

Morning Note Inserts

Private & Commercial* PCF (FTSE AIM All Share)

Encouraging final results

- Private & Commercial Finance Group, the AIM-quoted finance house, has announced this morning its final results for the 12 months to 31st March.
- Profit before tax was £0.455m, in line with the trading update of May 3rd though this was 14% lower than the previous year due to turnover slipping to £57.9m from £60.2m as the loan book continued its post credit crunch contraction. This was also slightly below our forecast of £0.5m which we did not adjust at the time of the May trading update.
- The loan book continued to shrink to £106.0m at 31st March from £121.9m a year earlier but profit as a % of loans improved to 0.4% from 0.3%.
- New business advances were £40.8m in the full year vs £43.4m. New business has continued to come at attractive margins and, though it slowed in H2, there are clear signs that the decline in the loan book seen post crisis is abating which augurs well looking forward.
- The quality of the portfolio continues to improve, with the level of overdue accounts improving every month in the year to date. Consequently the loan loss charge has seen a significant improvement from 4.0% to 3.5%.
- New funding lines: post-crisis, the group, like the industry, has been constrained by the limited availability of new funding. The group reports that the availability of new funding for the sector has finally started to improve and it has announced two new funding opportunities, a three year facility of £7m which is now in place and it is in negotiations with existing and new lenders for additional facilities of £8m.
- Acquisition of loan book: the group has agreed terms to buy a £6m loan which will be immediately earnings enhancing and it continues to look to acquire further books.
- Strategy review: PCF has undertaken a strategy review with a view to improving profitability. As result, the group is to look at new routes to market and insurance products to boost other income as well as continuing to look at improved funding options and the acquisition of portfolios.
- Forecasts: Looking ahead, PCF is well positioned, with fewer competitors allowing increased margins on new business. Though there are now some signs of competition emerging on the business finance side, we expect the loan book to stabilise this year with the help of the new facilities which, with the strategic initiatives, should allow profits to move forward. For FY'12 we have reduced our adjusted pre-tax forecast to £0.65m from £0.7m to reflect the portfolio contraction seen last year (growth of 43% from last year).
- View: on an historical Price/Book of 0.3x, the stock looks cheap and we retain our Buy recommendation and, though we have cut the Target Price to 10p (was 15p), this is well underpinned by the NAV of 15p.

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Buy

Price 6p
Target Price 15p

Market Cap £3.0m
Next Event AGM: Sept 30

Forecasts (£m)

	03/09A	03/10A	03/11A	03/12E
Turnover	62.9	60.2	57.9	57.9
PBT	0.3	0.3	0.5	0.7
Tax (%)	28	28	28	28
EPS (p)	1.7	0.6	0.6	0.9
DPS (p)	0.0	0.0	0.0	0.0

Ratios (x)

	03/09A	03/10A	03/11E	
P/E	3.2	8.7	10.0	6.6
Yield (%)	n/a	n/a	n/a	n/a
Price/NAV	0.2	0.3	0.3	0.4