

H&T GROUP PLC (LON:HAT)

Disciplined Growth in H1

ENCOURAGING GROWTH

H&T Group PLC (LON:HAT), the UK market leader in pawnbroking, released results on August 14 for the first half of 2018, showing sustained growth both in the core pawnbroking and other financial services.

The company delivered pre-tax profit growth of 10.9%, and earnings per share growth of 15.5%. The biggest drivers were the pawnbroking and personal loans segments, with positive growth (revenue and profit) also from the retail and other business segments.

FINANCIAL ANALYSIS – KEY OBSERVATIONS

Risk metrics remain favourable, with pawnbroking redemptions (customers reclaiming collateral) steady at 84%, and the personal loan business continuing to expand into lower risk loans with 54% of lending now outside of the high-cost-short-term segment. Balance sheet leverage remains low with net debt / EBITDA 0.97x (covenants 3.0x).

We note that these are the first results reported under IFRS 9 accounting. The company provided details of the IFRS 9 impact in a release on July 27. The table below includes the restated full-year (FY) 2017 baseline figures. Our forecasts apply the IFRS 9 standard, and represent a small increase compared to our previous 2018 revenue and profit forecasts (if restated for IFRS 9).

CONCLUSIONS AND VALUATION

In our initiation report (July 4, 2018: H&T Group, Defensive / Growth investment) we examined the resilient characteristics of the core pawnbroking business, along with the growth potential of the personal loans and retails businesses and the clicks-to-bricks digital platform across all business areas. The first-half results support our conclusions.

During the last 2 months, the share price has retraced back to its December 2017 level. This may be due to some weak macro news for the UK high street, and/or the IFRS 9 impact disclosed in July. The shares now trade on a 2018e P/E (price/earnings ratio) of 10.7x and offer a dividend yield of 3.4%. We argue that the valuation does not fully reflect the growth trend or the defensive quality of H&T Group. The current share price represents an interesting potential entry point, in our view.

Yr end Dec 31, £mln	2017a	2017a (IFRS 9)	2018e	2019e
Revenue	110.3	125.0	134.0	138.9
Gross Profit	63.8	78.1	83.8	86.9
EPS (GBp)	30.9	25.9	29.6	31.3
DPS (GBp)	10.5	10.5	10.8	11.5
P/E ratio (x)	10.2	12.2	10.7	10.1
Dividend yield	3.3%	3.3%	3.4%	3.6%
Net debt	13.1	13.1	16.8	12.6
Source: Company data and Capital Network forecasts				

CONSUMER FINANCE

15/08/2018

SHARE PRICE

▲ **315p**

52 WEEK LOW

▲ **278p**

MARKET CAP

▲ **£118.9mln**

52 WEEK HIGH

▲ **370p**

NET DEBT

▲ **£16.8mln**

NAV

▲ **£102.8mln**

MAJOR SHAREHOLDERS

- 1) Artemis Investment Mgt: 13.4%
- 2) Fidelity International: 9.8%
- 3) Close Brothers Asset Mgt: 8.9%

Shares in Issue	37.7mln
Avg Volume Daily	39233
Primary index	AIM
EPIC	LON:HAT
Next Key Announcement	Financial year end Dec 31 2018
Sector	Consumer Finance

SHARE PRICE CHART



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