

16 February 2010

General Financials

Non-standard lenders

Overweight (n/c)

Companies included

Provident Financial	PT 1000p		ADD
(PFG.L/PFG LN)	2008A	2009E	2010E
PBT (£m)	128.8	132.7	146.7
EPS (p)	70.5	72.4	79.0
PER	13.0	12.7	11.6
International Personal Finance	PT 240p		HOLD
(IPF.L/IPF LN)	2008A	2009E	2010E
PBT (£m)	76.3	57.8	85.3
EPS (p)	21.5	16.2	23.8
PER	9.3	12.4	8.4
S&U plc*	PT 550p		BUY
(SUS.L/SUS LN)	2009A	2010E	2011E
PBT (£m)	8.6	8.8	9.3
EPS (p)	53.0	54.7	57.3
PER	9.2	8.9	8.5
Albemarle & Bond	PT 280p		ADD
(ABM.L/ABM LN)	2009A	2010E	2011E
PBT (£m)	14.6	17.9	16.8
EPS (p)	19.4	23.2	21.8
PER	13.5	11.3	12.0
H&T Group	PT 325p		BUY
(HAT.L/HAT LN)	2008A	2009E	2010E
PBT (£m)	11.5	17.9	14.7
EPS (p)	23.5	34.9	28.5
PER	11.2	7.6	9.3

* Corporate client of Charles Stanley Securities

Next news expected

Provident Financial	Finals - 2 Mar 2010
Int. Personal Finance	Finals - 3 Mar 2010
S&U plc*	Finals - 24 Mar 2010
Albemarle & Bond	Interims - 22 Feb 2010
H&T Group	Finals - 25 Mar 2010

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Fertile markets emerging?

We expect growth potential rather than credit quality to increasingly become the main focus of investor attention over the next six months. However, for the home credit providers, 2010 will still be a year of cautious expansion in our view, before growth accelerates in 2011, buoyed by falling impairment and the improved competitive environment. Pawnbroking should similarly benefit from these trends, increasing its share of the non-standard lending market as it becomes an increasingly acceptable and well-known means of borrowing. We reiterate our overweight stance on both sub-sectors but in the short-term, prefer the asset-backed lending that pawnbroking presents.

- **Opportunities for structural and cyclical growth** – With increased capital requirements, a continued funding gap and further bad debts to crystallise, we do not expect mainstream lenders to return to the non-standard market – particularly sub-prime – with any great conviction over the next few years. This trend will be reinforced by mainstream lenders aversion to charging the high APR's that are required in order to risk price these products effectively. The non-standard population is increasing and there is limited competition; this offers strong growth opportunities for the well-funded players that remain.
- **However, still cautious expansion in the short term** – We expect unemployment to continue to rise into H2 2010 and disposable income to remain under pressure. While the over-indebtedness among UK consumers at the lower end of the socio-economic spectrum tends to be more limited (given few credit options in the past) it will still act as a barrier to accepting many of those customers who now find themselves rejected by mainstream lenders. All this suggests that growth for the UK home collected credit ("HCC") providers will continue to be cautious during 2010, but will pick up in 2011, noting that HCC is a relatively mature market. In contrast, the asset-backed lending enjoyed by the pawnbrokers mitigates much of this credit risk.
- **Resilience in Home Collected Credit** – We expect Provident Financial to announce a solid set of results on 2 March but do not expect them to act as much of a catalyst. The group is well placed for when conditions do improve but, for the moment, the shares look close to fair value and they remain an "Add" for income. Investors will be cautious on IPF in the short term given the Q1 2009 experience. However, the valuation looks undemanding given the growth potential, while the strengths of the model were demonstrated by the rebound in profits in Q2 and Q3 2009. However, there are still risks, and ahead of the results and more visibility on recent trading, we move to a neutral stance. S&U* (Buy) has confirmed that trading for year to 31 January is in-line with expectations and the shares offer an attractive yield.
- **Recent price weakness for pawnbrokers provides buying opportunity** – While short term sentiment will be influenced by the gold price and gold purchasing, our analysis suggests that even with more pessimistic assumptions here the shares are good value. We upgrade our recommendation on H&T Group to Buy (from Add) and reiterate our Add recommendation on Albemarle & Bond.

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Summary of recommendations

Price	919p
Price target	1000p
12 high/low	974.0p / 769.5p
Market cap.	£1221m
Next news	2-Mar-10

Price	200p
Price target	240p
12 high/low	238.1p / 63.5p
Market cap.	£515m
Next news	3-Mar-10

Price	488p
Price target	550p
12 high/low	500.0p / 267.5p
Market cap.	£57m
Next news	24-Mar-10

* Corporate client of Charles Stanley Securities

Price	263p
Price target	280p
12 high/low	279.5p / 181.0p
Market cap.	£144m
Next news	22-Feb-09

Price	264p
Price target	325p
12 high/low	321.5p / 180.0p
Market cap.	£93m
Next news	25-Mar-09

Provident Financial (PFG.L)

Reiterate Add

- Expect robust set of results on 3 March, we are at the lower end of consensus
- Investor focus likely to remain on credit quality, particularly at Vanquis
- Increasing pool of potential customers, but expect expansion to continue to be cautious in 2010. Yield is attractive – still a total return play
- Limited catalysts in short term, some speculation that RPF may be abandoned
- Profit growth to pick up in 2011, impairment falling, rising receivables
- Sufficient funding into 2011 on our forecasts, but investors will be looking for further news here in H1 2010; funding costs expected to rise

International Personal Finance (IPF.L)

Downgrade to Hold (Add)

- Pre-close update on 15 Dec indicated results to be slightly ahead of consensus
- Q1 2009 experience highlights the risks, however the rebound in profits in Q2 and Q3 2009 also demonstrates the strengths of the business model
- Our 2010 forecasts require limited improvement in trading as compared to Q3 '09
- Investors waiting for reassurance on impairment trends in Q1 2010
- We move to a neutral stance ahead of more visibility around recent trading
- Sufficient funding into 2011 on our forecasts, but investors will be looking for further news here in H1 2010; funding costs expected to rise

S&U* (SUS.L)

Reiterate Buy

- Trading for the year to 31 January is in-line with expectations
- HCC enjoyed "very satisfactory" trading and profitability in December
- Motor Finance continues to perform well, strong sales in December and January while collection results from recent batches remain good
- Good underwriting record and the improved competitive environment means that HCC and Motor Finance are well placed over medium term
- Yield is attractive; we expect improving growth potential to begin to be recognised in due course. Strong balance sheet and well funded

Albemarle & Bond (ABM.L)

Reiterate Add

- We expect results on 22 February to show a strong first half performance
- Mainly driven by gold price and gold purchasing, but also confirming robust progress in the underlying lending business
- Store opening programme stepped up to 10 -15 per annum, there are around 120 stores today and plenty of further potential
- Expect retail to remain challenging in 2010
- Valuation not out of kilter with historic rating; includes modest bid premium in our view noting that EZCorp holds 29.7% of shares but is a long standing holder

H&T Group (HAT.L)

Upgrade to Buy (Add)

- Pre-close update on 22nd January confirmed trading at top end of consensus
- However cautious comments on gold price and gold purchasing visibility triggered c.15% fall in the shares
- H&T's 2009 results are more geared to gold price than A&B, given its success in gold purchasing, hence its 2010 comparatives will also be tougher
- Sensitivity analysis suggests that even with more conservative assumptions here the shares look good value in our view
- 2011 PER discount of 30% to A&B is too high; upgrade to Buy on valuation
- Store opening programme over last 3 years increases inherent growth potential

Executive summary

The high-cost consumer credit market is estimated to be worth up to £35bn, of which home credit accounts for less than £2.5bn and pawnbroking less than £0.5bn on our estimates

Mainstream lenders do not have the risk management, capacity or customer relationship to return to the sub-prime market while the specialist competition has also dwindled

State benefits make up over 50% of the income to many low-income households. While there is pressure on the public purse, we see it as less likely that this segment will be impacted.

Valuation on Provis up with events in short term, but total return still looks attractive - "Add" for income

"Buy" on S&U*, 6.6% yield

Move to a "Hold" on IPF ahead of more visibility alongside the results; good medium term potential

Funding costs will continue to trend up over the medium term

We estimate that pawnbroking accounts for less than 2% of the UK non-standard lending market

H&T is our preferred play on valuation grounds

There continue to be regulatory headwinds – most notably in relation to the OFT review into the high cost consumer credit market

- **Fertile markets emerging.** The new economic, commercial and regulatory environment makes it less attractive for mainstream lenders to lend to the low-income/ non-standard segment of the population and this has been reflected in the significant falls in non-prime lending capacity over the last two years. At the same time, the level of specialist competition has dwindled while the number of individuals classified as non-standard is increasing. This offers significant opportunities for the well funded players that remain.
- **Attractive market conditions to stay.** While we are seeing a number of new entrants into the banking/lending market, they are focused on the prime and near-prime segments. The higher risks inherent within sub-prime require specialist risk management, lower credit limits and customer proximity. The disintermediated approach that mainstream lenders employ does not work in this environment and we expect they will continue to focus on their core businesses.
- **However, cautious growth for the UK HCC providers in the short term.** While the growth in unemployment is slowing, it is not likely to peak until H2 2010 in our view. This combined with the pressure on disposable incomes and falling real wages means that we expect the UK HCC providers to continue to pursue a cautious strategy in 2010, noting that the HCC market is relatively mature.
- **Provident Financial ("Provis") and S&U* remain well placed over the medium term.** Customer proximity and the short loan duration ensure that they are well positioned to respond when market conditions do improve. With limited competition and an increasing product range (e.g. Vanquis, RPF), we see good potential for Provis in particular, although the valuation is not particularly cheap.
- **IPF shares awaiting reassurance on recent trading.** The deterioration in credit quality in Q1 2009, particularly in Hungary, highlights the increased risks with developing markets, while the rebound in profitability in Q2 and Q3 also demonstrates the strength of the model. Ahead of the results and further visibility on Q1 2010 impairment trends, we move to a neutral stance but continue to see good medium term value.
- **Funding will remain in focus.** Both Provident Financial and IPF are fully funded into 2011 on the basis of our forecasts but investors will be looking for further updates here during the first half of 2010. We expect the average cost of funding for both businesses to increase over the next few years.
- **Pawnbroking offers asset-backed non-standard lending.** While much of the outperformance of A&B and H&T over the last year has been driven by the gold price and gold purchasing, our sensitivity analysis suggests that even with more conservative assumptions here, the shares look good value. The combination of restricted credit, continued pressure on household liquidity and store expansion offers an attractive investment case in our view. H&T is our preferred play.
- **UK regulatory review in the background.** In addition to the wider review into irresponsible lending, the OFT is due to report its findings into the high cost consumer credit market in Spring 2010. With home credit having been looked at previously, and limited alternatives for many low income households, we do not expect a particular impact on home credit or pawnbroking although there will be some uncertainty in the short term. This may impact sentiment.

Growth to accelerate in 2011 but shares do not look particularly undervalued at the moment

Still not for the risk averse but the strength of the model was reflected in the rebound in profits in Q2 and Q3 last year

Attractive yield and improving growth potential, however shares are illiquid

The pawnbrokers have benefitted from the strength of the gold price and weakness of Sterling

Three-year gold price (rebased)



Source: Datastream, Charles Stanley Securities

The Sterling equivalent gold price is up 14% on average in the year to date as compared to 2009

Summary forecasts and valuations

Provident Financial

December year-end	2007	2008	2009E	2010E	2011E
PBT (normalised)	115.2	128.8	132.7	146.7	168.8
EPS (normalised)	62.6	70.5	72.4	79.0	90.9
EPS growth	n/a	12%	3%	10%	15%
PER	14.7	13.0	12.7	11.6	11.0
Div yield	5.2%	6.9%	6.9%	7.1%	7.5%
Div cover	1.3	1.1	1.1	1.2	1.3
Price to book	4.1	4.4	4.9	4.5	4.1

Source: Charles Stanley Securities

International Personal Finance

December year-end	2007	2008	2009E	2010E	2011E
PBT (normalised)	50.1	76.3	57.8	85.3	110.8
EPS (normalised)	13.6	21.4	16.2	23.8	31.0
EPS growth	n/a	57%	-25%	48%	30%
PER	14.7	9.3	12.4	8.4	6.5
Div yield	n/a	2.6%	2.8%	3.0%	3.4%
Div cover	n/a	3.8	2.8	3.7	4.3
Price to book	2.5	2.0	2.2	1.8	1.5

Source: Charles Stanley Securities

S&U plc*

January year-end	2008	2009	2010E	2011E	2012E
PBT (normalised)	8.6	8.6	8.8	9.3	9.9
EPS (normalised)	50.8	52.6	54.3	56.9	60.5
EPS growth	-5%	3%	3%	5%	6%
PER	9.5	9.2	8.9	8.5	8.0
Div yield	6.6%	6.6%	6.6%	6.7%	6.9%
Div cover	1.6	1.6	1.7	1.7	1.8
Price to book	1.4	1.3	1.2	1.2	1.1

Source: Charles Stanley Securities.....* Corporate Client of Charles Stanley Securities

Albemarle & Bond

June year-end	2008	2009	2010E	2011E	2012E
PBT	10.3	14.6	17.9	16.8	17.7
EPS	14.2	19.4	23.2	21.8	22.9
EPS growth	30%	36%	19%	-6%	5%
PER	18.7	13.5	11.3	12.0	11.5
Div yield	2.1%	2.6%	3.4%	3.7%	3.9%
Div cover	2.2	2.2	2.5	2.2	2.1
Price to book	3.4	2.9	2.5	2.3	2.1

Source: Charles Stanley Securities

H&T Group

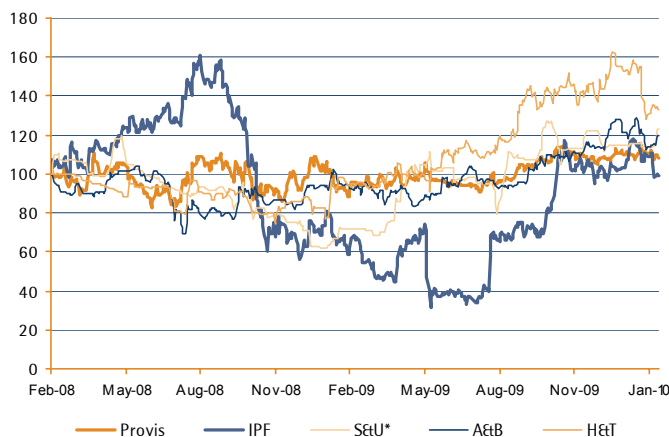
December year-end	2007	2008	2009E	2010E	2011E
PBT	7.4	11.5	17.9	14.7	16.4
EPS	15.2	23.5	34.9	28.5	31.7
EPS growth	17%	54%	48%	-18%	11%
PER	17.3	11.2	7.6	9.3	8.3
Div yield	1.7%	2.0%	2.7%	3.2%	3.5%
Div cover	3.0	3.6	4.4	3.4	3.5
Price to book	3.2	2.7	2.1	1.8	1.5

Source: Charles Stanley Securities

Relative share price performances and valuation

The pawnbrokers have outperformed over the last few years

Figure 1: 2 year relative share price performance



Source: Datastream, Charles Stanley Securities

IPF and H&T Group are the most lowly valued

Figures 3 and 4 below confirms the relative outperformance of the pawnbrokers over the last few years – particularly H&T – as they have benefited from a fragmented and expanding market, and the rising gold price. On a one year basis, S&U and IPF have outperformed reflecting their market gearing and in IPF's case, a rapid profit recovery following the negative update in May 2009. In contrast, Provis has performed very much in-line with the market, but is the worst performer over three years (excl. divis).

Figure 2: 1 yr share price perf. by rank

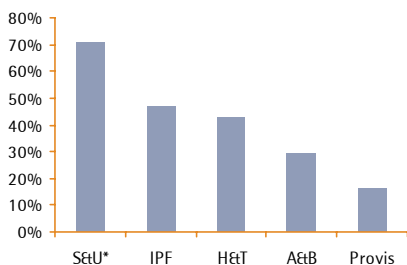


Figure 3: 2 yr share price perf. by rank

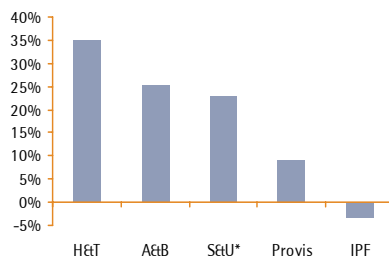
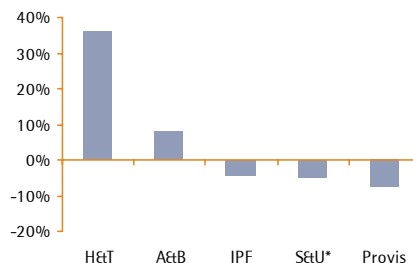


Figure 4: 3 yr share price perf. by rank



Source: Datastream, Charles Stanley Securities Note: For IPF the 3 year performance is from July 2007 when the business was demerged

In terms of valuation, IPF and H&T continue to look the most lowly valued as compared to their forecast growth profile, while Provis and S&U both offer a yield of around 7%, although S&U's dividend cover is better.

Figure 5: Relative PER valuation

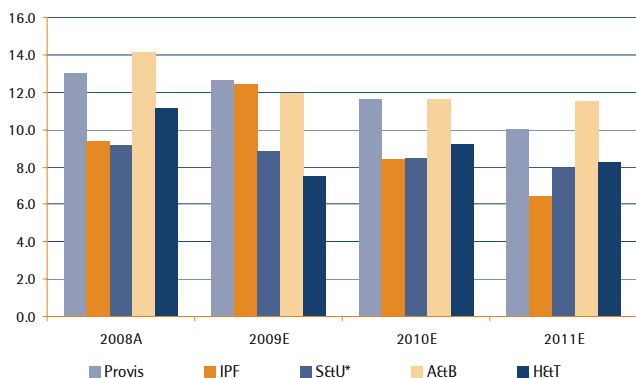
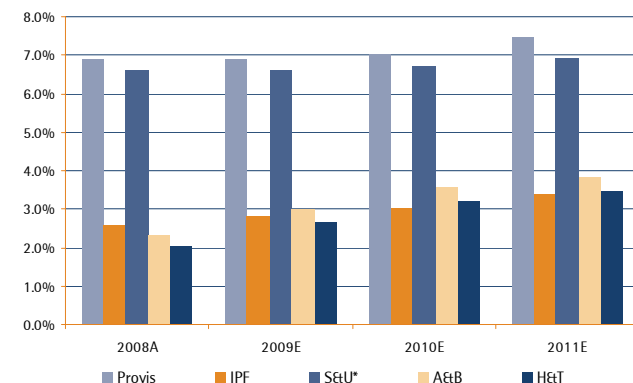


Figure 6: Relative Dividend yield



Source: Datastream, Charles Stanley Securities

An evolving market

Limited competition and continued credit rationing

Increasing numbers of individuals are being rejected by mainstream lenders

Opportunities for well funded players that remain

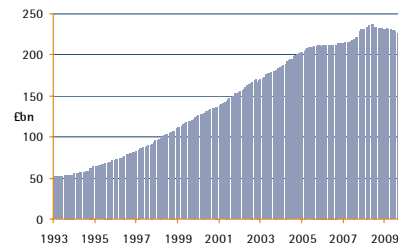
While the UK economy is now showing signs of a return to growth, lending continues to be constrained by weak funding and overstretched bank balance sheets. Capacity is returning to the prime-mortgage market, but the supply of non-prime funding (and hence lending) remains scarce noting that there remains a significant funding gap between customer loans and deposits. The collapse of a number of non-standard lenders (e.g Cattles) has further accentuated this credit rationing which will be enhanced by additional capital adequacy requirements in due course.

At the same time, the non-standard population continues to increase. Rising unemployment, mortgage arrears, repossessions and County Court Judgements (CCJs) all continue to bolster the non-standard segment of the market. As mainstream lenders have raised their underwriting criteria, more individuals are being pushed into the higher cost, non-standard market and this will offer well-funded players a fertile market for growth, often with enhanced credit quality potential.

In this piece we look at the opportunities for the quoted small and mid-cap non-standard lenders with a particular focus on UK home credit – Provident Financial and S&U* – and the pawnbrokers – Albemarle & Bond and H&T Group. We also include a results preview on International Personal Finance.

Lending trends – the backdrop

Figure 7: Growth in unsecured lending

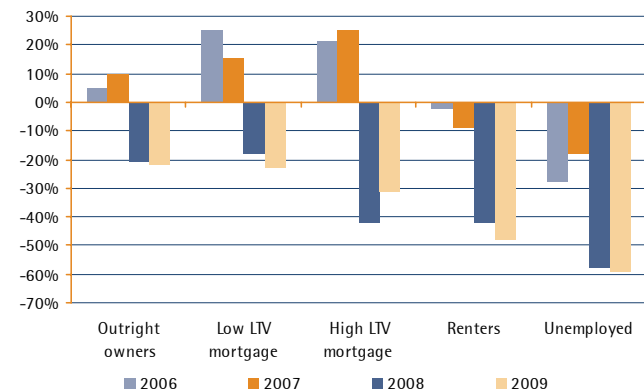


Source: Bank of England

Total household borrowing in the UK is around £1.45 trillion, mainly made up of mortgages which account for around £1.2 trillion. The balance is made up of unsecured lending (personal loans and credit cards) and stands at c.£230bn which is down slightly on the amounts outstanding at the end of 2008 but up c.90% over the last ten years. The non-standard lending market we refer to equates to a small proportion of this unsecured total – we estimate around 10% – although the data is limited and much depends on one's definition of 'non-standard'. However, with smaller amounts typically loaned, it accounts for a higher share of the population.

Bank of England statistics confirm the twin trends of falling lending capacity and, to a lesser extent, reduced demand in the wider market. Figure 8 indicates how credit availability has decreased while Figure 9 highlights that applications for consumer credit – particularly unsecured personal loans – have also trended down.

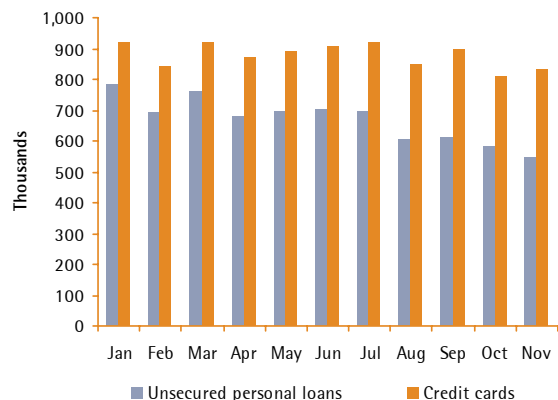
Figure 8: Credit availability by borrower type (a)



(a) Net % of households in survey reporting that credit has become easier to access

Source: Bank of England, Bank of England Financial Stability Report 2009 (Sept 2009 NMG Financial Services Consulting Survey), Charles Stanley Securities

Figure 9: Applications for consumer credit by major UK lenders



Reluctance of consumers to use debt and lenders tightening their credit criteria

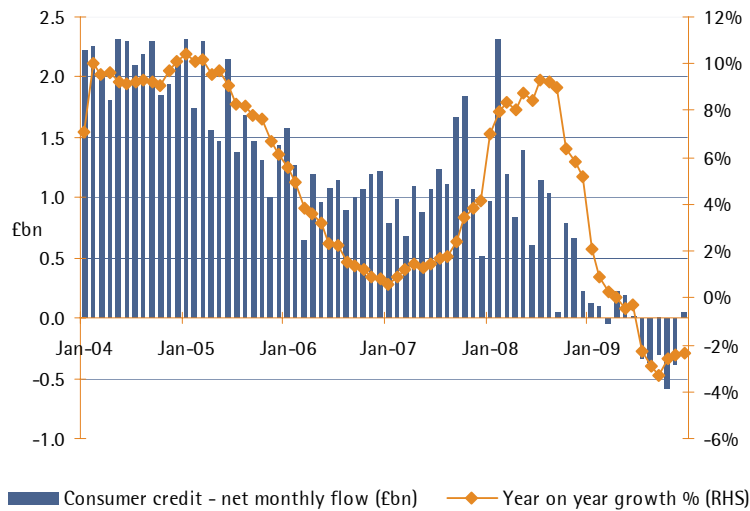
Unsecured lending capacity continues to fall, particularly to the low-income segment

Latest Bank of England survey indicates credit availability to household continues to fall, while spread have also continued to rise

The non standard segment is increasingly unattractive to mainstream lenders from an economic, commercial and regulatory perspective, leaving strong growth potential for the specialised players that remain

As a result consumers have become net re-payers of consumer credit over the last year (Figure 10). There was a slight increase in the total amounts outstanding in December (+0.1bn), driven by credit card borrowing over the festive period, but the annual growth rate of consumer credit remained firmly in negative territory.

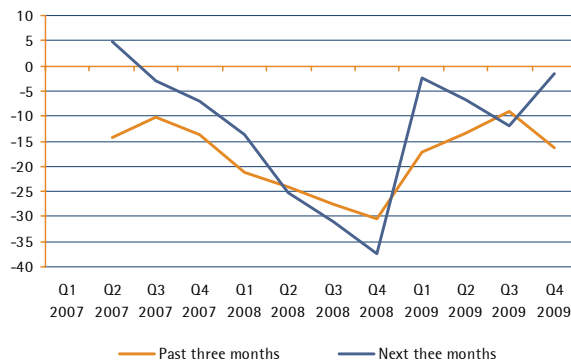
Figure 10: Net monthly flow in consumer credit and year on year growth in consumer credit



Source: ONS, Charles Stanley Securities

These trends were also reflected in the Bank of England Credit Conditions survey for Q4 2009 which reported that unsecured credit availability to households had continued to fall during the quarter, but was expected to stabilise over the next three months (Figure 11). Spreads have continued to rise and non-price terms for unsecured credit, including credit scoring criteria and credit card limits, were also reported to have tightened over the past three months.

Figure 11: BoE survey: How has the availability of unsecured credit provided to households changed?



Results are based on BoE survey of lenders in Q4 2009. To calculate aggregate results, each lender is assigned a score based on their response, these scores are then weighted by market share. The results are analysed by calculating 'net percentage balances' – the difference between the weighted balance of lenders reporting that availability of unsecured credit was higher or lower.

Source: Bank of England, Charles Stanley Securities

Against a backdrop of reduced wholesale funding and high impairment, mainstream lenders are now focusing on their core businesses with a target to improve profitability per product, in priority to volume, and effectively withdrawing from the higher-risk, non-standard segment which is increasingly unattractive from an economic, commercial and regulatory perspective. This creates strong growth potential for the specialist non-standard lenders that remain.

The UK non-standard lending market

Non-standard population is large and increasing

Non-standard lending is generally thought to include sub-prime, adverse/impaired credit and non-conforming loans (e.g. self employed), although there is no agreed definition. Provident Financial estimates that the non-standard population in the UK is around 10m while, using different criteria, Datamonitor estimated in its report on the UK non-standard credit card market in September 2008 that the total is nearer 7.1m. Both agree however that the 'non-standard' lending population is increasing.

OFT estimates that high cost consumer credit market is worth up to £35bn

As part of its review into the high-cost consumer credit sector, the OFT estimates that the (high-cost credit) market is worth up to £35bn annually. In addition to HCC and pawn broking, this includes some more mainstream products that can be high cost such as retail finance, overdrafts and certain credit cards and we estimate they account for over half of the total (retail finance & overdraft gross advances and outstandings were both around £19bn in 2008, Source: Datamonitor).

HCC and pawnbroking make up a small proportion, opportunity for leading players to increase market share and for leading players to move further up credit curve

However this leaves a sizeable market of which HCC and pawnbroking make up less than £2.5bn on our estimates, and which we expect to continue to grow, both as the wider non-standard market expands, and as HCC and pawnbroking increase their share within it. When this is added to the opportunities for the well funded players to move further up the credit curve (e.g. Vanquis and RPF), it presents a significant medium term growth opportunity.

Provident has commented that there is almost no new lending from active competitors in the direct repayment sector at the moment

On the supply side, in addition to the mainstream lenders withdrawal, specialist non-standard lenders are also struggling. Many of these lenders have relied on bank/ bank syndicate loans, revolving credit facilities or other forms of wholesale funding in the past and now find it difficult to access funding while the costs are higher. At the extreme we have seen a number of participants exit the market, at least partly driven by reduced access to funding but also as a result of poor underwriting and the tougher environment. Both Welcome Finance (Cattles) and London Scottish Bank fall into this category, while noting that many other unsecured lenders and credit care issuers have heavily constrained their lending or withdrawn.

Challenging economic environment will mean cautious growth in 2010 though

However while this offers opportunities, it also hints at some of the short term risks of taking on new customers, many of whom are already likely to be carrying significant levels of debt. Adverse selection makes taking on new customers inherently risky anyway and with consumer indebtedness still near record highs, we expect growth to remain cautious in the short term.

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Home Collected Credit

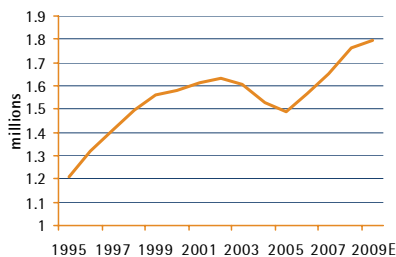
Home Collected Credit

Four main players in the UK HCC market – Provident Financial, Shopacheck, S&U* and Morses

HCC is the defensive end of non-standard lending

It accounts for c.92% of Provis profits and around 80% of its loanbook, and around 65% of S&U's profits

Figure 12: Provis HCC customer numbers



Source: Company, Charles Stanley Securities

A mature market anyway, but customer growth to remain in low-single digits or flat for 2010, increasingly slightly in 2011

HCC makes up a significant proportion of the sub-prime segment within the UK non-standard lending market. At its peak in 2006, some £1.5bn of home credit gross advances were made while we estimate that home credit is used by around 3m people. Provident Financial ("Provis") is the leading player in the sector with around 60% of the market (1.8m customers) although there are also three other larger players – Shopacheck (part of Cattles), S&U* and Morses – and then a long tail of several hundred smaller operators.

We consider HCC to be at the defensive end of non-standard lending with the nature of the loans – low amounts with short durations and collected weekly by agents – enabling the likes of Provis and S&U to deliver resilient performances over the last two years. In particular, we would identify the agent-customer relationship as key, with agents knowing the local economy and remunerated on their collections performance.

HCC accounts for around 92% of Provis group profits while the remainder derives from Vanquis, the group's credit card offering. We consider Vanquis (and Real Personal Finance) separately within the Provis company section, noting that it represents around 20% of the loan book. Similarly, we look at S&U's* motor finance operation, Advantage Finance, in the company section and consider the funding profile for both businesses there too.

Growth potential in HCC

While HCC is a relatively mature market, Provis has still been able to steadily grow customer numbers during 2006, 2007 and 2008, reflecting new acquisition channels, primarily the internet, direct mail and to a lesser extent, broker relationships. This is in contrast to the competition, where progress has generally been flat, and to the period 2002 to 2005 when HCC customers were falling as result of increased competition from other credit sources (Figure 12).

HCC customer number growth has been more muted in 2009 (+3.9% for Provis in H1) as both Provis and S&U* have applied greater selectivity to accepting new customers, and there has been a more cautious approach to re-serving existing customers given the economic backdrop. Moreover, both Provis and S&U* has also seen evidence of borrowers becoming more cautious. However Provis has continued to outperform the sub-sector and as the economy improves, we expect it to be able to accelerate its HCC customer growth back to the c.7% enjoyed in 2008, but not until 2011, noting that credit offerings to this segment of the market are limited.

In the short term, we expect customer growth to remain in low single digits or flat for many players. Unemployment is still rising, there will be continued pressure on real wages (including from restricted working hours) and there may be pressure on some state benefits to low income households in due course, although we see this as relatively unlikely.

Over-indebtedness of some potential new customers will limit profitable growth potential for the likes of Vanquis and RPF

Much of Provis receivables growth in last year has been driven by loans to existing customer base, which is not sustainable

HCC market remains stable

Provis continues to outperform; it appears to be the only player that has grown customers and receivables over recent years

Opportunities for small bolt-on acquisitions for S&U*, most likely to be HCC book debt

Some indications that underwriting standards at some of the other HCC providers have been slightly lax

Moreover while over-indebtedness is less of a problem for traditional HCC customers, as they have had limited access to other forms of credit, it will present a barrier to accepting some new customers who have become over-indebted and cannot be responsibly served. This is likely to include previous HCC customers who were accepted by other credit providers, but now find themselves with no other credit options, and will also limit the profitable growth potential of Provis's Vanquis and Real Personal Finance operations in the short term.

It should also be noted that Provis has been able to grow average receivables ahead of customer growth over recent years due to the growth in the higher quality, re-servable customer base. This is not driven by longer terms loans (certainly more recently), as the group has sought to reduce duration, but this is clearly unsustainable. Over the longer term, customer growth and average receivables will trend together.

Competition in HCC, market share opportunities?

While the competitive environment in the wider non-standard lending market has improved significantly over the last two years, there have been limited changes within HCC.

Provis continues to outperform in terms of customer and loan growth, S&U* is making good progress while we understand that Shopcheck is trading satisfactorily despite its parent company struggling. Similarly, while London Scottish Bank went into administration in November 2008, its HCC subsidiary, Morses, was acquired by RCapital in April 2009 and now appears to be gaining focus.

However with Shopcheck and Morses going through a period of uncertainty and a long tail of smaller HCC providers struggling with funding, there has been some opportunities to pick up market share for the likes of Provis and S&U* and we expect the latter may undertake some small bolt-on acquisitions.

However rather like the wider lending market, underwriting standards do appear to have been too lax in many cases which together with the issue of adverse selection will make market share gains limited in our view. Cattles recently reported that Shopcheck made a loss of £2.7m in the year to 31 December 2008 (after an additional loan provision prompted by the impairment review) suggesting that credit quality has deteriorated much more there than at Provis or S&U*.

Lessons from the 1990's recession

Resilience of HCC market is demonstrated by Provis performance in the 1990s

Impairment rise was manageable and profit growth returned quickly

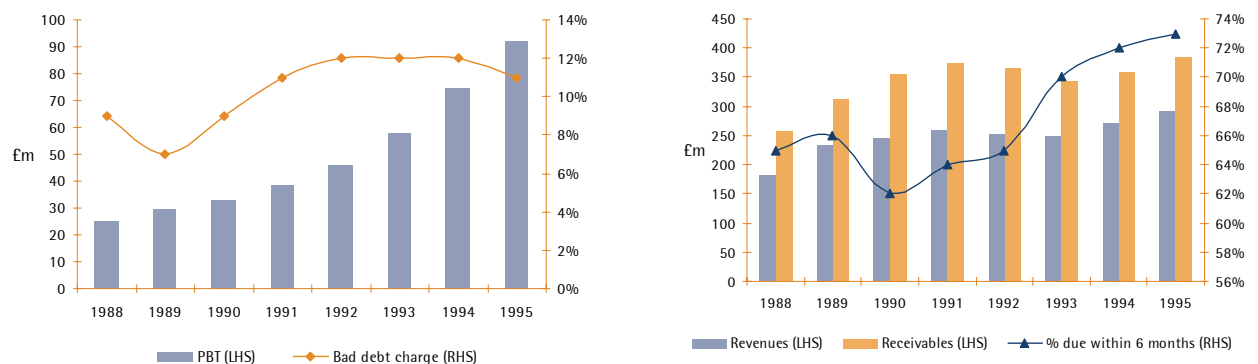
Shortening of receivables book

While recognising that market conditions are different to the early 1990's, we can look at that experience to try to gauge how credit quality and profits may develop. Here we focus on Provis given the limited data for the other HCC companies at that time.

Figure 13 shows the growth in Provis HCC profits between 1988 and 1995 together with the bad debt charge as a percentage of revenues. While much of the HCC PBT growth over the early 1990's derived from efficiency savings and the rationalisation of three brands, the graph highlights the relatively stable bad debt charge as a % of revenues.

Figure 14 shows the reduction in receivables and the shortening of the receivables book as agents became more cautious in the deteriorating economic environment. Customer numbers increased from 1.08m in 1992 to 1.21m in 1995 as the pool of potential customers also increased.

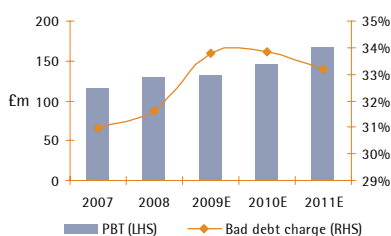
Figure 13: HCC PBT vs Bad debt charge as % of revenue (1988 – 1995) **Figure 14: HCC revenue and receivables vs % due within 6 months**



Source: Provident Financial, Charles Stanley Securities

Therefore while impairments continued to rise post the nadir in GDP growth in Q2 1991, it did not rise by much and soon peaked, while profit growth began to accelerate soon after.

Figure 15: Forecast Provis group PBT and impairment (includes Vanquis)



Source: Charles Stanley Securities

Moreover, this is reasonably consistent with the experience so far, with impairment levels forecast to peak this year and remain high in 2010, before profit growth is forecast to accelerate in 2011 (See figure 15). However there are four differences in the market which we would highlight, all of which support our view that like early 1990's, HCC credit quality will remain relatively robust but that unlike the early 1990's, growth may be more limited, certainly in the short term:

- **State benefits make up a high proportion of disposable income** – Provis have indicated in the past that around 50% of its customer households benefit from state income of some type while S&U* estimate that it is higher. This provides stability to their customer bases while the growth in state benefits over the last ten years (and certainly as compared to the early 1990's) has also helped underpin credit growth and credit quality. While there is increasing pressure on the public purse, we expect changes to the benefits paid to lower income households to be limited.

Unemployment has risen significantly but not as much as had been expected

Over-indebtedness will limit the potential to take on some new customers

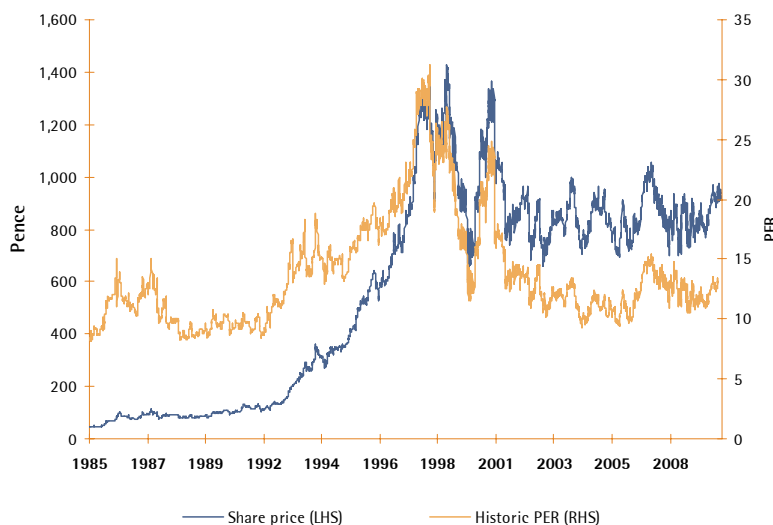
HCC penetration is much higher now than it was in the 1990's limiting further growth potential

- **Flexibility in the labour market** – It now appears that unemployment will peak well below the three million originally forecast, and that experienced in the 1990's. This better result has been driven by increased part-time working (full time employment continues to fall) and while household incomes will continue to come under pressure, it appears to be to a lesser extent than that forecast.
- **Over-indebtedness in the wider population** – This will limit HCC new customer growth in the short term, although the bigger impact will be on the likes of Vanquis and Real Personal Finance. Since the early 1990's, UK unsecured lending per capita has increased by c.300% while GDP per capita has only increased by c.40%.
- **HCC is a more mature industry now.** While the developments over the last year have increased the pool of potential customers, HCC penetration levels are much higher than they were in 1992 when Provis had just 1.1m HCC customers compared to the 1.8m today.

Finally, figure 16 shows how Provis share price and historic PER evolved during the 1990's as its profits recovered (and its international operations – now IPF – were launched). It also shows how little the shares have moved over the last nine years and how stable they have been over the last two.

Provis enjoyed significant re-rating as UK economy returned to growth in the 1990's

Figure 16: Provident Financial Share price performance and historic PER



Source: Datastream, Charles Stanley Securities

Provident Financial

The leading player in HCC

Typical loan of £400, repayments of c.£12 per week compared to household income of c.£250

Vanquis - "Low & grow" strategy typically starting with a credit limit of £250. Two-thirds of all incremental credit issued is to existing customers, underwriting is on an individual basis, with telephone interviews, regular contact and monthly credit checks.

RPF was launched to open up a new segment of the market although there have been rumours recently that it may be abandoned

Provis is due to report full year results to 31 December on 2 March

Expect full year results to reflect a continuation of the trends reported at the interims and in the October IMS

Provident Financial is the leading provider of home collected credit in the UK with around 60% of the market. It has two HCC brands – Provident Personal Credit and Greenwood Personal Credit – and around 11,500 agents visiting c.1.8m customers each week, the majority of whom have limited other indebtedness, are long established and are not home owners.

The typical household income of an HCC family is around £250 per week, coming from multiple sources. In around 90% of the households there is at least one income from employment, which is often supplemented by income from part-time or casual work, while around 50% of the households benefit from some form of state income. It is also quite common for there to be grown-up children living at home, who will usually contribute some income too. Average loan sizes are typically around £400 over a 57 week period (although the duration has fallen over the last year) and repayments equate to around £12 per week. HCC accounts for around 92% of group profits.

The group has two other brands – Vanquis and Real Personal Finance. Vanquis is the group's non-standard credit card provider and was launched in January 2005 following an 18-month pilot. The business reached breakeven in June 2007 and generated profits of £8.0m in 2008. The risk reward balance for a portfolio of Vanquis customers is more attractive than for mainstream credit card providers given that Vanquis enjoys a higher rate of utilisation per card (c.70-80%) at higher rates but with lower credit limits.

Real Personal Finance ("RPF") offers larger direct loans to non-standard customers and is currently being tested at 50 branch locations. More similar to home credit, average loan sizes are around £1,800 and are underwritten in the home and then repaid by monthly direct debit. It was launched to open up a new segment of the market while also helping Provis to retain HCC customers for which the group had already developed a credit record. Around two thirds of Real's 13,000 customers (as at 30 June 2009) have come from the home credit side and over time the group expects this to trend to around 50%.

Results preview

The group has adopted an increasingly cautious approach to new lending since the middle of 2007 and underwriting criteria has been further tightened during 2009.

We expect growth in customer numbers in 2009 for the core Consumer Credit Division (which is mainly HCC, but also includes RPF) to remain around the 3.9% range reported at the interim stage, which compares to c.7% in 2008. Average customer receivables growth will exceed this, noting that it was 9.8% in H1 2009, reflecting increased credit to good quality customers. Over time, average customer receivables should grow at a similar rate to customer growth (particularly when noting that credit criteria has been tightened over recent years) and we expect the two to be more similar in 2010.

Profit growth to pick up in 2011, we are assuming impairments remain similar in 2010 as 2009

Figure 17 summarises our forecasts for Provis for the next three years. We are forecasting full year revenue growth in the Consumer credit division of 5.8%, which compares to 4.9% reported in H1 2009. This is lower than the growth in receivables, partly due to the impact of the Competition Commission remedy on early settlement rebates still working its way through, although the main impact was felt in H1.

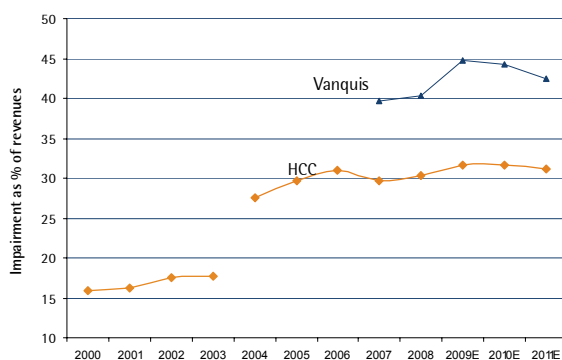
Figure 17: Summary P&L forecasts

	2007	2008	2009E	2010E	2011E
Consumer Credit	590.5	651.8	689.5	726.9	779.8
Vanquis	63.5	94.6	129.5	155.8	175.0
Yes Car Credit	15.2	4.8	1.4	0.0	0.0
Group revenues	669.2	751.2	820.4	882.8	954.8
Group impairment	-207.2	-237.7	-277.1	-298.6	-316.7
Rev. less impairment	462.0	513.5	543.3	584.2	638.1
Impair as % of rev.	31.0%	31.6%	33.8%	33.8%	33.2%
Consumer Credit	123.5	126.1	128.6	136.5	153.9
Vanquis	-0.9	8.0	12.2	16.2	21.0
Yes Car Credit	-2.9	-2.9	-2.5	0.0	0.0
Divisional profits	119.7	131.2	138.3	152.7	174.9
Central Costs	-6.5	-5.5	-7.2	-7.7	-8.2
Interest receivable	2.0	3.1	1.6	1.6	2.0
Group PBT	115.2	128.8	132.7	146.7	168.8

Source: Charles Stanley Securities

Our summary impairment forecasts for the group are shown in Figure 18 noting that IFRS were introduced in 2004.

Figure 18: HCC and Vanquis impairment as a % of revenues



Source: Charles Stanley Securities

HCC credit quality has been relatively stable over recent years

Figure 18 shows how stable HCC credit quality has been over recent years and is forecast going forward, reflecting its resilience. Moreover the risks continue to be further mitigated by ongoing enhancements of the lending process. This includes the continued refinement of the HCC credit scoring process and the recalibration of agents' commission scheme during 2008, which has encouraged agents to work more closely with customers who fall into arrears.

S&U reported in its pre-close update on 9 February, that collections had been disrupted in early January by the severe weather but that overall collections remained robust and any temporary rise in impairment levels had since recovered well. It will be interesting to see if Provis was impacted while noting that its mechanical impairment process should mean a missed weekly payment falls out after 12 weeks.

We expect CCD H2 costs to rise slightly

H1 costs in the CCD only increased by 2.2% despite the investment in 120 field base management roles and 30 new branches. Much of this investment took place in the latter part of 2008 and first half of 2009 and hence costs will be higher in H2 2009. This drives our 4% forecast increase in CCD costs for the full year.

Vanquis declines c.83% of its applications

The group's credit card offering continues to enjoy strong application rates with nearly 500,000 applications received in the first half of the year. The overall decline rate was around 83%, which was maintained in Q3, very slightly up on that previously and reflecting a continued tightening of underwriting standards.

Pro-active management of customer base; cancellation of inactive accounts mitigates contingent risk of undrawn lines

As at 30 June, customer numbers stood at 416,000, up by 11.2% on a year earlier and up just 3% on the 404,000 reported at 31 December. This slower rate of growth reflected the increased credit hurdles, and that 13,000 inactive accounts were cancelled to mitigate the contingent risk of undrawn lines. This trend continued in Q3 with the October IMS confirming that 21,000 inactive accounts were closed in Summer 2009 such that account numbers were up c.5% on a year earlier. We expect the year end position to be similar.

Receivables growth driven by existing customers

Average customer receivables in H1 were up 35%, with revenues up 40%, reflecting that the main source of growth was credit line increases to existing customers who had performed well. We are forecasting full year revenues to be up 37% on the prior year.

H1 impairment was higher than expected but risk adjusted margin remained in-line with target

Vanquis' annualised impairment rate was 44.8% in H1 (31 Dec: 40.4%), higher than had been expected with pressure coming from lower quality business written early in Vanquis' development prior to 2008. However, the risk adjusted margin remained in-line with the group's 30% target (2008: 33.7%), highlighting the robustness of the model and ability to risk price. Reassuringly, the IMS on 23 October confirmed that Vanquis' arrears profile had remained stable throughout the third quarter. Our full year forecast is for an impairment rate unchanged on H1 at 44.8% which, on our forecasts, translates to a risk adjusted margin of 30.3%.

Real Personal Finance

RPF still a market test at the moment

The group have stated that RPF remains a 'market test' for the moment, operating from around 50 branches. At the interim stage, RPF had outstanding receivables of £20m and 13,000 customers, and the group confirmed that loans originated in H1 2009 were performing well. However, if/when it is taken beyond a test will depend on how market conditions evolve.

We are not convinced that the disintermediated approach works at this end of the socio-economic spectrum

The strength of the home credit model is in the weekly relationships and we are not convinced that the monthly direct debit repayment model to a segment of the market that is not too dissimilar from HCC will work until economic conditions improve markedly. Moreover, the demise of much of the broker distribution channel over the last 18 months (as the non-standard direct repayment market has shrunk) means that the RPF is likely to have to invest much more in the internet and direct mail. We therefore expect RPF to remain a market test for the moment although there has been speculation that it will be abandoned.

Fully year profits forecast to increase by 3.6% on the prior year, main attraction in the short term remains the dividend

We expect market conditions to remain challenging in 2010 before picking up in 2011

We are forecasting 6% increase in PBT in 2010 and 13% in 2011

Vanquis to continue to make cautious progress

Provis is reasonably well funded; recent £250m 10 year public bond diversifies funding sources

We expect investors will be looking for further news on funding during H1 2010

Overall, the net impact is that we are forecasting the core CCD division to deliver full year profits of £128.6m and Vanquis to deliver profits of £12.2m, resulting in group PBT of £132.7m, up 3% on the prior year and consistent with the 3.5% increase reported at the interim stage. We are forecasting a final dividend to be declared of 38.1p, unchanged on 2008, giving a total of 63.5p for the year (2008: 63.5p).

Outlook

For 2010, our forecasts are at the low end of a reasonably narrow range. This reflects a slight improvement of the conditions in 2009, but not really until towards the end of the year. The bigger opportunity will be in 2011 when the combined impact of increasing receivables and falling impairment should result in accelerating profit growth.

We expect 2010 HCC customer growth to pick up slightly from that enjoyed in 2009 but remain below that enjoyed in 2008, while average receivable growth is likely to be similar. The combined impact of these should result in similar growth in revenues to that experienced in 2009 while cost increases will be in proportion given that the investment in new field personnel and branches straddled 2008 and 2009. With impairment forecast to be flat year on year, this drives our forecast 6.0% increase in our CCD profit to £136.5m. We expect this to increase to nearer 13% in 2011 partly driven by falling impairment.

We expect Vanquis to continue to make solid progress, with 2010 full year profits forecast to increase to £16.2m. We assume that impairment levels fall slightly in 2010 and more so in 2011 and on our forecasts this translates to the risk adjusted margin of 30.3% in 2010, increasing to 31.3% for 2011 and profits of £21m, which looks conservative in our view.

Funding

Provident Financial is reasonably well funded in our view with the recent success of the £250m 10-year public bond in October providing further comfort and diversification of the group's funding sources. However, Provis will need to put in place new facilities in order to fund growth in 2011 and these are likely to increase the average cost of funding overall; investors will be looking for further news here during the first half of 2010. The group also has surplus equity capital of around £60m and also has a banking license.

Figure 19 shows the group's funding profile as reported at 30 June 2009. The combination of the £250m 10 year public bond in October (with a coupon of 8%) and the redemption (via tender auction) of £94m subordinated bonds had the net impact of increasing total facilities by around £160m to c.£1,250m as at 31 December; although this will fall to below £1,150m during 2010. It lengthened the maturity profile (figure 20) and resulted in a revised blended rate of interest of c.7.4% compared to around 7.0% previously.

Figure 19: Committed borrowing facilities as at 30 June 2009

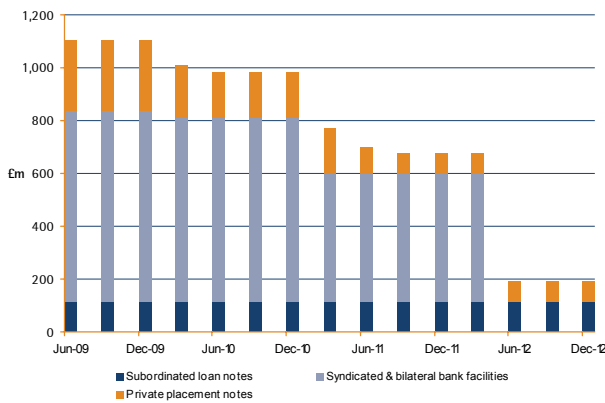
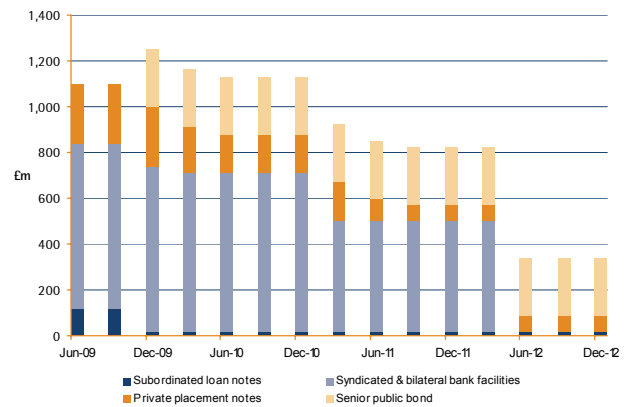


Figure 20: Estimate of new funding profile post £250m public bond issue



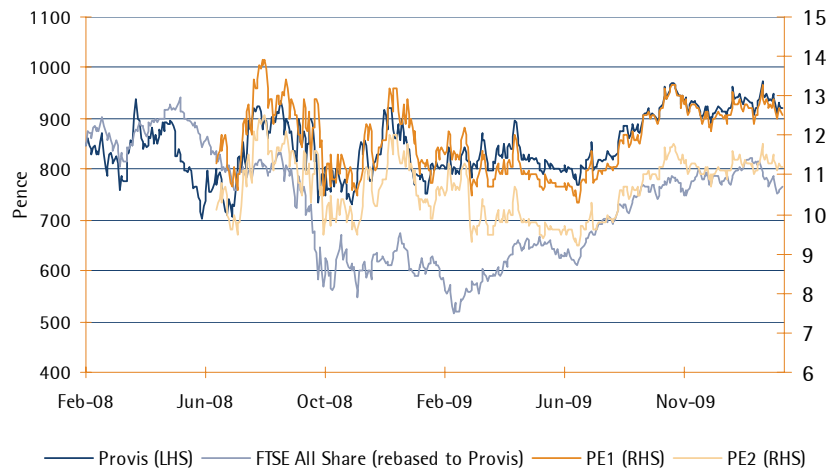
Source: Company, Charles Stanley Security estimates

Valuation

Valuation is not undemanding

Figure 21 shows that Provis valuation is not out of kilter with its historic range, noting that the shares have significantly outperformed the FTSE All-share over the last two years and have been generally re-rated in-line with the market since March 2009.

Figure 21: Relative Share price performance and prospective PERs



Source: Datastream, Charles Stanley Securities

Shares look fairly valued in short term, but yield sustains their attractions; limited comparators

Our target price of 1,000p equates to a yield of 6.5% which we think looks about right given the medium term growth prospects

On our 2009 forecasts the shares are trading on a PER of 12.7x, falling to 11.6x 2010. There are no good comparators which provide a valuation yardstick for Provis, but the group remains in the top quartile of other specialist lenders while the price to book value of c.5x is high. The yield however continues to attractive at c.7.0%, while noting cover is just 1.1x.

Simply applying this yield to our forecast dividend paid for the 2010 financial year of 64.8p equates to a price of 925p. However taking account of the improving growth potential going into 2011, we suggest that a yield of 6.5% would be more appropriate which yields our target price of 1,000p (equating to a 2011 PER of 11x), and down from 1,020p previously. and keeps the shares firmly in "Add" territory.

International Personal Finance

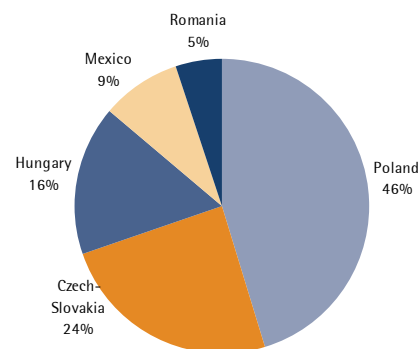
Operations in six countries all at different stages of development

A series of 'J-curves' with Mexico having recently moved into profitability and Romania expected to move into profitability in 2010

A home credit provider, but which serves a customer base slightly further up the socio-demographic spectrum than Provis

Full year results due on 3rd March

Figure 22: Average receivables (£473m), H1 2009



Source: Company, Charles Stanley Securities

International Personal Finance ("IPF") was established as the international division of Provident Financial and demerged from Provis in July 2007. It operates in six countries, all of which have relatively undeveloped consumer credit markets as compared to the UK and offer good growth potential.

The group opened in Poland and the Czech Republic in 1997, Hungary and Slovakia in 2001, and then Mexico and Romania in 2003 and 2006 respectively. As such, IPF enjoys different levels of penetration in each country and, in terms of country profitability, can be thought of as a series of 'J-curves'. The Central European markets are now well established, although still immature as compared to the UK, while Mexico has just moved into profitability and Romania is forecast to do so in 2010. The potential in Mexico is particularly exciting, given that it has a population 2.5x the size of the group's largest market currently, Poland.

Like Provis in the UK, the target customer is underserved by mainstream lenders but the demographic is slightly higher reflecting the immature credit market and that IPF only lends to households with employment income. The group has just under two million customers and c.26,000 agents.

Results preview

IPF is due to announce finals on 3rd March. It confirmed on 15th December that full year results would slightly exceed expectations, assuming that the December trends continued in the run up to the peak Christmas period. We are forecasting normalised PBT of £57.8m, which is near the middle of consensus.

However, IPF is difficult to forecast, particularly in the current environment. In addition to the evolving macro trends and different levels of market penetration, there are also local factors. The additional risks with developing markets were highlighted by the collections downturn in Hungary in H1 last year, which was despite tightening credit criteria in July 2008, while there was also a significant deterioration in collections across all countries in Q1 2009 (Figure 22).

However figure 23 also highlights the strength of the model with quarterly profits (aside from Hungary) rebounding strongly in Q2 2009. The combination of short duration loans, customer proximity and conservative provisioning, such that any deterioration in loan performance works its way through the loan book quickly, means that the second half performance in 2009 is expected to be similar to that reported in 2008. It is for these reasons, and that we think that the downturn in Hungary was caused by quite specific drivers (see below), that underpin our confidence in the IPF home credit model and the medium term opportunity.

Figure 23: Quarterly performance 2009E v 2008

£m	Q1 2009	Q2 2009	Q3 2009	Q4 2009E	FY2009E	Q1 2008	Q2 2008	Q3 2008	Q4 2008	FY2008
Central Eur Mkts (excl Hungary)	4.4	23.3	23.7	28.6	80.0	13.8	24.2	22.1	29.9	90.0
Hungary	-5.8	-1.2	-2.0*	3.0	-6.0	2.1	2.8	4.0	7.1	16.0
Central costs	-2.7	-3.5	-3.1	-3.4	-12.7	-3.5	-2.9	-3.0	-3.8	-13.2
Net profit from estab. Mkts	-4.1	18.6	18.6	28.2	61.3	12.4	24.1	23.1	33.2	92.8
Mexico	-2.9	-0.6	0.2	3.4	0.1	-4.0	-1.4	-3.0	-0.3	-8.7
Romania	-1.5	-0.4	-0.8	-0.8	-3.5	-2.1	-2.7	-1.9	-1.1	-7.8
Normalised PBT	-8.5	17.6	18.0	30.7	57.8	6.3	20	18.2	31.8	76.3

Source: Charles Stanley Securities

* Includes £3.0m of one-off restructuring costs

H2 2009 revenues will benefit by c.£6m from the decision to lengthen the duration of new loans issued by up to five weeks in all markets except Romania from 1st July. However the impact of this will be negated half way through 2010 by the increased early settlement rebates as a result of the EU Consumer Credit Directive

2010 will benefit from improvement in Hungary and profitability in Mexico

2010 exchange rate risk mitigated

2010 impairment will benefit from improvement in Hungary

Figure 24 shows our summary P&L forecasts by region for the next three years.

Figure 24: Summary P&L forecasts

	2007A	2008A	2009E	2010E	2011E
Central Europe	367.1	493.2	450.8	458.4	481.7
Mexico	38.8	48.4	75.2	99.6	119.7
Romania	3.9	15.5	33.8	50.1	59.6
Other	0.0	0.0	0.0	0.0	0.0
Total revenues	409.8	557.1	559.7	608.1	660.9
Central Europe	80.6	106.0	74.0	89.1	104.1
Mexico	-13.3	-8.7	0.1	8.2	14.5
Romania	-4.2	-7.8	-3.5	1.5	6.6
Other	-0.5	0.0	0.0	0.0	0.0
Operating profit	62.6	89.5	70.6	98.8	125.2
Central Costs	-12.5	-13.2	-12.7	-13.5	-14.4
PBT - Normalised	50.1	76.3	57.8	85.3	110.8

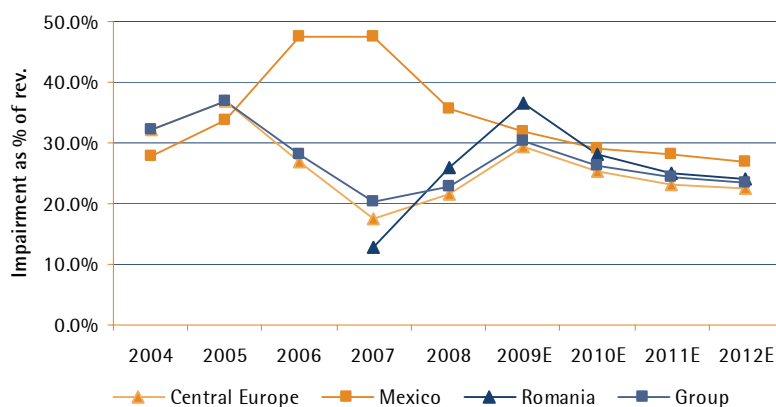
Source: Charles Stanley Securities

We do not split out Hungary from the rest of Central Europe beyond 2009 but much of the improvement forecast for 2010 could be accounted for by a more normal year here plus the improving profitability in Mexico.

In particular, the Central Europe performance in 2008 gives comfort that the 2010 forecasts are achievable. While much of the reported growth in 2008 (over 2007) was as a result of the weakening of Sterling, the rates used to hedge 2010 forecast profits are not too dissimilar from that enjoyed in 2008 or 2009.

Figure 25 below shows how our impairment assumptions by region evolve over the next four years. For Central Europe (including Hungary) we are forecasting impairment as a percentage of revenues of 25.4% in 2010, consistent with guidance of 25%. This compares to 21.5% in 2008, which together with potential outperformance in Mexico, skews the risk to the upside in our view. It should be noted however that our forecasts (or funding assumptions) do not include costs for new country openings which we see as unlikely until 2011.

Figure 25: Forecast impairment as % of revenues by region



Source: Charles Stanley Securities

Branch by branch approach to re-expansion in Poland, Czech and Slovakia in Q3 2009

Improved competitive environment

Figure 26: Exchange rates v the Swiss Franc



Source: Datastream

It is also worth noting that FX loans are a feature in Poland and Romania, but to a smaller extent and despite a similar depreciation in the Zloty and Leu, the impact to date has been less marked.

With the collections performance in Poland, the Czech Republic and Slovakia back to prior year levels by the end of Q2 2009, IPF shifted to a more expansionary stance in these regions in Q3. It could be argued that this has taken place too early, increasing the risk profile at a time when most countries were still in recession. However given the customer proximity and the branch-by-branch approach to re-expansion, it appears to have been relatively iterative while noting that credit issued in these three markets in Q3 was still down 13% on the prior year, but an improvement on the 22% decline in Q2. The withdrawal of other lenders from the market should also offer enhanced credit quality and better pricing over the medium term.

Hungary

The deterioration of the performance in Hungary in H1 2009 reflected a number of specific factors in our view. In addition to the squeeze on household incomes as result of increased personal taxes and reduced state subsidies, there was the impact of the rising cost of servicing FX loans as the Forint depreciated against the Swiss Franc (the group estimated that around 40% of its Hungarian customers had FX loans), while local media encouraged individuals to default on loan agreements in January and February 2009.

The view that these two factors were at least partly responsible for the increased impairment is consistent with the speed with which the Forint weakened in Q1 2009 and by the fact that the Q1 collections performance in Hungary was so polarised. Two-thirds of the Hungarian customer base continued to pay well and the remaining one-third poorly, typically less than 20% of the contracted weekly rate. This suggested a reduced propensity to repay among that portion of the population.

In response, IPF transferred the 85,000 bad payers to a centralised collections unit and downsized the Hungarian operation. Around 19% of the 210,000 good paying customers were reallocated agents and importantly they have continued to pay well. With the Forint also now more stable against the Swiss Franc, this suggests that Hungary is now on a much more stable platform, noting that the underlying business returned to profit in Q3 2009.

Outlook

Strong medium term opportunity

IPF continues to offer strong medium term growth potential driven by a combination of the relative immaturity of its markets, limited competition and the increasing penetration in Mexico and Romania. Moreover profit growth will be significantly enhanced as impairment levels fall.

But short term risks remain – unemployment is still rising and local market visibility is limited

However there are still risks. Unemployment is rising in each of the group's countries (apart from Mexico) and is expected to continue to rise in the short term while the Q1 collections performance will be crucial and maybe further complicated by the severe weather conditions in much of Europe, noting that it impacted employment in several regions. We are therefore cautious in the short term, although still see a strong medium term opportunity.

Improved platform in Hungary

Our impairment forecasts for 2010 look reasonably conservative based on H2 2009 forecast trading (24.3% for the established markets, except Hungary, vs 22.2% in H2 2009) while Hungary is expected to show a significant improvement in 2010. With Romania expected to become profitable this year and Mexico also offering significant potential, the current valuation does appear to ascribe too much weight to the credit quality risks (noting the rapid rebound in H2 2009) and not enough to the medium term growth potential. However, against an still uncertain economic backdrop, investors will require further assurance on current trading before getting involved.

Hedging of Forex

It should also be noted that IPF has put in place foreign currency contracts to hedge the majority its forecast group profits for the 2010 financial year, at rates which overall are similar to those used to translate the results for the 2009 financial year.

Funding

Reasonably well funded into 2011 on our forecasts

As at 30 September 2009, shareholder funds represented 51% of net customer receivables while the group had borrowings of £337.6m (30 June: £304m, 31 December: £378m at constant exchange rates) which compared to facilities of £609.7m.

However investors will be looking for further news here in the first half of 2010 in our view

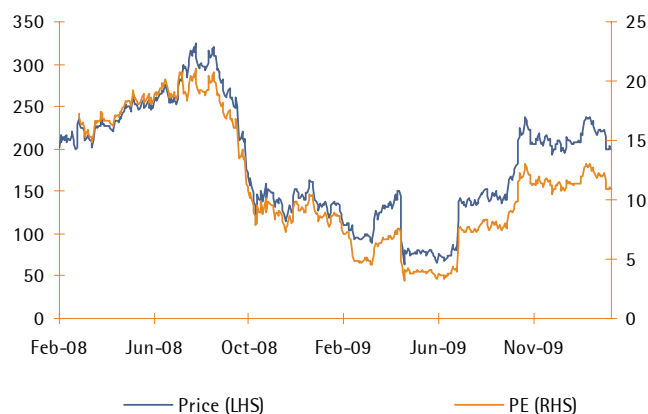
We understand that these facilities will reduce by c.£175m by March this year noting that the group has c.£396m of facilities committed to October 2011. On our forecasts that should be enough to take IPF well into 2011 although we expect the group to aim to extend/ enlarge those facilities in H1 2010 to avoid any concerns which might then begin to overhang the shares.

Valuation

Share price should revisit previous highs as economies definitively emerge from recession

Figure 27 shows how the share price performance and valuation has evolved over the last couple of years. Like Provident, there are limited comparators and newsflow will act as the main driver for the shares.

Figure 27: Two year share price and PER



Source: Charles Stanley Securities

Valuation looks undemanding.....

.....but need further visibility on recent trading

Figure 27 also shows the rating compression over the last two years such that the shares are only trading on a 2010 PER of 8.4x and price to book of 1.8x. This compares to Provident Financial on a 2010 PER of 11.6x and a price to book of c.4.5x. Our target price of 240p equates to a 2010 PER of 10x and a price to book of 2.2x, which still looks conservative when compared to Provis, particularly given the growth potential. However the shares will continue to tread water ahead of the results on 3rd March and we move to a Hold recommendation (Add) ahead of gaining further insight into recent trends.

Figure 28: Summary valuation/ performance statistics

Year to December	2007	2008	2009E	2010E	2011E
PER - Normalised	14.7	9.3	12.4	8.4	6.5
Price/ Book Value	2.5	2.0	2.2	1.8	1.5
EV/EBITDA	9.7	6.8	7.9	6.0	4.8
Dividend Yield %	0.9%	2.6%	2.8%	3.0%	3.4%
Impairment as % of TO	20.3%	22.8%	30.3%	26.2%	24.2%
Turnover growth %	0%	34%	-9%	2%	5%
Normalised PBT growth %	N/a	52%	-24%	48%	30%
EPS (normalised growth) %	N/a	57%	-25%	48%	30%
Dividend cover (declared)	2.9	3.8	2.8	3.7	4.3
ROE %	17%	21%	18%	22%	23%
Net Assets per share (p)	79.2	100.8	92.5	110.3	134.5

Source: Charles Stanley Securities

S&U plc*

Long established in the HCC sector

S&U is long established in the home credit market and is the third largest operator with around 5% market share. Its 127,000 customers are visited weekly by around 500 agents across the UK and the home credit loan book currently stands at around £50m (gross). While there has been limited growth in its HCC operations over recent years, given both market conditions and maturity, it continues to be profitable and cash generative and has also provided the group with the capital and resources to grow the motor finance business – Advantage Finance.

The motor finance operation has shown nine years of profit growth

Advantage Finance ("Advantage") was established in 1999 and has consistently performed well. Solid growth has been complemented by stable credit quality and Advantage has now developed significant loan experience, enhancing underwriting, risk management and collection expertise. Advantage continues to enjoy record application levels as other motor finance providers have withdrawn from the market although the numbers converted into loans are still hovering around 3% per month. Advantage accounts for c.35% of group profit and is expected to report another year of record profits during 2009.

* S&U plc is a corporate client of Charles Stanley Securities

Results preview

Full year results to be announced on 24th March

The pre-close trading update on 9 February confirmed that the outturn for the year to 31 January was in-line with expectations.

HCC saw some impact of severe weather in early January but collections have remained robust overall

Home Credit exceeded expectations in December with trading and profitability for this period "very satisfactory". The group did state that the weekly service to some customers was disrupted in the early part of January as a result of the severe weather conditions but collections remained robust and any temporary rise in impairment levels has since recovered well. Cash collections during the first week of February were ahead of the prior year on around the same level of book debt.

HCC revenues expected to dip slightly in the year to 31 January reflecting the more cautious environment and shortened average loan duration

We are forecasting full year revenues in HCC to dip slightly for the year to January 2010, consistent with that reported at the interims, and reflecting the more cautious environment and shortened the average loan duration. We understand that the average loan length is now around 39 weeks, compared to nearer 44 weeks 18 months ago. The impact of the changes to early settlement rebates also had a slight impact in H1, as did the consolidation of the group's Yorkshire operations, although it should be noted that HCC customers have increased slightly overall.

Slight increase in impairment at HCC

Our HCC forecasts assume an increase in the full year impairment charge to 25.0% as compared to 24.2% in the prior year, again consistent with that reported at the interims and the wider economic environment.

Advantage continues to enjoy strong application rates, although raised credit hurdles means that ultimate conversion rates are only c.3%

Advantage continues to trade well with the pre-close trading update confirming that sales were very buoyant in both December and January. We are forecasting annual sales to be flat, given the increased credit hurdles, although Advantage could surprise on the upside given the strong finish to the year. Impairment has risen slightly, as it did in the first half, but we think this mainly reflects some more caution towards future debt recovery proceeds (mainly on legal recoveries) noting that collection results from recent loan batches remains good.

Opportunity for Advantage to move more into near prime

Robust results expected, with growth expected to pick up in the year to 31 January 2012

Second interim dividend declared, total yield is over 7%

Expect an increasing opportunity for bolt-on acquisitions, mainly HCC book debt

HCC is still a relatively mature market but excellent medium term growth potential for Advantage

The early returns from Advantage's tentative expansion into more near-prime markets look encouraging and we expect to hear more alongside the full year results in March.

Figure 29 below shows our summary forecasts for S&U for the year to 31 January 2010 and beyond.

Figure 29: Summary P&L forecasts

Year to January	2008	2009	2010E	2011E	2012E
Consumer Credit	33.1	32.0	31.3	31.6	32.4
Advantage	12.9	14.2	14.1	14.4	15.5
Revenues	46.0	46.2	45.5	46.1	47.8
Impairment	(11.9)	(12.5)	(13.2)	(13.1)	(13.3)
Other cost of sales	(3.8)	(3.7)	(3.0)	(3.0)	(3.3)
Gross profit	30.3	30.0	29.3	30.0	31.2
GP Margin %	65.9%	65.0%	64.4%	65.1%	65.2%
Admin expenses	(18.9)	(19.1)	(18.6)	(18.9)	(19.5)
EBITDA	11.4	10.9	10.6	11.2	11.7
Dep & Intang Amort.	(0.5)	(0.5)	(0.4)	(0.3)	(0.2)
Finance costs	(2.3)	(1.9)	(1.4)	(1.6)	(1.7)
PBT - Normalised	8.6	8.6	8.8	9.3	9.9
Exceptional items	-	(0.3)	-	-	-
PBT	8.6	8.3	8.8	9.3	9.9

Source: Charles Stanley Securities

S&U has declared a second interim dividend of 15p to be payable on 19th of March, accelerating part of the forecast final dividend of 23p in view of the income tax increase from April 2010. The group have indicated that, subject to unforeseen circumstances, they expect to recommend a final dividend of 8p on 4 June. This equates to yield based on the total 23p of dividends expect to be paid in relation to the 2010 financial year of over 7%.

Outlook

With a strong balance sheet and an improved competitive environment, S&U is well placed. As discussed previously we expect growth this year to continue to be cautious, at least in H1, and then pick up in 2012 when we also expect impairment (as a percentage of revenues) to continue to drift back.

In particular, we think Advantage has excellent growth prospects. Limited competition, good returns and a credit scoring system developed and refined in-house, and also linked to Experian, provides a strong platform. The business is currently receiving over 10,000 applications per month of which it typically writes around 300 – 350; many of the applications are of much better quality than two years ago given the credit rationing elsewhere. The group will continue to be cautious here in the short term, but the medium term growth potential has grown significantly in our view, noting that early indications from the group's expansion into non-prime, in addition to sub-prime, are positive.

Funding

Good relationship with banks and plenty of headroom

S&U enjoys established relationships with its banks and has a strong funding profile. The pre-close trading update stated that group borrowings had reduced by £5m since the end of the last financial year, which indicates total borrowings of £26.3m compared to facilities of c.£36m. Gearing is currently around 57% against 65% a year ago.

Good cash generation during the last year given more cautious growth profile

These facilities are made up of a £16m facility with HSBC, going out to 2013 and a £12m three year term loan with RBS due to mature in 2012. In addition the group has around £8.5m of overdrafts subject to annual review which also provide headroom for bolt-on acquisitions.

Valuation

Figure 30 below shows how S&U's share price has performed relative to Provis and the FTSE All Share over the last two years. Figure 31 shows it's historic PER valuation as compared to Provis.

Figure 30: Relative share price performance

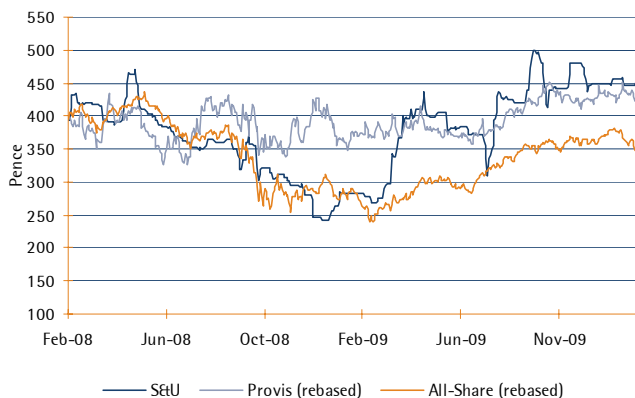
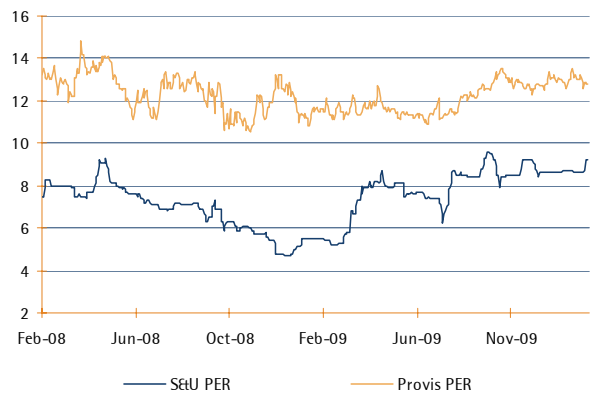


Figure 31: Relative PER valuation



Source: Datastream, Charles Stanley Securities

Shares are undervalued compared to Provis and noting the yield

Both S&U and Provis have outperformed the All-Share over the last two years while Provis has also maintained its premium valuation gap. While Provis is a much bigger company, we like the growth opportunity that Advantage Finance has over the medium term while noting that S&U also offers a yield of 6.6%, covered 1.7x.

We reiterate our Buy recommendation and target price of 550p

We reiterate our Buy recommendation on S&U with a price target of 550p, which still represents a c.15% discount to Provis in terms of PER, and which would still offer a yield of c.6.0%.

Pawnbroking

Pawnbroking

We expect pawnbroking to become an increasingly well known and acceptable way of borrowing

Key to the sector's outperformance over the last year has been the high gold price and gold purchasing but even with more conservative assumptions here, there remains a good investment case

Short term flexible loans to help households manage cash flows

The introduction of gold purchasing and the high gold price has enabled the store expansion to accelerate

Pawnbroking stores take many years to mature; there remains a significant latent growth even if new store openings were to stop

c.80% repeat business and high levels of customer satisfaction highlights the quality of earnings

Pawnbrokers provide flexible lending solutions to individuals who require short term funds but are unable to access mainstream sources. With lenders having tightened their credit policies, this provides a fertile environment while noting that loans are secured on an inherently valuation and marketable asset – typically gold jewellery. Alongside this, the industry's reputation and profile is benefitting from the store investment by the likes of Albemarle & Bond ("A&B") and H&T Group ("H&T"), which is also helping to dissipate some of the stigmas associated with pawnbroking.

There are no centralised statistics on the size of the pawnbroking market but The National Pawnbroking Association ("NPA") estimated in June 2009 that the total annual loan book was around £900m and growing in the region of 10% per annum. However, while this growth rate looks about right to us, the total outstanding looks too high noting that H&T's pledge book is around £35m and A&B's is c.£27m. We estimate that the total pawn loans outstanding are nearer £400m. HM Treasury estimated in 2007 that around 600,000 customers use pawnbrokers each year (Source: 'Financial Inclusion: the way forward' 2007).

A&B and H&T are the two leading players and offer investors exposure to a consolidating market with good growth potential and high barriers to entry. Over the last year the key driver of their outperformance has been the high gold price and the introduction of gold purchasing and investor questions mainly revolve around the sustainability of these two trends. We undertake some sensitivity analysis here later but in our view, even in a more bearish scenario, there is a good investment case for the sector noting that gold purchasing also introduces potential new lending customers. First however, we revisit the main sector attractions and concerns.

Sector attractions

- **Increasing demand for pawnbroking services.** Underlying demand is driven by the requirement for short term cash on a flexible and straightforward basis. With other credit options limited, unemployment high, increased part-time working and household budgets stretched, we expect this demand to increase.
- **Accelerating store expansion.** Gold purchasing and the high gold price are enabling the large pawnbrokers to accelerate their greenfield store opening programme at a time when there is increased good quality retail space available. New store openings have historically achieved EBITDA breakeven sometime in year two, but the high gold price and gold purchasing has reduced this to within one year on average. With only around 1,100 – 1,200 stores in the UK that offer pawn broking services, we continue to see strong organic growth potential.
- **Inherent growth.** A new pawnbroking store taking many years to mature and as such younger estates offer strong latent growth potential. H&T has opened around 30 new stores over the last three years and while A&B has had a more limited opening programme, it also still has a relatively immature store portfolio.
- **High levels of repeat business.** Pawnbrokers benefit from high levels of repeat business, typically c.80% in terms of customers who have pledged an item in the last 12 months. This enhances the quality of earnings while gold purchasing and the investment by A&B and H&T in their estates are also attracting new customers.

Plenty of growth potential, both organic and acquisitive potential

Pledge book growth is likely to be diluted by gold purchasing in the short term

Gold purchasing has become an industry in itself in 2009 but while we expect volumes and margins to fall in due course, this market has now been established and is here to stay in our view

The OFT is looking at five firms with a focus on TCF. This may actually be beneficial for the likes of A&B and H&T, accelerating the exit of some of the new postal operators who are also incurring quite high advertising costs

Gold price sensitivity can be partly mitigated by a hedging strategy but gold price movements will impact sentiment

2010 is expected to be challenging on the High Street and the pawnbrokers will not be immune from this. However there is an argument that consumers trade down in tougher times

- **Fragmented market.** The Money Shop is the largest player with c.300 outlets, noting that their focus is still mainly on cheque cashing/ payday loans. A&B and H&T both account for around 10% of the market. Given the capital requirements to expand an estate, the benefits of branding and the limited market penetration of pawnbroking as a lending solution, A&B and H&T are well placed to grow. We expect greenfield openings, rather than acquisitions, to continue to dominate in the short term given the current high vendor expectations.

Investor concerns

- **Cannibalisation of pledge book by gold purchasing.** The introduction of gold purchasing has resulted in some modest pledge book dilution in our view, but it has been more than justified by the accelerated returns and cash flow that gold purchasing has offered. Moreover, there is anecdotal evidence that many of the sellers of gold jewellery are new customers (which might be converted into borrowers) or customers that would not have redeemed anyway. In these cases, gold purchasing accelerates the cash receipts and improves the redemption rate.
- **Is gold purchasing a bubble?** While the core lending businesses are performing well, it is the gold price and gold purchasing that have been the main profit drivers during 2009. New entrants will erode gold purchasing volumes and margins in due course, but the timing and extent of this is difficult to forecast. A&B and H&T's store based offerings have a number of attractions over the postal service from many of the new arrivals and in our view, while gold purchasing volumes and margins will fall, it is has now become an established market and will remain a sustainable and profitable revenue stream.
- **OFT review into gold purchasing.** The OFT has announced that it is looking into the business practices of a number of companies (reported to be five) who offer to buy gold from consumers using the postal service. It has written to these companies asking for information to consider whether they are complying with the law, with a focus on treating customers fairly. We see limited risk to A&B and H&T, noting that they consistently offer better rates than most postal offerings. Moreover, the OFT review could be beneficial in terms of helping accelerate the exit of a number of the new players (who are typically incurring quite high advertising costs).
- **Sensitivity to the gold price.** While the downside risk here can partly be mitigated through a hedging strategy, H&T currently has nothing in place, while A&B only has some protection much lower down. Moreover sensitivity here has been significantly enhanced by gold purchasing while the gold price also impacts the core business (e.g. value of pledge, LTV, retail sales) while noting that A&B/ H&T lend on the basis of conservative loan to value ratios (50-60%).
- **Soft retail market.** Both H&T, and more so A&B, generate a material proportion of their revenues from retail sales which can be impacted by high street conditions. There are some indications that jewellery retail was more difficult than for many other retail sectors during Christmas 2009. H&T reported in their pre-close update that like-for-like sales fell slightly during 2009 (against tough comparatives) while 2010 is again likely to be a challenging year. However there is also an argument that consumers 'trade-down' in a weak economic environment which may lessen the impact on pawnbrokers.

Increasing penetration into the non-standard market

We expect pawnbroking to grow its share of the non-standard lending market

With an increasing geographical footprint and the stigma around pawnbroking gradually disappearing, we see strong structural growth potential

As with the Home Credit players, the market continues to develop favourably for the pawnbrokers. Household liquidity remains under pressure, credit options are limited and pawnbroking offers a straightforward and flexible solution to an individual's short term cash requirements.

However, borrowing from a pawnbroker is not a direct replacement for much of the unsecured lending that has taken place over the last ten years, not least because it does not have the geographical footprint. Furthermore, there is still a stigma associated with pawnbroking which prevents many individuals from entering a store. However both of these issues are slowly being addressed, while the increasing publicity around gold purchasing is also helping raise their profile.

Figures 32-34: Results from survey undertaken by Precient on behalf of H&T in December 2006 (based on sample of 250 customers)

Figure 32: Working status

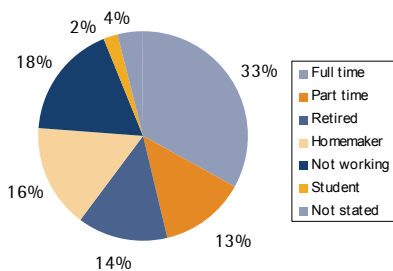


Figure 33: Socio-demographic split

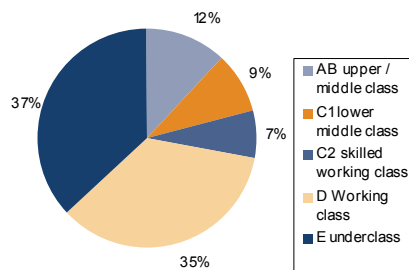
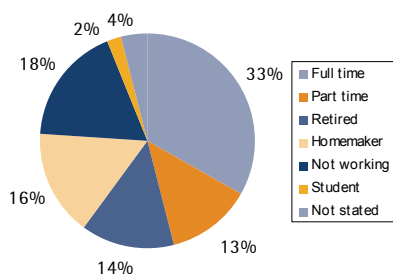


Figure 34: Household income



A&B and H&T both have c.120 stores in the UK compared to a total market of around 1,100 pawnbrokers. This means that there are hundreds of mid-sized towns with no pawnbroking offering and which present potential new locations. Moreover with the retail environment likely to remain challenging in 2010, there is likely to be plenty of good quality space available at good rates.

People's attitudes towards pawnbroking are also slowly improving. This reflects the increasing awareness of pawnbroking as a service and also the investment in their store portfolios by the likes of A&B and H&T. Gold purchasing is also helping to act as a catalyst – encouraging new potential customers to enter a pawn broking store for the first time. Once a new customer enters a store, the quality and presentation of the H&T/ A&B's offerings together with strong customer service helps encourage further visits in the future. Moreover it should be noted that unlike home credit which is typically only used by the lower socio-economic groups, there is evidence to suggest that pawnbroking's appeal is broader (see figures 32 - 34).

Both A&B and H&T also have smaller financial services offerings – cheque cashing, PayDay Advances ("PDA") and small unsecured loans – which are more similar to traditional unsecured lending. Cheque cashing continues to be very profitable but the market is contracting as cheque usage falls, while both A&B and H&T have tightened their underwriting criteria for their small unsecured loan offering such that the loan books are relatively immaterial now.

In terms of PDAs, both A&B and H&T continue to see solid growth and their PDA loan books both total around £4m and £3m respectively. Both require the customer to have a cheque guarantee card which helps mitigate the risk of bad debts although this will change in on 30 June 2011 when the cheque guarantee card scheme is closed. As such, this short term lending product will change while noting that pawn loans provide a natural substitute to PDAs and we expect this market development to at worst be neutral for A&B and H&T.

Pawnbroking currently accounts for an immaterial portion of the non-standard lending market and we expect it to grow significantly over the next ten years as it becomes an increasingly well known and acceptable way of borrowing money.

Figure 35: Summary metrics

Key metrics	A&B	H&T
Pledge Book		
No of operating stores	120(E)	122
Last reported Pledge Book, £m	26.5	34.0
Average loan, £	140.0	138.0
Performance		
GP growth (CAGR, '06-'09E)	22.3%	25.5%
EBITDA growth (CAGR, '06-'09E)	24.6%	29.6%
PBT Growth (CAGR, '06-'09E)	28.0%	52.7%
Margins (estimated)		
Gross margin	73.0%	71.8%
EBITDA margin	31.8%	31.9%
Operating margin	28.8%	29.3%
Gearing		
Net debt, £m (est)	(33.6)	(35.0)
Gearing (est)	60%	74%

Valuation (calendarised)	A&B	H&T
Mkt Cap, £m	144.5	92.5
1 year PER	12.4	7.6
2 year PER	11.7	9.3
PEG	1.1	0.6
EV/ EBITDA	9.3	5.8
EV/ EBITA	10.1	6.3
Dividend yield, %	3.4%	2.7%

Source: Companies, Charles Stanley Securities

The high gold price and gold purchasing has accelerated new store profitability

New store openings dilute existing margins but increase the inherent growth potential

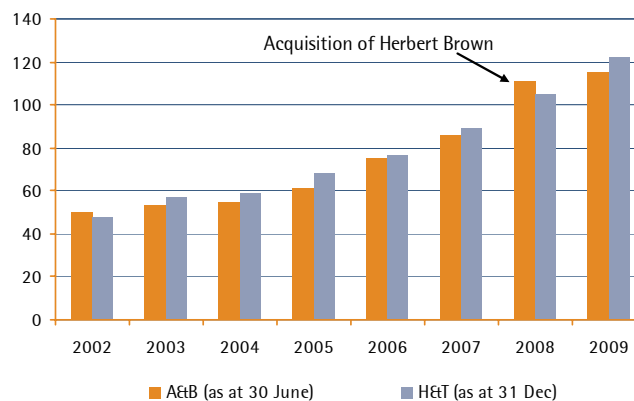
Albemarle & Bond vs H&T Group

We expect both companies to report strong results with A&B due to report interims to 31 December on 22nd February, and H&T due to report finals to 31 December on 25th March. H&T has confirmed that it expects to report results at the top end of market expectations, in-line with our forecasts, while we expect A&B to also show strong growth (our forecasts are shown in the Company Section). As highlighted, much of this outperformance has been driven by gold purchasing and the high gold price, the sensitivities of which we explore on page 39. However it is worth highlighting that while both businesses are very similar, there are some differences.

Figure 36 shows how each group's store portfolio has grown over the last seven years. The acquisition of Herbert Brown ("HB") by A&B in July 2007 added 26 stores and also increased the group's revenue weighting towards retail. However it also resulted in a period of consolidation for A&B with limited new openings as the group has sought to integrate HB where appropriate. In contrast, H&T has pursued a greenfield opening programme which has accelerated over the last 18 months as the high gold price and gold purchasing has accelerated the profitability of new stores.

Historically, greenfield openings have been loss-making in year one, break even in year two and then profitable in year three, reflecting development of the pledge book and local retail offering. However, the combination of the high gold price, gold purchasing and an improved store format means that H&T's stores are now reaching breakeven in year one, compared to an average £40K EBITDA loss historically. We have less information as regards A&B's new store returns, partly because they have been much more limited over recent years, but we expect the metrics to be similar.

Figure 36: Store portfolio growth of A&B and H&T



Source: Charles Stanley Securities

The new store opening strategy is essential to the longer term investment case for the pawnbrokers. After an initial investment of typically between £150K and £300K, a pawnbroking store then takes many years to mature, with steady growth in the pledge book. Expansion of an estate therefore has the effect of slowing short term profit growth (and reducing cash flows) but increasing the inherent growth potential of the business. H&T's decision to accelerate store expansion in the last two years – it opened 16 stores in 2008 and 17 new stores in 2009, compared to a 10 -12 store average previously – has therefore increased its inherent growth potential while also diluting short term margins although the impact has been lessened by gold purchasing and the high gold price.

Operating metrics of annual openings are not disclosed but will have been enhanced by gold purchasing

The inherent growth potential of an estate can be measured by looking at the average pledge book per store and how it is evolving; both A&B and H&T have strong growth in this regard in our view

Gold purchasing has enhanced profitability and cash flows

H&T do not disclose the year on year performance of new greenfield openings as a batch, but we take comfort from the fact that none of the new sites over recent years have been subsequently closed, while footfall will have benefitted from the activity around gold purchasing.

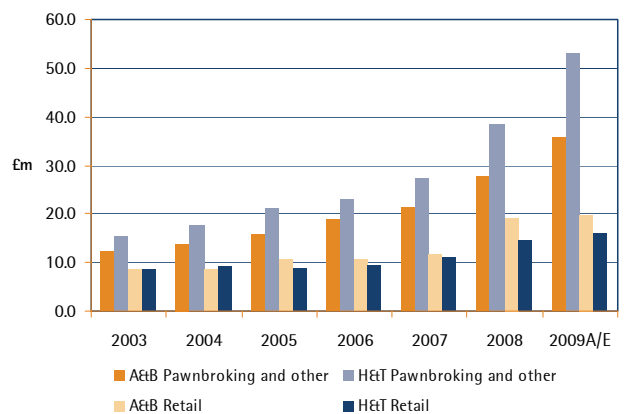
The enhanced inherent growth potential for H&T estate is highlighted by the fall in the average pledge book per store over the last six years, at a time when the pledge book has been growing at around 10% per annum on average (figure 37). We expect A&B's pledge book per store would have continued to increase in 2008 and 2009 if it were not for the HB acquisition (HB is more retail focused), while also highlighting that A&B's estate is still relatively young and has strong inherent growth potential.

Figure 37 also highlights the benefit of the high gold price and gold purchasing to A&B and H&T's gross profit per store over the last two years, most notably to H&T given the timing of their year end and their success in identifying the gold purchasing trend earlier, most notably with the launch of H&T Gold bar – small retail mall units on short, flexible leases.

Figure 37: Average pledge book per store and gross profit per store



Figure 38: Revenue growth – Pawnbroking & other, and Retail



Source: Charles Stanley Securities

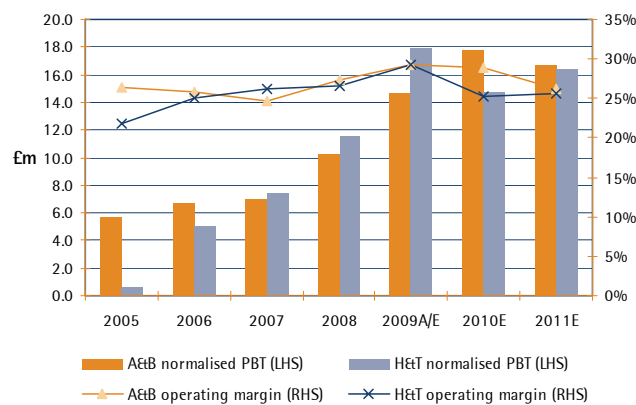
Both groups have delivered solid growth, even excluding the tailwinds of the high gold price and gold purchasing

Figure 38 highlights how the group's main income streams have developed – pawnbroking & other (payday loans, cheque cashing etc) and retail. Both companies have shown accelerating growth over the last six years, more recently driven by the rising gold price and then by gold purchasing. However figure 38 also highlights that both companies were showing solid growth prior to these trends and A&B's greater retail weighting, particularly after the acquisition of Herbert Brown.

H&T has seen the benefit of gold purchasing in its financial year to 31 December 2009, and A&B will see more benefit in its year to 30 June 2011

Figure 39 shows how A&B and H&T's profits and margins have developed over last five years and our forecasts going forward. The timing of the group's year end – H&T in December and A&B in June – means that the positive impact of gold purchasing is reflected earlier for H&T, in their December 2009 forecasts, as compared to A&B, in their June 2010 forecasts, also noting that A&B also entered the gold purchasing market later.

Figure 39: Normalised PBT and operating margin progression by company



Source: Charles Stanley Securities

By 2011, we expect both companies to be delivering a very similar performance

It is interesting is that, based on our forecasts, both businesses are forecast to deliver very similar profit and margin performance in FY2011. We explore the sensitivity of the gold price and gold purchasing to these forecasts (with a focus on H&T) in the next section, but figure 39 shows how similar we expect the medium term outturn for the two businesses to be.

Funding

Both well funded with significant headroom in their facilities

In terms of capital structure, both have similar levels of net debt – A&B had £31m of net debt at 30 June 2009 and we forecast H&T to have around £35m of net debt at 31 December 2009 – although A&B's gearing is slightly lower (c.60% v c.75% forecast for H&T).

Similarly, both businesses have plenty of headroom. A&B has total facilities available of around £45m, which run for another two years, and H&T has total facilities of £50m, which were increased by 25% on 31 July 2009 when the group agreed a new four year term. A&B enjoys better terms, reflecting that its facility has agreed earlier. H&T is paying a margin of 300bpt with downward ratchet depending on leverage multiples while A&B is paying a margin of around half that.

Valuation

With a similar performance expected, the choice between A&B and H&T hinges more on valuation in our view

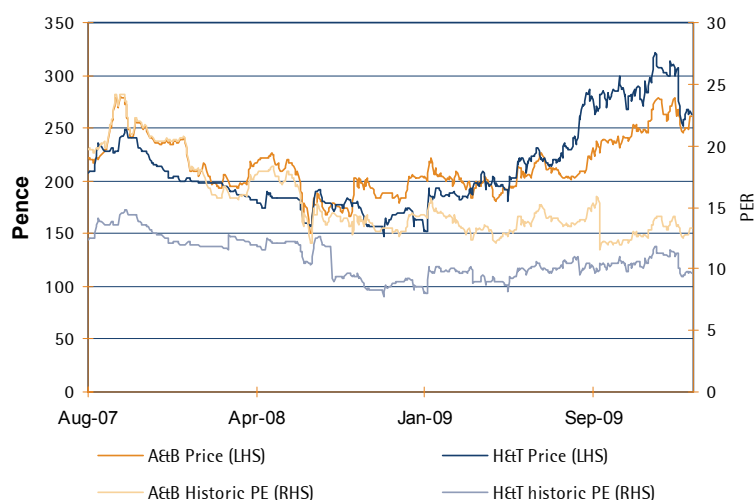
With A&B and H&T expected to deliver a similar performance over the next few years, relative valuation is important. Figure 40 highlights some of the key valuation metrics for the two businesses while Figure 41 shows how the share price and PER of each has developed.

Figure 40: Summary valuation metrics

	A&B (calendarised)			H&T		
	2009E	2010E	2011E	2009E	2010E	2011E
PER	12.4	11.6	11.7	7.3	8.9	8.0
EV/ EBITDA	9.3	8.7	8.5	5.6	6.5	5.6
EV/ EBITA	10.1	9.6	9.6	6.1	7.4	6.4
Div yield (declared)	3.4%	3.6%	3.9%	3.2%	3.4%	3.6%
Div cover (declared)	2.2	2.5	2.2	4.6	3.5	3.7

Source: Charles Stanley Securities

Figure 41: Share price performance and PER history



Source: Charles Stanley Securities, Datastream

A&B has consistently been valued at a premium to H&T

The valuation gap between the two has been closing, but widened again recently as a result of the more cautious pre-close update from H&T

Three reasons for A&B's historic premium in our view

A&B remains more highly rated than H&T by a quite significant margin. While the gap has been closing over the last year, it has recently widened again as the H&T share price reacted to cautious comments around the visibility of gold purchasing in its January pre-close trading update.

Historically there have been three main reasons for A&B's premium valuation in our view. First, the 29.7% holding by EZCorp, the second largest pawnbroker in the US and A&B's largest shareholder. While EZCorp has been an investor since 1998, there is a perception that it will ultimately consolidate its holding in A&B, a view that has been enhanced by EZCorp's improved performance over recent years, and the appointment of two EZCorp Executives to A&B's Board in July 2009 as Non-Executive Directors.

Second, A&B's greater size historically, both in terms of store portfolio and profits, although this discrepancy with H&T has now largely closed.

A&B does still have a younger estate on average in our view

We still think A&B should trade at a slight premium to H&T, but the c.20% two years out is too high

H&T – Buy, price target 325p

A&B – Add, price target 280p

Third, A&B's younger estate (on average) and hence the greater inherent growth potential. However again, we think this gap is now closing given H&T's greenfield opening programme over the last three years.

Given the similar forecast performance for the two businesses, we therefore conclude that their valuations should be much more similar. A&B should still trade at a slight premium to H&T given a small bid premium and, to a lesser extent, the lower average pledge book per store, but the current gap is too large. This conclusion is enhanced by our view that H&T has less retail exposure, which we expect to continue to be relatively challenging into 2010, although H&T's performance is still more geared to gold purchasing given the Gold Bar offering.

With both businesses also trading below their historic PER ratings and robust long term growth prospects, this drives our Add recommendation on A&B with a 280p price target and our Buy recommendation on H&T with at 325p price target.

Gold purchasing

With identification of the opportunity earlier and the launch of Gold Bar, H&T has benefitted more from gold purchasing

However there is limited visibility on this emerging market and its sustainability

Our analysis here focuses on H&T rather than A&B given both its increased gearing to gold purchasing and also its more detailed disclosure

The Sterling gold price was up 32% in 2009

Sterling gold price in the year to date is up 14% on 2009 on average, and most commentators expect it to remain reasonably strong

The main driver of upgrades for H&T and A&B over the last year has been the combination of the high Sterling gold price and the wider introduction of gold purchasing. H&T in particular has enjoyed a number of significant upgrades to its December 2009 forecasts reflecting its early identification of the emerging gold purchasing trend, strong execution and also the timing of its year end. The upside for A&B has been less marked given a later entry into the market, but nonetheless we expect it to report strong progress in its H1 results to 31 December.

For investors the main question is to what extent gold purchasing and the high gold price are sustainable and whether the most probable scenario has been priced into A&B and H&T's shares. Limited disclosure by both companies on the relative contribution of gold purchasing versus the gold price and the underlying store/pledge book expansion makes detailed sensitivity analysis difficult (not least because the gold price can also impact loan amounts). However we attempt to look at some of the potential scenarios below.

H&T provides a more detailed breakdown of its numbers and so our sensitivity analysis has been focused here although we would expect similar conclusions for A&B. We expect both companies to provide enhanced transparency alongside their next set of results as they seek to highlight that the underlying businesses have continued to perform well.

Gold price development

Figure 42 shows how the gold price has progressed over the last three years and in particular the increases in the Sterling equivalent. In calendar 2009, the US\$ gold price was up 12% on average compared to 2008, but in Sterling terms it was up 32%.

Figure 42: Three year gold price in US\$ and Sterling equivalent



Source: Datastream

It is difficult to forecast how the gold price will develop over the next 12 months although with the growing inflation risk, many commentators expect it to remain strong. Certainly gold price futures suggest that it is expected to remain around US\$1,100/oz for the moment with some commodity managers suggesting it has finally broken clear of its US\$700 – US\$1,000 range and is now sitting within a new range of US\$1,000 – US\$1,300. Moreover the recent weakness of Sterling against the Dollar will further enhance the returns for the pawnbrokers.

Hedging strategies could be used

We expect we may hear more here alongside their results

However, while downside risk to the gold price can be at least partly mitigated by hedging, there may be an impact on sentiment

Now an industry in itself

Very attractive for players with existing store portfolios like A&B and H&T – marginal gross profit with no additional overhead

Main risk in our view is the potential cannibalisation of the pledge book growth.....

.....however we expect only a small number of existing customers to abandon pawn broking, while gold purchasing improves the cash flow

While we think investors should view 2009 as exceptional, H&T shares were still punished by more cautious comments around gold purchasing recently

A&B and H&T have the option to hedge their exposure to gold in order to help protect their scrap margin and we expect both companies to continue to review their hedging strategy, mindful of the certainty that it provides.

The volumes to be hedged would be influenced by how the gold purchasing strategy develops, but in our view would be welcomed by investors given the visibility. It is however worth noting that a hedging strategy will also sacrifice upside risk, as A&B has found over recent years following its four year partial hedge in 2007, at a gold price c.40% below today's levels. We will be looking for an update on each companies hedging strategy alongside their next set of results.

In our view, the less controllable impact of a falling gold price would be in relation to investor sentiment towards the sector. This is why it is important for both companies to improve their disclosure so that progress of the underlying business is clearly identifiable.

Gold purchasing – a new market

From small beginnings, gold purchasing has become an industry in itself during 2009. In addition to the pawnbrokers, an increasing number of jewellers now offer the service, while they have also been joined by a number of new postal operators, several of which originate in the US. This in itself has continued to drive the market with increased advertising budgets and rising consumer awareness.

The attractions of gold purchasing are straightforward – strong cash generation and good margins with limited risk. For those with the expertise and an established store presence, like A&B and H&T, it offers marginal profit for limited marginal cost. It accelerates the cash flows from pawnbroking customers that had no intention of redeeming and also attracts new customers that may in turn be converted into borrowers.

As highlighted earlier, the main risk for the pawnbrokers in our view, is the potential cannibalisation of the pledge book. There was some evidence of this in A&B's final results to 30 June 2009 which showed a slight contraction of the pledge book as compared to 31 December (£26.5m v £27m), although it was less evident in H&T's H1 results to 30 June which showed their pledge book grow by 6% to £34m (31 December: £32m), reflecting H&T's store opening programme. In our view however, this pledge book dilution is relatively short term (reflecting a small number of existing customers) and while this trend is likely to have continued in H2 2009, it is justified by the accelerated returns and cash flows that gold purchasing presents, noting that comparatives will become easier going forward.

The key question for investors is, how will gold purchasing develop during 2010? As H&T highlighted in its pre-close trading update on 22 January, visibility is very limited and the group's caution here prompted the shares to fall by around 15%, despite H&T confirming that 2009 results would be at the top end of expectations. Clearly the gold price will also have an impact, both on the market and margins, and in the next section we have undertaken some sensitivity analysis.

The experience in 2009

Gold purchasing continues to have a positive impact for H&T and A&B

We continue to focus on H&T here given its greater experience in gold purchasing

H&T's launch of their Gold Bar offering in early 2009 further increased volumes, while also helping improve wider brand awareness and provide area reconnaissance

Scrap is the income stream most impacted by the gold price and gold purchasing and both have grown rapidly over the last two years

However, even on an underlying basis, the core business has continued to make good progress

With a number of gold purchasing players increasing and volume growth expected to slow, we expect gold purchasing margins to fall during 2010. A&B and H&T's store offering does have significant attractions over the postal service from most of the new rivals, an advantage that maybe enhanced by the news that the OFT is currently looking into the business practices of a number of postal gold companies. However they will not be immune from any slowdown.

The focus of our analysis here is on H&T rather than A&B, partly because of the additional disclosure that it has provided around gold purchasing but also because it has benefitted more from the introduction of gold purchasing.

H&T has been offering gold purchasing through its stores for some time but having identified the enhanced growth in early 2009, it increased store advertising and launched the H&T Gold Bar – stand alone retail mall units ("RMUs"). By 30 June 2009, H&T had 11 RMUs in operation and today we understand the number is around 50 and these have significantly helped drive volumes. In contrast A&B only began offering gold purchasing through its stores in February 2009.

Figure 43 shows how H&T's scrap gross profit has grown over recent years. Before 2008, this was mainly driven by the growth in the estate and the associated volumes, while since, it has mainly been driven by the rising gold price and increased gold purchasing. This is evident when looking at the estimated scrap revenue and scrap gross profit per (estimated) established store in figure 44.

However the graphs also show that in 2007, when the Sterling gold price was only up c.5% on average and gold purchasing immaterial, group scrap profits grew by c.50%, and scrap gross profit per store also delivered a double digit increase as volumes increased.

Figure 43: Growth in H&T Group's scrap gross profit vs gold price

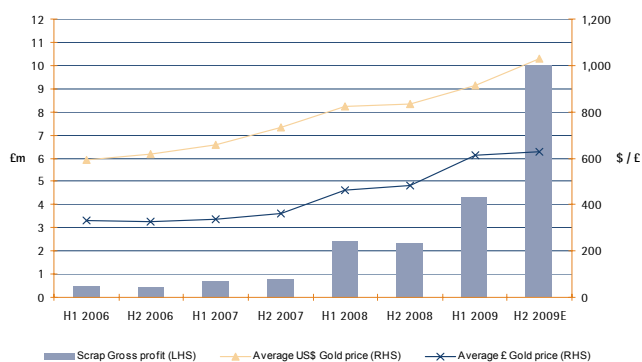
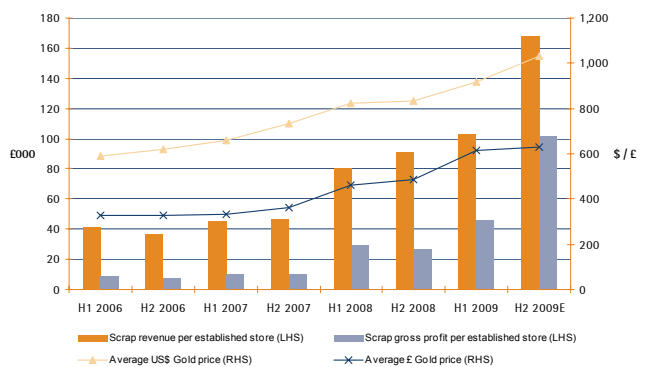


Figure 44: H&T's scrap revenues and profits per store vs gold price



Source: Charles Stanley Securities estimates

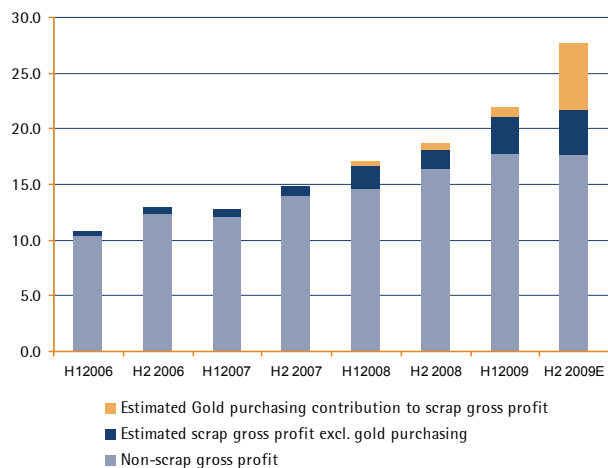
H2 2009 maybe the peak of the gold purchasing contribution for H&T; our forecasts certainly assume that

The significant growth in H&T's scrap gross profit in H1 2009 and forecast for H2 2009 is mainly driven by gold purchasing. We forecast scrap gross profit in H2 to be more than double the H1 number while the average gold price (half on half) is only up 2.4%.

Benefits of gold purchasing to H2 2009 forecast profits are highlighted in Figure 45

As highlighted, separating the impact the gold price and gold purchasing on group gross profits is difficult, not least given the growth in the estate and the wider impact that the gold price can have. Figure 45 shows our estimate of the impact of gold purchasing on H&T's gross profit, based on the gold price performance and that the group stated in its pre-close update that 2009 scrap profits were expected to have more than tripled year on year.

Figure 45: H&T - progress in gross profits



Source: Charles Stanley Securities estimates

Group gross profits are still showing double digit growth excluding the impact of gold purchasing and the gold price on our estimates

The analysis is most relevant for H2 2009, when we estimate that gold purchasing accounts for most of the half-on-half growth in group gross profit. However if we exclude all scrap profits, i.e. trying to strip out the impact of the gold price and gold purchasing, we estimate that group gross profits still grew by c.8% year on year in H2 2009 and for the whole of 2009 was up c.14%.

Strong progress even without gold purchasing

Trying to exclude the impact of gold purchasing only, we estimate H2 2009 gross profits would still have increased by around 18% year-on-year and for the whole of 2009 would up c.22%.

H&T's underlying profit progress continues to be robust

Based on this analysis, the conclusion is therefore that gold purchasing and the gold price clearly had a very beneficial effect on H&T's profits for the year to 31 December 2009, but that the underlying business has also continued to show robust growth.

A&B offered gold purchasing after H&T and we have limited historic information, however we expect that it has also been benefitting from these trends

The later launch of Albemarle & Bond's gold purchasing offer in February 2009 and the timing of its June year end means that we have limited detail on how its gold purchasing offering had performed. In the year to 30 June 2009, A&B reported that gold purchasing generated £1.4m of gross profit, which assuming it was all in the second half of their financial year, compares to the £4.3m that H&T generated over the same period.

A&B's H1 results on 22nd February could prompt upgrades to the full year forecasts although June 2011

We expect A&B's H1 results on 22nd February to confirm that it has also enjoyed strong gold purchasing growth. Somewhat beneficially from reporting standpoint, its later entry into the market, the timing of its year end and the fact that part of its gold sales are hedged at a lower gold price will have the impact of smoothing its profit growth over 2009 - 2011, although cumulative profits are not expected to have grown by as much as H&T.

Scenario analysis

Detailed sensitivity analysis on gold purchasing is complicated by the impact of new store expansion, the gold price and exchange rate

We have therefore looked at different scenarios for H&T based on their historic trading performance

Four scenarios for 2010 and 2011

Scenario 2 is our core assumption, based on similar trading conditions to that enjoyed in FY2008 while noting that the Sterling gold price is much higher today

The fact that the gold price, gold purchasing and the growth in the store estate are all factors in the growth of group scrap gross profits over recent years, makes detailed sensitivity analysis difficult. We continue to focus on H&T here although would expect the conclusions for A&B to be similar.

Rather than try to breakdown the impact of a changing gold price, the US\$: Sterling exchange rate and gold purchasing on the group P&L on a dynamic basis, we see it as more meaningful to flex our forecast scrap gross profit forecast per store based the experience during 2007 and 2008 (see figure 44) when the gold price was lower, and gold purchasing was still gathering momentum.

Figure 47 below shows how our H&T normalised PBT forecast changes under four different scenarios as we flex scrap profits per store. Simplistically, we assume that overheads remain unchanged while noting that the only significant marginal cost added by gold purchasing has been the introduction of the Gold Bars.

- **Scenario 1: Cautious** – Estimated 2010 scrap gross profit per established store falls back to the average run-rate enjoyed during the 12months to 30 June 2008. The average gold price in the year to 30 June 2008 was US\$778 oz and gold purchasing was still small.
- **Scenario 2: Core assumption** – 2010E scrap profit per established store falls back to the average run rate enjoyed in calendar 2008. The average gold price was US\$830 oz, or £473oz in Sterling terms (a 30% discount to today).
- **Scenario 3: Possible** – 2010E scrap profit per established store is the same to that enjoyed in 12 months to June 2009 when gold purchasing was building momentum and the gold price averaged US\$874 oz.
- **Scenario 4: Bullish** – 2010E scrap profit per established store is the same as that enjoyed in H1 2009, when gold purchasing was accelerating and the average gold price was US\$915 oz.

Figure 46: Scenario Assumptions – based on historic experience

	Based on	Est scrap GP per established store in prior period	Average Gold price US\$ oz	Average Gold price £oz	Av ex. Rate
Scenario 1	12m to june '08	£35K	778	411	1.89
Scenario 2 – Core assumption	2008 calendar	£54K	828	473	1.75
Scenario 3	12m to june '09	£73K	874	549	1.59
Scenario 4	H1 2009	£92K	973	622	1.56

Source: Charles Stanley Securities estimates

Figure 47: 2010 and 2011 PBT sensitivity analysis

	Scrap GP per established store assumed for 2010	Scrap GP per established store assumed for 2011	2010E PBT	2011E PBT	2010 PER	2011 PER
Scenario 1	£35K	£20K	12.5	14.4	11.5	9.8
Scenario 2 – Core assumption	£54K	£35K	14.7	16.4	9.3	8.3
Scenario 3	£73K	£54K	16.8	18.8	7.7	6.9
Scenario 4	£92K	£73K	18.9	21.3	6.6	5.9

Source: Charles Stanley Securities estimates

The analysis shows a wide range of potential outcomes but is simplified by assuming a fixed overhead base when it is likely there would be some flexing

Even on very bearish assumptions which we view as very unlikely (particularly given the potential for hedging), H&T shares do not look expensive in our view

We reiterate our overweight stance on the pawnbroking sector and prefer H&T on valuation grounds

Figure 47 shows the range of outcomes that we see as possible for H&T in 2010 and 2011, and the impact on the PER valuation. Given that gold purchasing and the gold price have both remained reasonably robust as we have gone into 2010, we consider our core assumption to be reasonable at this stage although clearly there is limited visibility.

For particularly bearish investors who assume the market conditions will return to that seen in 2007 when there was no gold purchasing and the average gold price was just US\$697oz on average, we estimate H&T's 2010 profits would fall to around £11m, equating to a PER of 14.2x, which is still not particularly demanding. Moreover we think this scenario very unlikely, not least because the likes of H&T and A&B will be able to hedge at a gold price much higher up.

In our view, investors should view 2009 as an exceptional year for the pawnbrokers given the impact of gold purchasing and the (continued) strength of the gold price. The market conditions have though enabled H&T and A&B to increase and accelerate their cash flows which in turn has allowed them to increase their store opening programme, particularly H&T. Going forward, even on more conservative assumptions, both stocks look undervalued in our view and we reiterate our positive stance on the sector.

UK regulatory developments

The OFT is due to report on its review into the High Cost Credit market in Spring 2010

However there are a number of other consultations under way and the wider sector is likely to come under further regulatory scrutiny in the future

The interim report gave little away but highlighted some the attractions of home collected credit and pawnbroking

It also highlighted that consumers did not understand APRs and made incorrect comparisons

Interest rate caps continued to be mooted but we think are unlikely. Experience from overseas suggest they will be circumvented by the use of other fees etc...

In addition to the Consumer Credit Directive, which applies to all lenders and must be implemented by June 2010 (harmonising key aspects of consumer credit laws within Europe), there are a number of consultations and reviews underway which could potentially impact the non-standard lending market.

The most relevant in our view is the OFT's review on the high cost credit market, which we focus on here. However, in addition to that there is also the broader review into irresponsible lending and a consultation on credit licence fee structures, all which offer potential headwinds and costs. Against this backdrop however, it should be noted that the Competition Commission ("CC") review into the home credit market in 2006 found that customers were generally satisfied with the service and valued its flexibility and ease. The CC selected a package of four remedies to improve price transparency and information, including more generous early settlement rebates, but generally it appeared to be recognised that HCC provides a valuable credit source to many low income households. We do not expect much has changed since.

High-cost consumer credit review

On 2 July 2009 the OFT launched its review into the high-cost credit market. Within the scope of the review are home collected credit, pawnbroking and payday loans; it is due to report its findings in Spring 2010. If the OFT's final report does make any specific recommendations to the government, the government will respond within 90 calendar days, although there may be a delay as a result of the General Election.

In the interim, The OFT published the "Emerging evidence from the review" in December which included some preliminary findings. Of interest was that consumers of these products (home loans, pawnbroking loans etc.) highlighted "quick access to money" as the most frequent reason for choosing a particular product while they understood that they are an expensive way to borrow.

In addition the review indicated that consumers find the inclusion of total repayment amounts as more helpful than APRs and that some consumers did not understand APRs and made incorrect comparisons (APRs are a poor way of comparing the cost of these loan products given their small amounts and short duration).

Potential ramifications

Potential policy responses include interest rate caps, enhanced disclosure and measures to further promote competition. Of each, interest rate caps would potentially have most impact while noting that IPF has successfully dealt with them in Poland and Slovakia (their response was to split out the cost of the interest and the cost of collection). Indeed, the OFT noted the experience of other countries who have introduced interest rate caps was that market participants can circumvent pure interest rate caps using other fees, costs etc. However the OFT have said they will consider this issue (i.e. interest rate caps) further in advance of the publication of the final report.

Moreover as the CC review into the home credit market indicated in 2006, there is a fear that caps would further drive down the availability of these loans to that segment of the market, increasing the number of loan sharks

There will continue to be some uncertainty around the regulatory environment until the OFT report in Spring

Our view is that any measures that are proposed are likely to have limited impact on HCC or the pawnbroking industry.....however it is an election year.....

Price caps were rejected in the CC review into HCC in 2006 with the view that there was a risk that this would result in reduced access for some individuals, for many of whom it is one of the few available sources of credit. There are high costs associated with lending to people on low incomes who have a high risk of default and if an interest cap were applied, these costs would have to be displaced, say to charge for default, which is not what low income borrowers want, or the lending would cease. We therefore do not think interest rate caps can be considered without other low cost credit alternatives being widely available, which is unlikely to occur in the short term.

Conclusion

There have been several reviews/ studies of parts of the non-standard lending markets – most recently in the CC review of the home credit market – and the wider sector is likely to continue to come under scrutiny in the future. The CC review generally confirmed that customers were satisfied with the service, while the high costs reflect the risks of default as well as the nature of the products. The OFT has stated that they recognise that there have previously been investigations into certain areas of the high cost credit market and where this is the case they have sought to limit their work to updating previous analysis. This would suggest that they will come to similar conclusions, particularly in relation to home credit.

With limited (and shrinking) credit alternatives for many low-income individuals, we do not expect the OFT recommendations to have a material impact on the home credit providers or pawnbrokers. Instead, we think the focus is more likely to be on other forms of unsecured lending, including potentially PDAs and the sale & buy back sector (Cash Convertors etc). However there will continue to be some uncertainty until we have the final report, noting that with the General Election approaching there may be political influences.

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Company Section

General Financial
FTSE 250

Price	919.0p
Price target	1000.0p
12 high/low	974.0p / 769.5p
Market cap.	£1221m
Enterprise value	£2074m
Free float	100%
Avg. daily volume	549k
Shares in issue	132.9m
Company code	PFG.L

Next news	2-Mar-10
Confidence in estimates	Medium
Expected movement in estimates	◀▶

Adviser	No
Broker	No

Ben Archer

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Provident Financial

Looking for total return

- **Shares performing in-line with the wider market.** Since the IMS in October, the shares have largely remained within a 910p – 970p trading range and we can see little to change this in the short term. Investor focus at the results is likely to remain on credit quality, particularly at Vanquis, while we will also be looking for an update on RPF. We expect it to remain a market test for the moment although there has been some speculation that it may be abandoned. The group is funded into 2011 on our forecasts but we would like to see further news here during H1 2010.
- **Valuation not out of kilter with recent experience.** On the basis of our forecasts, the shares are trading on a 2010 PER of 11.6x while the price-book ratio is high at around 5x. However the yield continues to be attractive at c.7% while noting that cover is just 1.1x. There are no good comparators, but we suggest that a yield of 6.5% is more appropriate given the medium term growth prospects, which equates to a price target of 1,000p and a 2011 PER of 11x.
- **Results on 2 March, but may be limited catalysts.** We project another resilient performance but expect the tone of the statement to continue to be cautious, while reiterating the medium term potential. With HCC customer growth expected to remain in low single digits this year, and less capacity to increase average receivable per customer, we expect HCC 2010 profit growth to be modest, before picking up in 2011 when impairment levels will also come down. We forecast Vanquis to generate profits of £12.2m in 2009, increasing to £16.2m in 2010 which may be conservative.

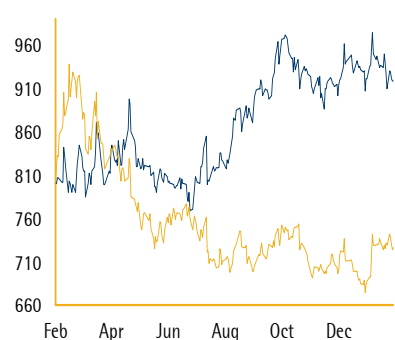
Valuation Metrics

Year to December	2007A	2008A	2009E	2010E	2011E
PER (x)	14.7	13.0	12.7	11.6	10.1
EV/EBITDA (x)	15.0	14.0	14.5	13.7	12.4
Dividend yield (%)	5.2	6.9	6.9	7.1	7.5
FCF yield (%)	6.0	-3.9	-0.5	1.4	2.1

Performance Metrics

Year to December	2007A	2008A	2009E	2010E	2011E
Sales growth (%)	2.2	12.3	9.2	7.6	8.2
PBT normalised growth (%)	10.7	11.8	3.1	10.5	15.1
EPS normalised growth (%)	118.6	12.6	2.6	9.2	15.1
Operating margin (%)	17.2	17.1	16.2	16.6	17.7
Taxation rate normalised (%)	28.4	28.5	28.0	28.0	28.0
Net cash (debt)/equity (%)	-206.3	-291.1	-359.7	-359.0	-344.6
ROAE (%)	8.5	8.3	7.8	8.1	8.7
Net assets per share (p)	225.36	213.93	185.03	203.09	218.51

Source: Charles Stanley Securities

Share price performance (1 year)


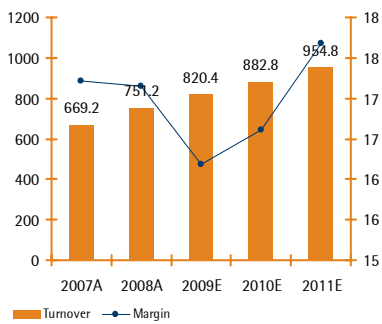
	1m	3m	12m
– Price	-1.2	-1.2	13.0
– Rel all share	5.5	1.3	-9.4

Source: Thomson Datastream

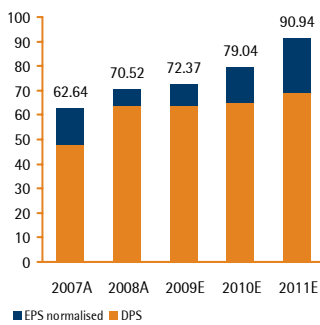
Company profile

Provident Financial is the leading provider of home credit in the UK with around 60% of the market. It also has developed a credit card offering for non-standard customers under the Vanquis Bank brand and a new direct repayment loan business called Real Personal Finance

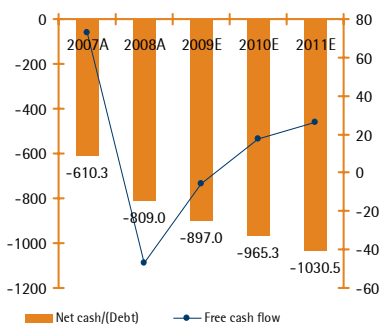
Turnover and operating margin



EPS normalised and DPS



Free cash flow and net cash/(debt)



Bull points

- Market leader in home credit
- Strong medium term growth potential
- Cash generative
- Attractive yield (but low cover)

Bear points

- Credit quality concern at Vanquis
- Potential regulatory headwinds
- Over indebted UK consumer limits growth
- Funding costs are likely to increase

Profit & loss account (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Consumer Credit	590.5	651.8	689.5	726.9	779.8
Vanquis Bank	63.5	94.6	129.5	155.8	175.0
Other	15.2	4.8	1.4	0.0	0.0
Sales	669.2	751.2	820.4	882.8	954.8
Gross profit	627.1	705.5	769.8	825.8	895.5
Distribution costs	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-6.5	-5.5	-7.2	-7.7	-8.2
Other operating expenses	-499.3	-562.0	-619.8	-661.2	-708.5
EBITDA	121.3	138.0	142.9	157.0	178.8
Depreciation & amortisation	-6.1	-9.2	-10.1	-10.3	-10.1
Operating profit	115.2	128.8	132.7	146.7	168.8
Associates & other income	0.0	0.0	0.0	0.0	0.0
Finance costs	0.0	0.0	0.0	0.0	0.0
PBT normalised	115.2	128.8	132.7	146.7	168.8
Abnormal items	0.0	0.0	0.0	0.0	0.0
PBT reported	115.2	128.8	132.7	146.7	168.8
Taxation	-32.7	-36.7	-37.2	-41.1	-47.3
Profit for period	82.5	92.1	95.6	105.6	121.5
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	140.2	92.1	95.6	105.6	121.5

Summary cash flow Statement (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Operating profit	115.2	128.8	132.7	146.7	168.8
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	6.1	9.2	10.1	10.3	10.1
Other non-cash movements	-0.2	-2.0	1.1	1.1	1.1
Change in working capital	-21.3	-140.8	-104.4	-93.1	-101.5
Other cash movements	42.1	45.7	50.6	57.0	59.4
Operating cash flow	141.9	40.9	90.2	121.9	137.8
Taxation paid	-15.2	-29.7	-36.9	-39.1	-44.2
Finance costs paid	-42.3	-44.1	-50.6	-57.0	-59.4
Capital expenditure (net)	-11.4	-13.9	-8.1	-8.1	-8.1
Free cash flow	73.0	-46.8	-5.5	17.8	26.1
(Acquisitions)/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	-89.4	-83.4	-82.5	-86.1	-91.3
Shares issued/(repurchased)	16.1	-6.7	0.0	0.0	0.0
Other financing	-27.8	-61.8	0.0	0.0	0.0
Movement in net cash/(debt)	-28.1	-198.7	-88.0	-68.4	-65.2

Balance sheet (£m) - IFRS

As at end December	2007A	2008A	2009E	2010E	2011E
Goodwill and intangibles	15.7	20.2	18.2	16.3	14.3
Tangible fixed assets	28.7	28.5	26.0	15.6	5.4
Working capital	925.4	1,063.4	1,174.5	1,273.6	1,381.6
Assets employed	969.8	1,112.1	1,218.8	1,305.4	1,401.3
Other assets/(liabilities)	-63.6	-25.2	-76.0	-70.2	-80.4
Net cash/(debt)	-610.3	-809.0	-897.0	-965.3	-1,030.5
Provisions	0.0	0.0	0.0	0.0	0.0
Net assets	295.9	277.9	245.9	269.9	290.4

Source: Charles Stanley Securities

General Financial
FTSE 250

Price	200.0p
Price target	240.0p
12 high/low	238.1p / 63.5p
Market cap.	£515m
Enterprise value	£857m
Free float	100%
Avg. daily volume	2059k
Shares in issue	257.2m
Company code	IPF.L

Next news	3-Mar-10
Confidence in estimates	Low
Expected movement in estimates	◀▶

Adviser	No
Broker	No

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International Personal Finance

Neutral stance ahead of more visibility alongside results

- **Shares waiting for reassurance on Q1 trading.** The pre-close update on 15 December indicated that full year results were expected to slightly exceed expectations. However, investors will be waiting to hear about Q1 trends post the peak Xmas period, while noting that the strengths of the model were demonstrated by the sharp rebound in profits in Q2 and Q3 last year. The group is well funded into 2011 on our forecasts, but we would like to see further news here in H1 2010.
- **Valuation looks undemanding.** The shares are trading on a 2010 PER of 8.4x, falling to 6.5x in 2011, noting that our 2011 forecasts have the potential for upgrades in our view. 2010 will benefit from an improvement in Hungary, and Mexico's move into profitability, while noting that our 2010 impairment forecasts look conservative as compared to the reported experience for H2 2009.
- **However, neutral stance ahead of finals on 3 March.** While we continue to see strong medium term growth potential for IPF, investor appetite for the shares ahead of the results will be limited, noting that unemployment continues to rise in all the group's regions aside from Mexico. We expect Q1 2010 impairment may pick up, as it did in 2009, while noting that profitability also rebounded quickly in 2009 in all regions aside from Hungary.

Valuation Metrics

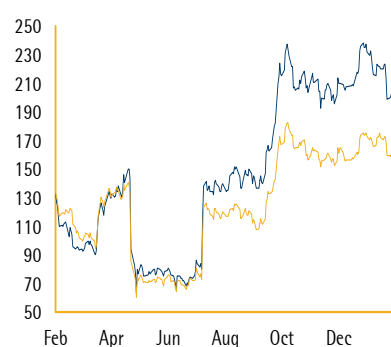
Year to December	2007A	2008A	2009E	2010E	2011E
PER (x)	14.7	9.3	12.4	8.4	6.5
EV/EBITDA (x)	8.2	9.0	11.4	8.1	6.3
Dividend yield (%)	0.9	2.6	2.8	3.0	3.4
FCF yield (%)	-5.6	-1.0	8.7	6.0	5.3

Performance Metrics

Year to December	2007A	2008A	2009E	2010E	2011E
Sales growth (%)	na	35.9	0.5	8.7	8.7
PBT normalised growth (%)	na	52.3	-24.2	47.5	29.9
EPS normalised growth (%)	na	57.4	-24.7	47.6	30.0
Operating margin (%)	12.2	13.7	10.3	14.0	16.8
Taxation rate normalised (%)	29.9	27.8	28.0	28.0	28.0
Net cash (debt)/equity (%)	-138.5	-143.9	-143.7	-115.1	-91.6
ROAE (%)	7.0	8.6	6.7	9.4	11.3
Net assets per share (p)	79.16	100.54	92.50	110.26	134.49

Source: Charles Stanley Securities

Share price performance (1 year)



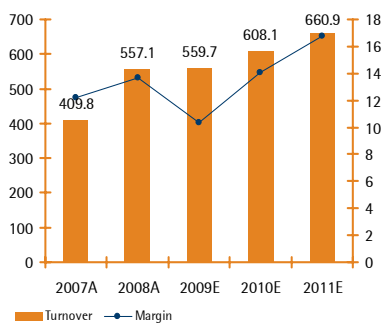
	1m	3m	12m
— Price	-14.9	-3.9	47.1
— Rel all share	-9.1	-1.3	17.9

Source: Thomson Datastream

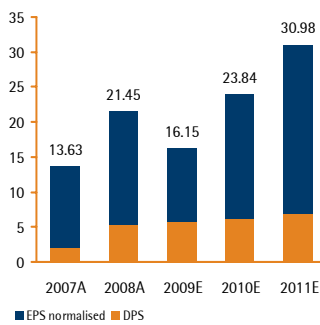
Company profile

Demerged from Provident Financial in July 2007, IPF operates in six countries - Poland, Hungary, the Czech Republic, Slovakia, Romania and Mexico - and provides small-sum, short term unsecured loans with terms ranging from 6 to 24 months.

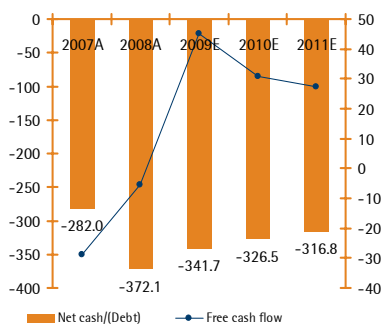
Turnover and operating margin



EPS normalised and DPS



Free cash flow and net cash/(debt)



Bull points

- Significant growth potential
- Relatively undeveloped credit markets
- Mexico now profitable
- Home credit relatively defensive

Bear points

- Credit quality concerns, particularly Q1
- Hungary still recovering?
- Availability and cost of funding
- Limited visibility

Profit & loss account (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Central Europe	367.1	493.2	450.8	458.4	481.7
Mexico	38.8	48.4	75.2	99.6	119.7
Romania	3.9	15.5	33.8	50.1	59.6
Russia/ Other	0.0	0.0	0.0	0.0	0.0
Sales	409.8	557.1	559.7	608.1	660.9
Central Europe	80.6	106.0	74.0	89.1	104.1
Mexico	-13.3	-8.7	0.1	8.2	14.5
Romania	-4.2	-7.8	-3.5	1.5	6.6
Russia/ Other	-0.5	0.0	0.0	0.0	0.0
UK Central	-12.5	-13.2	-12.7	-13.5	-14.4
Operating profit	50.1	76.3	57.8	85.3	110.8
Associates & other income	0.0	0.0	0.0	0.0	0.0
Finance costs	0.0	0.0	0.0	0.0	0.0
PBT normalised	50.1	76.3	57.8	85.3	110.8
Abnormal items	0.0	0.0	0.0	0.0	0.0
PBT reported	50.1	76.3	57.8	85.3	110.8
Taxation	-15.0	-21.2	-16.2	-23.9	-31.0
Profit for period	35.1	55.1	41.6	61.4	79.8
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	35.1	50.6	28.8	61.4	79.8

Summary cash flow Statement (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Operating profit	50.1	76.3	57.8	85.3	110.8
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	13.0	17.8	18.7	19.7	21.8
Other non-cash movements	-1.0	0.8	-0.5	-0.5	-0.5
Change in working capital	-36.5	-58.3	-5.9	-37.1	-56.0
Other cash movements	-2.9	3.1	0.0	0.0	0.0
Operating cash flow	22.7	39.7	70.1	67.4	76.1
Taxation paid	-29.7	-23.9	-18.7	-20.0	-27.5
Finance costs paid	0.0	0.0	0.0	0.0	0.0
Capital expenditure (net)	-21.9	-21.1	-6.4	-16.4	-21.4
Free cash flow	-28.9	-5.3	45.0	30.9	27.2
(Acquisitions)/disposals	-2.4	0.0	0.0	0.0	0.0
Dividends paid	-4.9	-13.2	-14.7	-15.7	-17.5
Shares issued/(repurchased)	0.0	-5.7	0.0	0.0	0.0
Other financing	77.9	-65.9	0.0	0.0	0.0
Movement in net cash/(debt)	41.7	-90.1	30.4	15.2	9.7

Balance sheet (£m) - IFRS

As at end December	2007A	2008A	2009E	2010E	2011E
Goodwill and intangibles	18.7	17.5	12.8	8.0	3.3
Tangible fixed assets	40.8	52.4	40.1	36.7	36.3
Working capital	443.2	574.4	570.3	607.4	663.4
Assets employed	502.7	644.3	623.1	652.1	703.0
Other assets/(liabilities)	-17.1	-13.6	-43.5	-42.0	-40.3
Net cash/(debt)	-282.0	-372.1	-341.7	-326.5	-316.8
Provisions	0.0	0.0	0.0	0.0	0.0
Net assets	203.6	258.6	237.9	283.6	345.9

Source: Charles Stanley Securities

General Financial
FTSE Fledgling

Price	487.5p
Price target	550.0p
12 high/low	500.0p / 267.5p
Market cap.	£57m
Enterprise value	£86m
Free float	25%
Avg. daily volume	2k
Shares in issue	11.7m
Company code	SUS.L

Next news	24-Mar-10
Confidence in estimates	Medium
Expected movement in estimates	◀▶

Adviser	Yes
Broker	Yes

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S & U plc**Resilient performer**

- **Shares responded well to the recent update.** S&U has confirmed that trading for the year to 31 January 2010 is in-line with expectations. HCC had a very satisfactory December while Advantage Finance also enjoyed a strong finish to the year; collection results from recent loan batches remain good. With a strong funding position (year end net debt of c.£26m compares to facilities of nearer £36m), the group remains well placed for when market conditions do improve.
- **Significant discount to Provis, attractive yield.** While S&U is much smaller than Provis the scale of the PER discount – 30% – is simply too high. Their yields are comparable, but S&U offers better dividend cover while noting that the group has declared a second interim dividend of 15p (payable in March) ahead of the income tax increase in April. However the shares are relatively illiquid.
- **Growth to pick up in 2011.** With economic conditions still relatively weak, we expect expansion to continue to be cautious in the short term. The UK HCC sector is relatively mature, but we see the potential for improving growth in 2011 given the continued credit rationing elsewhere, particularly in the non-standard sector. Advantage has more exciting growth prospects and will benefit from similar trends while noting that it also has the potential to move further up the credit curve.

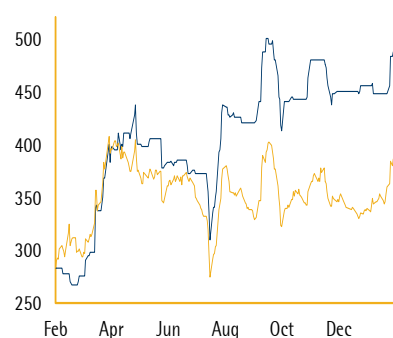
Valuation Metrics

Year to January	2008A	2009A	2010E	2011E	2012E
PER (x)	9.5	9.2	8.9	8.5	8.0
EV/EBITDA (x)	7.8	8.1	8.1	7.6	7.5
Dividend yield (%)	6.6	6.6	6.6	6.7	6.9
FCF yield (%)	7.2	7.0	15.1	1.2	2.8

Performance Metrics

Year to January	2008A	2009A	2010E	2011E	2012E
Sales growth (%)	7.4	0.4	-1.6	1.4	3.7
PBT normalised growth (%)	-3.9	-0.2	3.3	4.7	6.4
EPS normalised growth (%)	-3.2	3.3	3.2	4.7	6.0
Operating margin (%)	23.7	22.6	22.6	23.6	24.1
Taxation rate normalised (%)	30.5	27.9	27.9	27.9	27.9
Net cash (debt)/equity (%)	-74.0	-70.8	-56.4	-59.4	-60.3
ROAE (%)	9.8	9.5	9.7	9.6	9.6
Net assets per share (p)	361.54	374.36	396.58	421.37	447.86

Source: Charles Stanley Securities

Share price performance (1 year)

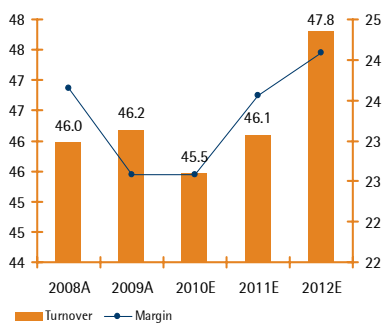
	1m	3m	12m
– Price	7.1	9.6	72.6
– Rel all share	14.4	12.4	38.4

Source: Thomson Datastream

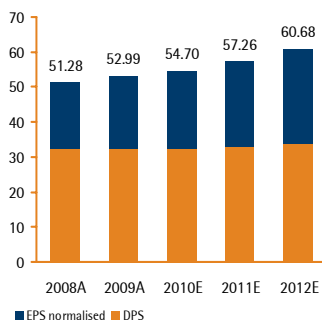
Company profile

S&U plc is a leading provider of home credit and motor finance with operations throughout the UK. The group's home credit operation is cash generative and benefits from high levels of repeat business while Advantage Finance, the group's motor finance subsidiary, achieved its ninth straight year of record profits in 2009.

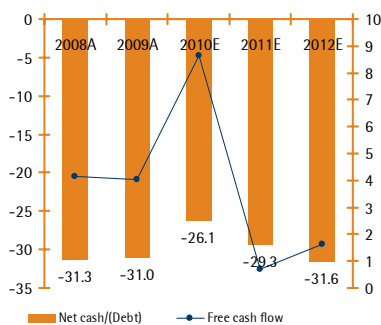
Turnover and operating margin



EPS normalised and DPS



Free cash flow and net cash/(debt)



Bull points

- Attractive dividend yield
- Home Credit relatively defensive
- Cash generative, well funded
- Advantage finance showing robust growth

Bear points

- Unemployment still drifting up
- Earnings have been relatively flat
- Shares tightly held
- Limited catalysts in short term

Profit & loss account (£m) - IFRS

Year to January	2008A	2009A	2010E	2011E	2012E
Consumer Credit	33.1	32.0	31.3	31.6	32.4
Car finance hire purchase	12.9	14.2	14.1	14.4	15.5
Sales	46.0	46.2	45.5	46.1	47.8
Gross profit	30.3	30.0	29.3	30.0	31.2
Distribution costs	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-18.9	-19.1	-18.6	-18.9	-19.5
Other operating expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	11.4	10.9	10.6	11.2	11.7
Depreciation & amortisation	-0.5	-0.5	-0.4	-0.3	-0.2
Operating profit	10.9	10.4	10.3	10.9	11.5
Associates & other income	0.0	0.0	0.0	0.0	0.0
Finance costs	-2.3	-1.9	-1.4	-1.6	-1.7
PBT normalised	8.6	8.6	8.8	9.3	9.9
Abnormal items	0.0	-0.3	0.0	0.0	0.0
PBT reported	8.6	8.3	8.8	9.3	9.9
Taxation	-2.6	-2.4	-2.5	-2.6	-2.7
Profit for period	6.0	6.2	6.4	6.7	7.1
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	6.0	5.9	6.4	6.7	7.1

Summary cash flow Statement (£m) - IFRS

Year to January	2008A	2009A	2010E	2011E	2012E
Operating profit	10.9	10.4	10.3	10.9	11.5
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	0.5	0.5	0.4	0.3	0.2
Other non-cash movements	0.0	0.0	0.0	0.0	0.0
Change in working capital	-2.6	-2.3	2.0	-6.1	-5.5
Other cash movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	8.7	8.6	12.7	5.0	6.2
Taxation paid	-2.0	-2.6	-2.5	-2.6	-2.7
Finance costs paid	-2.2	-1.9	-1.4	-1.6	-1.7
Capital expenditure (net)	-0.5	-0.1	-0.1	-0.1	-0.1
Free cash flow	4.1	4.0	8.6	0.7	1.6
(Acquisitions)/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	-3.8	-3.8	-3.8	-3.8	-3.9
Shares issued/(repurchased)	0.0	0.0	0.0	0.0	0.0
Other financing	0.0	0.0	0.0	0.0	0.0
Movement in net cash/(debt)	0.4	0.3	4.9	-3.1	-2.3

Balance sheet (£m) - IFRS

As at end January	2008A	2009A	2010E	2011E	2012E
Goodwill and intangibles	0.0	0.0	0.0	0.0	0.0
Tangible fixed assets	2.2	1.9	0.9	0.1	-0.7
Working capital	74.9	77.5	75.4	81.6	87.3
Assets employed	77.1	79.3	76.3	81.7	86.6
Other assets/(liabilities)	-3.6	-4.5	-3.8	-3.1	-2.6
Net cash/(debt)	-31.3	-31.0	-26.1	-29.3	-31.6
Provisions	0.0	0.0	0.0	0.0	0.0
Net assets	42.3	43.8	46.4	49.3	52.4

Source: Charles Stanley Securities

General Financial
FTSE AIM All-Share

Price	262.5p
Price target	280.0p
12 high/low	279.5p / 181.0p
Market cap.	£144m
Enterprise value	£178m
Free float	60%
Avg. daily volume	61k
Shares in issue	55.0m
Company code	ABM.L

Next news	22-Feb-10
Confidence in estimates	Medium
Expected movement in estimates	◀▶

Adviser	No
Broker	No
NOMAD	No

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Albemarle & Bond

Well placed

- **Shares down from their highs.** We expect A&B to report a strong set of interims next week, mainly driven by the high gold price and gold purchasing, but also confirming robust progress in the underlying lending business. Following a period of consolidation, A&B have stated their intention to step up their store opening program and are planning to open 10 to 15 new stores this financial year, noting that the returns from new stores, as well as overall group cash conversion, have been significantly enhanced by gold purchasing and the high gold price.
- **Reiterate Add recommendation.** Our price target equates to c.12.5x our June 2011 forecasts, consistent with the group's historic rating, and equating to a yield of 3.4%. With EZCorp holding 29.7% of the shares, we see the valuation as incorporating a modest bid premium noting that while EZCorp have been an investor since 1998, two EZCorp Executives were appointed to the A&B Board in July 2009 as Non-Executive Directors.
- **H1 results on 22 February.** A&B has lagged H&T in terms of store openings and the introduction of gold purchasing over the last 18 months, although this is now being addressed and we continue to see good growth potential both in terms of new openings and from existing stores. We expect the new management team to use the interim results as a platform to set out their strategy and the opportunities for the group in the next few years and this in itself should act as a catalyst.

Valuation Metrics

Year to June	2008A	2009A	2010E	2011E	2012E
PER (x)	18.7	13.5	11.3	12.0	11.5
EV/EBITDA (x)	12.3	10.1	8.5	8.7	8.2
Dividend yield (%)	2.1	2.6	3.4	3.7	3.9
FCF yield (%)	1.6	6.1	0.4	3.9	4.0

Performance Metrics

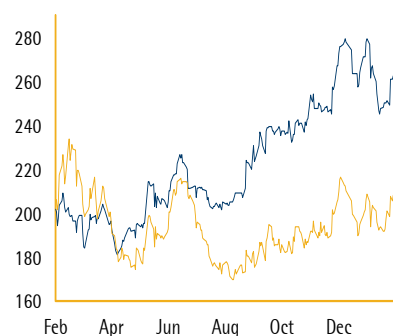
Year to June	2008A	2009A	2010E	2011E	2012E
Sales growth (%)	42.3	18.5	19.9	5.4	7.2
PBT normalised growth (%)	46.7	42.2	22.0	-5.8	5.0
EPS normalised growth (%)	27.5	38.7	19.3	-5.8	4.9
Operating margin (%)	27.3	29.2	28.8	26.2	26.1
Interest cover (x)	5.1	10.3	14.6	11.7	10.2
Taxation rate normalised (%)	25.7	27.0	28.0	28.0	28.0
Net cash (debt)/equity (%)	-82.7	-61.9	-63.2	-58.2	-54.3
ROAE (%)	11.9	14.4	14.6	13.0	12.9
Net assets per share (p)	80.50	91.51	104.39	115.16	126.76

Source: Charles Stanley Securities

Company profile

Albemarle & Bond is one of the leading pawnbrokers in the UK. It has c.120 shops noting that the acquisition of Herbert Brown in July 2007 added 26 sites.

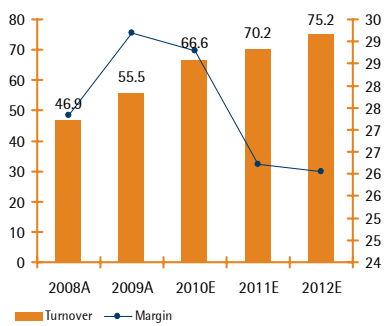
Share price performance (1 year)



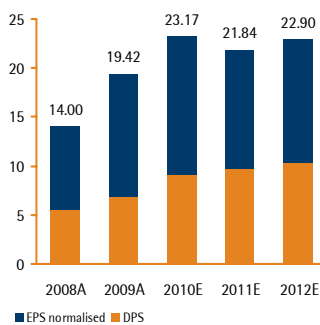
	1m	3m	12m
— Price	-3.1	8.3	30.1
— Rel all share	3.4	11.1	4.4

Source: Thomson Datastream

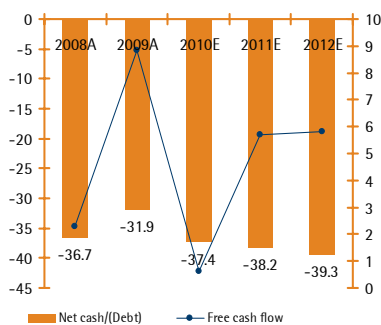
Turnover and operating margin



EPS normalised and DPS



Free cash flow and net cash/(debt)



Bull points

- Robust demand for pawnbroking
- High gold price
- Asset backed lending
- Fragmented market

Bear points

- Challenging retail backdrop for 2010
- Risk of falling redemption rates
- Impact on pledge bk of gold purchasing
- Sustainability is gold purchasing

Profit & loss account (£m) - IFRS

Year to June	2008A	2009A	2010E	2011E	2012E
Revenues	46.9	55.5	66.6	70.2	75.2
Sales	46.9	55.5	66.6	70.2	75.2
Gross profit	36.4	42.5	48.6	50.1	53.8
Distribution costs	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-22.2	-24.8	-27.5	-29.2	-31.3
Other operating expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	14.2	17.7	21.1	20.8	22.5
Depreciation & amortisation	-1.4	-1.5	-1.9	-2.4	-2.9
Operating profit	12.8	16.2	19.2	18.4	19.6
Associates & other income	0.0	0.0	0.0	0.0	0.0
Finance costs	-2.5	-1.6	-1.3	-1.6	-1.9
PBT normalised	10.3	14.6	17.9	16.8	17.7
Abnormal items	-0.6	0.0	0.0	0.0	0.0
PBT reported	9.7	14.6	17.9	16.8	17.7
Taxation	-2.6	-4.0	-5.0	-4.7	-4.9
Profit for period	7.7	10.7	12.9	12.1	12.7
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	7.2	10.7	12.9	12.1	12.7

Summary cash flow Statement (£m) - IFRS

Year to June	2008A	2009A	2010E	2011E	2012E
Operating profit	12.8	16.2	19.2	18.4	19.6
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	1.4	1.5	1.9	2.4	2.9
Other non-cash movements	0.0	0.0	0.0	0.0	0.0
Change in working capital	-6.4	-1.7	-9.3	-2.6	-4.7
Other cash movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	7.8	16.0	11.8	18.3	17.8
Taxation paid	-1.4	-3.2	-4.6	-4.8	-4.9
Finance costs paid	-2.5	-1.7	-1.3	-1.6	-1.9
Capital expenditure (net)	-1.6	-2.2	-5.2	-6.2	-5.2
Free cash flow	2.3	8.9	0.6	5.7	5.8
(Acquisitions)/disposals	-24.8	-0.4	-1.2	-1.2	-1.2
Dividends paid	-3.0	-3.6	-5.0	-5.3	-5.7
Shares issued/(repurchased)	11.6	-0.1	0.0	0.0	0.0
Other financing	0.6	0.0	0.0	0.0	0.0
Movement in net cash/(debt)	-13.4	4.8	-5.5	-0.8	-1.1

Balance sheet (£m) - IFRS

As at end June	2008A	2009A	2010E	2011E	2012E
Goodwill and intangibles	23.4	23.9	25.2	26.4	27.6
Tangible fixed assets	6.6	7.2	10.2	13.7	15.9
Working capital	50.2	50.8	59.3	61.7	65.8
Assets employed	80.2	81.9	94.7	101.7	109.3
Other assets/(liabilities)	0.8	0.4	0.4	0.4	0.4
Net cash/(debt)	-36.7	-31.9	-37.4	-38.2	-39.3
Provisions	0.0	0.0	0.0	0.0	0.0
Net assets	44.3	50.4	57.7	63.9	70.3

Source: Charles Stanley Securities

General Financial
FTSE AIM All-Share

Price	263.5p
Price target	325.0p
12 high/low	321.5p / 180.0p
Market cap.	£93m
Enterprise value	£128m
Free float	84%
Avg. daily volume	103k
Shares in issue	35.4m
Company code	HAT.L

Next news	25-Mar-10
Confidence in estimates	Medium
Expected movement in estimates	◀▶

Adviser	No
Broker	No
NOMAD	No

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H&T Group

Buying opportunity

- **Shares weak after pre-close update.** The January trading update confirmed that the results for the year to 31 December 2009 would be at the top end of expectations. However, cautious comments on the retail outlook for 2010 and the limited visibility for gold purchasing both in terms of volumes and margins, has resulted in the shares falling by around 15%. In our view however, there was nothing new in the statement and investors should look at the share price fall as a buying opportunity.
- **Discount to A&B unwarranted.** H&T has always traded at a slight discount to A&B, partly reflecting a small bid premium in A&B's shares given the EZCorp holding. However the current discount of around 30% to December 2011 looks too large in our view, particularly given the inherent growth potential of H&T's 30 or so new greenfield stores opened in the last three years and the continued opportunity to expand the geographical footprint.
- **Full year results on 25th March.** The gold price and the evolution of gold purchasing will continue to impact sentiment towards the shares in the short term. However, in our view, investors should focus on the robust growth potential of the core lending business while noting that we still expect gold purchasing to offer the pawnbroking industry a solid income stream over the longer term. We upgrade our recommendation to Buy from Add and retain our target price of 325p.

Valuation Metrics

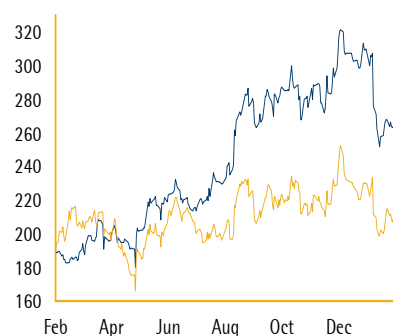
Year to December	2007A	2008A	2009E	2010E	2011E
PER (x)	17.3	11.2	7.6	9.3	8.3
EV/EBITDA (x)	11.2	8.1	5.8	6.8	6.0
Dividend yield (%)	1.7	2.0	2.7	3.2	3.5
FCF yield (%)	0.6	1.1	1.4	4.2	8.9

Performance Metrics

Year to December	2007A	2008A	2009E	2010E	2011E
Sales growth (%)	19.4	37.8	31.0	-4.6	7.2
PBT normalised growth (%)	46.8	56.0	55.3	-18.0	11.4
EPS normalised growth (%)	17.5	54.4	48.3	-18.3	11.4
Operating margin (%)	26.2	26.7	29.3	25.2	25.6
Interest cover (x)	3.8	5.5	8.6	8.5	10.3
Taxation rate normalised (%)	30.2	27.6	27.6	27.6	27.6
Net cash (debt)/equity (%)	-106.1	-95.3	-74.7	-62.1	-44.7
ROAE (%)	11.2	14.7	17.9	13.7	14.4
Net assets per share (p)	86.49	101.43	132.35	153.70	177.79

Source: Charles Stanley Securities

Share price performance (1 year)



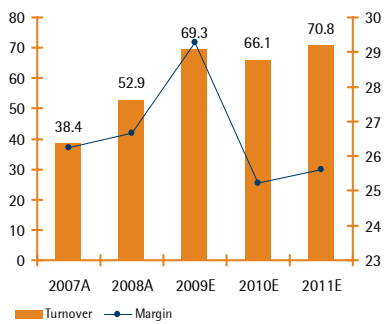
	1m	3m	12m
— Price	-14.9	-6.5	42.0
— Rel all share	-9.1	-4.0	13.9

Source: Thomson Datastream

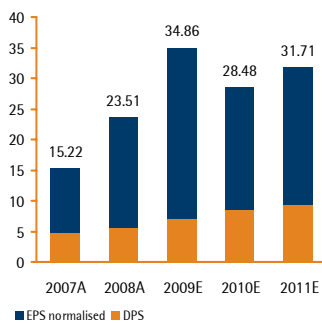
Company profile

H&T Group is one of the UK's leading pawnbrokers with around 105 stores. The majority of its income, c.89%, is derived from pawnbroking and associated revenues with the remainder from cheque cashing, pay day advances and KwikLoan.

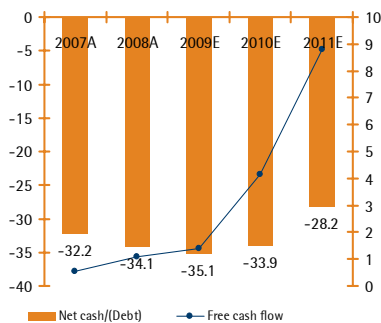
Turnover and operating margin



EPS normalised and DPS



Free cash flow and net cash/(debt)



Bull points

- Robust demand for pawnbroking
- High gold price
- Asset backed lending
- Fragmented market

Bear points

- Challenging retail backdrop for 2010
- Risk of falling redemption rates
- Impact on pledge bk of gold purchasing
- Sustainability is gold purchasing

Profit & loss account (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Pawn Service Charge	17.1	19.7	22.3	25.2	28.6
Retail	11.0	14.6	16.1	18.3	21.1
Scrap and gold purchasing	6.6	14.5	26.0	17.2	15.1
Cheque cashing	3.4	3.8	4.5	5.0	5.5
Other	0.3	0.2	0.4	0.5	0.6
Sales	38.4	52.9	69.3	66.1	70.8
Gross profit	27.7	35.7	49.7	46.0	50.0
Distribution costs	0.0	0.0	0.0	0.0	0.0
Administrative expenses	-16.3	-20.2	-27.6	-27.0	-29.1
Other operating expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	11.4	15.6	22.1	18.9	20.9
Depreciation & amortisation	-1.3	-1.5	-1.8	-2.3	-2.7
Operating profit	10.1	14.1	20.3	16.7	18.1
Associates & other income	0.0	0.0	0.0	0.0	0.0
Finance costs	-2.7	-2.6	-2.4	-2.0	-1.8
PBT normalised	7.4	11.5	17.9	14.7	16.4
Abnormal items	0.8	-1.0	-0.5	0.7	0.0
PBT reported	8.2	10.6	17.4	15.4	16.4
Taxation	-2.2	-3.2	-4.9	-4.1	-4.5
Profit for period	5.2	8.4	13.0	10.7	11.9
Minorities & preference dividends	0.0	0.0	0.0	0.0	0.0
Profit attributable to shareholders	5.9	7.6	12.5	11.3	11.9

Summary cash flow Statement (£m) - IFRS

Year to December	2007A	2008A	2009E	2010E	2011E
Operating profit	10.1	14.1	20.3	16.7	18.1
Operating profit discontinued	0.0	0.0	0.0	0.0	0.0
Depreciation & amortisation	1.3	1.5	1.8	2.3	2.7
Other non-cash movements	0.2	0.2	0.0	0.0	0.0
Change in working capital	-5.2	-7.4	-11.1	-3.3	-0.9
Other cash movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	6.3	8.4	11.0	15.7	19.9
Taxation paid	-1.2	-2.2	-3.2	-4.5	-4.3
Finance costs paid	-2.4	-2.3	-2.2	-2.0	-1.8
Capital expenditure (net)	-2.1	-2.9	-4.2	-5.1	-5.1
Free cash flow	0.6	1.1	1.4	4.1	8.8
(Acquisitions)/disposals	-3.6	-1.6	0.0	0.0	0.0
Dividends paid	-1.5	-1.9	-2.5	-2.9	-3.1
Shares issued/(repurchased)	7.1	0.0	0.0	0.0	0.0
Other financing	0.0	0.5	0.0	0.0	0.0
Movement in net cash/(debt)	2.6	-1.9	-1.1	1.2	5.7

Balance sheet (£m) - IFRS

As at end December	2007A	2008A	2009E	2010E	2011E
Goodwill and intangibles	18.0	18.1	17.9	17.7	17.5
Tangible fixed assets	6.1	7.8	10.2	13.0	15.3
Working capital	38.6	43.6	53.8	57.5	58.2
Assets employed	62.6	69.5	81.9	88.2	91.1
Other assets/(liabilities)	0.0	0.2	0.2	0.2	0.2
Net cash/(debt)	-32.2	-34.1	-35.1	-33.9	-28.2
Provisions	-0.1	-0.1	-0.1	-0.1	-0.1
Net assets	30.3	35.6	46.9	54.4	62.9

Source: Charles Stanley Securities

Notes

NOTES

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Important Disclosures

Recommendation and target price history

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Total Coverage	Number	Percent	Banking Relationships	Number	Percent
Buy	111	48.26	Buy	27	61.36
Add	33	14.35	Add	6	13.64
Hold	69	30.00	Hold	11	25.00
Reduce	11	4.78	Reduce	0	0.00
Sell	6	2.61	Sell	0	0.00

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Buy	+20% < expected absolute change
Add	+10% < expected absolute change < +20%
Hold	-10% < expected absolute change < +10%
Reduce	-20% < expected absolute change < -10%
Sell	expected absolute change < -20%

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