

Pioneer Credit Limited (PNC)

Rating: Buy | Risk: High | Price Target: \$0.80

3 March 2025

1H 25 Result Supports that PNC's Share Price Reflects Deep Value

Key Information

Current Price (\$ps)	0.49
12m Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.38 - 0.66
Target Price Upside (%)	63.3%
TSR (%)	63.3%
Reporting Currency	AUD
Market Cap (\$m)	78.8
Sector	Financials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

Fundamentals

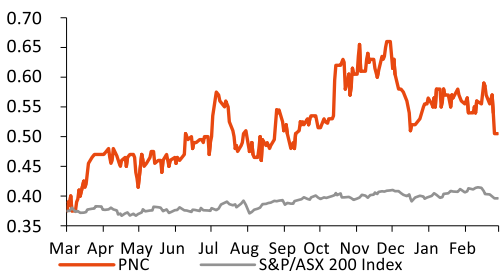
YE 30 Jun (AUD)	FY24A	FY25E	FY26E	FY27E
Sales (\$m)	65.8	101.8	109.8	114.7
NPAT (\$m)	1.2	10.3	19.3	20.2
EPS (cps)	0.7	6.3	11.2	11.7
EPS Growth (%)	448.9%	759.1%	76.9%	4.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY24A	FY25E	FY26E	FY27E
P/E (x)	67.9	7.7	4.4	4.2
EV/EBITDA (x)	3.4	3.5	2.9	2.7
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(6.5%)	(9.7%)	(19.7%)	29.2%
Absolute (%)	(9.0%)	(10.6%)	(23.5%)	34.7%
Benchmark (%)	(2.5%)	(0.9%)	(3.8%)	5.5%



Major Shareholders

Samuel Terry Asset Management	15.5%
Keith Johns	12.9%
James Simpson	8.3%
Nomura Special Investments Singapore	6.6%

Event

1H 25 result was near Shaw and Partners' expectations such that we made minor modifications to NPAT over the forecast period. Our forecasts are consistent with PNC's FY25 uNPAT guidance of >A\$9mn and FY26 guidance of >A\$18mn.

Our DCF-based Target price remains A\$0.80 (BUY-rated.)

Highlights

- Cash collections were A\$71mn in 1H 25 +2%.** We now expect cash collections of A\$155mn (previously A\$170mn.) We have observed that Credit Corp has also been experiencing flattish cash collections. In PNC's case we attribute this, in part to the timing of onboarding new debt portfolios.
- PNC purchased A\$33mn of debt portfolios in the Half.** PNC continues to guide the market to A\$90mn of investment for FY25 which we incorporate in our model. We believe that PNC can continue to purchase debt to this level given that the debt servicing industry is now an oligopoly
- FY25 NPAT guidance (>A\$9mn) preserved due to lower-than-expected cost to serve and A\$3.8mn asset write up.** PNC managed cost tightly in 1H 25 with cost-to-serve at 33% vs Shaw and Partners 36%. Employee expense was down 4% in the period. PNC had signalled during FY24 that it had undertaken an operational improvement program. PNC recorded an impairment gain of A\$3.8mn on PDP valuation. PNC has consistently been achieving actual ROIs above underwriting ROIs on its PDPs since at least FY20.
- FY26 Guidance of >A\$18mn signals further margin expansion** as costs are projected to be nearly flat (+A\$0.4mn) but net revenue is projected to grow about 8% (+A\$7.5mn.)
- Balance sheet and interest expense:** PNC closed an A\$272.5mn debt facility in July 2024 with A\$50mn growth funding and 4yr tenor with materially reduced finance cost. Each 25bps cut in the cash rate saves PNC about A\$700,000 per annum. Net debt closed 1H 25 at about A\$285mn.

Shaw and Partners PNC Financial Model Changes

	FY25e			FY26e			FY27e		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Cash Collections A\$m	155.0	170.6	-9.2%	186.1	197.7	-5.9%	198.1	218.7	-9.4%
Payments for Debt Portfolio A\$m	(90.0)	(91.1)	-1.2%	(95.0)	(105.0)	-9.5%	(100.0)	(105.0)	-4.8%
Revenue A\$m	101.8	101.1	0.7%	109.8	118.3	-7.2%	114.7	127.5	-10.0%
EBITDA A\$m	101.9	112.2	-9.2%	132.5	133.8	-1.0%	141.2	149.3	-5.4%
NPAT underlying A\$m	10.2	10.7	-4.2%	19.3	19.1	0.9%	20.2	20.5	-1.3%
EPS Adj AUD c/shr	6.32	6.69	-5.5%	11.19	11.28	-0.8%	11.71	12.07	-3.0%

Recommendation and Valuation

Our BUY recommendation is underpinned by valuation and an improving industry situation for PNC. On our modelling, PNC is trading on approximately 4.5x FY26 PE. PNC's balance sheet holds an estimated A\$672mn of estimated remaining collections from its debt ledger. In present value terms, we consider that to be worth A\$3.26/shr. That value covers PNC's net debt and opex to collect its book.

What remains then is the value we ascribe to PNC's *future business* underpinned by its people, contracts, systems and brand or reputation in a growing industry. We believe that is worth A\$0.80/shr. It is derived from the present value of our *projected* debt purchases and collections.

NAV or NTA is an inferior valuation approach for PNC, in our view, because accounting standard AASB 9 –Financial Instruments dictates that PNC's debt ledgers be carried at amortized cost. This means that book values (NAV or NTA) reflect an accounting convention rather than the present value of prospective cash flows.

Larry Gandler | Senior Analyst

+61 3 9268 1182

Larry.Gandler@shawandpartners.com.au

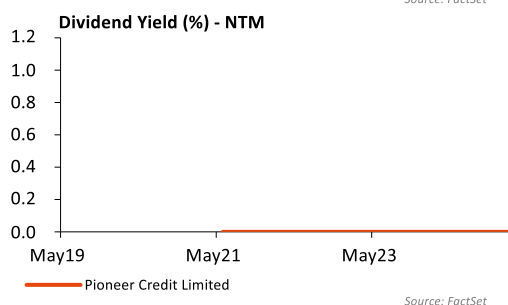
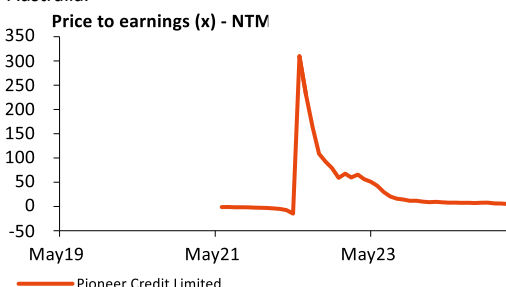
**Pioneer Credit Limited
Financials**

FactSet: PNC-AU / Bloomberg: PNC AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.49
Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.38 - 0.66
Shares on Issue (m)	160.7
Market Cap (\$m)	78.8
Enterprise Value (\$m)	361.2
TSR (%)	63.3%

Valuation NPV	Data
Beta	1.40
Cost of Equity (%)	12.8%
Risk Free Rate (%)	4.4%
Terminal Growth (%)	2.0%
WACC (%)	8.4%

Pioneer Credit Ltd. engages in the provision of financial services specializing in acquiring and servicing unsecured retail debt portfolios. It also engages in the acquisition and servicing of unsecured retail debt portfolios comprised of personal loans and credit cards. The company was founded by Keith R. John in 1998 and is headquartered in Perth, Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS (Reported) (cps)	0.2	(8.7)	6.8	12.1	12.6
EPS (Underlying) (cps)	0.1	0.7	6.3	11.2	11.7
EPS (Underlying) Growth (%)	100.3%	448.9%	759.1%	76.9%	4.7%
PE (Underlying) (x)	nm	67.9	7.7	4.4	4.2
EV / EBIT (x)	9.2	9.5	7.7	6.9	6.7
EV / EBITDA (x)	3.6	3.4	3.5	2.9	2.7
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(42.3%)	(52.9%)	(36.0%)	3.8%	3.0%
Profit and Loss (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
Sales	77.5	65.8	101.8	109.8	114.7
Sales Growth (%)	44.3%	(15.1%)	54.8%	7.9%	4.5%
Other Operating Income	5.3	5.3	0.0	0.0	0.0
EBITDA	86.1	99.5	101.9	132.5	141.2
EBITDA Margin (%)	nm	nm	nm	nm	nm
Depreciation & Amortisation	(52.1)	(64.2)	(54.7)	(77.7)	(84.9)
EBIT	34.0	35.3	47.1	54.9	56.3
EBIT Margin (%)	43.9%	53.7%	46.3%	50.0%	49.1%
Net Interest	(33.7)	(43.2)	(36.5)	(33.9)	(33.9)
Pretax Profit	0.3	(7.9)	10.6	21.0	22.5
Tax	0.0	9.2	(0.3)	(1.7)	(2.2)
Tax Rate (%)	(1.2%)	(115.8%)	(3.0%)	(8.0%)	(10.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	0.3	1.2	10.3	19.3	20.2
Significant Items	(0.2)	(11.3)	0.0	0.0	0.0
NPAT Reported	0.2	(10.0)	10.2	19.3	20.2
Cashflow (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
EBIT	34.0	35.3	47.1	54.9	56.3
Tax Paid	0.0	0.0	(0.3)	0.3	(2.2)
Net Interest	(29.9)	(36.9)	(36.5)	(33.9)	(33.9)
Change in Working Capital	6.2	(6.4)	(2.7)	(1.5)	(1.0)
Depreciation & Amortisation	58.5	69.8	54.7	77.7	84.9
Other	(81.5)	(79.6)	(90.0)	(95.0)	(100.0)
Operating Cashflow	(20.0)	(28.8)	(24.6)	4.9	4.3
Capex	(0.3)	(0.1)	(0.1)	(0.1)	0.0
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	(0.3)	(0.1)	(0.1)	(0.1)	0.0
Free Cashflow	(14.2)	(30.6)	(26.5)	3.0	2.4
Equity Raised / Bought Back	0.0	9.5	9.2	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	7.4	17.5	23.4	0.0	(5.0)
Other	(1.6)	(1.7)	(4.5)	(1.8)	(1.9)
Financing Cashflow	5.8	25.3	28.1	(1.8)	(6.9)
Exchange Rate Effect	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	(14.4)	(3.6)	3.4	3.0	(2.6)
Balance Sheet (AUD) (m)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	8.4	4.1	7.6	10.5	7.9
Accounts Receivable	1.5	4.3	3.7	3.8	3.9
Inventory	106.1	114.1	127.1	133.7	139.5
Other Current Assets	0.7	1.5	1.5	1.5	1.5
PPE	0.7	0.5	0.3	0.3	0.2
Other Non Current Assets	208.9	242.6	266.9	277.2	288.4
Total Assets	326.8	367.9	407.9	427.8	442.2
Accounts Payable	6.1	25.7	10.8	9.4	8.4
Short Term Debt	11.3	254.3	0.0	0.0	0.0
Long Term Debt	255.1	32.3	310.0	310.0	305.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	12.2	11.5	23.2	25.2	25.4
Total Liabilities	284.8	323.7	344.0	344.5	338.8
Total Shareholder Equity	41.9	44.2	63.9	83.2	103.4
Ratios	FY23A	FY24A	FY25E	FY26E	FY27E
ROE (%)	0.4%	2.8%	19.0%	26.3%	21.7%
Gearing (%)	86.0%	86.5%	82.6%	78.3%	74.2%
Net Debt / EBITDA (x)	3.0	2.8	3.0	2.3	2.1

Pioneer Credit FY24 Financial Performance

Figure 1: Pioneer Credit Financial Performance vs PCP and Shaw Projections

June Y/E (A\$m)	1H23A	1H24A	% chg	FY24A	FY25A	% chg	Shaw 1H25F	% vs Shaw
Cash Collections	70.7	71.5	1.2%	139.7	155.0	10.9%	75.0	-4.7%
PDP Purchases	(42.2)	(33.7)	-20.1%	(79.6)	(90.0)	13.1%	(65.0)	-48.2%
Opex								
Employee	(18.2)	(17.3)	-5.1%	(36.2)	(38.3)	5.7%	(20.5)	-15.6%
Other opex	(9.2)	(7.7)	-16.1%	(20.9)	(16.0)	-23.3%	(9.0)	-13.9%
Other cash items	3.7	(5.6)		11.4	6.7		1.5	
Working Capital	1.0	(1.8)		(6.4)	(5.2)		(1.0)	
Net Interest Paid	(17.4)	(15.1)	-13.1%	(36.9)	(36.5)	-0.9%	(16.0)	
Taxes Paid	(0.0)	(0.0)		(0.0)	(0.3)		0.0	
Cash from Operations	(16.5)	(9.8)	-40.6%	(28.8)	(24.6)	-14.6%	(35.0)	
EBITDA	49.2	47.6	-3.3%	99.5	101.9	2.3%	49.8	-4.4%
NPAT adjusted	0.0	1.7		1.2	10.2	753.7%	5.7	
NPAT reported	0.0	1.7		(10.0)	10.2		5.7	
EPS (adjusted)	0.03c	1.11c	n/m	0.74c	6.32c	759.1%	3.75c	
DPS	0.00c	0.00c		0.00c	0.00c		0.00c	
Cost to Serve Ratio	33%	33%	74bps	33%	35%	246bps	35%	(190)bps
Net Debt (Cash) ex leases	276.4	286.0	3.5%	282.5	302.4	7.1%	307.6	-7.0%
Estimated Remaining Collections	661.0	672.8	1.8%	641.7	697.2	8.7%	645.0	4.3%
Purchased Debt At Amt Cost	340.7	328.7	-3.5%	322.9	359.7	11.4%	355.0	-7.4%

Source: Pioneer Credit, Shaw and Partners

Valuation

Our DCF approach comprises of a few components. Figure 2 lists the components. The PV of the estimated remaining collections (ERC) of the existing ledgers (Item 1) is worth A\$3.26/shr and covers the current net debt, lease liabilities and Opex to collect the existing ledgers (Items 2,3,4). Note that our ERC estimate is more conservative than PNC's because PNC incorporates potential collections beyond a 10-year time frame.

Augmenting the valuation is the worth we ascribe to PNC's *future business* underpinned by its people, contracts, systems and brand or reputation in the market (Item 5). We believe that has value of A\$0.80/shr. It is derived from the present value of our projections for PNC's future debt purchases and collections.

Figure 2: Pioneer Credit – Shaw and Partners Valuation Components

Valuation Component	FY 25 Value	
	A\$m	Per Share
1) PV of Estimated Remaining Collections(ERC) of current ledgers	521.1	\$3.26
2) Net Debt	(302.4)	-\$1.89
3) Lease Liabilities	(8.2)	-\$0.05
Cash NTA	210.4	\$1.32
4) PV of Opex to Run Down Current Book	(214.0)	-\$1.34
5) PV of Future Business (DCF forward cash flows)	132.1	\$0.83
PNC Valuation	128.5	\$0.80

Source: Shaw and Partners

Key risks

- Pioneer needs to acquire debt portfolios in order to grow profitably. The availability of debt portfolios at appropriate prices are affected by factors outside Pioneer's control.
- Pioneer may not be able to collect on its debtor accounts in sufficient quantity or time to generate adequate returns on its investments in purchased debt portfolios.
- Pioneer is highly leveraged. Leverage magnifies earnings and valuation volatility.
- Pioneer has debt obligations maturing in 2025 and 2026. Pioneer has in principle agreements to extend maturities to 2029 and is awaiting noteholder approval. There is risk that PNC may not be able to extend its funding arrangements and alternative funding may be required.
- Pioneer creditors impose financial covenants on the company. Should Pioneer's performance deteriorate it may breach its financial covenants triggering the need for alternative funding.

- Pioneer operates in an industry with a strict legal and regulatory framework. Any failure by Pioneer to comply with applicable laws could adversely affect Pioneer's reputation, its business and result in substantial losses.
- Key personnel risk: CEO Keith Johns owns 12.9% of Pioneer and has an extensive industry network that is important in Pioneer's operating performance. If Mr Johns departs from Pioneer, performance of the company may be impacted.

Core drivers and catalyst

- The quantity of purchased debt securities drives current year and future year income/cash flows.
- The anticipated collections (total value and rate collection) as well as actual collections drive Pioneer's income and cash flow.
- The cost of funding is a factor in Pioneer's profitability. Pioneer currently has funding arrangements in place with Nomura.
- Operating efficiency in collecting debts is a factor in Pioneer's financial performance.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	74	91%
Hold	7	9%
Sell	0	0%

History of Investment Rating and Target Price - Pioneer Credit Limited



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Sydney Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower	Level 36	Level 28	Level 25	Level 9	Level 47	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	5 Constitution Avenue	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2601	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201