Research as a Service

Flash Comment

9 May 2024

Pioneer Credit Limited

Expected investment guidance upgrade

Pioneer Credit Limited (ASX:PNC) is one of the leading acquirers and managers of impaired credit in Australia and has gained its status by maintaining positive customer engagement, an unblemished compliance record with ASIC, and strong relationships with Australia's largest bank and non-bank lenders. PNC purchases debt from numerous Australian vendor partners (18 different vendors in the past 12 months) with long-term partnership purchasing arrangements in place with Commonwealth Bank of Australia (ASX:CBA). Pioneer's success in purchasing large debt portfolios at attractive IRRs since October highlights the strong position the company occupies in the marketplace, now enhanced by the recent purchases on attractive IRRs. The company affirms progress on refinancing and we expect the new facility to be finalised before 30 June. Management reiterated the estimated benefit of the restructure is in the range of $8m-$11m with savings falling directly to NPAT in FY25. Our forecasts do not take this fully into account. Finance provided by Nomura previously allowed PNC to raise investment guidance from $60m to $85m for FY24 and in part caused us to raise our forecasts and valuation at that time. Guidance has now increased to $95m after the equity raise on 27 March 2024.

Business model

Pioneer Credit Limited acquires and manages performing and non-performing consumer debt portfolios (PDPs). The company acquires portfolios of defaulted consumer (non-mortgage) debts from the "Big Four" banks and other credit providers. Operations involve purchasing distressed debt portfolios at a discounted rate and then collecting the outstanding amounts from the debtors. PNC generates revenue by recovering the debts via contacting the debtors and negotiating payment arrangements or settlements. The company borrows at a margin over bank bills to fund purchases of PDPs, paying a discounted face value typically less than $0.20/$ of debt. Profit then depends on ethical and efficient management of the debtor/customer and accurate assessment of the credit risk inherent in the debtor profile.

Debt purchases up 12% to circa $95m following equity issue

Pioneer has followed through on the recent $10m equity capital raise by upgrading PDP guidance to include the portfolio opportunities which prompted the issue. We understand the IRR on purchases exceeds 25%, we believe highlighting PNC as a preferred purchaser and the reduced competition in the market. With this confirmation we leave our estimates and valuation unchanged despite the increase in the equity raise from 11m shares to 22m shares. We believe the IRR on acquisitions and likely improving collections performance from other portfolios will offset the dilution. Confirmation of a positive refinancing should see further upgrades.

Valuation base case at $217m ($1.93/share)

Our valuation is based on the discounted cash-flow methodology using a discount rate of 16.5% (beta 2.0, risk-free rate 3.5%). We have modelled three cases mainly differentiated by finance margin, PDP price and cash collection performance, and including a cyclical component in our estimates. Our base-case valuation is $217m or $1.93/share. Our downside case values PNC at $186m ($1.65/share), while we can see potential upside to $286m ($2.54/share) using a range of more positive factors.

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

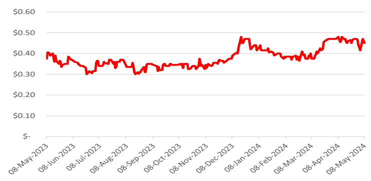
Year end	Revenue	EBITDA	EBIT	NPAT	EPS (c)	P/E (x)	Price/Book (x)
06/22a	62.6	8.9	6.1	(33.1)	(29.2)	n.a.	5.8
06/23a	73.7	36.2	34.0	0.2	0.2	281.5	6.3
06/24f	89.4	42.1	39.9	3.5	3.2	18.3	5.5
06/25f	100.1	45.3	42.8	14.5	10.8	4.4	6.4

Source: Company data; RaaS Advisory estimates for FY24f and FY25f

Share Details

ASX code	PNC
Share price (8-May)	$0.45
Market capitalisation	$58.2M
Shares on issue	129.4M
Cash on hand 31-Dec-2023	$9.2M
Free float	~58%

Share Price Performance (12 months)



Upside Case

- PNC retains strong relationships with major banks based on quality of results
- Prices for debt portfolios weaken as majors high-grade their portfolios
- PNC refinances successfully at lower margins over BBSY bill rates

Downside Case

- Portfolio performance weakens more than expected as financial stress increases
- Banks do not sell more debt portfolios as credit growth slows
- Borrowing interest rates remain higher for longer

Catalysts

- Announcement of refinancing at commercial rather than punitive interest rates
- Increased purchases of debt portfolios
- Signs of improved efficiency allowing greater scale benefits

Company Contact

Keith John (CEO/Executive Director) +61 438 877 767

krjohn@pioneercredit.com.au

RaaS Contacts

Scott Maddock +61 418 212 625
scott.maddock@raasgroup.com

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415, of

BR SECURITIES AUSTRALIA PTY LTD; ABN 92 168 734 530; AFSL 456663

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Contact Details, BR and RaaS

BR Head Office: Level 1, 160 Edward Street, Brisbane, QLD, 4000 www.brsecuritiesaustralia.com.au

RaaS:. c/- Rhodes Docherty & Co Pty Ltd, Suite 1, Level 1, 828 Pacific Highway, Gordon, NSW, 2072.

P: +61 414 354712

E: finola.burke@raasgroup.com

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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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