



## PCF Group (PCF)

AIM

The group owning specialist bank PCF Bank has provided further evidence that it is now set on a strong growth path with the announcement of excellent interim results covering the six month period to 31 March. The group suffered, like many financial companies, during the financial crisis but remained profitable and weathered the storm with the help of its major shareholder Somers, a Bermudan investor group. The group then applied for a banking licence to reduce reliance on bank lending and provide access to a cheaper source of

funding from retail savers. The group was granted the licence in December 2016. The cheaper source of funding has allowed the group to maintain its interest margin while moving increasingly prime, improving the quality of the loan book. The group has seen a significant expansion in its loan book as a result with the initial target of £350m set for next year now within target ahead of schedule and a new target of £750m set for 2022. With a recent equity fund raising completed the group is well placed for growth.

### Activities

AIM-listed PCF Group was established in 1994 and is the parent of specialist bank, PCF Bank Limited. The company was granted its banking licence in December 2016, having been approved by the Prudential Regulatory Authority and the FCA. It aims to grow its loan portfolio to £750m by September 2022 from the current level of £276m. The plan is to retain a focus on portfolio quality, lending increasingly to the prime segment of existing finance markets. The group's lending products and asset classes have been diversified through acquisition and, organically, by setting up new operations.

PCF Bank currently offers retail savings products for individuals and then deploys those funds through its four lending divisions. The accounts offered by the bank are term deposits with no current accounts so that the bank has security over the length of time the funds are available. *Business Finance* provides finance for vehicles, plant and equipment to SMEs; *Consumer Finance* provides finance for motor vehicles to consumers; *Azule Limited* provides finance to the broadcast and media industry and *Bridging Property Finance* provides loans to companies and sole traders investing in residential property.

The group has built a solid track record over recent years demonstrating an efficient and scalable business model. There is certainly scope for further growth in the coming years as the group takes advantage of its status as a bank, its small market share and the relatively cheap source of funding that this supplies.

### Results and Consensus Forecasts

Year to 30th September	Net Income (£m)	Pre-Tax Profit (£m)	Earnings per share (p)	P/E Ratio	Net Dividend (p)	Net Yield (%)
2017A	11.1	3.6	1.5	22.3	0.19	0.6
2018A	15.0	5.2	2.0	16.8	0.30	0.9
2019E	23.0	7.8	2.7	12.4	0.35	1.0
2020E	29.0	10.5	3.5	9.6	0.40	1.2

### KEY DATA

Share Price:	33.5p
Prospective p/e ratio:	12.4x
Prospective net yield:	1.0%
Market Capitalisation:	£83.8m
Next Results Due (Finals):	DEC
Net Cash (31 March):	£2.88m
NAV per share (31 March):	22.2p



### BULLET POINTS

- Strong set of interim results has been released
- Both core divisions producing strong growth
- New income streams from recent diversification
- Increase in loan book of 54% to £276m
- EPS growth of 50%
- Interest margin maintained despite focus on better prime quality of lending
- Further strong growth likely going forward as loan book grows and operational gearing increases profitability

Date of Report : 11 June 2019

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## COMPANY DATA

### Stockbrokers:

Panmure Gordon & Co  
Shore Capital

### Significant Shareholders:

Somers Limited	54.3%
Hof Hoorneman Bankiers	9.2%
Bermuda Commercial Bank	8.4%
Beleggingsclub 't Stockpaert	3.3%

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## Interim Results

In the six month period to 31 March 2019, the group has continued its recent record of growth with profit before tax rising by 57% to £3.3m (H1 2018: £2.1m). Earnings per share rose 50% to 1.2p (H1 2018: 0.8p) and as usual the dividend will be declared at the Final Results. The results benefited from strong business originations with the loan portfolio increasing during the period by £97m to £276m at 31 March. Retail deposits at that date had increased to £204m and the group now has over 4,500 savings customers.

The group's net interest margin for the period was reduced to 8.0% due to more lower rate prime business but was helped by the fact that most of the group's funding now comes from retail deposits. The main driver of growth during the period was the Business Finance Division with new business originations of £56m taking the portfolio to £148m. The Consumer Finance Division also performed well despite the challenging market for used cars with new business originations of £29m taking the portfolio to £106m. The modest increase in consumer was anticipated and growth is expected later in the year when IT enhancements improve the proposition. Azure Finance, which was acquired in October, made a first time contribution of £33m of new business origination, with the newly established Bridging Finance Division making its first loans in January 2019.

During the period the group raised additional equity finance to help fund its future development through a placing and open offer at 30p per share - the fund raising was concluded in March. The group has also put in place a stand-by Tier 2 capital facility of £15m to support growth and reduce the need to return to shareholders in the medium-term.

## Prospects

Following the acquisition of its banking licence, the group now has access to significant funding at a much cheaper cost - this of course has helped the group to maintain its interest margin whilst improving the quality of its loan book. This in turn has helped to push the weighted after-tax return on equity up to 11.4% from 8.7% in the same period a year earlier.

Clearly stated strategic objectives are in place and the primary objective is to deliver increased profitability through long-term sustainable growth. Strong interim results demonstrate that the company is delivering against the objectives it has put in place and is not taking undue risks in order to drive growth.

The group has an experienced and stable management team, which provides confidence that the ambitious goal of a £750m portfolio by 2022 and a Return on Equity of 15% is realistic.

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