

RECOMMENDATIONS

Rating	HOLD ■
Risk	Medium
Price Target	\$1.50
Share Price	\$1.27

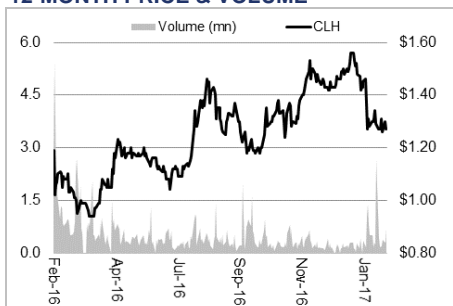
SNAPSHOT

Monthly Turnover	\$13.7mn
Market Cap	\$177mn
Shares Issued	135.9mn
52-Week High	\$1.56
52-Week Low	\$0.93
Sector	Industrials

BUSINESS DESCRIPTION

Collection House Limited (CLH) is an Australian receivable management provider, operating in Australia and New Zealand. CLH's core businesses include: purchased debt; commission collections; cash flow management; and specialist services such as legal and insolvency services, and credit management related training.

12-MONTH PRICE & VOLUME



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Disclosure

The author owns no shares in CLH.

Collection House (CLH)

COMPANY REPORT

Transition House

- **1H17 result:** NPAT of A\$8.2m (-2% pcp) versus our forecast of A\$9.2m. Interim dividend of A3.9cps (1H16: A3.9cps) with a payout ratio of 65% (1H16: 63%). Result includes one-off negative tax adjustment of A\$0.5m.
- **Key takeaways:** 1) the business is very much in transition, with remedial actions undertaken by the new CEO to improve collection processes/productivity not evident in 1H17 result – CLH expects benefits to be lagged into 2H17; 2) legal processes reviewed to take a “firmer but fairer” approach to customers not meeting obligations; 3) contracted PDL purchasing for FY17 now at A\$52m – guidance of A\$63-\$65m looks achievable; 4) reduction of PDL arrangements book, due to reclassification of customers, not meeting commitments; 5) like CCP, CLH has observed a recent easing of pricing in the domestic PDL market; 6) new contracts won for the Account Management Division with Cash Converters, Transurban and eBay which will start in 3Q17; and 7) FY17 guidance for NPAT of A\$19.4-\$20.0m has largely been reaffirmed, with a small reduction at the top end of the range.
- **Australian PDL's (49% of 1H17 revenue):** PDL revenue of A\$32.3m (-11% pcp). Lower cash collections attributed to a combination of lower purchasing in FY16, but more particularly process and productivity issues that were already evident in the FY16 result. Segment EBIT of A\$13.0m (+7% pcp) with a margin of 40.3% (1H17: 33.4%) – although margins have improved versus 1H16, the pcp was negatively impacted by restructuring costs.
- **Account Management (51% of 1H17 revenue):** Revenue increased to A\$33.7m (+19% pcp). Improved revenue attributed to productivity improvements, the launch of new contact centre technology and improved client panel performance. Segment EBIT of A\$5.0m (flat vs pcp) with a lower margin of 14.8% (1H16: 17.6%). CLH attributed the lower margin to one-off costs related to generating productivity and efficiency gains.
- **Financial position:** At 1H17, CLH had net debt of A\$115m (FY16: A\$109m) with gearing (net debt/net debt + equity) of 39% (FY16: 38%). More importantly, net debt to the carrying value of PDL's was 42% (FY16: 41%). Bank facility limit remains at A\$125m.
- **Changes to forecasts:** Downgrade to FY17 forecast by 7% after the input of a weaker headline result than expected. FY18 and FY19 upgraded by 4% and 5% respectively due to new business contracts in the Account Management Division.
- **Investment view:** HOLD call retained with revised DCF valuation of A\$1.48 (prev. A\$1.33) and price target of A\$1.50 (prev. A\$1.35). It would appear that a lot has happened in a short space of time under the new CEO. Whilst the benefits of remedial actions are not shown in the 1H17 result, we are encouraged by the language and outlook but await evidence of the upside before taking a stronger call. On the negative side we continue to believe that debt levels will retard growth.

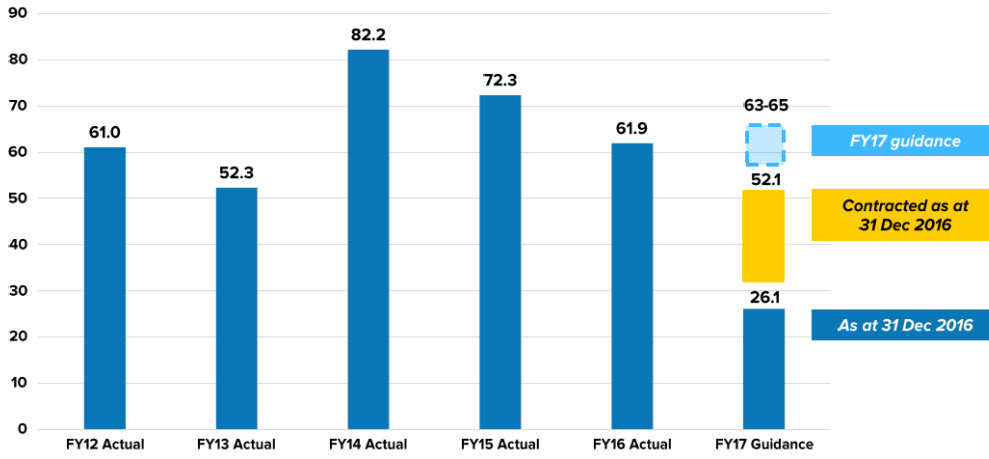
INVESTMENT SUMMARY

Year End: 30 June		2015 (A)	2016 (A)	2017 (E)	2018 (E)	2019 (E)
Revenue	\$mn	126	133	141	160	169
EBITDA	\$mn	40.3	36.1	38.3	46.1	49.1
EBIT	\$mn	37.8	32.1	35.0	41.3	44.0
Reported Profit	\$mn	22.5	20.9	19.6	23.8	25.7
Adjusted Profit	\$mn	22.5	18.6	19.6	23.8	25.7
EPS (Reported)	¢	17.1	13.9	14.4	17.4	18.8
EPS (Adjusted)	¢	17.1	15.7	14.4	17.4	18.8
EPS Growth	%	17.6	-8.5	-8.1	21.0	7.9
PER (Reported)	x	7.4	9.1	8.8	7.3	6.8
PER (Adjusted)	x	7.4	8.1	8.8	7.3	6.8
Dividend	¢	9.1	7.8	7.9	8.8	9.5
Yield	%	7.2	6.1	6.2	6.9	7.5
Franking	%	100	100	100	100	100

Financial summary

Collection House Ltd													
Analyst:	Nick Caley						Rating:	HOLD					
Date:	21-February-2017						Price Target:	\$1.50					
Market Capitalisation A\$m	\$175						Valuation:	\$1.48					
Share Price (\$A):	\$1.27						Upside/(Downside):	18%					
Year End:	30 June						Risk:	Medium					
PROFIT & LOSS (A\$m)	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E	EARNINGS	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Total Revenue	107.3	126.0	132.7	141.3	160.4	169.3	EPS - Diluted	14.5	17.1	13.9	14.4	17.4	18.8
Total Operating Expenses	73.2	85.8	96.6	102.9	114.3	120.2	EPS - Underlying	14.5	17.1	15.7	14.4	17.4	18.8
EBITDA	34.1	40.3	36.1	38.3	46.1	49.1	EPS Growth (%)	7%	18%	-9%	-8%	21%	8%
Depreciation & Amortisation	1.7	2.4	3.9	3.3	4.8	5.1	DPS	8.0	9.1	7.8	7.9	8.8	9.5
EBIT	32.4	37.8	32.1	35.0	41.3	44.0	Franking (%)	100.0	100.0	100.0	100.0	100.0	100.0
Net Interest	5.5	5.9	6.1	6.5	7.3	7.3	Payout Ratio (%)	55%	53%	56%	55%	51%	51%
Net Profit Before Tax	27.0	31.9	26.0	28.5	34.0	36.7	VALUATION	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Income Tax Expense/(Ben.)	8.3	9.4	7.4	8.9	10.2	11.0	P/E (x)	8.7	7.4	8.1	8.8	7.3	6.8
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	10.6	10.7	8.0	8.3	6.9	6.3
NPAT - Reported	18.7	22.5	18.6	19.6	23.8	25.7	EV/EBITDA (x)	10.1	10.0	7.1	7.6	6.2	5.7
Normalisation Adjustments	0.0	0.0	-2.3	0.0	0.0	0.0	Dividend Yield (%)	6.3%	7.2%	6.1%	6.2%	6.9%	7.5%
NPAT - Normalised	18.7	22.5	20.9	19.6	23.8	25.7	Price/Book (x)	1.1	1.0	0.9	0.9	0.8	0.8
BALANCE SHEET (A\$m)	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E	Price/NTA (x)	1.4	1.2	1.2	1.1	1.0	0.9
Assets							Price/Cash/Flow per Share (x)	2.5	2.1	2.0	2.3	1.9	1.8
Cash	0.7	7.2	8.9	3.9	8.8	17.1	GROWTH	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Receivables	9.6	10.3	10.0	10.1	10.1	10.1	Total Rev. Growth (% pcp)	10%	17%	5%	6%	14%	6%
Financial Assets	51.7	57.2	61.1	61.5	64.3	66.6	Cash Op. Exp. Growth (% pcp)	10%	17%	13%	7%	11%	5%
Other Current Assets	1.0	1.1	1.1	1.1	1.1	1.1	EBITDA Growth (% pcp)	12%	18%	-10%	6%	20%	6%
Total Current Assets	63.0	75.7	81.1	76.7	84.4	94.9	EBIT Growth (% pcp)	14%	17%	-15%	9%	18%	7%
Financial Assets	182.6	198.8	204.2	221.1	231.1	239.3	NPBT Growth (% pcp)	21%	18%	-19%	9%	19%	8%
Property, Plant & Equipment	5.4	5.5	4.3	3.4	4.2	5.0	MARGINS & RETURNS	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Intangibles	34.2	35.6	37.4	36.2	31.4	26.3	EBITDA Margin (%)	32%	32%	27%	27%	29%	29%
Other	0.0	0.0	0.0	0.0	0.0	0.0	EBIT Margin (%)	30%	30%	24%	25%	26%	26%
Total Non-Current Assets	222.2	239.9	245.9	260.7	266.7	270.6	NPBT Margin (%)	25%	25%	20%	20%	21%	22%
Total Assets	285.2	315.7	327.0	337.4	351.0	365.5	ROIC (%)	11%	12%	10%	9%	10%	9%
Liabilities							ROE (%)	13%	14%	12%	11%	12%	12%
Payables	13.6	16.0	15.1	10.5	10.5	10.5	ROA (%)	7%	7%	7%	6%	7%	7%
Loans & Borrowings	0.3	0.0	0.0	0.0	0.0	0.0	Effective Tax Rate (%)	31%	30%	29%	31%	30%	30%
Current Tax Liabilities	7.1	2.0	3.3	3.2	3.2	3.2	GEARING & Cash Flow	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Provisions & Other	4.5	5.2	5.5	3.7	3.7	3.7	Net Debt (A\$m)	99	112	109	118	113	105
Total Current Liabilities	25.5	23.3	23.9	17.4	17.4	17.4	Net Debt/Equity (%)	64%	65%	61%	62%	55%	48%
Loans & Borrowings	99.8	119.0	118.2	122.2	122.2	122.2	Net Debt/PDL's (%)	42%	44%	41%	42%	38%	34%
Provisions & Other	2.6	0.9	0.7	1.4	1.4	1.4	Int. Cover (x) - EBITDA/Net Int.	6.2	6.8	5.9	5.9	6.3	6.7
Deferred Tax	1.3	1.9	3.8	4.9	4.9	4.9	GOCF/PDL Purchases %	95%	128%	149%	128%	147%	154%
Total Non-Current Liabilities	103.7	121.7	122.8	128.5	128.5	128.5	OPERATIONAL DATA	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E
Total Liabilities	129.2	145.0	146.7	146.0	146.0	146.0	Revenue						
Equity							Commission Collections - Sales	43.9	48.8	57.9	69.2	74.0	79.2
Contributed Capital	102.3	105.3	111.0	112.9	114.0	115.3	Account Asset Management	63.1	77.6	74.6	71.6	85.8	89.5
Reserves	2.0	2.2	-1.0	-0.8	-0.8	-0.8	Eliminations	0.3	-0.3	0.1	0.5	0.6	0.6
Retained Earnings	51.7	63.2	70.3	79.4	91.9	105.1	Total Revenue	107.3	126.0	132.7	141.3	160.4	169.3
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	PDL Purchases	81.3	71.4	61.9	66.1	70.0	70.0
Total Equity	156.0	170.7	180.3	191.4	205.1	219.5							
CASH FLOW (A\$m)	FY14A	FY15A	FY16A	FY17E	FY18E	FY19E							
Cash at Start	2.4	0.4	7.2	8.9	3.8	8.7							
Cash Flow from Operations	65.9	77.7	84.3	74.2	93.1	97.7							
Cash Flow from Investing	-85.6	-75.3	-67.2	-67.8	-70.8	-70.8							
Cash Flow from Financing	17.6	4.6	-15.5	-11.5	-17.5	-18.6							
Net Cash Flow	-2.1	7.0	1.6	-5.0	4.9	8.3							
Other Adj.	0.0	1.0	2.0	2.0	3.0	3.0							
Cash at End - Reported	0.4	7.2	8.9	3.8	8.7	17.0							
Overdraft	0.3	0.0	0.1	0.1	0.1	0.1							
Cash at End - Balance Sheet	0.7	7.2	8.9	3.9	8.8	17.1							

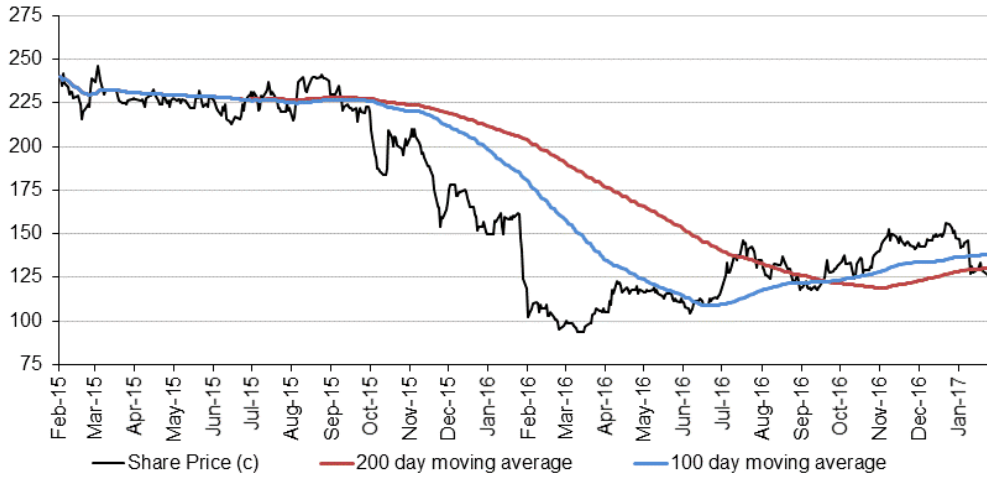
FIG.1: CLH – PDL PURCHASING



Source: CLH

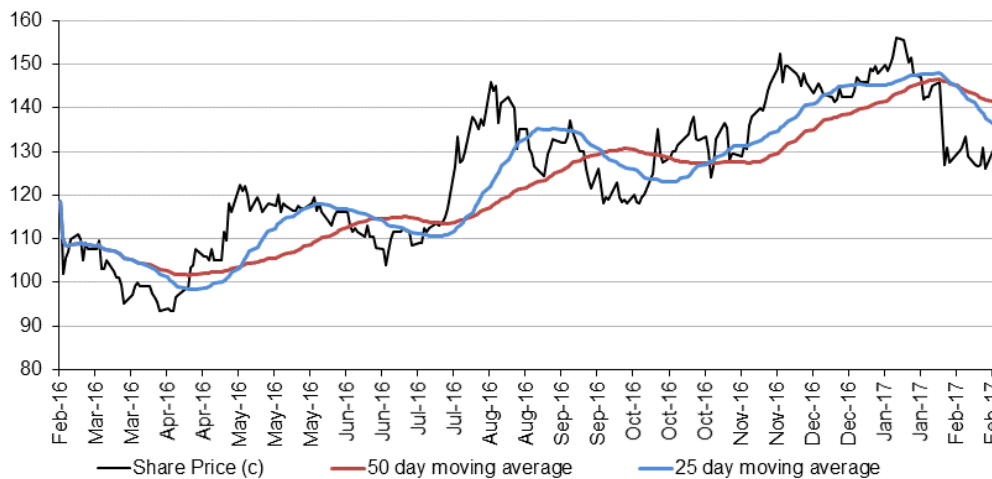
Appendix

FIG.2: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.3: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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