

S&U

Timing is everything

Interim results, for the six months to 31 July (H125), will be published on 8 October. Ahead of that, S&U has alerted the market that based on the H1 performance, full year PBT is unlikely to meet the previous market consensus expectations. We believe this to be primarily a timing issue, reflecting the continuing impact of the temporary FCA restrictions on collections activity in the motor finance business. Once regulatory clarity has been established, we expect a significant recovery. Meanwhile, as previously reported, the property lending division continues to perform strongly. We have reduced our FY25 PBT estimate by 7% to £27m and will review our FY26 forecasts with the interim results.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/23	102.7	41.4	277.5	133.0	5.7	8.4
01/24	115.4	33.6	209.3	120.0	7.5	7.6
01/25e	123.3	27.0	166.9	120.0	9.5	7.6
01/26e	130.3	36.2	223.4	125.0	7.1	7.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

The good and the bad

In August, S&U provided an [update](#) on its H125 operational performance. This contrasted the strong performance of Aspen Bridging, its property lending business, with that of its motor finance business, Advantage. S&U expects H125 PBT of c £12.8m, which, because of the pressures on Advantage, is below its earlier expectations. As a result, it no longer expects to meet the previous consensus expectation (and our previous estimate) of £29m. We have made preliminary adjustments to our FY25 forecasts (details on the following page) and while there may be some follow through into FY26 we will review this with the results.

Advantage should quickly improve

Advantage has been in a consolidation phase amid industry discussions with the FCA on collections procedures and forbearance. It has taken a cautious approach to new lending and collections procedures, such that the collection rate of 87% compares with 92% in FY24. Management continues to expect the regulatory negotiations to conclude in H2, but the exact timing remains uncertain. When there is clarity, we expect a significant recovery in Advantage's loan originations and collections, along with a positive impact on funding costs from lower interest rates. Meanwhile, Aspen continues to show good growth, providing a partial offset to the pressures on Advantage. As previously reported, H125 net receivables increased 13% versus FY24, with 'excellent' credit quality and a strong pipeline.

Valuation: Significant upside potential

S&U shares trade on P/E multiples of 9.5x in FY25e and 7.1x in FY26e and yield over 7%. The FY25e return on equity (ROE) of c 8.5% is well below the 10-year average of 15%. Taking the FY26e ROE of 11%, using a cost of equity (CoE) of 10% and a 2% growth rate in our RoE versus CoE model, the implied valuation is 2,169p (unchanged). Including expected dividends of 120p, this would represent a 45% 12-month total return. Alternatively, the share price implies a long-term RoE of 8%.

Pre-interims trading update

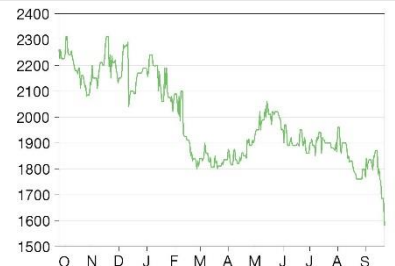
Financial services

23 September 2024

Price **£15.80**
Market cap **£205m**

Net debt at end January 2024	£225m
Shares in issue	12.2m
Free float	25%
Code	SUS
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(11.5)	(19.0)	(30.7)
Rel (local)	(11.0)	(18.8)	(35.4)
52-week high/low		£23.10	£15.80

Business description

S&U's Advantage motor finance business lends to lower- and middle-income groups that may have impaired credit records. The Aspen property bridging business supports UK residential property development and has been growing successfully since launch in 2017.

Next events

Interim results	8 October 2024
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Preliminary estimate changes

Given the proximity of the H125 results we have made only preliminary adjustment to our FY25 forecasts and have left that for FY26 unchanged. While the exact timing of regulatory clarity may have an impact on the expected FY26 recovery at Advantage, it is unclear at this stage. We are also mindful of the positive outlook for Aspen.

The key drag on Advantage's current profitability is restricted collections activity and the associated increase in impairment provisions. S&U accounts for bad debts conservatively compared to the industry, as loans are transferred to IFRS 9 stage 3 provisions after just one month overdue, compared to the industry norm of three months. For now, our earnings reduction is taken as an increase in impairment provisions, although this is more likely to be partly reflected in revenues as more loans move into stage 3¹.

Exhibit 1: Provisional estimate revisions

	FY25e			FY26e		
	Old	New	Change	Old	New	Change
Revenue (£m)	123.3	123.3	0%	130.3	130.3	0%
EBITDA (£m)	48.5	46.5	(4%)	57.5	57.5	0%
PBT (£m)	29.0	27.0	(7%)	36.2	36.2	0%
EPS (p)	179.3	166.9	(7%)	223.4	223.4	0%
DPS (p)	120.0	120.0	0%	125.0	125.0	4%

Source: Edison Investment Research

¹ Income accrual for stage 3 loans is based on the loan value net of provisions rather than the gross value. In accounting terms this transfers some of what would have been income statement impairment to revenue reduction, with no change in earnings.

Exhibit 2: Financial summary

Year end 31 January	£m	2022	2023	2024	2025e	2026e
PROFIT & LOSS						
Revenue		87.9	102.7	115.4	123.3	130.3
Impairments		(4.1)	(13.9)	(24.2)	(33.5)	(27.0)
Other cost of sales		(18.8)	(23.7)	(22.8)	(21.8)	(22.9)
Administration expenses		(13.7)	(15.7)	(19.3)	(21.6)	(22.8)
EBITDA		51.3	49.4	49.2	46.5	57.5
Depreciation		(0.5)	(0.5)	(0.5)	(0.5)	(0.4)
Operating profit (before amort. and excepts.)		50.8	48.9	48.6	46.0	57.1
Investment revenues / finance expense		(3.8)	(7.5)	(15.1)	(19.0)	(20.9)
Profit before tax		47.0	41.4	33.6	27.0	36.2
Tax		(9.0)	(7.7)	(8.1)	(6.8)	(9.0)
Profit after tax		38.0	33.7	25.4	20.3	27.1
Average Number of Shares Outstanding (m)		12.1	12.1	12.2	12.2	12.2
Diluted EPS (p)		312.7	277.5	209.3	166.9	223.4
EPS - basic (p)		312.8	277.5	209.3	166.9	223.4
Dividend per share (p)		126.0	133.0	120.0	120.0	125.0
EBITDA margin (%)		58.4%	48.1%	42.6%	37.7%	44.1%
Operating margin (before GW and except.) (%)		57.8%	47.6%	42.1%	37.3%	43.8%
Return on equity		19.6%	15.6%	11.1%	8.6%	11.0%
BALANCE SHEET						
Customer receivables		181.6	219.3	242.0	256.7	276.3
Other non-current assets		2.6	2.7	2.5	2.3	2.3
Total non-current assets		184.2	222.0	244.5	259.1	278.5
Customer receivables		141.3	201.4	221.0	234.4	252.3
Other current assets		1.7	4.7	1.4	0.1	0.8
Total current assets		143.0	206.1	222.4	234.5	253.1
Total assets		327.2	428.2	466.8	493.5	531.6
Borrowings		(2.6)	0.0	(0.9)	(0.9)	(0.9)
Other current liabilities		(6.2)	(6.9)	(7.6)	(7.8)	(8.1)
Total current liabilities		(8.8)	(6.9)	(8.5)	(8.7)	(9.0)
Borrowings		(111.0)	(195.5)	(223.5)	(244.3)	(269.5)
Preference shares		(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other non-current liabilities		17.3	13.4	16.7	17.1	17.8
Total non current liabilities		(111.7)	(196.4)	(224.2)	(245.0)	(270.2)
Net assets		206.7	224.9	234.2	239.9	252.4
NAV per share (p)		1,702	1,852	1,928	1,975	2,078
CASH FLOW						
Operating Cash Flow		(2.1)	(62.8)	(15.5)	(7.3)	(9.6)
Net cash from investing activities		(0.3)	(0.7)	(0.2)	(0.3)	(0.3)
Dividends paid		(12.3)	(15.5)	(16.2)	(14.6)	(14.6)
Other financing (excluding change in borrowing)		0.0	0.0	0.0	0.0	0.0
Net cash flow		(14.6)	(79.0)	(31.9)	(22.2)	(24.5)
Opening net (debt)/cash		(99.3)	(114.0)	(193.0)	(224.8)	(247.0)
Closing net debt/(cash)		(114.0)	(193.0)	(224.8)	(247.0)	(271.6)

Source: S&U historical data, Edison Investment Research

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