

2 February 2021

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## Credit Corp Group Limited (CCP)

### Consumer Finance

#### UNDERPERFORM

**CCP A\$33.00**      **TARGET PRICE A\$27.93**

Credit Corp Group Limited (CCP) is an Australian receivables management company which provides debt purchase and debt collection services, primarily focusing on the acquisition of purchased debt ledgers (PDLs) comprised of distressed consumer debt from Australian and New Zealand banks, finance companies, telecommunication companies and utility providers.

#### Company Data

|                              |                |
|------------------------------|----------------|
| Number of shares             | 64.5           |
| Market Capitalisation        | \$ 1900.7      |
| Free float (%)               | 91.4           |
| 12-month high/low            | \$37.83/\$6.25 |
| Average Daily Turnover (\$m) | 4.3            |
| % S&P/ASX200                 | 0.09           |
| DDM Ranking                  | 214            |
| % All Ordinaries             | 0.08           |

GICS Industry Group      Consumer Finance

Source: FactSet, Barclay Pearce Capital

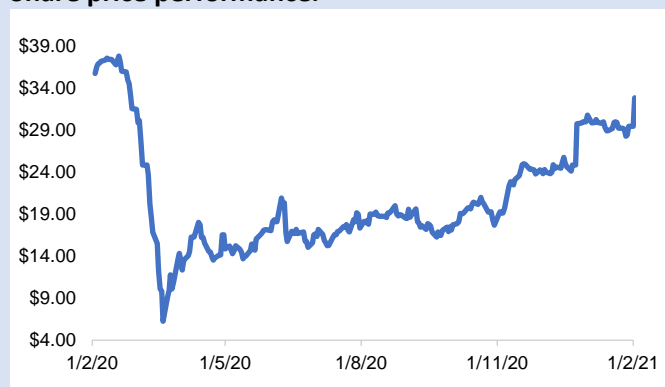
#### Earnings Summary (AUD)

| Year end June           | 2020A | 2021F | 2022F | 2023F |
|-------------------------|-------|-------|-------|-------|
| Revenue (\$M)           | 382.0 | 428.0 | 440.2 | 480.4 |
| EBITDA (\$M)            | 124.2 | 148.6 | 165.8 | 179.8 |
| Reported NPAT (\$M)     | 15.5  | 87.8  | 102.4 | 112.6 |
| Adjusted NPAT (\$M)     | 79.6  | 88.1  | 103.2 | 113.7 |
| Reported EPS (c)        | 25.5  | 138.6 | 155.7 | 167.8 |
| Adjusted EPS (c - FD)   | 132.1 | 131.0 | 153.4 | 168.1 |
| Adjusted EPS growth (%) | -6.4  | -0.9  | 17.1  | 9.6   |
| Adjusted P/E (x)        | 22.3  | 22.5  | 19.2  | 17.5  |
| Dividend (c/sh)         | 36.0  | 67.5  | 77.6  | 85.1  |
| Gross yield (%)         | 1.7   | 2.8   | 3.4   | 3.8   |
| Net yield (%)           | 1.2   | 2.0   | 2.4   | 2.6   |
| ROIC (%)                | 2.7   | 9.6   | 11.5  | 11.8  |

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## H1 2021 Results

On 2<sup>nd</sup> February 2021, Credit Corp Group Ltd (CCP) provided an update for First Half with the following highlights:

- 10% increase in net profit after tax (NPAT) to \$42.3M;
- Strong US purchased debt ledger (PDL) segment result with NPAT doubling to \$8M;
- Record half-year PDL investment driven by the Collection House purchase;
- Strong recovery in consumer lending volume over the December quarter;
- Upgraded full-year outlook;

#### Other H1 FY21 Highlights

- Productivity improved by 7% over the prior corresponding period, producing solid NPAT growth;
- Collections reduced over the December quarter in accordance with the phased withdrawal of COVID-19 support measures but remained in line with expectations;
- Operational improvement and elevated purchasing over recent years in the US combined to deliver a 36% increase in US collections and a doubling in segment NPAT;
- After significant run-off driven by COVID-19 uncertainty and the impact of government and other support measures, lending volumes substantially recovered over the December quarter;
- Consumer loan book grew by 10% over the December quarter;

#### Trading Outlook and Guidance

- Favourable operational performance has produced a strong start to FY21, and is expected to continue over the balance of the year;
- Acquisition of Collection House book will drive collections and NPAT ahead of any recovery in purchasing conditions;
- CCP remains debt-free, with \$400M in net cash and undrawn credit lines;
- The guidance for FY21 has been upgraded in accordance with the following ranges:

|                     | Guidance upgraded Feb-21 | Guidance issued Dec-20 |
|---------------------|--------------------------|------------------------|
| PDL acquisitions    | \$310 - \$330m           | \$270 - \$330m         |
| Net lending volumes | \$5 - \$10m              | \$(5) - \$5m           |
| NPAT                | \$85 - \$90m             | \$70 - \$85m           |
| EPS                 | 126 - 134 cents          | 104 - 126 cents        |

## Earnings changes

For the H1 FY21 results presentation, CCP is reporting an increase in NPAT by 10% to 42.3M. This is an 11% increase from the market consensus of \$37.9M. Hence, we expect positive earnings revisions of 15% for FY21 and 10% for future periods.

## Valuation

We are initiating on CCP with a 12-month price target of \$27.93 and an UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**Hold** – Describes stocks that are neither a buy nor underperform.

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**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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### Valuation Methodology

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|                 |       |   |
|-----------------|-------|---|
| Buy             | 40.2% | ( 0.0% of stocks with recommendations are Barclay Pearce clients)   |
| Speculative Buy | 0.4%  | ( 100.0% of stocks with recommendations are Barclay Pearce clients) |
| Hold            | 19.5% | ( 0.0% of stocks with recommendations are Barclay Pearce clients)   |
| Underperform    | 40.0% | ( 0.0% of stocks with recommendations are Barclay Pearce clients)   |