

9 January 2012

MCB Finance

Year End	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/09	14.3	(0.6)	(6.1)	0.0	N/A	N/A
12/10	11.1	0.6	1.3	0.0	55.2	N/A
12/11e	16.5	3.6	15.7	0.0	4.7	N/A
12/12e	19.8	4.8	21.5	0.0	3.4	N/A

Note: *PBT and EPS are on a pro-forma company basis. ** Converted at €1.197/£.

Investment summary: Upgrades continue

With the trading statement issued on 28 December, MCB Finance (MCB) advised that both revenue and net income would be "slightly above market expectations". Accordingly, we have raised our EPS estimates by c 2%. We are now forecasting a 2011 normalised EPS of 15.7c. We have continually upgraded estimates throughout the year (in March 2010 we were estimating 6.8c for 2011) as the Fenno-Baltic region has remained highly robust. The share price was dented by an aborted de-listing and consequently remains exceptionally low rated for what has been a strong 2011 performance.

Further upgrades

Our estimates have more than doubled through 2011 and to have a further upgrade with this trading statement is very encouraging. The key remains loan growth with principal lent in H211 up c 65% on H210. MCB states it has remained cautious on credit with a "continued strong performance in all markets". As we have previously emphasised, MCB is a churn business with the book turning over more than twice a year. Any significant turn in credit would thus be clear by now. We do not expect the same degree of recoveries in 2012 but new business is still be added at acceptable levels of risk. The scalable platform means cost increases are modest and most of the extra revenue drops straight through to profit.

2012 outlook

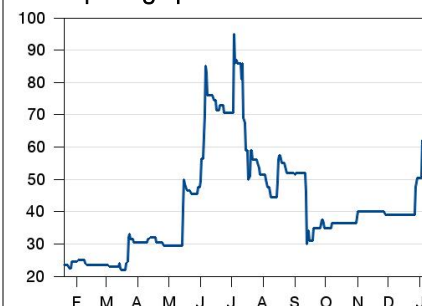
Management remains positive on 2012 and in particular is looking to extend the geographic footprint (now advised as being in H112). New products and services are also planned for 2012.

Valuation: Would need to double to be on peer rating

With this upgrade, the shares still only trade at a prospective P/E of just over 3x. The closest peer, International Personal Finance (IPF), has seen estimates cut (and potentially not yet fully reflecting currency effects from hedging in 2012) and while its share price has been very weak, it still trades on a prospective multiple of c 6x. Our fundamental but highly conservative valuation approaches indicate a value of c £1.

Price 62p
Market Cap £10m

Share price graph



Share details

Code	MCRB
Listing	AIM
Sector	Financials
Shares in issue	16.69m

Price

52 week	High	Low
	95.0p	21.0p

Balance Sheet as at 30 June 2011

Debt/Equity (%)	97
NAV per share (p)	52
Net cash (£m)	2.1

Business

MCB Finance Group is a leading online provider of short- and medium-term loans to customers in Finland, Estonia, Latvia and Lithuania using the Credit24 brand.

Valuation

	2010	2011e	2012e
P/E relative	435%	38%	31%
P/CF	99.5	N/A	N/A
EV/Sales	0.7	0.6	0.7
ROE	2.5%	29%	29%

Geography based on revenues (2011)

UK	Europe	US	Other
0%	100%	0%	0%

Analysts

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Valuation

On our numbers, a DCF model indicates a value of 93p and our Gordon's growth model (GGM) indicates 106p. Every 1% growth or 1% on cost of equity is worth c 4p on the DCF and 5-6p on the GGM. We believe the near-term share price has been adversely affected by some investors potentially looking to sell ahead of the aborted delisting and this has had a disproportionate effect for an illiquid stock, creating a buying opportunity.

Given the global economic uncertainties, we believe it is appropriate to be conservative in our forecasts, especially beyond 2011. We believe management's assessment will generate higher earnings than we are forecasting, and that this would naturally be reflected in a (materially) higher valuation. Over time, assuming market conditions stabilise, we believe we have left room to upgrade our estimates and so the valuation. We continue to adopt this conservative stance, noting the material upgrades we have had to put in through 2011. We also believe we use conservative assumptions in our valuation methods, which generate a fair value equivalent to c 5x 2012 EPS and 1.25x NAV, both below the levels peers trade at. We outline the rationale for this approach below, and some investors will no doubt consider it over-conservative.

Peer group comparisons

None of the direct competitors in the Fenno-Baltic region are directly quoted. IPF is the closest comparator (2012e consensus c 6x and IPF advises not all analysts have yet included the -17% currency hedging effects recently announced), although its operations are more in Central Europe and Mexico and it uses an agent-distribution model. Its share price has nearly halved in the recent market turmoil. Investors will note that if MCB trades on, say, IPF's 2012 valuation, it would imply a price of 120p (against our fair value in excess of 100p and the current price of 59.5p). We believe there are a range of issues investors should consider in whether to apply a premium or discount to IPF's level.

- On the upside investors should not ignore:
 - upgrades to 2011 macroeconomic forecasts for the MCB region;
 - near doubling of estimates consistently through the year, as the company has delivered accelerated growth;
 - the performance of the business model through economic conditions not experienced by the "peers"; and
 - the higher operational gearing of the internet delivered model.
- Macroeconomic volatility – in an uncertain global environment this concern is likely to be above the long-term average, ie this discount will be less in more stable times.
- Youth of company – several peers have decades of proving the model through a full range of economic conditions. While MCB was profitable in all but one country, through a severe recession investors will take time to be as comfortable with the model as they are

with longer-established players. This may also apply to building a long-term track record in the market for MCB's specific nature of lending. Again this should reduce with time.

- Illiquidity of stock – over time we expect management actions will increase the ability of investors to buy/sell without moving the market price. At present, we believe it is appropriate to apply a discount for the current level of illiquidity. Illiquidity was undoubtedly an issue when there was the announced, then aborted, intention to de-list. We believe the reaction to this issue has created the current valuation opportunity (the shares are still trading below the price of that announcement, despite further earnings upgrades).
- Potential capital raising – we believe organic growth and geographic expansion mean that some equity raising will be probable over the near/medium term. While this should improve stock liquidity, uncertainty over timing and amounts deserve a discount. Internal generation of capital and the steady geographic expansion will moderate this concern.

We also note that on 6 July 2011 DFC Global Corp (NASDAQ, DLLR) acquired Riscum, a competitor to MCB in Finland, for \$46m. The trailing annual EBITDA for Riscum was \$9.2m. For MCB, we forecast pre-tax profits of €3.6m in 2011 and €4.8m in 2012 after financing costs of €1m and €1.4m respectively. On Riscum multiples, this would imply an MCB valuation well in excess of £20m.

Discounted cash flow model – 93p

Our DCF model assumptions are company specific, forecast to 2012, 8% compound growth for 10 years and a 10x multiple applied for the terminal cash flow. Discounting these cash flows by 15% per year generates a value of €18.6m, which converting at €1.197/£, gives 93.3p per share. Just 31% of the value is in the terminal value.

Gordon's growth model – 106p

Assuming long-term RoE of 20% (conservatively below the level the 2012 forecast of 29% and the returns consistently seen by Provident Financial Group, c 30%, and IPF, c 22%), growth of 8% and a 15% CoE generates a P/BV value of 1.7x. Applying this to the end-2011 BV per share (61.6c) indicates 106c, which we then inflate by 20% to reflect the fact that near-term returns are above long-term, sustainable returns; this suggests a value of 127c (converting at €1.197/£ gives 106p).

Financials

Since our last report in September we have ticked up revenue by 1% and EPS by 2% for both 2011 and 2012. Having doubled estimates this year, being able to make a further upgrade with this announcement is encouraging.

Exhibit 1: Financials

	€'000s	2007	2008	2009	2010	2011e	2012e
Year end 31 December							
PROFIT & LOSS							
Revenue (net of financing cost)		3,818	12,071	14,346	11,058	16,520	19,800
Cost of Sales (exc amortisation and depreciation)		(5,423)	(7,777)	(7,135)	(7,662)	(10,010)	(10,808)
Credit losses		(1,387)	(4,030)	(7,764)	(2,805)	(3,000)	(4,300)
EBITDA		(2,991)	264	(553)	591	3,510	4,692
Depreciation		(11)	(38)	(45)	(21)	(23)	(26)
Amortisation		(74)	(16)	(20)	(36)	(36)	(36)
Operating profit (pre exceptional)		(3,076)	209	(619)	534	3,451	4,630
Profit Before Tax (FRS 3)		(3,076)	209	(619)	534	3,451	4,630
Profit Before Tax (pro forma)		(2,743)	487	(634)	577	3,570	4,750
Tax		0	(82)	(422)	(343)	(863)	(1,158)
Profit After Tax (FRS 3)		(3,076)	127	(1,041)	191	2,588	3,473
Profit After Tax (pro forma)		(2,743)	405	(1,056)	234	2,707	3,593
Average Number of Shares Outstanding (m)							
		17.4	17.4	17.4	17.2	16.7	16.7
EPS - normalised (c)		(15.77)	2.33	(6.07)	1.34	15.74	21.52
EPS - FRS3 (c)		(17.7)	0.73	(5.98)	1.11	15.50	20.80
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00	0.00
EBITDA Margin (%)							
		(78.3%)	2.2%	(3.9%)	5.3%	21.2%	23.7%
Operating Margin (before GW and except.) (%)							
		(80.6%)	1.7%	(4.3%)	4.8%	20.9%	23.4%
BALANCE SHEET							
Fixed Assets		829	984	828	1,318	1,929	1,448
Debtors (Net receivables)		8,188	20,909	12,965	11,876	22,500	33,000
Total Assets		9,523	23,065	16,007	15,144	26,429	37,948
Current Liabilities		(6,258)	(2,493)	(8,541)	(7,444)	(16,140)	(24,187)
Long term Liabilities		0	(12,050)	0	0	0	0
Net Assets		3,265	8,523	7,467	7,700	10,289	13,761
CASH FLOW							
Operating Cash Flow		(8,303)	(11,680)	6,665	1,084	(7,241)	(6,194)
Net cash from investing activities		(105)	(98)	(23)	(89)	(50)	(50)
Net cash from (used in) financing		8,640	12,435	(5,590)	(1,260)	8,303	7,823
Net Cash Flow		233	657	1,052	(265)	1,013	1,579
Opening cash		274	506	1,163	2,214	1,950	2,962
Closing net (debt)/cash		506	1,163	2,214	1,950	2,962	4,542

Source: Edison Investment Research, company accounts

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