

19 October 2023

Pioneer Credit Limited

CCP US write-down is not 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 no 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

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FINANCIAL SERVICES GUIDE

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

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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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