

# S & U

H121 trading update

Still in profit and tentative positive trends

S&U motor finance sales are recovering even as credit criteria have been tightened. There is still uncertainty about the impact of the wind down of employment support schemes and how collections will recover following repayment holidays, but S&U expresses cautious optimism on the latter point. The current year results will be significantly affected by lower sales and higher arrears but management indicates the group is still profitable, is maintaining its high customer service levels and has liquidity headroom to respond once it is sensible to target stronger growth.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	60.5	25.2	169.1	91.0	9.5	5.7
01/18	79.8	30.2	202.4	105.0	7.9	6.6
01/19	83.0	34.6	232.0	118.0	6.9	7.4
01/20	89.9	35.1	239.4	120.0	6.7	7.5

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Gradual improvement continues

In its H121 update, S&U reported that Advantage motor finance has experienced record application levels recently, but tightened credit criteria have moderated the recovery in sales, which are running at 80% of normal levels (versus 40% in June and 15% in April). FCA-mandated customer repayment holidays have involved 26% of Advantage customers resulting in collections at a level of just over 75% of due compared with the normal 94%. With the FCA proposing further repayment holidays of up to three months and the unwinding of the furlough scheme underway, the pace and degree to which repayments will resume is uncertain. S&U says early indications are encouraging. Also encouraging are the early repayment data from new customers pointing to potential medium-term benefits as the portfolio mix gradually changes. At Aspen (property bridging) there has also been an increase in both new transactions and loan redemptions leaving net receivables at £19m versus £15.5m in June.

## Outlook still unclear

As in June, the unpredictable course of the pandemic and related economic effects cloud the outlook. The prospects for UK unemployment are important for Advantage and here the latest Bank of England monetary policy report, for example, looks for a less severe year-end level of unemployment than previously. There is still a wide range of potential outcomes and in the circumstances S&U does not feel it is appropriate to provide future guidance.

## Valuation

At a price of 1,600p an ROE/COE model indicates the market is assuming S&U will earn a sustainable return on equity (ROE) of under 11%, conservative in relation to the five-year average of over 16% but understandably so at a time of considerable uncertainty.

### Financial services

12 August 2020

**Price** 1,600p

**Market cap** £194m

Group debt (£m) at end July 2020 108

Shares in issue 12.1m

Free float 26%

Code SUS

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (5.0) 2.9 (27.3)

Rel (local) (6.5) (2.0) (16.0)

52-week high/low 2,500p 1,430p

### Business description

S&U's Advantage motor finance business lends on a simple hire-purchase basis to lower- and middle-income groups who may have impaired credit records that restrict their access to mainstream products. It has c 63,500 customers. The Aspen property bridging business has been developing, following its launch in early 2017.

### Next events

H1 results 30 September 2020

### Analysts

Andrew Mitchell +44 (0)20 3681 2500

Martyn King +44 (0)20 3077 5745

[financials@edisongroup.com](mailto:financials@edisongroup.com)
[Edison profile page](#)

**S & U is a research client of  
Edison Investment Research  
Limited**

## Background and outlook

In this section we update charts showing background indicators for Advantage Finance and, with reference to Aspen, the rate of UK property transactions.

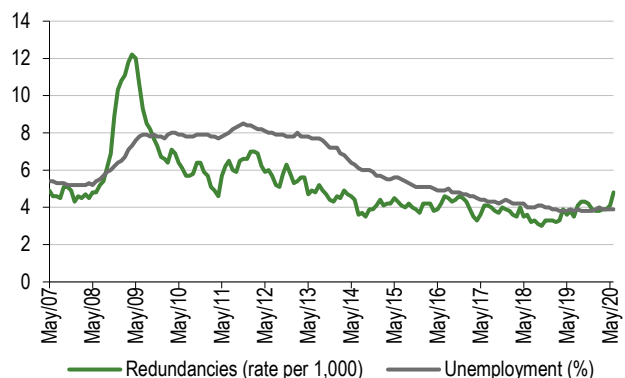
Exhibit 1 indicates that, on the latest reading, consumer confidence has moved up from its recent low point but still has some way to go. In Exhibit 2, the unemployment rate has yet to move significantly. It is normally a lagging indicator and has also been cushioned in the current crisis by government job protection measures. The Bank of England's monetary policy report, referenced earlier, includes estimates of the number of those included in the Coronavirus Job Retention Scheme (CJRS), which has cumulatively involved 9.5 million individuals. At its maximum point it included over seven million in May and it had an average of six million in calendar Q2, is assumed to average two million in Q3 and about one million in its final month, October. This both underlines the scale of the threat to the economy as the scheme ends but also the fact that many employees have already returned from furlough. As mentioned, the Bank of England has reduced its expectation for the year-end unemployment rate to 7.5% (the calendar Q2 rate was 3.9%) taking into account the evolution of both the CJRS and the Self-Employment Income Support Scheme (cumulative total 2.7 million participants).

**Exhibit 1: GFK UK consumer confidence indicator**



Source: Bloomberg (last value July 2020)

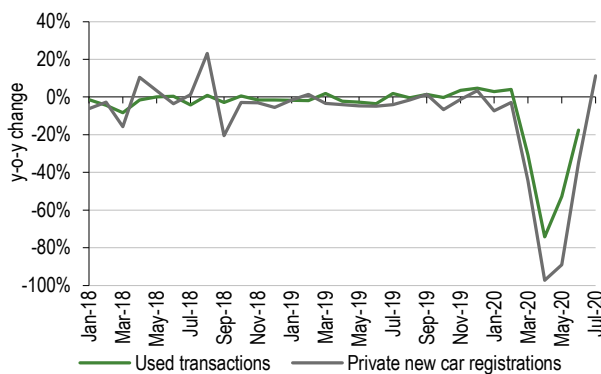
**Exhibit 2: UK redundancies and unemployment**



Source: Bloomberg (last value June 2020)

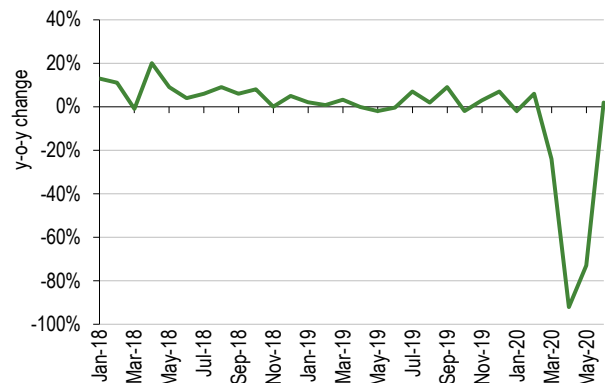
Exhibits 3 and 4 track used car transactions, new car registrations and used car finance volumes. All have followed a similar path through the lockdown with new car registrations showing greater volatility in both directions, as in previous periods.

**Exhibit 3: Used car transactions and new registrations**



Source: SMMT, Edison Investment Research

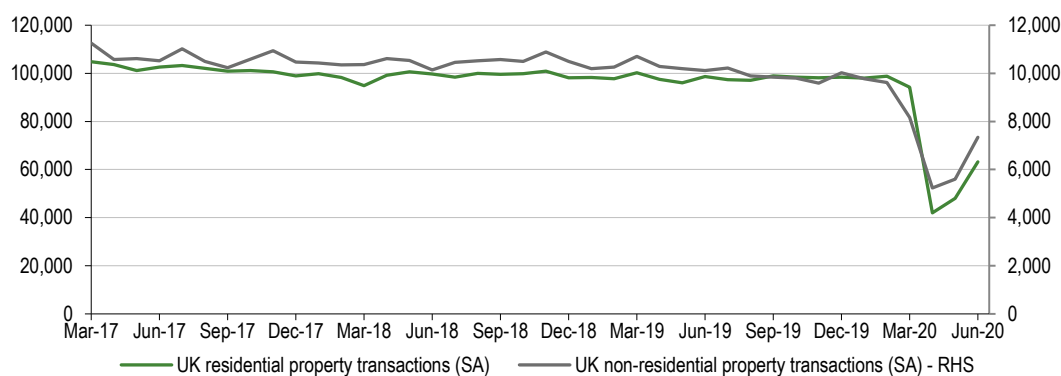
**Exhibit 4: Used car finance through dealerships**



Source: Finance and Leasing Association. Note: By volume.

Exhibit 5, UK property transactions, shows that there has also been a post-lockdown bounce in property activity, albeit not as great as that seen in motor transactions. As noted earlier Aspen has seen increased activity both in new loans and redemptions. As a relatively new business we expect it will continue to take a conservative approach, balancing the aim of increased scale with the importance of preserving capital.

**Exhibit 5: UK property transactions (seasonally adjusted)**



Source: Bloomberg

Since the June update, group debt increased by £10m to £108m at end July reflecting the combination of paying the final dividend (£6.1m) and a small increase in sales growth at Advantage Finance. Existing committed facilities of £130m provide liquidity headroom.

## Valuation

Given continuing uncertainty and in the absence of guidance from S&U we have not included forecasts in this report. The updated version of our peer comparison table shown below therefore still only shows calendar 2019 P/E ratios. The table includes companies with an exposure to motor finance and non-standard lending. S&U's historical P/E is just below the peer average and the yield is above average. Its historical ROE and price to book (P/BV) multiples are above the peer average, while an ROE/COE model (with assumed growth of 3% and cost of equity (COE) of 10%) would require an assumed ROE of c 10.5% to match the share price at the time of writing (1,600p) given the company's book value. Although near-term results are likely to be significantly affected by the pandemic, greater confidence in the medium-term outlook could prompt a significant revaluation (as for others in the comparison).

**Exhibit 6: Peer comparison**

	Price (p)	Market cap (£m)	P/E 2019 (x)	Yield (%)	ROE (%)	P/BV (x)
<b>S&amp;U</b>	1,600	194	6.7	7.5	16.8	1.1
Close Brothers	1,127	1,703	15.5	5.9	14.9	1.2
PCF Group	19	46	5.1	2.2	12.6	0.8
Provident Financial	187	474	4.0	4.8	18.2	0.6
Secure Trust Bank	670	125	3.8	3.0	13.5	0.5
<b>Peer average</b>			<b>7.1</b>	<b>4.0</b>	<b>14.8</b>	<b>0.8</b>

Source: Refinitiv, Edison Investment Research. Note: P/Es adjusted to calendar year 2019. Priced 11 August 2020.

Exhibit 7 shows the recent share price performance for the peer group. The economic sensitivity of most lenders explains the negative share price moves of most of the stocks over most of the periods shown. Compared with the average, S&U's share price has shown less weakness over all periods except the past month.

**Exhibit 7: Peer group share price performance**

<b>% change</b>	<b>1 month</b>	<b>3 months</b>	<b>1 year</b>	<b>YTD</b>	<b>From 12m high</b>
<b>S&amp;U</b>	<b>-5.6</b>	<b>-2.7</b>	<b>-27.7</b>	<b>-23.9</b>	<b>-35.8</b>
Close Brothers	-0.4	3.9	-12.2	-29.5	-32.2
PCF Group	-3.6	-22.9	-31.5	-47.1	-52.4
Provident Financial	10.6	9.4	-51.5	-59.1	-62.0
Secure Trust Bank	-2.5	-17.3	-48.9	-58.1	-61.3
<b>Average</b>	<b>1.0</b>	<b>-6.7</b>	<b>-36.0</b>	<b>-48.5</b>	<b>-52.0</b>

Source: Refinitiv, Edison Investment Research

**Exhibit 8: Financial summary**

£'000s	2016	2017	2018	2019	2020
Year end 31 January					
<b>PROFIT &amp; LOSS</b>					
Revenue	45,182	60,521	79,781	82,970	89,939
Impairments	(7,611)	(12,194)	(19,596)	(16,941)	(17,220)
Other cost of sales	(8,980)	(12,871)	(17,284)	(15,751)	(19,872)
Administration expenses	(7,131)	(8,332)	(9,629)	(10,763)	(12,413)
EBITDA	21,460	27,124	33,272	39,515	40,434
Depreciation	(209)	(253)	(294)	(414)	(450)
Op. profit (incl. share-based payouts pre-except.)	21,251	26,871	32,978	39,101	39,984
Exceptionals	0	0	0	0	0
Non-recurring items	0	0	0	0	0
Investment revenues/finance expense	(1,782)	(1,668)	(2,818)	(4,541)	(4,850)
Profit before tax (FRS 3)	19,469	25,203	30,160	34,560	35,134
Profit before tax (norm)	19,469	25,203	30,160	34,560	35,134
Tax	(3,583)	(4,861)	(5,746)	(6,571)	(6,252)
Discontinued business after tax	53,299				
Profit after tax (FRS 3)	69,185	20,342	24,414	27,989	28,882
Profit after tax (norm)	15,886	20,342	24,414	27,989	28,882
Average Number of Shares Outstanding (m)	12.0	12.0	12.1	12.1	12.1
Diluted EPS (p)	576.5	169.1	202.4	232.0	239.4
EPS - normalised (p)	132.4	169.1	202.4	232.0	239.4
Dividend per share (p)	201.0	91.0	105.0	118.0	120.0
EBITDA margin (%)	47.5%	44.8%	41.7%	47.6%	45.0%
Operating margin (before GW and except.) (%)	47.0%	44.4%	41.3%	47.1%	44.5%
Return on equity	15.2%	15.2%	16.7%	17.6%	16.8%
<b>BALANCE SHEET</b>					
Non-current assets	103,653	138,004	181,015	185,383	197,806
Current assets	61,903	57,763	84,178	95,430	108,275
Total assets	165,556	195,767	265,193	280,813	306,081
Current liabilities	(6,850)	(17,850)	(7,927)	(6,722)	(7,424)
Non-current liabilities inc pref	(30,450)	(38,450)	(104,450)	(108,724)	(119,183)
Net assets	128,256	139,467	152,816	165,367	179,474
NAV per share (p)	1,084	1,177	1,276	1,375	1,493
<b>CASH FLOW</b>					
Operating cash flow	(16,017)	(27,431)	(43,418)	10,530	4,946
Net cash from investing activities	80,716	(308)	(1,040)	(785)	(265)
Dividends paid	(23,090)	(9,548)	(11,377)	(13,080)	(14,461)
Other financing (excluding change in borrowing)	55	21	12	14	14
Net cash flow	41,664	(37,266)	(55,823)	(3,321)	(9,766)
Opening net (debt)/cash	(53,565)	(11,901)	(49,167)	(104,990)	(108,311)
Closing net (debt)/cash	(11,901)	(49,167)	(104,990)	(108,311)	(118,077)

Source: S&U accounts, Edison Investment Research. Note: FY16 dividend per share includes exceptional payment of 125p.

---

## General disclaimer and copyright

This report has been commissioned by S&U and prepared and issued by Edison, in consideration of a fee payable by S&U. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

---

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia