

S&U

FY20 trading update

Encouraging year-end update

S&U's year-end trading update signalled that FY20 results are set to be in line with management expectations. It is encouraging that there has been a post-election improvement in transactions at both Advantage and Aspen, while used-car prices have stabilised or increased recently. Our estimates are unchanged and the shares trade on a sub-10x P/E and yield of 5%.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/18	79.8	30.2	202.4	105.0	11.8	4.4
01/19	89.2	34.6	232.0	118.0	10.3	5.0
01/20e	97.5	35.5	239.3	124.0	9.9	5.2
01/21e	106.0	39.0	261.7	128.0	9.1	5.4

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

FY20 trading statement

In addition to indicating 'in-line' expected FY20 results in March, S&U reported that Advantage motor finance ended the year with net receivables of c £280m (+8% vs FY19) and new transactions of 23,300 (+11%), both similar to our estimate. Nothing was added to the December comment on risk-adjusted yield (25.2%) so this is likely to have been similar at the year end, with further benefits of the tightening of credit criteria likely to flow through this year. At Aspen property bridging, repayments have improved, with £15m received in Q420. This contributed to a reduction in gross debt from £132m in December to £118m at year end leaving significant headroom for growth at both Advantage and Aspen. The second interim dividend is increased to 36p (35p) giving a total to date of 70p (+4.5%).

Outlook

As we show overleaf, UK consumer confidence improved following the general election while unemployment remains at historically low levels. The rate of redundancies did increase during 2019 but remains subdued and has stabilised in the more recent readings (to November). These trends are broadly supportive for Advantage and taken together with the relative resilience of the used car market (9M19 sales down less than 1%) are supportive of the group's expectation of another record result in FY21 for Advantage. The improved level of repayments at Aspen is likely to result in a lower year-end loan book than we had assumed (we estimate c £20m vs £28m); while this makes our estimated average FY21 lending and revenue levels more ambitious, the earnings impact of a shortfall is unlikely to be material. Stronger collections have increased confidence in the prospects for the business and we expect further investment (on appropriate criteria) to expand the loan book to a more material size over several years.

Valuation

S&U trades on P/E and price to book multiples at a modest premium to its peer group average (see page 3) but earns a higher ROE and offers an FY20e yield of over 5%.

Financial services

12 February 2020

Price 2,380p
Market cap £285m

Group debt (£m) at January 2020	118
Shares in issue	12.1m
Free float	26%
Code	SUS
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	12.3	13.3	11.2
Rel (local)	13.3	9.9	4.0
52-week high/low	2440.00p	1767.50p	

Business description

S&U's Advantage motor finance business lends on a simple hire-purchase basis to lower- and middle-income groups that may have impaired credit records restricting their access to mainstream products. It has over 64,000 customers. The Aspen property bridging business has moved beyond the pilot stage and is expanding its loan book.

Next events

FY20 results	24 March 2020
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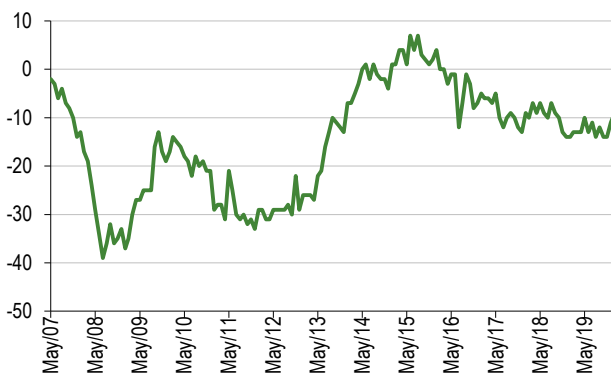
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Background charts

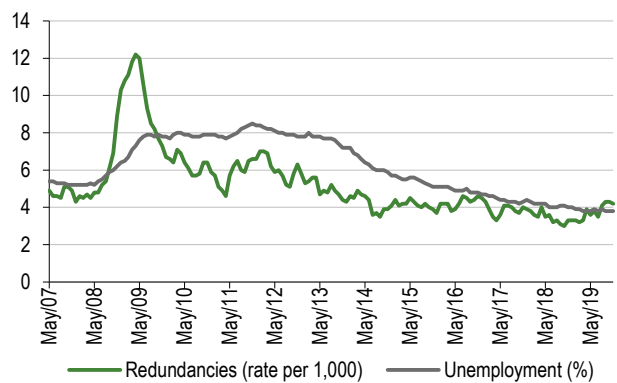
As noted earlier, we monitor UK consumer confidence and redundancy and unemployment measures as indicators for the potential behaviour of the Advantage customer base. While consumer confidence is still below its high in 2015 (GFK index, Exhibit 1), the latest figure, for January, is noticeably above the average level seen in 2019. The level of unemployment (regarded as a lagging indicator) was stable in 2019 at around 3.8%, whereas the rate of redundancies (per 1,000) increased to 4.3 by September then stabilised with the November reading being 4.2.

Exhibit 1: GFK UK consumer confidence indicator



Source: Bloomberg (last value January 2020)

Exhibit 2: UK redundancies and unemployment

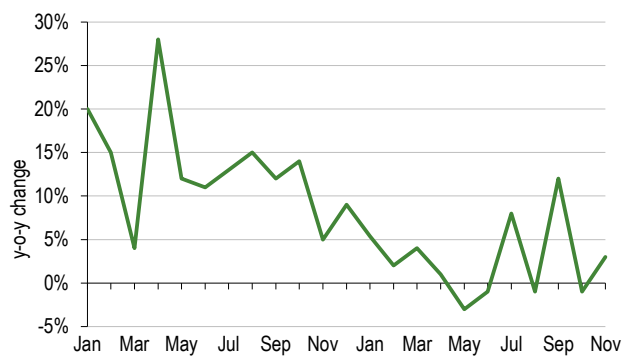


Source: Bloomberg (last value November 2019)

The trend in the value of used-car finance through dealerships is shown in Exhibit 3. Growth has been at a lower rate than in earlier periods, but for 2019 to end November the value and volume of loans increased by 4.4% and 1.8% y-o-y respectively against the background of overall used-car transactions being virtually unchanged.

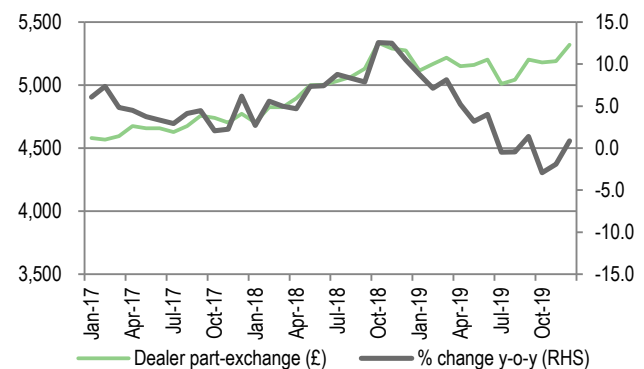
Exhibit 4 shows the level and year-on-year change of dealer part-exchange prices at BCA auctions. Reduced prices realised for recovered vehicles were referenced in S&U's December update as a small negative but, in tune with the BCA data, it now notes prices have stabilised or even increased. It quotes Motor Finance magazine's report of an overall increase in used car prices of 6.4% in 2019 while auction house Aston Barclay indicates that all segments saw price increases between Q3 and Q4 with the dealer exchange category (closest to the value of vehicle financed by Advantage) seeing the largest increase at 8.5%.

Exhibit 3: Used car finance through dealerships



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

Exhibit 4: BCA auction prices, dealer part-exchange



Source: BCA, Edison Investment Research

Valuation

An updated version of our peer comparison table is shown below. This includes companies with an exposure to motor finance and non-standard lending. S&U trades modestly above the average P/E's for calendar years 2019 and 2020. Its historical ROE is above average and, on our estimates, will remain close to 17% for both prospective years; meanwhile the price-to-book multiple is only slightly above the average value. The dividend yield of 5% is above average.

Exhibit 5: Peer comparison							
	Price (p)	Market cap (£m)	P/E 2019 (x)	P/E 2020 (x)	Yield (%)	ROE (%)	P/BV (x)
S&U	2,380	288	10.0	9.2	5.0	17.6	1.7
Close Brothers	1,450	2,188	10.9	10.7	4.6	14.9	1.6
PCF Group	36	90	9.4	7.2	1.1	12.6	1.5
Provident Financial	477	1,204	9.0	7.9	2.1	16.1	1.7
Secure Trust Bank	1,600	297	7.8	6.6	5.2	12.7	1.2
Peer average			9.3	8.1	3.2	14.1	1.5

Source: Refinitiv, Edison Investment Research. Note: P/E's adjusted to calendar years. Priced 12 February 2020.

For reference we show the recent share price performance for the peer group. Following a positive response to the trading update S&U has performed ahead of the average for all the periods shown, while still being slightly shy of its 12 month high.

Exhibit 6: Peer group share price performance						
	1 month	3 months	1 year	YTD	From 12m high	
S&U	12.3	13.3	11.2	12.8	-3.3	
Close Brothers	-9.0	2.2	-0.5	-9.3	-12.8	
PCF Group	5.9	0.0	-1.1	2.9	-7.3	
Provident Financial	14.0	9.1	-5.6	4.2	-25.1	
Secure Trust Bank	1.3	12.7	15.9	0.0	-7.5	
Average	3.0	6.0	2.2	-0.5	-13.2	

Source: Source: Refinitiv, Edison Investment Research

Exhibit 7: Financial summary

£'000s	2016	2017	2018	2019	2020e	2021e
Year end 31 January						
PROFIT & LOSS						
Revenue	45,182	60,521	79,781	89,215	97,535	105,993
Impairments	(7,611)	(12,194)	(19,596)	(23,186)	(24,604)	(25,859)
Other cost of sales	(8,980)	(12,871)	(17,284)	(15,751)	(19,725)	(21,199)
Administration expenses	(7,131)	(8,332)	(9,629)	(10,763)	(12,266)	(13,461)
EBITDA	21,460	27,124	33,272	39,515	40,940	45,474
Depreciation	(209)	(253)	(294)	(414)	(475)	(555)
Op. profit (incl. share-based payouts pre-except.)	21,251	26,871	32,978	39,101	40,465	44,919
Exceptionals	0	0	0	0	0	0
Non recurring items	0	0	0	0	0	0
Investment revenues / finance expense	(1,782)	(1,668)	(2,818)	(4,541)	(4,962)	(5,911)
Profit before tax (FRS 3)	19,469	25,203	30,160	34,560	35,503	39,008
Profit before tax (norm)	19,469	25,203	30,160	34,560	35,503	39,008
Tax	(3,583)	(4,861)	(5,746)	(6,571)	(6,610)	(7,411)
Discontinued business after tax	53,299					
Profit after tax (FRS 3)	69,185	20,342	24,414	27,989	28,893	31,596
Profit after tax (norm)	15,886	20,342	24,414	27,989	28,893	31,596
Average Number of Shares Outstanding (m)	12.0	12.0	12.1	12.1	12.1	12.1
Diluted EPS (p)	576.5	169.1	202.4	232.0	239.3	261.7
EPS - normalised (p)	132.4	169.1	202.4	232.0	239.3	261.7
Dividend per share (p)	201.0	91.0	105.0	118.0	124.0	128.0
EBITDA margin (%)	47.5%	44.8%	41.7%	44.3%	42.0%	42.9%
Operating margin (before GW and except.) (%)	47.0%	44.4%	41.3%	43.8%	41.5%	42.4%
Return on equity	15.2%	15.2%	16.7%	17.6%	16.8%	16.8%
BALANCE SHEET						
Non-current assets	103,653	138,004	181,015	185,383	211,443	231,955
Current assets	61,903	57,763	84,178	95,430	108,995	121,301
Total assets	165,556	195,767	265,193	280,813	320,438	353,256
Current liabilities	(6,850)	(17,850)	(7,927)	(6,722)	(7,784)	(8,064)
Non-current liabilities inc pref	(30,450)	(38,450)	(104,450)	(108,724)	(132,801)	(148,701)
Net assets	128,256	139,467	152,816	165,367	179,853	196,491
NAV per share (p)	1,084	1,177	1,276	1,375	1,496	1,634
CASH FLOW						
Operating cash flow	(16,017)	(27,431)	(43,418)	10,530	(4,334)	2,276
Net cash from investing activities	80,716	(308)	(1,040)	(785)	(625)	(860)
Dividends paid	(23,090)	(9,548)	(11,377)	(13,080)	(14,453)	(15,088)
Other financing (excluding change in borrowing)	55	21	12	14	7	0
Net cash flow	41,664	(37,266)	(55,823)	(3,321)	(19,405)	(13,672)
Opening net (debt)/cash	(53,565)	(11,901)	(49,167)	(104,990)	(108,311)	(127,716)
Closing net (debt)/cash	(11,901)	(49,167)	(104,990)	(108,311)	(127,716)	(141,389)

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

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