

Regulatory tick of approval

Cash Converters International (ASX:CCV) is a consumer finance company operating as a service provider, owner and franchisor of second-hand goods and financial services stores in Australia and internationally. RaaS recently initiated coverage on CCV, pointing to a multi-layered growth strategy complemented by potential upcoming catalysts. The first of those catalysts has now been announced with the finalisation of the AUSTRAC enforceable undertaking. This process began in February 2023 in relation to Cash Converters' historical compliance with Australia's anti-money laundering and counter-terrorism financing (AML/CTF) laws. The process has now been concluded and AUSTRAC considers the matter finalised. We view this favourable outcome as a material development as it not only marks the likely end to ongoing regulatory hurdles faced by the company but is strong validation of the compliance of the systems, procedures, and products that the CCV team have worked hard to overhaul in recent years. This provides the company with a clear pathway to focus on growth of its product range and loan book over the coming periods. Our forecasts remain unchanged and we retain a DCF-based valuation of \$0.40/share, representing capital upside of 78% with a 9% fully franked yield.

Business model

Cash Converters is a diversified business generating income through many revenue streams and geographies. The store network, particularly in Australia, New Zealand, and the UK, provides the company with a well understood and loyal customer base, to which CCV offers several loan products and services, well beyond the sale and purchase of second-hand goods. That cohort of customers is showing strong demand for CCV's suite of products. Having emerged from the Covid environment, the loan book is being regenerated and growing strongly, with a composition of loan products that are highly regulated, less risky, and longer in duration than those of the past. This growth will be complemented by the corporatisation of more stores away from the franchise model, both domestically and offshore, giving CCV increased control and significant earnings upside.

AUSTRAC clearance a key milestone

CCV has worked hard to comply with the changing credit laws environment over the past decade or so. This is discussed in detail in our recent Initiation Report ([Cash Converters RaaS Initiation Report 24 Jan 2024](#)). This favourable outcome of the AUSTRAC EU marks the end of a lengthy process and illustrates that CCV is now well positioned to operate in a full and compliant manner in what is a highly regulated part of the consumer lending market. This relates to all parts of the Australian business.

DCF valuation of \$0.40/share

We have undertaken a discounted cash-flow valuation and derived a value of \$0.40/share. CCV also offers value on several other financial metrics, including a deep discount to intrinsic value on an ROE-based methodology and a relative PER pricing discount of 43% to peers. We see this as further validation of inherent value, particularly considering forecast EPS growth with a CAGR of 18% over a three-year forecast period. If management can deliver on its growth ambitions, CCV is a compelling investment, offering both capital growth and income. Corporate appeal from EZCorp, the largest shareholder with ~44%, cannot be ruled out.

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA (adj.)	NPAT (rep.)	NPAT (adj.)	EPS (adj.) (c)	P/E (x)
06/22a	245.9	52.7	11.2	19.0	3.3	6.8
06/23a	302.7	57.2	(97.0)	20.2	3.1	7.3
06/24f	385.0	57.9	18.1	18.1	2.8	8.1
06/25f	404.6	69.5	23.3	23.3	3.6	6.3
06/26f	432.5	86.5	32.8	32.8	5.0	4.5

Source: Company data, RaaS estimates for FY24f, FY25f and FY26f

Consumer Finance

31 January 2024

Share Details

ASX code	CCV
Share price (30-Jan)	\$0.225
Market capitalisation	\$141.2M
Shares on issue	627M
Net debt (30-Jun-2023)	\$65.4M

Share Performance (12 months)



Upside Case

- Acquire large franchisees in Australia and the UK to further increase corporate ownership
- Deliver loan growth in new products ahead of expectation
- Drive earnings upside from recently acquired offshore businesses

Downside Case

- Severe economic deterioration driving bad debts or prolonged increase in funding costs
- Higher for longer interest rates reduce profitability
- Regulatory or legal matters

Catalysts

- Delivery of a clean interim result with strong loan book growth (Feb-24)
- Increase of the debt facility for funding certainty and loan book growth (H1 '24)

Board of Directors

Timothy Jugmans	Non-Executive Chair
Peter Cumins	Exec. Deputy Chair
Sam Budiselik	Managing Director/CEO
Lachlan Given	Non-Executive Director
Julie Elliot	Ind. Non-Exec. Director
Robert Hines	Ind. Non-Exec. Director
Harry Shiner	Ind. Non-Exec. Director
Mark Ashby	Ind. Non-Exec. Director

RaaS Initiation Report

[Cash Converters RaaS Initiation Report 24 Jan 2024](#)

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FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

of

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ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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