

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## Exhibit 1: Financial Summary

Cash Converters (CCV)						Share price						A\$	0.225
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	1H23	2H23	1H24	2H24	1H25	2H25		
Sales Revenue	245.9	302.7	385.0	404.4	432.5	Revenue	142.4	160.3	192.5	192.5	202.2	202.2	202.2
EBITDA underlying	52.7	57.2	57.9	69.5	86.5	EBITDA	28.9	28.3	28.4	29.4	34.8	34.8	34.8
Depn & Amortn	(13.6)	(12.4)	(13.8)	(14.8)	(14.9)	EBIT	22.7	22.2	22.0	22.1	27.4	27.4	27.4
EBIT underlying	39.1	44.8	44.1	54.8	71.6	NPAT (normalised)	10.5	9.7	9.2	8.9	11.5	11.8	11.8
Interest	(12.5)	(15.9)	(18.3)	(20.3)	(23.5)	Minorities	-	-	-	-	-	-	-
Profit Before Tax	26.7	28.9	25.8	34.5	48.1	NPAT (reported)	(105.5)	8.5	9.2	8.9	11.5	11.8	11.8
Tax (adj)	(7.6)	(8.7)	(7.7)	(10.0)	(14.1)	EPS (normalised)	1.68	1.36	1.42	1.36	1.77	1.81	1.81
Minorities	0.0	0.0	0.0	0.0	0.0	EPS (reported)	(17.11)	1.36	1.47	1.36	1.77	1.81	1.81
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
NPAT pre significant items	19.0	20.2	18.1	23.3	32.8	Operating cash flow	(15.8)	4.3	2.6	3.1	4.4	3.4	3.4
Significant & non-cash items	(7.8)	(117.3)	0.0	0.0	0.0	Free Cash flow	(17.3)	2.8	4.0	4.6	5.9	4.9	4.9
NPAT (reported)	11.2	(97.0)	18.1	23.3	32.8								
Cash flow (A\$m)						Divisions							
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	Store Operations	FY22A	FY23A	FY24F	FY25F	FY26F	CAGR	
EBITDA	52.7	57.2	57.9	69.5	86.5	Personal Finance	123.6	142.0	142.0	146.7	163.0	7%	7%
Interest	(9.2)	(10.9)	(18.3)	(20.3)	(23.5)	Vehicle Finance	94.3	114.0	110.1	110.1	114.0	5%	5%
Tax	(6.9)	(10.9)	(7.7)	(10.0)	(14.1)	Head Office Other	12.1	15.0	17.9	18.9	19.9	13%	13%
Working capital changes	(28.7)	(46.9)	(26.1)	(31.3)	(36.6)	NZ	4.9	6.4	6.7	7.0	7.4	11%	11%
Operating cash flow	7.9	(11.5)	5.7	7.7	14.7	UK	0.0	13.8	22.1	26.1	28.2	27%	27%
Mtce capex	(1.4)	(3.0)	(3.0)	(3.1)	(3.2)	Sales revenue	11.0	11.4	86.2	95.6	100.0	74%	74%
Free cash flow	6.5	(14.5)	2.7	4.7	11.6	EBITDA (normalised)	245.9	302.7	385.0	404.4	432.5	15%	15%
Acquisitions/Disposals	(3.6)	(13.8)	(24.0)	(8.0)	(8.0)								
Other	(3.9)	(14.3)	(6.3)	(6.6)	(7.0)	Margins, Leverage, Returns							
Cash flow pre financing	(1.0)	(42.6)	(27.6)	(10.0)	(3.4)	EBITDA		21.4%	18.9%	15.0%	17.2%	20.0%	
Equity	0.0	0.0	0.0	0.0	0.0	EBIT		15.9%	14.8%	11.5%	13.5%	16.6%	
Debt	0.0	68.0	13.0	17.5	25.0	NPAT pre significant items		7.7%	6.7%	4.7%	5.8%	7.6%	
Dividends paid	(12.6)	(12.6)	(12.8)	(13.0)	(14.8)	Net Debt (Cash)		10.3	65.4	105.8	128.8	146.9	
Net cash flow for year	(13.6)	13.4	(27.3)	(5.5)	6.8	Net debt/EBITDA (x)	(x)	0.2	1.1	1.8	1.9	1.7	
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	3.4%	46.4%	99.8%	138.0%	157.7%	
Y/E 30 June	FY22A	FY23A	FY24F	FY25F	FY26F	EBIT interest cover (x)	(x)	3.1	2.8	2.4	2.7	3.0	
Cash	58.1	71.6	44.2	46.2	53.1	ROA		8.2%	9.7%	9.5%	10.9%	13.2%	
Accounts receivable	3.6	3.6	4.4	4.6	4.9	ROE		6.0%	7.7%	8.6%	10.7%	14.2%	
Inventory	23.9	26.5	27.5	28.4	32.1	ROIC		12.2%	31.8%	23.0%	24.0%	27.8%	
Other current assets	144.9	184.6	201.6	203.2	233.6	Working capital		12.1	11.1	11.9	12.4	13.7	
Total current assets	230.5	286.2	277.7	282.4	323.6	WC/Sales (%)		4.9%	3.7%	3.1%	3.1%	3.2%	
PPE	4.8	6.6	6.6	6.5	6.5								
Intangibles and Goodwill	127.5	23.8	49.8	53.6	51.4	Pricing		FY22A	FY23A	FY24F	FY25F	FY26F	
Loan Receivables	32.4	42.7	46.6	73.6	75.3	No of shares (y/e)	(m)	621	625	651	651	651	
Deferred tax asset	26.1	29.7	29.7	29.7	29.7	Weighted Av Dil Shares	(m)	621	646	651	651	651	
Other non current assets	56.8	53.7	75.8	73.8	75.0	EPS Reported	cps	1.64	(15.52)	2.78	3.58	5.04	
Total non current assets	247.6	156.4	208.5	237.2	238.0	EPS Normalised/Diluted	cps	3.32	3.10	2.78	3.58	5.04	
Total Assets	478.2	442.7	486.1	519.6	561.6	EPS growth (norm/dil)		n/a	(6.5%)	(10.5%)	29.0%	40.8%	
Accounts payable	15.4	19.0	19.9	20.6	23.3	DPS	cps	2.0	2.0	2.0	2.0	2.3	
Short term debt	52.0	109.0	112.5	131.3	150.0	DPS Growth		n/a	0%	0%	0%	13%	
Tax payable	1.8	0.3	0.3	0.3	0.3	Dividend yield		8.9%	8.9%	8.9%	8.9%	10.1%	
Other current liabilities	16.7	19.1	19.1	19.1	19.1	Franking		100%	100%	100%	100%	100%	
Total current liabilities	85.9	147.4	151.8	171.2	192.7	PE	x	6.8	7.3	8.1	6.3	4.5	
Long term debt	16.4	27.9	37.5	43.8	50.0	PE market	x	16.0	16.0	16.0	16.0	16.0	
Other non current liabs	60.5	60.8	85.0	82.5	78.8	Premium/(discount)		(57.6%)	(54.7%)	(49.3%)	(60.7%)	(72.1%)	
Total long term liabilities	76.9	88.8	122.5	126.3	128.8	EV/EBITDA	x	2.8	3.6	4.4	4.0	3.4	
Total Liabilities	162.8	236.2	274.3	297.5	321.5	FCF/Share	cps	1.0	-2.3	0.4	0.7	1.8	
Net Assets	315.3	206.5	211.8	222.1	240.1	Price/FCF share	x	21.5	-	9.7	53.4	31.5	
Share capital	249.7	249.9	249.9	249.9	249.9	Free Cash flow Yield		4.7%	(10.3%)	1.9%	3.2%	7.9%	
Accumulated profits/losses	57.3	(53.2)	(47.9)	(37.6)	(19.5)	Price/Book (x)	x	0.5	1.0	1.2	1.2	1.2	
Reserves	8.4	9.8	9.8	9.8	9.8								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	315.4	206.5	211.8	222.1	240.1								

Source: RaaS Advisory

# FINANCIAL SERVICES GUIDE

**RaaS Advisory 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**

**Effective Date: 6<sup>th</sup> May 2021**



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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

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