

Morning Note Inserts

Private & Commercial* PCF (FTSE AIM All Share)

New funding facilities provide platform for growth

- Private & Commercial Finance Group, the AIM-quoted finance house, has announced this morning its interim results for the 6 months to 30th September.
- **Results:** Profit before tax was £0.242m which is well ahead of the previous year's £0.150m. This represents a distinct improvement given that turnover slipped to £26.9m from £29.4m as the loan book continued its contraction and was driven by the acquisition of the North Herts Credit Company portfolio, continuing cost reductions and improved arrears performance.
- The loan book continued to shrink to £102.6m at 30th September from £115.4m a year earlier but profit as a % of the average portfolio improved to 0.5% from 0.3%. The new Chairman pledged to improve the return to 2% from the current 0.5% over the medium term. We expect the loan book to broadly stabilise going forward with the North Herts book bedded down and the availability of the new facilities.
- New business advances were £19.7m vs £22.3m. PCF comments that organic growth has been a challenge as businesses and consumers have been less willing to take on new debt.
- Arrears and impairments are in line with management's expectations which we take to mean a touch better than last year's full year 3.5%.
- **New funding lines:** post-crisis, the group, like the industry, has been constrained by the limited availability of new funding. The group arranged two new funding opportunities during H1, two three year facilities of £7m and £3m. It also saw an increase of £5m in two of its existing facilities.
- **Acquisition of loan book:** the group acquired a £6m motor finance loan book in July which is performing in line with expectations i.e. it will be earnings enhancing. The group continues to look to acquire further books.
- **Website relaunched:** Post the group's strategy review, the website was re-launched in October to allow returning customers easier access to E-quote, the group's internet –based proposal system and the group will market more widely to its database of 40,000 past customers.
- **Forecasts:** Though there are now some signs of competition emerging on the business finance side, we expect the loan book to stabilise this year and, with the help of the new facilities, this should allow profits to move forward. For FY'12 we stay with our adjusted pre-tax forecast to £0.65m.
- **View:** on an historical Price/Book of 0.5x, the stock looks cheap and we reiterate our Buy recommendation. We have raised our Target Price to 12p (was 10p) to reflect the fact that we now look for both loan growth and higher returns going forward.

*Daniel Stewart acts as Broker to Private & Commercial

Simon Willis - Equity Analyst +44 (0)20 7776 6573 simon.willis@danielstewart.co.uk

Buy

Price 7p
Target Price 12p

Market Cap £3.8m
Next Event Trading Update: April '12

Forecasts (£m)	03/10A	03/11A	03/12E
Turnover	60.2	57.9	54.0
EBITDA	6.7	6.1	6.6
PBT	0.3	0.5	0.7
Tax (%)	28	28	47
EPS (p)	0.6	0.6	0.7
DPS (p)	0.0	0.0	0.0

Ratios (x)	03/10A	03/11A	03/12E
P/E	11.2	11.7	11.1
EV/EBITDA	15.3	16.7	15.6
Yield (%)	n/a	n/a	n/a
Price/NAV	0.3	0.5	0.5