Flash Comment

19 October 2023

Pioneer Credit Limited

CCP US write-down is <u>not</u> a signal for PNC

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 18 different Australian vendor partners with long-term partnership purchasing arrangements in place with Commonwealth Bank of Australia (ASX:CBA). We note that competitor Credit Corp Group (ASX:CCP) has announced an impairment of $45m on the carrying value of its US purchased debt ledger assets. This news has <u>no</u> implications for Pioneer Credit as it does not operate in the US debt market. We see the decline in PNC's share price post this news as a potential buying opportunity for investors. Our base case valuation is $1.58/share, a significant premium to the current price.

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. 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.

Major listed competitor writes down US portfolios.

Credit Corp (ASX:CCP) announced an anticipated 14% (A$45m) impairment of the carrying value of the US Purchased Debt Ledger (PDL) assets. These assets deliver around a third of CCP's revenue from PDLs (equivalent to PNC's term Purchased Debt Portfolio) with the balance from ANZ operations which have recorded declines in revenue in FY22 and FY23. PNC does not operate in this market and in Australia confines PDP operations to personal credit portfolios from the big four banks and other non-bank lenders. We believe CCP operations in both US and ANZ markets have significant exposure to utility bills and similar regular liabilities. PNC is not seeing a similar increase in Australian defaults in recently acquired portfolios as experienced by CCP. Our positive view on PNC is predicated on 1) a continuation of disciplined portfolio debt purchases at or below $0.20c / $1.00 of debt exposure, and 2) an improved cost of finance as the difficulties of 2019 recede.

Valuation base case at $177m ($1.58/share)

Our valuation is based on the discounted cashflow 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 $177m or $1.58/share. Our downside case values PNC at $146m ($1.30/share), while we can estimate upside to $236m ($2.11/share) using a range of more positive factors.

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

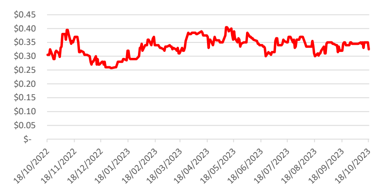
Year end	Revenue	EBITDA	EBIT	NPAT	EPS (c)	P/E (x)	Price/Book (x)
06/22a	62.6	8.9	6.1	(33.1)	(29.2)	n.a.	7.9
06/23e	73.7	36.2	34.0	0.2	0.2	216.0	8.2
06/24e	89.6	41.1	37.6	3.5	3.1	10.6	8.7
06/25e	91.2	40.7	37.3	11.4	10.2	3.2	8.2

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

Share Details

ASX code	PNC
Share price (18-Oct)	$0.325
Market capitalisation	$36.4M
Shares on issue	111.9M
Net cash 30 June 2023	$8.4M
Free float	~53%

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 (MD) +61 438 877 767
CEO and Exec. Director

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 Advisory 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: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

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

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

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

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.
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; Email: info@afca.org.au; Telephone: 1800931678 (free call)
In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.