

S & U (SUS)

Last week's announcement of the 2013 results has demonstrated the resilience of the group, which has managed to produce yet another set of record results in its 75th year, comfortably exceeding forecasts. As the previous financial year comprised 53 weeks this is an even more impressive performance than it first seems.

Although the Home Credit division reported a small decline in profits, these were ahead on a like-for-like basis and the introduction of new products later this year should increase growth prospects at the business.

In the Motor Finance division, despite reporting 13 successive years of record profits, there is scope for yet further growth as the business gains market share and S & U is to invest £6m into this in the current financial year.

Activities

S & U is a niche consumer and motor finance provider, with operations throughout the UK. It operates with over 800 staff and agents, and provides loans to over 140,000 customers. The group carries out its operations through two divisions as follows:

i) Home Credit (2012/13 - 62% of revenue, 43% of pre-tax profit) - this operates from over 30 offices throughout England, Scotland and Wales under the brand name *loansathome4u*. The company offers a range of loans, but each loan averages about £300 with £480 being repayable over an average term of 38 weeks. An important feature of this arrangement is the strong relationship that develops between the company's representative (these number about 500) and the customer. This is shown by the fact that customers typically take out two or three loans a year. Branch managers are incentivised by a bonus system based on profits and therefore have a vested interest in the continuing success of the group.

ii) Motor Finance (2012/13 - 38% of revenue, 57% of pre-tax profit) - trading as Advantage Finance Ltd, this division provides used car finance for hire purchase agreements. The average loan is for around £5,000 and lasts for about 43 months, with around £9,500 being repayable including interest and insurances. The business is now receiving around 17,000 applications for a loan every month, although on average only just over 500 are accepted as the quality of the loan book is maintained. The rapid growth of the business means that there are now 15,000 active customers.

Results and Consensus Forecasts

Year to 31st January	Revenue (£m)	Pre-Tax Profit (£m)	Earnings per share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2012A	51.9	12.2	76.1	13.0	41.0	4.1
2013A	55.0	14.2	92.6	10.7	46.0	4.6
2014E	58.5	15.3	100.1	9.9	51.0	5.2
2015E	62.0	16.7	111.0	8.9	56.0	5.7

Financial General

The group's borrowings have risen to £20.6m (2012: £18.8m) after investing £5m in the Advantage motor finance business during the year, although gearing has fallen to a ten year low of 33.7% as net assets at the group have increased. To provide additional flexibility, a new £7m borrowing facility has been put in place that matures in March 2018. This will allow the group to expand organically, whilst also providing funds to take advantage of any suitable acquisition opportunities that may arise.

The share price has performed very strongly over the last 12 months, but this is justified by the strong growth seen at the company. Even after this rise, the shares stand on a prospective p/e ratio of just 9.9x and offer a healthy prospective dividend yield of 5.2%, allowing scope for yet further progress.



KEY DATA

Share Price:	990p
Prospective p/e ratio:	9.9x
Prospective net yield:	5.2%
Market Capitalisation:	£116m
Next Results Due (Interims):	SEPT
Gearing (at 31 Jan 2013):	33.7%
NAV per share:	520p

SHARE PRICE PERFORMANCE



BULLET POINTS

- Yet another set of record results
- Motor finance division expanding rapidly
- Solid balance sheet
- New financing in place to expand both organically and through acquisitions
- Shares stand on modest rating
- Prospective dividend yield of 5.2%

COMPANY DATA

Stockbrokers:
Arden Partners

Significant Shareholdings:
D M Coombs - 25.9%
Wiseheights Limited - 20.6%
Mrs C M G Coombs - 13.5%
G D Coombs (Dep. Chairman) - 6.7%
A M V Coombs (Chairman) - 6.2%

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Financial

In the year to 31 January 2013, the group produced another set of record results. Group revenues increased by 6% to £55.0m (2012: £51.9m), whilst pre-tax profits rose by 16% to £14.2m (2012: £12.2m) and earnings per share were up 22% at 92.2p (2012: 76.1p). A final dividend of 20p per share (2012: 18p) took the payout for the year to a record 46p (2012: 41p). These results were even more impressive considering that the previous financial year was a 53 week period. Gearing fell to its lowest level in a decade at 33.7% (2012: 34.3%) despite an increase in net borrowings to £20.6m (2012: £18.8m) - this was due to an 11% increase in the group's net assets to £61.1m (2012: £54.9m) or 520p per share (2012: 467p).

The Home Credit Division had a solid year, with revenues at a similar level to 2012, although the previous year was a week longer as referred to above. Pre-tax profits at the division fell slightly to £6.1m (2012: £6.3m), although they were up 2.2% on a like-for-like basis. Clearly, the business suffered from a more cautious approach from its customers due to the poor economic climate and yet its profits were still the second highest ever. The group has responded to the difficult trading conditions by improving the quality of its loan book through conservative underwriting and it is developing new products for the benefit of existing customers, whilst also creating other products which may appeal to potential, more affluent customers. Both product suites are scheduled to be launched in the second half of the current financial year.

The motor finance business Advantage Finance had another excellent year, producing record profits for the 13th consecutive year, helped by an investment in the business of £5m during the year. Profit before tax was up 37% to £8.1m (2012: £5.9m) helped by a 17% increase in revenues to £20.8m (2012: £17.8m). Customer advances increased by 35% during the year and net receivables are now a record £52.5m (2012: £42.3m). Collections are also at a record high of almost £3m per month, with impairment charges at their lowest absolute as well as relative level for five years. During the year the business reached the milestone of its 50,000th deal since it was established and, with further significant opportunities for expansion, another £6m will be invested in the business during the current financial year.

Prospects

The latest results have shown the effectiveness of S & U's business model and, with no sign of any let-up in the current regime of austerity, there is clearly scope for the company to continue to grow.

In Home Credit, the launch of new products should help to generate new business with existing clients as well as introduce new customers, whilst the recent review of the group's operations by the regulator was favourable. The rapid expansion seen at Advantage Finance, which has seen pre-tax profits almost double in two years, looks set to continue with significant investment planned for the current year. Although gearing at the group is at a ten-year low at only 33.7%, the new £7m medium-term borrowing facility, which has been put in place since the year end, will provide additional flexibility to fund expansion, whether this be organic or by acquisition.

Following the announcement of the 2013 results, we have increased our pre-tax profit forecast for the current financial year to £15.3m, reflecting the enhanced prospects for the group. Despite the strong share price performance of the last few months, the increase in forecasts means that the shares are still only modestly-rated and sport an attractive prospective dividend yield.

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