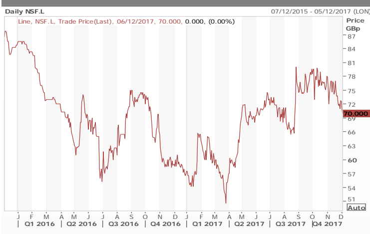
7th December 2017

hardman&co

Non-Standard Finance

Loan growth, better impairments, more investment

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	69.5
12m High (p)	80.0
12m Low (p)	50.5
Shares (m)	316
Mkt Cap (£m)	220
EV (£m)	302
Free Float	99%
Market	Main

Description

In the UK, non-standard lending market, NSF has the market leading network in unsecured branch-based lending, is number two in guarantor loans and number three in home credit.

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Exec Dir	Miles Cresswell-Turner

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Key shareholders

Invesco	26.69%
Woodford Investment	26.40%
Marathon Asset Mgt	10.18%
Aberforth Partners	10.11%
Quilter Cheviot AM	3.94%

Next event

Jan-18	Trading update
Mar-18	FY17 results

Analysts

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NSF's Capital Markets day provided investors with a lot of detailed information on the business and highlighted three key themes. The detail is available from the presentation NSF Capital Markets Day. In this note we explore in more detail the key themes of (i) loan growth ahead of expectations (ii) improving asset quality and (iii) further accelerated investment. The net effect is a reduction to 2017/18 estimates, driven by investment, although we expect consensus 2019 to rise. The accelerated investment shows management confidence in the macro-environment (low incomes growing ahead of inflation) and its business model.

- **Loan growth:** The pro forma group loan book growth of 34% end October y-o-y is well ahead of that reported in H117 (+17%) with the stars being branch-based lending up 20% to £144m (H117 +16%), and home collect up 40% (to £38m). Guarantor loans grew 33% despite the disruption from a major integration.
- **Improving asset quality across the group:** Twelve month rolling impairments to end October as a percentage of revenue were 17.9% in branch-based lending (H117 19.6%), 32.9% in home collect (H117 37.5%) and 14.6% in guarantor loans (H117 15.3%). Critically, every cohort of lending is improving.
- **Accelerated investment.** In branch-based lending 12 new centres are now expected to be opened in 2018 mainly in Q1 (this is up from 7 in our previous forecasts). Home collect in 2017 will see £3m in temporary agent commissions and £2m in additional infrastructure costs supporting the significant growth in its agent franchise taking advantage of the restructuring at Provident Financial.
- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in our initiation "Carpe Diem" and more recent notes. With the forecast changes these now indicate a range of 91 - 100p p/sh on absolute measures. Peer ratings are broadly similar to NSF.
- **Investment summary:** Substantial value should be created as: (i) competitors have withdrawn; (ii) NSF is well-capitalised with access to significant debt funding; (iii) positive macro-economic drivers, and (iv) NSF has an experienced management team delivering technological efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT ROA appear credible and investors are paying 10.6x 2018 PE and getting a 4.7% yield.

Financial summary and valuation

Year end Dec (£000)	2016	2017E	2018E
Revenue	94,674	122,209	169,311
Impairments (exc FRS9)	(25,705)	(29,907)	(41,131)
Total costs (exc dep)	(49,600)	(65,699)	(82,827)
EBITDA	19,369	26,602	45,353
Pro forma normalised pre-tax	13,056	14,633	25,511
Statutory pre-tax	(9,342)	(6,577)	5,372
Pro-forma EPS (p)	3.37	3.73	6.53
Dividend (p)	94,674	2.25	3.25
P/ Adj Earnings (x)	19.3	18.7	10.6
P/BV (x)	0.8	0.9	0.9
P/tangible book	2.1	3.8	3.4
Yield	1.8%	3.2%	4.7%

Source: Hardman & Co Research

Disclaimer: Attention of readers is drawn to important disclaimers printed at the end of this document

Group summary & issues

Key message is growth ahead of forecast, improving asset quality and risk adjusted margins

A summary of KPIs for the group is given below. Management also highlighted that while there was competition in most of its areas the product range, economies of scale, management experience and certainty of funding meant NSF was profitable while many peers were largely loss-making.

Figure 1: Group Summary

	Everyday Loans	Guarantor Loans	Home Credit
Market position	1	2	3
Acquisition date	Apr 2016	Apr 2016 / Aug 2017	Aug 2015
Net loan book (31 Oct 2017)	143.7	43.8	38.1
% group total loan book	64%	19%	17%
Annual Loan Book Growth	20%	33%	40%
Number of staff	307	82	350
Number of customers	45,200	16,200	96,800
Loan size range	£1k-£15k	£1k - £10k	£100-£1k
Average loans per customer	£3,179	£2,703	£393
Duration range	1-5 years	1-5 years	24-75 weeks
APR Range (%)	24% - 299%	37-62%	164-733%
Average customer income	c£30k	c£24,800	Cc£14,500
Impairment to revenue (%)			
12 mth to June 2017	19.6	15.3	37.5
12 mth to Oct 2017	17.9	14.6	32.9
Risk Adjusted Margin (%)			
12 mth to June 2017	35.7	27.5	95.4
12 mth to Oct 2017	*37.3*	30.5	98.2

Source: NSF, Hardman & Co Research

Regulation

Management highlight limited regulatory risk in branch and guarantor businesses. In home collect there is still a need to educate all stakeholders to customer benefits

Management claimed a good working relationship with the FCA and highlighted the speed with which it had received licences / change of control authorisation to support this assertion. It stated there were no material issues currently facing either its branch-based business or the guarantor loans operations. There were some specific issues arising in home collect where the business model is so different from mainstream lending that there is a need to ensure all stakeholders fully understand the model's benefits to customers. Part of this process is actively engaging in the FCA, Treasury and parliament through a series of reviews and consultations.

IFRS 9

Expectation is for a 3-7% reduction in receivables (c3% to NAV) with accelerated provision. No change in long term profit / cash generation

The change in accounting will, as expected, see provisions recognised earlier. As a growing business this has an impact on NSF, especially in home collect. The group indicated that receivables would be 3-7% lower and, at the mid-point of this range, the NAV would be 3% down. This latter reduction is below Provident Financial or IPF given the capital structure and asset mix within the group and should not have been a major surprise to the market. IFRS 9 is of course only an accounting timing issue. It does not impact on cash generation or long term profitability.

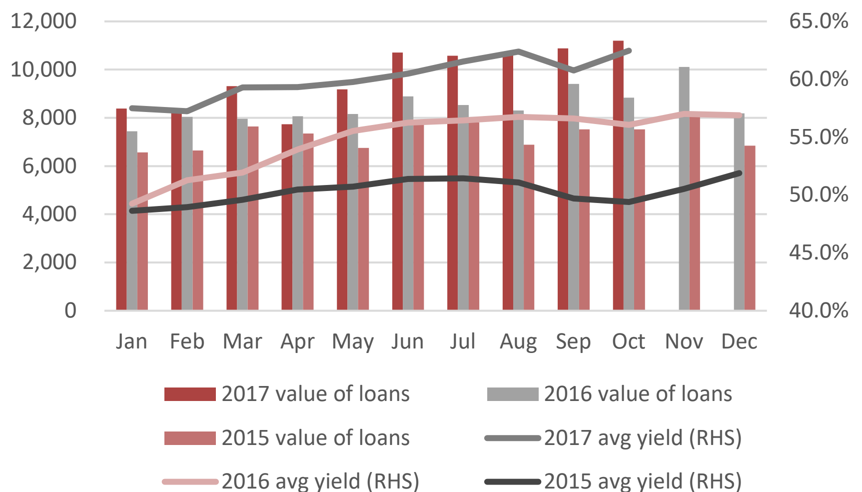
Loan Growth

Everyday Loans (EL)

Loan growth continues to accelerate at higher yields

Accelerating loan growth has been a feature at EL since acquisition. As can be seen in Figure 2 average monthly lending is c50% higher than just two ago and there has also been a good improvement in yield.

Figure 2: EL new loans issued and average yield by month 2015-17



Source NSF, Hardman & Co Research slide 34 from company

The presentation highlighted some of the factors driving this growth:

NSF already improving conversion rates but opportunity to increase this further. Technology, new branches, longer opening hours and more staff will help

- Improving conversion rates: Just 3% of applications convert to be a drawn loan. Many acceptable customers who might take credit slip through in the application process. Since June 17 the rate of conversion has improved from 2.7% to 3.3% and management believe adopting best branch practice could get this to 4% over time. Further improvements have been seen with things like electronic rather than paper communication of customer documents. The opening of more branches brings the group closer to even more customers, so that new branches could potentially see better conversion. Higher staff levels within the existing network should also help conversion. Branch opening hours have also been extended (historically 10 to 6, now 8 to 8 in a number of branches).

Big push also on adopting best practice with conversion rate at best branches double the weakest

- Best practice. The conversion rate for the top six branches had historically been around twice that of the weakest ones. Management has encouraged best practice to spread across the group with on and off-site training, staff communication and good managers acting as mentors for weaker ones (its Area Manager methodology). Better customer services leads to more sales.

Broadest product range in market captures widest customer base

- Broad product range. With APRs from 24% to 299%, EL covers a very broad spectrum in the non-standard market from near prime all the way to significantly impaired credits. Under previous owners, lending to the highest margin, highest risk customers had been curtailed but under NSF it has been, carefully encouraged. The group recently got the required licence to offer a 12-month product (historically 2 years was its shortest duration). It has also launched a "selfy" product targeted at self-employed.

Also increasing lead numbers from brokers

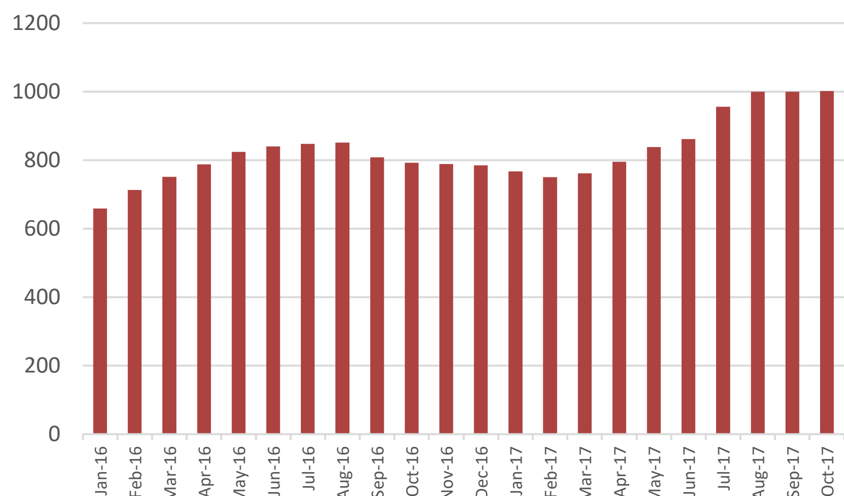
- Increasing lead numbers: here management action is focussed on deeper partnerships with key brokers as well as improving digital marketing with the result that there has been a marked uplift in leads (+36% in monthly leads since April 2017).

Loans at Home

Agents up and quality customers up by nearly a third year to date.

The opportunity from the mis-handled restructuring by the home collect market leader (Provident Financial) is well-documented. Figure 3 shows the growth in net agent numbers at LAH with an increase of c250 since the start of the year. This number only shows part of the story as the availability of highly experienced agents has also allowed LAH to upskill it network replacing less effective agents with better ones. As a result, quality customer numbers have risen from c46k in January to 60k end October. Customer surveys report 99% satisfaction levels.

Figure 3: Number of agencies



Source NSF, Hardman & Co Research Slide 97 presentation

Looking forward, there remain further opportunities:

We see a range of further opportunities from the PFG fall-out.

More opportunities as PFG aqents are still in uncertain working environment, customers are only just starting to seek new finance, smaller businesses may also become available

- Anecdotally, the disruption at PFG continues with customer managers being asked to change working practices again.

- Customers who may have continued to pay their existing PFG loans, will be looking for new loans ahead of the Xmas period. Some customers at PFG will be in arrears solely because PFG agents have not been collecting on time. With new lending determined by performance on existing loans, some potentially high-quality customers will need a new source of finance.

- Some smaller agent networks who have been waiting to see what happens with PFG, may now become available for sale / agents may move.

Lessons from 2016

During the presentation management highlighted some of the lessons learnt from the trialling of various new approaches in 2016. Management information by agent has been improved significantly allowing a much-enhanced control structure.

Only taking experienced agents and built material infrastructure support

- Only experienced agents were hired. Losses from inexperienced agents contributed significantly to the high impairments levels seen in 2016 / H117 and management only took PFG agents with long-established, proven track records.

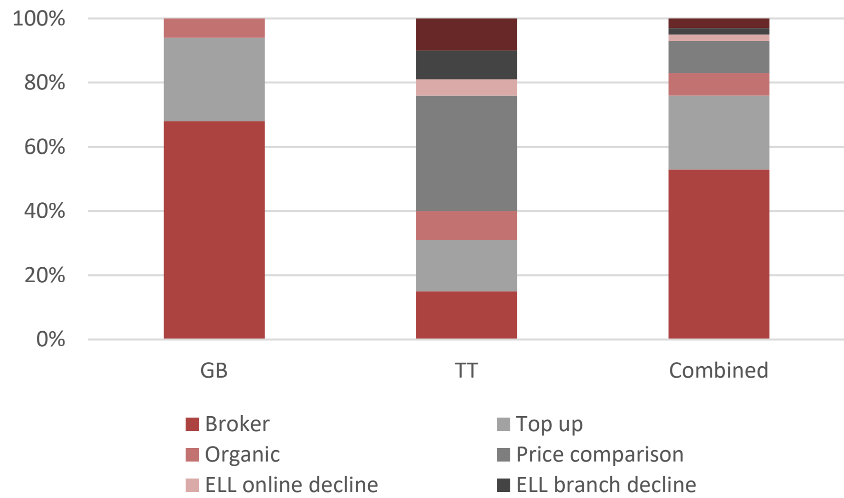
- Infrastructure support. LAH has built the management support network ensuring that agents can be effectively monitored on several KPIs and problem loans immediately dealt with at the local level. The manager to agent ratio is currently 1: 6.25. Additionally, LAH has added 20 new office locations. Unlike EL, these offices are very basic, non-customer facing and with little infrastructure, so the total cost is rarely above £500 pm (i.e. £12k total annual cost).

Guarantor loans division

GB gone from zero lending to a record month in one quarter… shows strength of its broker relationships

Management advised that both guarantor loans brands (George Banco and TrustTwo) saw record lending in October. Delivery of this by GB is especially impressive given that it had stopped lending over the summer when it faced a funding crisis ahead of acquisition. Such a re-build is indicative of its strong relationships with brokers. Figure 4, demonstrates that GB loans are generated from brokers or by top-ups for existing customers. This is very complementary to the source of TrustTwo loans where the largest source of introductions is comparison websites.

Figure 4: Guarantor loans division – source of new business



Source NSF, Hardman & Co Research

Target to nearly double loan book in two years with increased broker penetration, better conversion and effective lead generation from branch network

Management targets £80m of receivables (before fair value adjustments) by end 2019 (October 2017 £44m). This will come from:

- Increased broker penetration. With Amigo, the market leader accounting for c80% of the market, brokers are keen to diverse their business to a well-funded, consistent lender committed to the guarantee product. NSF is well-placed to increase the number of both broker leads but also penetration rates.
- Increased conversion: NSF generates over 200,000 guarantor loan leads per month but has a conversion rate around 1% reflecting the product complexity and multiple applications. We believe it can be improved significantly.
- Leads from EL in total account for c4% of the combined loan book. Management believe this can, over a few years, be credibly increased to 20%.

Improving credit

The rate of impairment is influenced by things outside management control as well as by those driven by management. As detailed below the macro environment is broadly positive. While there are potential challenges in the future, conditions in 2017 have been very favourable. From the evidence presented at the capital markets day, issues directly under management control have also shown an improving trend across all three business lines.

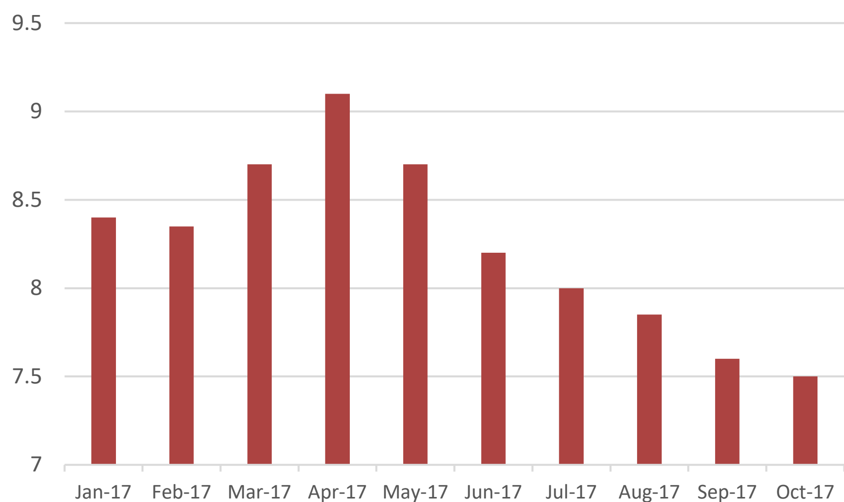
Lower paid earnings rising faster than higher paid ones and well ahead of core inflation

The macro environment is driven by: (i) the number of people employed. This is at an all-time high, with the employment rate at c75% against 71% in 2012 and unemployment down to just over 4% against 8%. (ii) Earnings: The proportion of adults in low pay (i.e. below 2/3rds of median earnings) is falling and the rate of income growth for the lowest 10% of earners has increased by 16.2% since 2013 (against 6% inflation). There is economic uncertainty over Brexit and the political instability, but investors should remember that Provident Financial (which was at the time run by the current management at NSF) saw profits rise through the financial crisis as a rising number of distressed customers meant that demand increased more than the credit loss.

Everyday Loans (EL)

In the Capital Markets day presentation, management highlighted how credit was improving in EL with a further reduction in the level of delinquency as a percentage of net receivables in H217. We note the near 20% improvement since April (down from over 9% to 7.5%). Twelve month rolling impairments as a percentage of revenue to end October 2017 were 17.9% in branch-based lending (H117 19.6%). This trend reflects the positive macro-environment and we believe is likely to stabilise rather than show further material improvements from here.

Figure 5: EL total delinquency (as % of average net receivables)



Source NSF, Hardman & Co Research

Improving delinquency trend driven across cohorts of lending. Highest risk categories seen best improvement

Management also advised that underlying this division-wide performance, all but one risk bucket was seeing improving cohort performance (so by way of example loans in risk bucket 8 had a lower delinquency after three months than six months ago). The one bucket that was not improving was stable. They also advised that the highest risk buckets had seen the greatest improvement but an across the board positive trend is highly encouraging for management control at a time when macro indicators were stabilising.

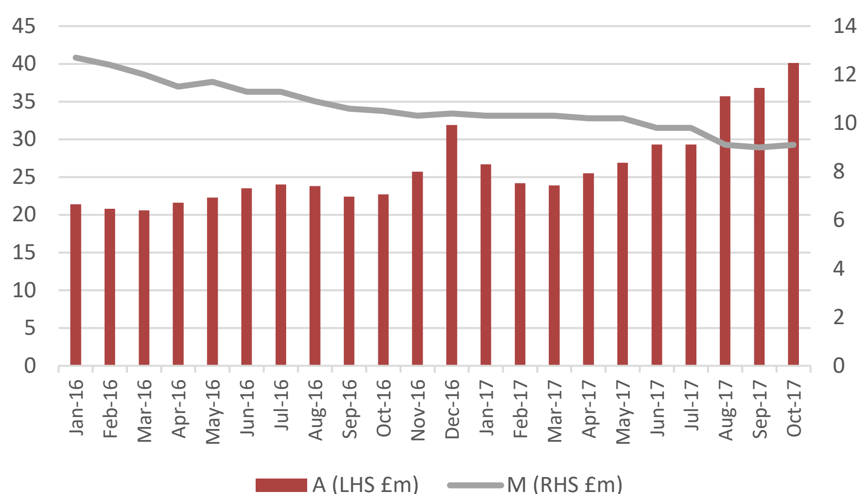
Loans at Home

Following the disappointing credit performance from many new agents that were taken on back in 2016, LAH has shown a much-improved trend since seizing the opportunity to exploit the travails at Provident Financial. We again highlight the improvement since the start of 2017 where clients missing less than 1 payment in the past thirteen weeks now account for 47% of the book against 36% in January (risk band A in Figure 6 below). In contrast those who had made less than 1 payment in 13 weeks (risk band M in the figure below) have fallen from 10% to 9%. In nominal terms the gross loans in the worst risk bucket have fallen by a third over the past eighteen months while the best bucket has nearly doubled. Twelve month rolling impairments as a percentage of revenue to end October 2017 were 32.9% (H117 37.5%).

Positive trend from better quality agents, tighter front lines controls, tighter scorecard as well as run off of 2016 problems,

Part of this improvement is due to the run-off in 2016 of many problem accounts linked to the new agents taken on in that year. Additionally, the credit quality from recently hired PFG agents is of better quality than the historic book. The pro-active replacement of underperforming agents by better ones has clearly worked. Management also highlighted a benefit from tightening scorecards at the end of 2016. We had been expecting an improvement in impairments from historic highs but the positive management commentary about the quality of new lending is very encouraging.

Figure 6: Gross loan book £m by best risk band (A) and worst risk band (M)



Source NSF, Hardman & Co Research slide 105 from company

Guarantor loans division

Adopting best practice across both businesses. Management again report improving cohort performance across the group.

The improvement in the guarantor loans division was less marked. Twelve month rolling impairments as a percentage of revenue to end October 2017 were 14.6% (H117 15.3%). While in H217 management has been busy with the integration of GB, it has also started a number of credit management initiatives. These include: harmonised lending manuals, automated use of call credit products, developing guarantor loan scorecards (including for example assessing different types of guarantors propensity to pay not just their ability to pay), automated initial assessment of affordability and well as improving collection processes. Part of this is adopting the best standard across the group from each of the two units but the end result is that management report that every vintage cohort is improving (so 3 month old loans today are performing better than 3 month old loans six months ago).

Accelerated Investment

Everyday Loans

Accelerated branch openings, more staff in existing branches, more control infrastructure, more training, improving office network

Management is accelerating investment over the next 18 months. Total administration costs are expected to increase by £1m in FY 2017 and £3m in FY 2018 to cover:

- 12 new branches in H1 2018 (our previous expectation was 7 branches). Management then expects to open 3-6 per year with a mature franchise of 70-75 branches by 2020. The fit-out costs for a new office is typically up to £75k with the first year's further EBITA loss of £105k offset by a profit of £165k in the second year. The accelerated branch fit-out alone will cost an extra c£0.4m.

- Additional staff for existing branches. Employees per branch have increased from an average of 4.0 in 2015 to 4.1 in 2016 and 4.3 at end October 2017. This near 10% increase in average staffing levels is expected to continue over the forecasting horizon.

- Relocation and upgrade of existing branches. A number are coming to the end of their 10 year leases (EL was established in 2006) and while there is a cost in moving premises, sites more appropriate to customer needs have already been identified.

- Infrastructure is also being put in place with additional space in Bourne End for enhanced training, compliance, credit, IT and finance functions. The group is also aiming to upskill senior management and take forward the installation and utilisation of network telecoms technology.

Loans at Home:

Temporary commissions to better agents (mainly 2017) plus ongoing infrastructure support (more in 2018 with full year effect)

The rapid agent expansion is incurring two major costs:

- Temporary agent commission costs of c£3m in 2017 (our previous estimate was £1.7m) as better-quality agents, who had higher historic income, see more upfront temporary commissions. But such agents should deliver a better longer term payback. This cost should significantly reduce in 2018 (Hardman e £1m).

- Infrastructure is needed to support new agents Management indicate an additional infrastructure costs of c£2m in 2017 increasing to c£3.8m in 2018 as it has only been incurred for part-of 2017. Management indicate that the 20 new offices should all be heading towards profit generation in early 2018 while collectively, agents joining established branches are expected by LAH to be contribution positive in 2017.

Ongoing investment is being made to upgrade the technology support that agents receive. Management made it clear that there are no plans to change the critical interface between agent and customer, but many administrative functions are being simplified through the use of new technology, saving time for management, the agent and the customers as well as resulting in a saving in costs.

Financials

Changes to estimates

Branch based profits estimates down in 2017/2018 but we expect 2019 consensus to increase

In Everyday Loans we have accelerated our 2018 loan growth by 5% reflecting a 5% increase in expected customer numbers associated with the accelerated branch opening plans. We have also trimmed our loss expectations but, given macro uncertainties, still leave 2019 impairments as a percentage of revenue above 2018 despite the cohort improvements reported in the presentation. We have included incremental administration costs (£1m in 2017 and £3m in 2018). Overall there is a small reduction in pre-tax profit in both 2017 and 2018. We will provide 2019 estimates with the full year results but would expect consensus profit estimates for that year to rise.

Home collect profit forecast also reflect investment

In Loans at Home we have increased our lending assumptions leading to a £3m and £7m, an uplift in revenue in 2017e and 2018e respectively. We had already expected an improvement in asset quality, so nominal impairments also rise with the higher new business volumes. These loans also see higher funding costs. Costs have been increased for higher temporary commissions and the supporting infrastructure. Overall divisional profits see a £1.7m drop in 2018e on our previous estimates.

Guarantor loans estimates up in 2018.

In the guarantor loans businesses, we have modestly increased loan volumes which drops down to a £0.3m improvement in 2018 profits. This reflects the significant operational gearing which we expect volume increases to generate in this area. It also reflects the investment via acquisition rather than via the profit and loss account seen in the other divisions.

Across all three divisions we have included higher finance costs reflecting the faster than expected loan growth, which incrementally is fully funded by debt not equity.

Figure 7: Estimate changes

	2017e			2018e		
	Old	New	% change	Old	New	% change
Profit and Loss (£'000s)						
Reported revenue	120,307	122,209	2%	159,111	169,311	6%
Total impairments (ex FRS9)	(29,400)	(29,907)	2%	(37,692)	(41,131)	9%
Total cost (exc. dep)	(61,574)	(65,699)	7%	(73,847)	(82,827)	12%
EBITDA	29,333	26,602	-9%	47,572	45,353	-5%
Pre-tax	18,364	14,633	-20%	27,892	25,511	-9%
Pro for norm EPS (p)	4.67	3.73	-20%	7.13	6.53	-8%
Dividend (p)	2.25	2.25	0%	3.25	3.25	0%
Balance Sheet (£ms)						
Amounts Receivable	235.4	244.9	4%	306.6	326.9	7%
Borrowings	182.3	184.3	1%	247.3	262.8	6%
Shareholder's Equity	242.5	239.1	-1%	241.4	235.5	-2%

Source: Hardman & Co Research

Figure 8: Profit and Loss (£000s)

Year ended 31 December	Statutory				Pro Forma normalised		
	2015	**2016**	**2017e**	**2018e**	**2016**	**2017e**	**2018e**
Business Interest Income	14,657	81,099	122,209	169,311	94,674	**122,209**	169,311
Fair value unwind on acquired portfolios	(5,456)	(8,342)	(12,000)	(3,833)	-	**-**	-
Total revenue	**9,201**	**72,757**	**110,209**	**165,478**	**94,674**	**122,209**	**169,311**
Underlying business impairments	(1,885)	(20,712)	(26,407)	(37,632)	(22,705)	**(26,407)**	(37,631)
Unwind of provision discount	(1,973)	(2,489)	(3,500)	(3,499)	(3,000) E	**(3,500)**	(3,500)
Total Impairments	**(3,858)**	**(23,201)**	**(29,907)**	**(41,131)**	**(25,705)**	**(29,907)**	**(41,131)**
FRS9 adjustment				(6,703)	-		
Gross profit	**5,343**	**49,556**	**80,302**	**117,645**	**68,969**	**92,302**	**128,181**
Administration expenses	(11,340)	(44,074)	(64,018)	(83,048)	(50,290)	**(66,518)**	(84,048)
o/w Depreciation	*(198)*	*(690)*	(819)	(1,221)	*(690)*	**(819)**	(1,221)
Amortisation of intangibles	(4,030)	(10,714)	(8,710)	(9,603)	-	**-**	-
Operating profit	**(10,027)**	**(5,232)**	**7,573**	**24,993**	**18,679**	**25,783**	**44,132**
EBITDA	*(5,799)*	*6,172*	17,102	35,818	*19,369*	**26,602**	45,353
Exceptional Items	(6,135)	(626)	(3,000)	(1,000)			
Net finance (cost)/income	70	(3,484)	(11,150)	(18,621)	(5,623)	**(11,150)**	(18,621)
Profit before tax	**(16,092)**	**(9,342)**	**(6,577)**	**5,372**	**13,056**	**14,633**	**25,511**
Income tax	3,022	1,344	1,272	(1,021)	(2,688)	**(2,829)**	(4,847)
Profit after tax	**(13,070)**	**(7,998)**	**(5,305)**	**4,351**	**10,368**	**11,804**	**20,664**
Avg no shares for EPS calculation	61.50	307.32	316.85	316.40	305.93	316.85	316.40
Statutory EPS (p)	(21.25)	(2.60)	(1.67)	1.38	n/a	n/a	n/a
Adjusted EPS (p)		3.37	3.73	6.53	3.37	3.73	6.53
Total dividend (p)	-	1.20	2.25	3.25	1.20	2.25	3.25

Source: NSF Hardman & Co Research

Figure 9: Balance Sheet (£000s)

Year ended 31 December	2015	2016e	2017e	2018e
Non-current				
Goodwill	40,176	132,070	152,070	152,070
Intangible assets	14,119	17,412	28,701	19,098
Property Plant and equipment	1,718	5,459	8,140	10,419
Total Non-current assets	**56,013**	**154,941**	**188,911**	**181,587**
Current assets				
Inventories	3	-	-	-
Amounts Receivable from customer	**28,412**	**180,413**	**244,921**	**326,914**
o/w FV adjustment	*426*	*15,833*	3,833	-
Trade and other receivables	10,275	10,753	11,291	11,855
Cash and cash equivalent	7,320	5,215	161	176
Total current assets	46,010	196,381	256,373	338,945
Total assets	**102,023**	**351,322**	**445,284**	**520,532**
Current liabilities				
Trade and other payables	9,490	8,146	11,646	13,646
Deferred tax liability	14,275	-	-	-
Total current liabilities	23,765	8,146	11,646	13,646
Net Current (liabilities) / assets	*29,150*	*188,235*	244,727	325,299
Non-current liabilities				
Financial Liabilities - borrowings	-	87,300	184,300	263,800
Deferred tax	-	6,793	9,990	7,297
Total non-current liabilities	**-**	**94,093**	**194,290**	**271,097**
Total liabilities	16,860	102,239	205,936	284,743
Net assets*	**85,163**	**249,083**	**239,348**	**235,789**

*Source: NSF, Hardman & Co Research * inc. £255k of NCI*

Figure 10: Cashflow statement (£000s)

Year ended 31 December	2015	2016	2017e	2018e
Profit (loss) before tax	(16,162)	(5,858)	5,593	27,918
Taxation paid	(350)	(1,341)	(1,341)	(1,341)
Depreciation,	198	690	819	1,221
Amortisation of intangibles	4,030	10,714	8,710	9,603
FV unwind on acquired loan book	5,456	8,342	12,000	3,833
Loss on disposal of fixed assets	51	(363)	-	-
Decrease in inventories	6	3	-	-
Increase in amounts receivable from customers (net of FV)	(5,394)	(21,039)	(43,508)	(85,826)
Increase in receivables	(16,445)	(7,737)	(538)	(565)
Increase in payables	19,078	(6,952)	3,500	2,000
Net cash outflow from operating activities	**(9,532)**	**(23,541)**	**(14,764)**	**(43,156)**
Cashflows from investing activities				
Purchase of prop, plant and equipmt.	(341)	(4,327)	(3,500)	(3,500)
Purchase of subsidiaries	(81,111)	(230,784)	(64,500)	-
Net cash outflow - investing activities	**(81,452)**	**(235,111)**	**(68,000)**	**(3,500)**
Cashflows from financing activities				
Net finance Income	70	(3,484)	(11,150)	(18,621)
Proceeds from issue of share capital	98,234	172,869	-	-
Proceeds from borrowing	-	87,300	196,000	75,500
Repayment of borrowing	-	-	(100,000)	-
Interest Paid	-	813	-	-
Dividends	-	(951)	(7,119)	(10,283)
Net cash inflow - financing activities	**98,304**	**256,547**	**77,731**	**46,596**
Net change in cash / cash equivalents	7,320	(2,105)	(5,033)	(61)
Opening cash and cash equivalents	-	7,320	5,215	181
Closing cash and cash equivalents	7,320	5,215	181	121

Source: NSF, Hardman & Co Research

Valuation

Summary

Average valuation upside on absolute measures 37%

Our absolute valuation techniques imply an average upside of 37%. The peer valuations are around the current market price, but we believe the whole sector is under-valued and it also includes PFG.

Figure 11: Summary of different valuation techniques

	Implied Price (p)	Upside (%)
Gordon's Growth	91.0	31%
DDM	100.0	44%
Average absolute measures	95.5	37%
Peer 2018 PE	67.4	-3%
Peer P/BV	66.0	-5%
Peer 2018 Div. Yield	64.2	-8%

Source: Hardman & Co Research Peer comparisons are against, PFG, MCL, S&U, H&T, Ramsdens Priced at 06/12/17

We detailed our assumptions in our initiation note Carpe Diem **The key changes are:**

- **Gordon's Growth model:** Our base assumptions are unchanged since our last report. The net change in equity following our forecasts changes is modest leading to a small reduction in this valuation.

- **Dividend Discount Model:** While our directly forecast dividends for 2017-2018 are unchanged, we have modestly decreased the assumed dividend for 2019e reflecting the lower profits seen in 2018. This sees a small drop in this valuation. When we roll forward our valuation approaches with 2019 estimates with results, there is likely to be an uplift in this valuation measure.

- **Peer valuations:** There continues to be relatively modest upside when comparing NSF with peers on a PE basis. It should be remembered though that their valuations reflect inter alia concerns about business being lost of NSF (Provident Financial) and financing the car market (S&U) neither of which would appear relevant to NSF.

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