



28 June 2011

Price

5.5p

**WESTHOUSE**

BUY

Target price

14.0p

**Private & Commercial Finance Group***Speciality Finance***COMPANY DESCRIPTION**

Specialist provider of motor vehicle and equipment finance to consumers and businesses

**Key data**

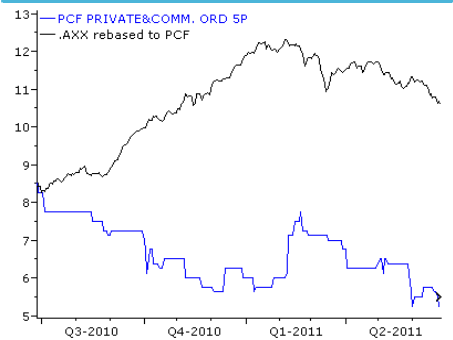
Ticker	PCF
Listing	AIM
No. of shares (m)	52.7
Market cap (£m)	2.9
Ent. value (£m)	104.5

**Top shareholders % holding**

Progressive AM (Brookwell Ltd)	20.0
Aberdeen Holdings	11.1
Octopus Investments	10.0
Worldspreads Ltd	6.3
AN Nelson	3.2

**Relative performance**

Over:	1mn	3mn	12mn
Perf (%)	-9.1	-14.5	-48.1

**Price/AIM All-Share rebased to PCF**

Unless otherwise stated, all pricing in this report is from Fidessa, as of 28 June 2011.

**Marketing communication**

**Westhouse Securities acts as nomad to Private & Commercial Finance Group**

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**Full-year results**

For the year ended 31 March, Private & Commercial Finance Group (PCFG) reported total turnover down 3.8% to £57.9m. Despite a focus on costs, the pre-tax profit fell 13.8% to £455k. With a new funding agreement in place and an improvement in the quality of new business, the company expects to grow earnings as the year progresses. We have a BUY recommendation and a target price of 14p.

**Key points**

- **Turnover down, but quality of new business improved.** Turnover fell by 3.8% to £57.9m, as tight liquidity in the banking sector led to the contraction of the group's portfolio. The gross profit fell by 10.4% to £16.7m, while the gross margin slipped from 30.8% to 28.9%. Reporting that the quality of new business has improved since the credit crisis, this has led to a higher level of profitability per £ of receivables. Meanwhile, the loan book fell from £121.9m to £106.0m, and a £1.2m gain in interest rate swaps gave rise to an increase in net assets to £7.9m, equating to 15p per share.
- **Operating costs reduced.** Adopting a defensive stance since the onset of the credit crunch, the company closed its office in Watford during the year and reduced staffing costs further. Consequently, total administration expenses fell by £1.4m to £10.6m. Operating profit decreased by 8.5% to £6.1m, while interest payable fell £0.5m to £5.7m, as the company repaid £14.5m of borrowings. Overall, the company achieved a pre-tax profit of £455k, compared to £528k the prior year.
- **Change in tax rate distorts EPS.** Due to the Government cutting Corporation Tax to 26%, this, paradoxically, had the effect of sharply increasing the tax charge for the year, from £150k to £417k, due to company's substantial deferred tax asset, of £4.6m at the year end. A non-cash charge, this reduced the net profit from £378k to £38k, and the EPS from 0.9p to 0.1p. Adjusted, by assuming a 28% tax rate, the EPS fell from 0.9p to 0.6p.
- **Outlook is a return to growth in FY 2012.** Post year end, the company has signed a new funding facility of £7m, and encouragingly, the first new facility since the start of the credit crisis. Additionally, it has agreed heads of terms for the acquisition of £6m of finance receivables, which should give growth to the portfolio, and an immediate boost to earnings. With this in place, the company expects prospects to be even brighter if it achieves its more ambitious goals.

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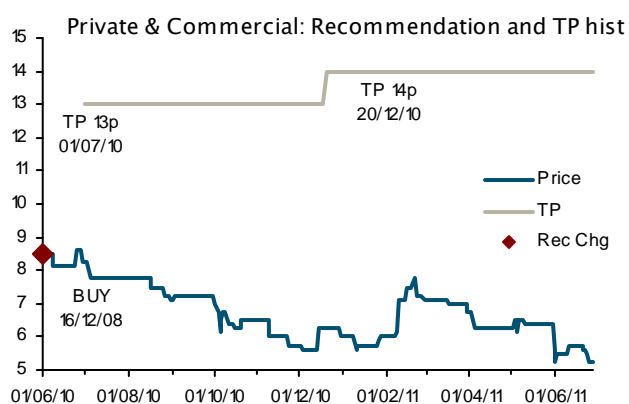
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## Recommendation and target price history



### Valuation basis

Our target price is based on a composite forward adjusted NAV of 16.4p and a 10x multiple of 2012E EPS of 1.24p.

### Risks to that valuation

Failure to secure new financing arrangements.

This recommendation was first published on 16 December 2008.

SOURCE: Bloomberg, Westhouse Securities estimates.



# WESTHOUSE

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ACCUMULATE: Forecast absolute total return of between +5% and +15%.  
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Equities recommendation breakdown: 31 March 2011	BUY	ACC.	HOLD	RED.	SELL
Overall equities coverage	71.0%	8.1%	17.7%	0.0%	3.2%
Companies to which Westhouse has supplied investment banking services	94.7%	0.0%	5.3%	0.0%	0.0%