

## Turning point

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 including a long-term purchasing partnership arrangement with Commonwealth Bank of Australia (ASX:CBA). We believe Pioneer's success in purchasing large debt portfolios at attractive IRRs in FY24 highlights the strong position the company occupies in the marketplace. PNC has successfully refinanced increasing capacity and lowering finance costs from BBSW +875bps to BBSW +550bps. We think the benefit of the cost reduction combined with improving market dynamics and efficient operations leaves PNC in a significantly more secure position compared to the period post-COVID and AASB changes. We expect these structural improvements to flow through to improved returns over the next two years, noting FY25 guidance and FY26 management LTI targets are both within our forecast range. Pioneer's return to dividend paying is possible but will be affected by taxable status following recognition of the deferred tax asset.

### 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.

### Resolution of financing clears the way

Pioneer has returned to (normalised) profit posting FY24 NPAT of \$1.2m. The impact of recognising \$21.4m in deferred tax assets and a precautionary provision for the potential impact of economic deterioration of \$17.8m delivered a statutory loss of \$10.0m. Most importantly, PNC finalised a refinance, lowering future interest costs and increasing borrowing capacity, in a period of increased opportunity and reduced competition in the Purchased Debt Portfolio (PDP) market. Management believes the company is in a strong position to expand PDP purchases and returns from the business.

### Valuation base case at \$263m (\$1.96/share)

Our valuation presumes an ongoing business rather than treating the company as a run-off portfolio. The 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 has increased to \$263m or \$1.96/share [(from \$217m or \$1.93/share) reflecting improved financing and increased shares on issue. Our downside case values PNC at \$247m (\$1.84/share), while we can see potential upside to \$300m (\$2.23/share) using a range of more positive factors. Finance interest margin and cash collection performance are the crucial determinants of value, in our view.

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

Year end	Revenue	EBITDA Adj.	EBIT	Adj. NPAT	EPS (c)	P/E (x)	Price / Book (x)
06/23a	132.6	86.1	31.2	0.2	0.2	322.3	5.9
06/24a	145.0	99.5	35.3	1.2	(8.1)	n.a.	5.3
06/25f	150.0	95.9	50.4	9.8	7.3	7.0	5.9
06/26f	155.7	100.6	49.3	16.5	12.3	4.1	6.4

Source: Company data, management accounts presentation, RaaS forecasts FY25f-FY26f

## Financial Services

13 September 2024

### Share Details

ASX code	PNC
Share price (12-Sep)	\$0.48
Market capitalisation	\$64.8M
Shares on issue	135M
Cash at 30-Jun-2024	\$4.2M
Free float	57%

### Share Performance (12 months)



### Upside Case

- PNC retains strong relationships with major banks based on quality of results
- Competitor withdrawal likely improves PDP returns
- Refinancing allows further expansion of the business.

### Downside Case

- Portfolio performance weakens more than expected as financial stress increases
- Sale of debt portfolios is restricted in a weakening economy
- Borrowing interest rates remain higher

### Company Interview

[Pioneer Credit RaaS Interview 2 July 2024](#)

### Board and Management

Stephen Targett	Non-Executive Chairman
Suzan Pervan	Non-Executive Director
Pauline Gately	Non-Executive Director
Andrew Whitechurch	Non-Executive Director
Keith John	Managing Director
Barry Hartnett	Chief Financial Officer
Andrea Hoskins	Chief Operating Officer
Sue Symmons	Co. Sec./General Counsel

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### RaaS Contact

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## FY24 Result Analysis

Pioneer again reported strong revenue growth and increased PDP acquisition activity in an improved competitive landscape, and a strongly positive outlook. Key aspects of the FY24 result included:

- Write-back of the \$21.4m deferred tax asset as the company returns to profit. This suggests PNC will not pay tax for at least several years;
- The board made a precautionary impairment of \$17.8m against the PDP portfolio in light of a potentially weakening economic position following a period of higher interest rates and higher inflation;
- PNC incurred a range of one-off costs associated with refinancing and other expenses of \$11.2m resulting in a normalised profit of \$1.2m.

<b>Exhibit 1: Fiscal year data on a statutory basis (A\$m)</b>					
	FY20a	FY21a	FY22a	FY23a	FY24a
Interest income at amortised cost	60.1	57.0	62.6	73.7	83.6
Other income	(6.5)	(3.6)	(8.3)	9.0	4.9
Precautionary impairment					(17.8)
Costs	(54.3)	(42.7)	(53.8)	(46.5)	(57.0)
EBITDA	(0.7)	10.7	0.5	36.2	14.1
Depreciation	(4.4)	(3.8)	(2.8)	(2.2)	(1.8)
Finance costs	(38.5)	(26.7)	(39.1)	(33.8)	(43.6)
Pre-tax profit	(43.5)	(19.8)	(41.4)	0.2	(31.4)
Write-back of deferred tax asset					21.4
Statutory NPAT	(39.7)	(22.5)	(41.5)	0.2	(10.0)
Add back one-off expenses					11.2
Normalised NPAT	(39.7)	(22.5)	(41.5)	0.2	<u>1.2</u>
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Operating cash flow	(8.4)	(17.0)	(46.8)	(19.2)	(28.8)
Investing cash flow	(0.66)	0.9	(0.8)	(0.5)	(0.7)
Financing cash flow	2.7	15.5	60.3	5.8	25.3
Net cash flow	(6.3)	(0.6)	12.7	(13.9)	(4.3)
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Net debt	(5.3)	193.6	222.3	266.2	289.4
PDP purchases reported	(60.2)	(29.8)	(75.8)	(80.7)	(79.6)

Source: Company data (statutory basis)

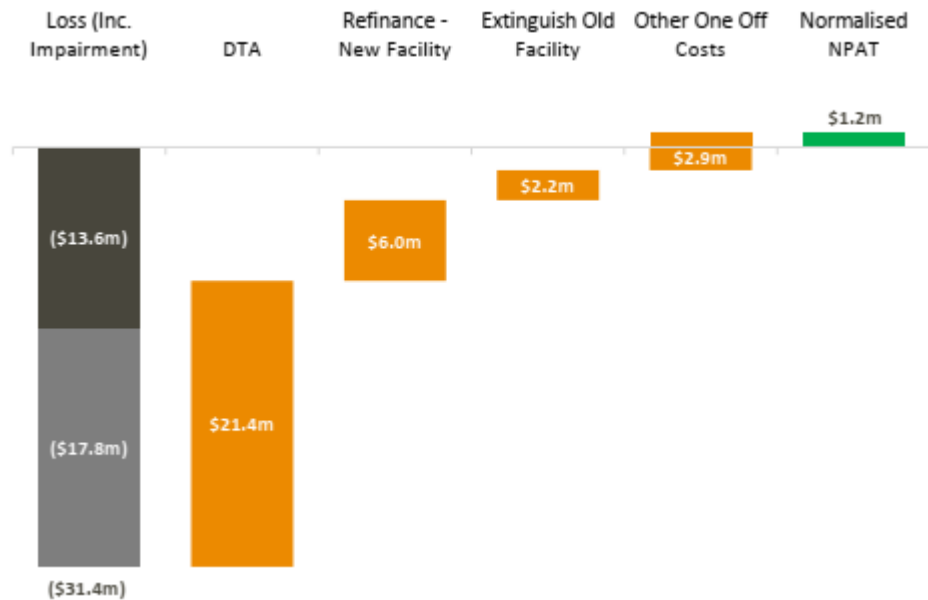
Using management's presentation (which normalises other income - generally reversionary benefits from PDP vendors - and excludes one-off expenses and the precautionary impairment) we see a 9.4% rise in cash collections following growth in the PDP portfolio since the lows in FY20 and FY21.

<b>Exhibit 2: Management presentation format (A\$m)</b>			
	FY23a	FY24a	% change
Cash collections	132.6	145.0	9
EBITDA	86.1	99.5	16
EBIT	31.2	35.3	13
Tax benefit	-	21.4	
NPAT	0.2	1.2	n.a.
<hr/>			
PDP investment	59.2	93.7	58
Estimated Remaining Collections (ERC)	567.5	641.7	13
Performing Assets (PA) portfolio	456.9	440.9	(4)
PDP Asset	304.3	322.9	6

Source: Company data, management accounts presentation, RaaS calculations

Operating expenses fell and EBIT rose a strong 13% prior to the affect of the one-off impacts shown in Exhibit 3 below. Despite the burden of high legacy finance costs PNC's underlying operations continue to strengthen.

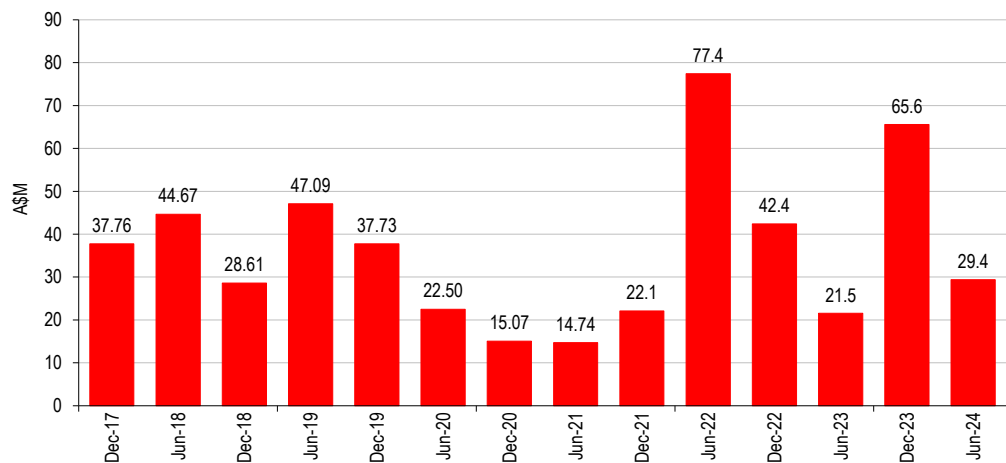
**Exhibit 3: Normalised profit waterfall (A\$m)**



Source: PNC FY24 result presentation

PDP amortisation was higher reflecting the higher level of collections. PNC noted that the replacement rate of the PDP portfolio (i.e. PDP acquisition) is currently \$56m p.a and reported that the ERC had increased 13% following higher purchasing and (implied) improvements in portfolio pricing.

**Exhibit 4: PDP purchases (statutory basis) (A\$m)**



Source: Company data

PNC's reconciliation of the management presentation of cash collections and PDP acquisitions includes a \$4.3m accounting adjustment which was required but is not a true representation from a management reporting perspective.

**Exhibit 5: Additional reconciliations between accounts and FY24 presentation (A\$m)**

Cash collections		PDP acquisitions	
Financial statements – Note 11	136.0	Financial statements – Note 11	89.0
Accounting adjustment	4.3	Accounting adjustment	4.3
Other income	4.7	FX on acquisitions	0.4
Total cash collections (per slide 4)	145.0	Total PDP acquisitions (per slide 4)	93.7

Source: Company data

## Key Events

Significant events in the year included:

- Replaced expensive financing following settlement of a new four-year \$273m syndicated debt facility;
- Made a precautionary impairment of \$17.8m despite current strong portfolio performance;
- Recognised \$21.4m of deferred tax assets;
- Improved EBITDA margin via cost control and improved cash collections;
- Continued competitor withdrawal from the market enhanced PNC’s position and outlook, and provided opportunities for acquisition of well-priced portfolios following competitor exits during the year.

## Investment Case

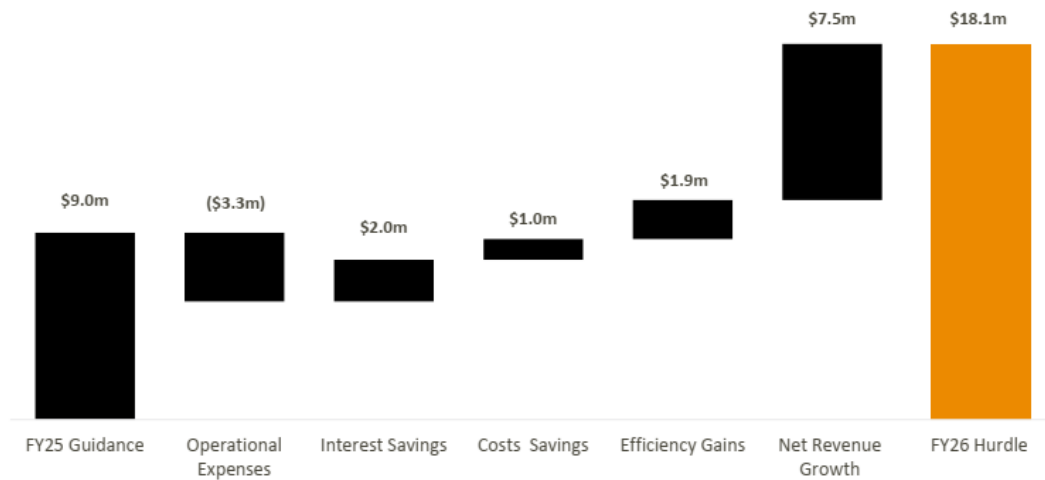
We reiterate some points made in previous research. In our view, Pioneer Credit Limited is positioned to grow strongly in the next two years due to:

- Strong credit purchasing discipline has been maintained;
- Competition in the market for debt portfolios is declining due to corporate failures, consolidation and strategic withdrawal;
- Volumes of PDPs offered for sale by major banks and non-bank institutions have increased in a higher inflation, higher interest rate environment;
- Pioneer has maintained strong relationships with vendor partners including a five-year partnership agreement with Commonwealth Bank and agreements with 13 bank and non-bank vendors. PNC purchasing represents only 25% of the estimated PDP market;
- Management interests are strongly aligned with shareholders through ownership and a long-term incentive plan with three years of annual targets and the final LTI hurdle of NPAT >\$18m in FY26. Our upside case for FY26 exceeds this level.

## Outlook and Forecast Changes

Guidance of “more than \$9m in NPAT for FY25” is consistent with our expectations of the impact of the refinancing and improved portfolio yields. We have raised our forecasts following the result and increased certainty around both the market and finance costs. For FY26 we remain slightly conservative relative to management targets, however our upside case exceeds the management target for FY26 shown in Exhibit 6.

**Exhibit 6: Bridge to FY26 LTI target (in A\$m)**



Source: PNC FY24 result presentation

Our forecasts have therefore increased because of:

- Forecast period roll-forward;
- Expected improvements in portfolio yields;
- Growing market opportunity as vendors return; and
- Impact of lower finance costs and efficiency gains.

**Exhibit 7: Change in forecasts (in A\$m unless otherwise stated)**

Year end	Revenue	EBITDA	NPAT	EPS (c)
<b>Current forecasts</b>				
06/25f	107.1	41.8	9.8	7.3
06/26f	117.2	49.6	16.5	12.3
<b>Previous forecasts</b>				
06/24f	89.6	37.6	3.5	3.1
06/25f	91.2	37.3	11.4	10.2

Source: RaaS forecasts

## Valuation

Consequently, our base-case DCF has risen +21% to \$263m from \$217m or \$1.96/share (the stock traded at \$221m in August 2018).

**Exhibit 8: Valuation range (in A\$m unless otherwise stated)**

	New valuation			Previous valuation		
	Base case	Downside case	Upside case	Base case	Downside case	Upside case
DCF valuation p.s.	1.955	1.837	2.234	1.932	1.655	2.542
DCF value	262.6	246.6	299.9	217.3	186.1	285.9
FCF FY24	10.6	10.6	10.6	30.8	29.6	33.6
FCF FY33	33.6	35.6	39.5	20.5	13.6	36.5
Revenue FY24	71.1	71.1	71.1	95.4	93.7	99.3
EBITDA FY24	14.1	14.1	14.1	42.8	41.2	46.8
Revenue FY33	117.5	117.1	119.5	82.4	70.1	100.5
EBITDA FY33	47.1	50.1	55.6	28.4	18.5	51.2
Shares used (m)	134.3			112.5		

Source: RaaS forecasts

### Exhibit 9: Financial Summary

Pioneer Credit Ltd						Share price (Date)		12/09/2024		A\$ 0.480		
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	1H23 A	2H23 A	1H24 A	2H24 A	1H25 F	2H25 F	
Sales Revenue	62.6	73.7	83.6	106.3	106.2	Revenue	36.3	37.4	41.2	42.4	50.0	56.3
Other net income	(8.3)	9.0	(12.5)	0.0	0.0	EBITDA Mment		86.1		99.5		96.2
EBITDA Mment	60.6	86.1	99.5	96.2	100.6	EBITDA	15.7	20.5	20.7	(6.6)	23.6	29.3
EBITDA	0.5	36.2	14.1	52.9	51.0	EBIT	14.6	19.4	19.7	(7.5)	22.6	28.0
Depn & Amort	(2.8)	(2.2)	(1.8)	(2.2)	(1.7)	NPAT (normalised)	(1.2)	1.3	0.0	1.1	7.3	12.5
EBIT	(2.3)	34.0	12.3	50.7	49.3	Minorities	-	-	-	-	-	-
Finance Costs	(39.1)	(33.8)	(43.6)	(40.9)	(32.9)	NPAT (reported)	(1.2)	1.3	0.0	(10.1)	7.3	12.5
Tax	(0.1)	0.0	21.4	0.0	0.0	EPS (normalised)	(1.16)	1.27	0.02	(8.14)	5.88	9.33
Minorities	0.0	0.0	0.0	0.0	0.0	EPS (reported)	(1.17)	1.27	0.02	(9.51)	6.84	11.83
Equity accounted assoc	0.0	(3.8)	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-
NPAT pre significant item	(41.5)	0.2	(10.0)	9.8	16.5	Imputation	30	30	30	30	30	30
Significant items & one-of	0.0	0.0	11.2	0.0	0.0	Operating cash flow	35.9	25.7	25.6	25.2	28.8	36.6
<b>NPAT (normalised)</b>	<b>(41.5)</b>	<b>0.2</b>	<b>1.2</b>	<b>9.8</b>	<b>16.5</b>	Free Cash flow	(23.3)	4.2	(16.5)	(12.3)	(36.2)	26.6
Cash flow (A\$m)						Divisions						
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	1H23 A	2H23 A	1H24 A	2H24 A	1H25 F	2H25 F	
Cash Collections	106.7	138.8	138.6	149.6	155.7	PNC trades as a single operational entity						
EBITDA	0.5	36.2	14.1	52.9	51.0	Revenue	36.3	37.4	41.2	42.4	50.0	56.3
Interest	(25.7)	(29.9)	(36.9)	(30.9)	(32.9)	COGS	(3.9)	(3.7)	(4.9)	(9.3)	(5.0)	(5.1)
Tax	0.0	(0.0)	(0.0)	0.0	0.0	Employment	(16.7)	(17.7)	(18.2)	(18.0)	(18.5)	(19.1)
Operating cash flow	29.0	61.6	50.8	65.4	67.7	Other costs	(2.2)	(2.2)	(2.4)	(2.2)	(2.8)	(2.9)
Mtce capex	(0.8)	(0.5)	(0.7)	(0.6)	(0.6)	EBITDA	15.7	20.5	20.7	(6.6)	23.6	29.3
Free cash flow	28.2	61.1	50.1	64.8	67.2							
Growth capex	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns						
Acquisitions/Disposals	(75.8)	(80.7)	(79.6)	(75.0)	(85.0)	FY22A	FY23A	FY24A	FY25F	FY26F		
Other	0.0	0.0	0.0	0.0	0.0	EBITDA	97%	n.a.	n.a.	91%	95%	
Cash flow pre financing	(47.6)	(19.7)	(29.6)	(10.2)	(17.8)	EBIT	n.a.	46%	15%	48%	46%	
Equity	10.2	0.0	9.5	0.0	0.0	NPAT pre significant items	n.a.	0.2%	n.a.	9.2%	15.5%	
Debt	56.8	5.8	15.8	25.0	20.0	Net Debt (Cash)	242.7	266.2	289.4	324.8	359.7	
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	4.0	3.1	2.9	3.4	3.6
Net cash flow for year	<b>19.4</b>	<b>(13.9)</b>	<b>(4.3)</b>	<b>14.8</b>	<b>2.2</b>	ND/ND+Equity (%)	(%)	120%	119%	118%	125%	128.8%
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	1.0	3.6	0.8	0.7
Y/E 30 June	FY22A	FY23A	FY24A	FY25F	FY26F	ROA		10%	4%	13%	11%	
Cash	23.1	8.4	4.2	18.9	21.1	ROE		0%	3%	18%	23%	
Accounts receivable	6.2	1.5	4.3	5.1	5.3	ROIC		0%	(3%)	3%	4%	
Purchased Debt Portfolio	96.3	106.1	114.1	134.5	147.0	<b>NTA (per share)</b>		0.38	0.39	0.32	0.47	0.59
Other current assets	4.5	4.0	1.5	5.9	5.9	<b>Working capital</b>		73.2	101.4	92.7	117.3	143.4
<b>Total current assets</b>	<b>130.0</b>	<b>120.0</b>	<b>124.0</b>	<b>164.4</b>	<b>179.3</b>	<b>WC/Sales (%)</b>		117%	138%	111%	110%	135%
PPE	9.3	8.1	6.9	7.5	8.1	<b>Revenue growth</b>		n.a.	18%	13%	27%	(0%)
Intangibles and Goodwill	1.0	0.5	0.8	0.8	0.8	<b>EBIT growth pa</b>		n.a.	#####	-64%	313%	-3%
Purchased Debt Portfolio	199.2	198.2	208.9	246.4	269.3	Pricing						
Deferred tax asset	0.0	0.0	21.4	15.4	10.5	FY22A	FY23A	FY24A	FY25F	FY26F		
Other non current assets	0.0	0.0	5.9	0.0	5.6	No of shares (y/e)	(m)	107	107	134	134	134
<b>Total non current assets</b>	<b>209.4</b>	<b>206.8</b>	<b>243.9</b>	<b>270.1</b>	<b>294.3</b>	Weighted Av Dil Shares	(m)	113	107	124	134	134
<b>Total Assets</b>	<b>339.5</b>	<b>326.8</b>	<b>367.9</b>	<b>434.5</b>	<b>473.7</b>	EPS Reported	cps	(38.9)	0.2	(7.4)	7.3	12.2
Accounts payable	29.2	6.2	25.7	22.3	9.0	EPS Normalised/Diluted	cps	(36.6)	0.2	(8.1)	7.3	12.2
Short term debt	20.4	11.3	254.3	36.8	20.9	EPS growth (norm/dil)		n.a.	n.a.	n.a.	-198%	68%
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-
Other current liabilities	3.4	4.1	4.6	3.5	3.5	DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total current liabilities</b>	<b>53.0</b>	<b>21.6</b>	<b>284.5</b>	<b>62.5</b>	<b>33.4</b>	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Long term debt	245.4	263.3	39.3	307.0	359.8	Dividend imputation		30	30	30	30	30
Other non current liab	0.0	0.0	0.0	1.1	0.0	PE (x)		n.a.	306.4	n.a.	6.6	3.9
<b>Total long term liabilities</b>	<b>245.4</b>	<b>263.3</b>	<b>39.3</b>	<b>308.0</b>	<b>359.8</b>	PE market		14.5	14.5	14.5	14.5	14.5
<b>Total Liabilities</b>	<b>298.4</b>	<b>284.8</b>	<b>323.8</b>	<b>370.5</b>	<b>393.2</b>	Premium/(discount)		n.a.	2013%	n.a.	(55%)	(73%)
<b>Net Assets</b>	<b>41.1</b>	<b>41.9</b>	<b>44.2</b>	<b>64.0</b>	<b>80.4</b>	EV/EBITDA		534.3	8.8	25.1	7.4	8.3
Share capital	113.1	113.8	124.8	124.8	124.8	FCF/Share	cps	-7.9	-16.0	-34.8	-14.3	-21.4
Accumulated profits/losse	0.0	0.0	0.0	19.8	36.3	Price/FCF share		n.a.	n.a.	n.a.	n.a.	n.a.
Reserves	(72.1)	(71.9)	(80.7)	(80.7)	(80.7)	Free Cash flow Yield		n.a.	n.a.	n.a.	n.a.	n.a.
Minorities	0.0	0.0	0.0	0.0	0.0							
<b>Total Shareholder func</b>	<b>41.1</b>	<b>41.9</b>	<b>44.2</b>	<b>64.0</b>	<b>80.4</b>							

Source: Company data, Statutory presentation basis, RaaS analysis

# 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  
Effective Date: 26<sup>th</sup> March 2024

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BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto: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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