

14 May 2024

Pioneer Credit Limited

Refinancing progress – proposed margin reduction

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. On 6 May the company affirmed progress on refinancing and 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. PNC announced on 13 May that the indicative senior debt refinancing package of \$220m will also require consent from holders of the \$55.5m Medium Term Notes for a reduction in margin of circa 225bps provided total margin does not fall below 8.0%.

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.

Senior debt refinancing progressing

Following the recent upgrade in investment guidance (see [RaaS report 9 May](#)) PNC has announced progress on the refinance of its existing senior debt. Key terms include a facility of at least \$220m to fund refinancing of the existing facility and associated costs, and a separate facility of at least \$25m, both with a maturity date 48 months after close. As part of the total structure PNC is proposing to holders of the \$55.5m in Medium Term Notes a change to the margin structure to 250bps over the new senior margin with a floor of 800bps. Effectively a 225bps reduction in margin. The change, to be voted on by holders, includes an extension of maturity of 54 months (six months later than the new facility) and removal of some operating constraints. We will await completion of the refinancing, which is expected before the end of the financial year, before updating our valuation.

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	278.5	6.4
06/24f	89.4	42.1	39.9	3.5	3.2	18.1	5.6
06/25f	100.1	45.3	42.8	14.5	10.8	4.3	6.5

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

Share Details

ASX code	PNC
Share price (13-May)	\$0.465
Market capitalisation	\$61.2M
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

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FINANCIAL SERVICES GUIDE

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

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