WESTHOUSE

14 December 2011

Price	7.38p
Target price	14p

BUY

Private & Commercial Finance Group

Speciality Finance

COMPANY DESCRIPTION

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

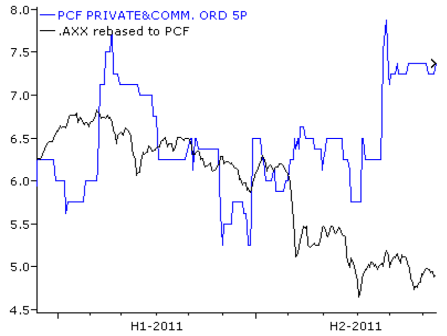
Key data	
Ticker	PCF
Listing	AIM
No. of shares (m)	52.73
Market cap (£m)	3.89
Ent. value (£m)	102.16

Top shareholders	% holding
Bermuda Commercial Bank	19.9
Octopus Investments	10.0
Progressive AM	8.9
Custodial CM	8.0
Commerzbank	6.3

Relative performance

Over:	1mn	3mn	12mn
Perf (%)	+6.3	+25.5	+50.6

Price/AIM All-Share rebased to PCFG



Unless otherwise stated, pricing in this report is from Fidessa, as of 13 December 11 close.

Marketing communication

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

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Interim results: On track for growth

PCFG has reported its results for the six months to 30 September 2011. While there was a decline in revenue and total portfolio loans compared to the same period of last year, we note the healthy improvement in the operating margin and growth in pre-tax profit. With new term funding in place and an acquisition of receivables that is expected to be earnings enhancing, we remain confident for the full year. We maintain our BUY recommendation and target price of 14p.

Key points

- **Revenue down; profit up.** For the period, the company reported an 8.7% decline in revenue to £26.9m, as customers remained cautious about taking on borrowings. Despite this, lower bad debt charges, as a result of the improvement in the quality of the loan portfolio, helped lift operating profit by 2.8% to £3.0m, and pre-tax profit by 61.3% to £242k.

- **New funding provides encouragement.** During the period, the company secured two new three-year funding facilities totalling £10m, in addition to expanding existing facilities by £5m. Marking a return to growth, the company acquired a £6m portfolio of receivables.

- **Company seeks further acquisitions.** Given that the competitive environment remains challenging, PCFG continues to seek additional acquisitions of loan portfolios. With the fixed infrastructure in place to support an enlarged portfolio, the management sees such acquisitions as earnings enhancing.

- **Outlook.** PCFG's interim results were in line with our expectations, giving us confidence for the full year. Marking a return to growth and PCFG's target of a 2% return on average portfolio of assets in the medium term (versus 0.5% at present), we see further upside.

Year end March	Revenue (£000)	Op prf (£000)	PBT (£000)	Net prf (£000)	EPS (p)	PER (x)	BVPS (p)
FY 09A	62,922	8,814	263	159	0.6	12.3	14.4
FY 10A	60,200	6,677	528	378	0.9	8.2	12.7
FY 11A	57,940	6,112	455	38	0.1	73.8	15.0
FY 12E	56,000	6,336	657	348	0.7	10.5	15.7
FY 13E	57,750	6,861	1,066	639	1.2	6.1	16.9

SOURCE: Company data, Westhouse Securities estimates.

Interim results

PCFG has announced its interim results for the six months ended 30 September 2011. For the period, the company reported an 8.7% decline in revenue to £26.9m, as the uncertain economic environment led to a reduction in customers' willingness to take on new debt, and the deferment of investment decisions.

The strategy of focusing on good-quality new business, and turning away that which may be of higher risk, resulted in a lower overall lending rate due to the run-off of higher-risk/higher-return loans. With a change in the mix of the loan portfolio, the gross margin declined to 28.5% for the period, compared to 29.6% the prior year, and 28.9% for the year to 31 March 2011. The consequence of this was that the gross profit fell by 11.9% to £7.7m, and new business originations declined by £2.6m.

Despite the fall, a 19.2% reduction in administration expenses, from £5.8m to £4.7m, resulted in a 2.8% increase in the operating profit to £3.0m; and an improvement in the effective operating margin from 9.8% to 11.1%. Driving the improvement was a lower level of bad debt charges, as the quality of the portfolio improved and the number of past-due accounts reduced. Management indicates that the bad debt charge has declined to approximately 3.4% of the average loan book. The closure of the company's second office in Watford, and the reallocation of resources to its head office in Victoria, also gave rise to lower administration expenses, although having closed in mid-August and at marginal cost, its impact on the period ended 30 September was only small. Management expects the full benefit to be realised in the second half of the year, and to be ongoing as a result of the lower level of central costs.

The interest expense was unchanged on the year at £2.7m, resulting in a 61.3% increase in pre-tax profit to £242k, equating to a return on average portfolio assets of 0.5%, up from 0.3% last year. Over the medium term, the company has set itself a target of improving the return on average assets to 2.0%: for this period, for example, this would have generated a pre-tax profit of approximately £1.0m.

With a tax charge of £113k, this equated to an effective tax rate of 46.7%. However, distorting this was the government's lowering of the corporation tax rate, which had the paradoxical effect of reducing PCFG's deferred tax asset from £4.6m to £4.5m over the period, which fed through to the income statement. In total, the company achieved a 19.4% increase in net profit to £129k, equating to EPS of 0.24p, compared to 0.20p for the same period last year.

During the period, the company secured two new three-year funding facilities totalling £10m, and made small increases to its existing facilities totalling £5m. In addition, PCFG acquired a portfolio of £6m of receivables in July, which it reports have bedded in well, delivering returns in line with expectations. Aside from the acquisition being earnings enhancing – if only for three months of the interim period – it marks a return to growth for PCFG, following a sustained period of portfolio run-off. While acknowledging that competitive pressures have returned, the company continues to look for similar acquisition opportunities which would be earnings enhancing.

To facilitate its operational capabilities the company has IT infrastructure in place to support this growth. During the period, it relaunched its website, which is now more customer-focused and provides a direct portal for returning customers to access eQuote, its online proposal system. With a database of 40,000 past and present customers, this provides direct access to quality customers with a known credit history, and at marginal cost, giving the potential for new business generation.

At 30 September 2011, total portfolio loans stood at £102.6m, down 3.2% compared to 31 March; while total borrowing was down 3.5% over the same period, to £98.5m. Net assets were £8.2m at 30 September, equating to a NAV per share of 15.5p, up from 13.9p last year and 15.0p at 31 March.

Forecasts

While the total loan portfolio reduced by £3.4m over the period, we see this as a marked improvement on the declines of £16.1m for FY 2011 and £11.0m for FY 2010. This, combined with a focus on quality new business and enhanced operating margins, signals to us that the company is making good progress on its return to growth.

We have made slight revisions to our FY 2012 forecasts, although we leave those for FY 2013 unchanged. We have lowered our FY 2012 revenue forecast slightly, from £57m to £56m, although with an improvement in margins, we maintain our pre-tax profit figure of £657k. Adjusting the full-year tax rate from 40% to 47%, in line with the interim results, we keep our EPS forecast at 0.7p, due to rounding.

Worth highlighting, however, is that for FY 2012 and FY 2013, we forecast average returns on portfolio assets of 0.6% and 1.0%, respectively. The management has guided towards a target of an average return on portfolio assets of 2.0% over the medium term, and we see scope to revise our forecasts upwards, should the company gain traction with this. For the moment, however, we err on the side of caution. We maintain our **BUY** recommendation and target price of 14p.

Financials

Income statement

Year ended March (£000)	2009A	2010A	2011A	2012E	2013E
Revenue	**62,922**	**60,200**	**57,940**	**56,000**	**57,750**
Costs of sales	-41,069	-41,516	-41,203	-40,600	-42,158
Gross profit	**21,853**	**18,684**	**16,737**	**15,400**	**15,593**
Administration expenses	-13,039	-12,007	-10,625	-9,064	-8,732
Operating profit	**8,814**	**6,677**	**6,112**	**6,336**	**6,861**
Interest receivable	4	0	0	0	0
Interest payable	-8,555	-6,149	-5,657	-5,679	-5,796
Pre-tax profit	**263**	**528**	**455**	**657**	**1,066**
Income tax expense	-104	-150	-417	-309	-426
Net profit	**159**	**378**	**38**	**348**	**639**
Number of shares (000)	28,569	52,721	52,726	52,731	52,731
EPS - Basic (p)	**0.6**	**0.9**	**0.1**	**0.7**	**1.2**
Margins (%)					
Gross	34.7	31.0	28.9	27.5	27.0
Operating	14.0	11.1	10.5	11.3	11.9
Pre-tax	0.4	0.9	0.8	1.2	1.8
Net	0.3	0.6	0.1	0.6	1.1
Return on portfolio assets		0.4	0.4	0.6	1.0

SOURCE: Company data, Westhouse Securities estimates.

Balance sheet

Year ended March (£000)	2009A	2010A	2011A	2012E	2013E
Assets					
Goodwill	397	397	397	397	397
Other intangible assets	302	855	816	800	750
Property, plant and equip.	190	173	100	125	125
Loans and receivables	84,912	69,195	55,599	56,155	56,408
Deferred tax	4,215	4,968	4,602	4,010	3,850
Non-current assets	**90,016**	**75,588**	**61,514**	**61,487**	**61,530**
Loans and receivables	49,555	52,697	50,366	50,970	51,225
Trade and other receivables	500	572	417	420	420
Corporation tax	0	0	0	0	0
Cash and cash equivalents	437	660	1,047	518	720
Current assets	**50,492**	**53,929**	**51,830**	**51,908**	**52,365**
Total assets	**140,508**	**129,517**	**113,344**	**113,395**	**113,894**
Liabilities					
Interest bearing loans	37,370	8,761	29,611	29,404	29,401
Trade and other payables	1,154	1,860	1,281	1,396	1,215
Derivative instruments	291	320	393	393	393
Corporation tax	1,116	965	306	0	0
Bank overdrafts	0	300	645	0	0
Current liabilities	**39,931**	**12,206**	**32,236**	**31,193**	**31,008**
Net current assets	**10,561**	**41,723**	**19,594**	**20,737**	**21,356**
Derivative instruments	4,016	2,719	698	698	698
Interest bearing loans	92,445	107,889	72,525	73,250	73,243
Non-current liabilities	**96,461**	**110,608**	**73,223**	**73,948**	**72,941**
Total liabilities	**136,392**	**122,814**	**105,459**	**105,141**	**104,949**
Net assets	**4,116**	**6,703**	**7,885**	**8,273**	**8,945**
Equity					
Called-up share capital	1,428	2,636	2,637	2,637	2,637
Share premium	4,192	4,377	4,384	4,384	4,384
Capital reserve	3,873	3,873	3,873	3,873	3,873
Other reserves	-2,664	-1,848	-700	-525	-525
Own shares	-243	-243	-255	-255	-255
Profit and loss account	-2,470	-2,092	-2,054	-1,841	-1,169
Equity shareholders' funds	**4,116**	**6,703**	**7,885**	**8,273**	**8,945**
NAV (p)	**14.4**	**12.7**	**15.0**	**15.6**	**16.9**

SOURCE: Company data, Westhouse Securities estimates.

Cash flow

Year ended March (£000)	2009A	2010A	2011A	2012E	2013E
Profit/(loss) before tax	263	528	455	657	1,064
Amortisation of intangibles	136	166	163	129	129
Amortisation of issue costs	48	7	33	33	33
Depreciation	62	72	54	54	54
(Profit)/loss on sale of PPE	7	0	-2	0	0
FV movement on derivatives	427	-190	-194	0	0
Change in loans	-4,197	12,575	15,927	-1,160	-508
Change in other receivables	779	-72	155	-3	0
Change in payables	-779	760	-712	115	-296
Cash flows from operating activities	**-3,254**	**13,846**	**15,879**	**-176**	**593**
Tax (paid)/received	54	-1,372	-1,183	-16	-266
Cash flow from operating activities	**-3,200**	**12,474**	**14,696**	**-192**	**326**
Purchase of PPE	-123	-59	-3	-79	-54
Proceeds from sale of PPE	23	5	24	0	0
Purchase of other intangible assets	-215	-719	-124	-113	-79
Cash flow from investing activities	**-315**	**-773**	**-103**	**-192**	**-133**
Proceeds from issue of share capital	0	1,360	0	0	0
Proceeds from borrowings	6,540	0	-12	0	0
(Repayment)/receipt of borrowings	-1,467	-13,138	-14,539	518	-10
Cash flow from financing activities	**5,073**	**-11,778**	**-14,551**	**518**	**-10**
Net change in cash	1,558	-77	42	135	183
Cash at start of the year	-1,121	437	360	402	537
Cash at the end of the year	**437**	**360**	**402**	**537**	**205**

SOURCE: Company data, Westhouse Securities estimates.

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PCFG	
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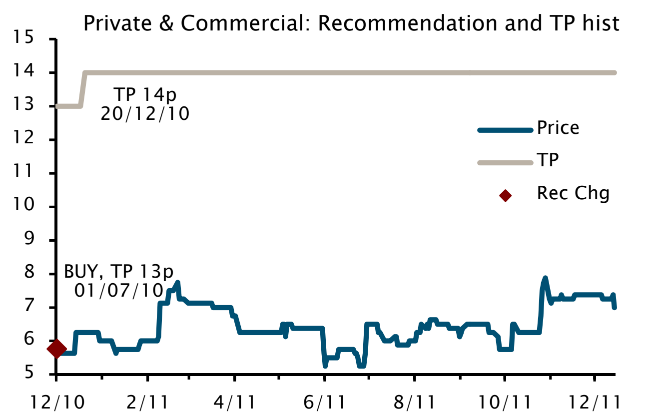

SOURCE: Bloomberg, Westhouse Securities estimates.

Private & Commercial Finance Group

Valuation basis

Our target price is based on a composite forward adjusted NAV of 16.9p and a 10x multiple of 2013 EPS of 1.2p.

Risks to that valuation

Failure to secure new financing arrangements.

This recommendation was first published on 17 December 2008.

WESTHOUSE

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BUY:	Forecast absolute total return in excess of +15%.
ACCUMULATE:	Forecast absolute total return of between +5% and +15%.
HOLD:	Forecast absolute total return of between -5% to +5%.
REDUCE:	Forecast absolute total return of between -15% and -5%.
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Total return is defined as the movement in the share price over a 12-month period, and includes any dividends paid.

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Equities breakdown: 30 September 2011	BUY	ACC.	HOLD	RED.	SELL
Overall equities coverage	79.7%	4.7%	14.1%	1.6%	0.0%
Companies to which Westhouse has supplied investment banking services	100.0%	0.0%	0.0%	0.0%	0.0%

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