

16 February 2012

MCB Finance Group

Year End	Net revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)**	Yield (%)
12/10	11.1	0.6	1.2	0.0	66.4	N/A
12/11	17.0	3.7	17.3	0.0	4.8	N/A
12/12e	25.7	5.1	21.0	0.0	3.9	N/A
12/13e	29.5	5.8	24.1	0.0	3.4	N/A

Note: *PBT and EPS are on a pro-forma basis and EPS diluted. ** Converted at €1.194/£.

Investment summary: Growth momentum

MCB had an outstanding 2011, with principal lent up 66%, revenue up 54% and the operational gearing of the model turning this top-line growth into a more than sixfold increase in pre-tax profits (up from €0.6m to €3.7m). Credit quality has improved in 2011. We expect further organic growth, with the Fenno-Baltic region proving highly robust. There is the potential for further step increases in business through new geographies and product lines. The valuation discount is unjustified by the performance of the company and its ongoing opportunities.

2011 results

Management exploited fully the opportunities presented by favourable economic conditions in MCB's Fenno-Baltic region. Excellent growth was seen across all units with the loan principal issued rising 31% in Finland, 55% in Estonia, 105% in Lithuania and nearly tenfold (from subdued levels) in Latvia. This was driven by economic growth (Eurostat GDP forecasts 3.1%, 8.0%, 6.1% and 4.5% respectively) and improving employment. Gross credit cost remained well controlled (24% of revenue) and, in addition, there were good recoveries (€1.45m) from 2008/09 losses.

2012 outlook

Economic forecasts for the Fenno-Baltic region have remained very robust and unemployment is still expected to fall. Consequently our organic growth forecast remains strong albeit not at the exceptionally high levels seen in 2011. Profit growth will be moderated as recoveries slow. We have not included any new geographies, which remains a core ambition of the group and could provide substantial upside. Management is considering a range of new countries. We expect the higher share price to lead to more shares being recognised in the dilution calculation, partially offset by a share buy-back.

Valuation: Confidence in estimates will see major re-rating

On a 2012 P/E of c 4x, it is clear that the market does not believe consensus estimates or is not fully aware of the MCB story. As the company continues to deliver growth, and potentially expands to new countries, we expect the discount to moderate. Our DCF methodology implies a price of 113p and Gordon's growth methodology 133p.

Price 69p
Market Cap £12m

Share price graph



Share details

Code	MCRB
Listing	AIM
Sector	Financials
Shares in issue	16.69m

Price

52 week	High	Low
	95.0p	22.0p

Balance Sheet as at 31 December 2011

Net Debt/Equity (%)	109
NAV per share (c)	63
Net borrowings (€m)	11.5

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

	2011	2012e	2013e
P/E relative	601%	48%	43%
P/CF	N/A	N/A	N/A
EV/Sales	0.6	0.6	0.6
ROE	31%	30%	26%

Revenues by geography

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

Analysts

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Investment summary: Growth momentum

Company description: Fenno-Baltic, direct, non-standard lender

MCB is a leading online provider of monthly-repayment, short- and medium-term loans to customers in Finland, Estonia, Latvia and Lithuania using the Credit24 brand. Distribution is through the internet (90% of 2011 credit issued) and partnerships with Maxima and other distribution partners such as the Latvian Post Office (c 10%). The business model is automated and centralised and so low cost. Credit is assessed centrally using credit score cards, with data input from both internal and external sources. The average loan is small (€400 to repeat customers), ranging up to €2,000 (the latter only for existing customers). They are of short duration (average over six months), with a range up to 24 months. The customer is typically a mid- to low-income earner with an instant cash need, ie the non-bank consumer credit market. With the banking industry's issues there is currently strong demand for non-bank lending and related services, something which targets middle-class customers, rather than the lower-end customer base.

There are opportunities from economic growth, better product penetration, market share gains, new geographies and new countries. Impairments remain key and managing credit using statistical techniques introduces great sensitivity to customer behaviour and modelling accuracy.

Valuation: Confidence in estimates will see major re-rating

Our conservative valuation methodologies indicate a fair value of c 125p or c 6x 2012 estimated diluted P/E. Our forecasts leave room for upgrades, subject to macroeconomic factors and company performance. This should see further valuation upside. We believe the share price trading so far below these measures indicates investors do not believe estimates, or that they are unaware of the MCB story; it has been under-followed in the past. Delivery on earnings, and the widened communication channels, should address both issues.

Sensitivities

MCB is sensitive to the economic cycle with both credit cost and revenue (through the appetite to lend) affected. However, the business model is likely to prove much more robust than investor sentiment towards the economies, and despite deep recessions across the Baltics, we note the company only lost money in Latvia. Other sensitivities include:

- **Funding and liquidity:** MCB currently funds itself from a single bank provider.
- **Tax rates:** Specifically the tax deductibility of credit losses.
- **Regulatory issues:** MCB is not a bank but subject to consumer protection rules.
- **Competition:** The main competition is from specialist private lending companies.
- **Currency:** It is unlikely the currency pegs in the Baltics will be changed, but a new country could introduce this risk.

Financials: Steady growth after the storm

Our 2012 balance sheet shows moderated growth on the exceptional 2011. We also have rising bad debt charges from both lower recoveries and a maturing book. The accounting for options means that in 2011 there was minimal dilution. We assume the share price will be above the strike price for options meaning that the dilution effect rises to 8% (from zero in 2011). This is partially offset by the September buy-back of 700k shares. Despite all these factors the operational gearing of the company is such that we still predict growth of nearly 40% in post-tax profits, 32% in

reported EPS and 21% in diluted EPS. We have further growth at slightly slower rates for 2013, which represents only organic growth.

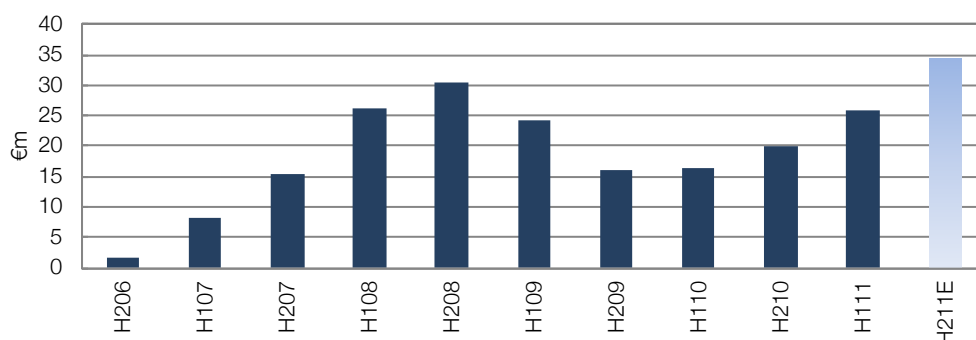
Company description: Specialist lender in the Fenno-Baltics

Non-standard, small-denomination, short-duration personal lender

MCB is a leading online provider of monthly repayment short- and medium-term loans to customers in Finland, Estonia, Latvia and Lithuania using the Credit24 brand. The business started in 2006 and expanded rapidly until the credit crunch; in 2010 it started to expand again.

Distribution is principally through the internet. Additionally there is a non-exclusive partnership with Maxima, the largest household goods, food and general retailer in the Baltics with Credit24 loans available at the 57 largest Lithuanian stores, 19 stores in Latvia and seven stores in Estonia.

Exhibit 1: Principal lent



Source: MCB Finance

The business model is highly automated and centralised. Customers use the internet to apply for loans. Credit is assessed centrally using credit score cards with internal and external data input. The average loan is small and relatively short duration (average six months). Around 70% of business is repeat lending to existing customers. The customer is typically a mid- to low-income earner with an instant cash need, ie the non-bank consumer credit market. With the banking industry's issues there is currently strong demand for non-bank lending and related services, something which targets middle-class customers, rather than the lower end customer base.

Geographic split in the Fenno-Baltic region

Exhibit 2: Geographic split in 2011

Country	Population m	Principal lent €m	Revenue €m	PBT €m	Impairment - % revenue	Profit % revenue
Finland	5.3	28.0	7.4	2.3	28%	31%
Estonia	1.3	8.6	3.4	1.3	6%	39%
Latvia	2.3	5.6	1.6	0.5	-9%	28%
Lithuania	3.3	17.7	5.8	2.1	14%	37%
Central	n/m	n/m	n/m	-2.6	n/m	n/m
Group	12.2	60.0	18.2	3.7	16%	20%

Source: MCB

As can be seen in Exhibit 2 above, Finland is the most important country for MCB. Lithuania though is not far behind, even though the country is smaller. Latvia is recovering strongly from its historic problems (the only country that reported a loss in 2009).

Normal monthly repayments are collected by invoicing the customer (not direct debit), with the vast majority using internet banking to settle the account. Customer behaviour is such that this billing

approach means near-term delinquency is higher than direct collection methods, but it is preferred by customers who value the flexibility it provides. Late payments are pursued by mobile calls/text message on the first day, then with further texts, letters and calls. When an account is over 30 days in arrears, MCB uses external debt collection agencies, believing the specialists in this sphere to be more efficient than an in-house collection team, and provides the service at a variable cost.

MCB's business churns rapidly

With a current average duration of six to seven months, MCB's business is very much about churn not just the balance sheet. The churn varies between countries with the most rapid turnover in Finland, where external data sources are more limited and historically there has been less appetite to lend in the longer term. In the 2011 results management commented that it had slightly extended the duration in Finland. Historically, it was slowest in Lithuania and Latvia, where there was a competitive market for longer-term loans and more external information is available.

Exhibit 3: Churn rates (credit issued/end net receivables)

	2008	2009	2010	2011	2012e	2013e
Finland	3.4	3.4	3.4	3.1	2.8	2.4
Estonia	3.3	3.4	2.9	2.2	2.0	2.0
Latvia	2.0	1.8	2.0	2.5	2.0	2.0
Lithuania	2.5	3.2	2.4	2.5	2.0	2.0
Group	2.8	3.2	3.0	2.7	2.3	2.2

Source: MCB, Edison Investment Research

Investors must recognise that having a business with rapid churn heavily distorts some traditional measures. For example, Finnish revenue was 26% of 2011 credit issued against 82% of 2011 end-net receivables. Credit measures comparisons against traditional credit measures are misleading with the expected 2012e real net impairment at the group level around 6-7% of credit issued, not the c17% on end balance sheet numbers. Investors should focus on credit issued rather than the balance sheet measures.

Exhibit 4: Profitability to balance sheet ratios

	2009	2010	2011	2012e	2013e		2009	2010	2011	2012e	2013e		2009	2010	2011	2012e	2013e
Revenue as % credit issued						Impairment as % credit issued						Pre-tax profit as % credit issued					
Finland	27%	26%	26%	27%	27%	Finland	(9%)	(6%)	(7%)	(9%)	(10%)	Finland	8%	9%	8%	10%	9%
Estonia	45%	42%	39%	35%	35%	Estonia	(22%)	(8%)	(2%)	(5%)	(6%)	Estonia	3%	9%	16%	14%	13%
Latvia	110%	108%	29%	28%	27%	Latvia	(104%)	(83%)	3%	(8%)	(8%)	Latvia	(33%)	(80%)	8%	6%	7%
Lithuania	41%	39%	32%	32%	33%	Lithuania	(17%)	(8%)	(5%)	(6%)	(6%)	Lithuania	7%	8%	12%	12%	12%
Revenue as % end net receivables						Impairment as % end net receivables						Pre-tax profit as % net end receivables					
Finland	90%	88%	82%	75%	65%	Finland	(30%)	(19%)	(23%)	(25%)	(24%)	Finland	26%	31%	26%	27%	21%
Estonia	153%	124%	87%	71%	70%	Estonia	(58%)	(66%)	(43%)	(28%)	(28%)	Estonia	9%	27%	34%	28%	25%
Latvia	200%	212%	73%	56%	54%	Latvia	(189%)	(163%)	6%	(17%)	(17%)	Latvia	(60%)	(157%)	21%	11%	14%
Lithuania	129%	93%	80%	66%	69%	Lithuania	(53%)	(19%)	(11%)	(11%)	(12%)	Lithuania	21%	20%	29%	25%	25%

Source: MCB, Edison Investment Research

Strategy: Leverage infrastructure when economic conditions allow

Having spent six years building the business, managing it through economic crisis and continually refining processes and procedures, MCB can expand in organic lending, new geographies, enhanced distribution channels and, potentially, new products. The vast majority of this can be accommodated on the existing, scalable platforms.

Revenue streams

MCB charges a fee for each loan, which is priced at the average cost of providing the loan. MCB charges competitive interest rates over the life of the loan. Fees are also charged for late payments, reminder letters, etc. Under IAS 23 accounting, all these income streams are amortised over the loan. As can be seen in Exhibit 4, revenue as a percentage of credit issued ranges from

26%-39%, so for a €350 average loan, the customer pays back in total c €440 in Finland and c €490 in Estonia and Lithuania.

UK listing

The board decided to raise €5m with an AIM listing in 2007, choosing the UK because the rigour and requirements of the UK market were perceived to enhance the Estonian holding company's reputation and credibility. A secondary issue followed in 2008. There was a consideration to delist in 2011, but further review meant it was considered less favourable to shareholders than remaining listed.

Management

The board is heavily skewed to entrepreneurs involved in venture capital, especially in technology. Consequently, we believe that its skill base is strong in managing new business and marketing to cross-border, mass market customer bases exploiting the latest technologies. Short and medium-term cash loans are a relatively new product, having only really started in 2005. The MCB team is more experienced than average, having been in the market from the start, and, after weathering the storm of 2008/09, they have seen credit-scoring models stress-tested. Supplementing this hard-won internal expertise, the company uses external advisers. We note that directors have been strong buyers of the shares. Their interests are aligned to shareholders.

Growth opportunities

In addition to economic growth and improving product penetration, MCB has company-specific growth from new geographies, new distribution agreements and new products. Growth from existing markets and entering new geographies appears to us the most likely.

Economic growth

As can be seen from the IMF forecasts in Exhibit 5, GDP fell massively across MCB countries in 2009, an economic downturn much sharper than most of Europe. This was replaced by strong growth for 2011 and crucially the expectation remains for further growth. Other forecasts such as Eurostat report similar trends. This is enough to expect unemployment to fall strongly across the region, which should support low levels of credit losses and allow for greater revenue opportunities. The Fenno-Baltic region has not suffered in 2011 the economic pressure seen elsewhere in Europe.

Exhibit 5: Economic forecasts (%)

Country	GDP							Unemployment			
	2006	2007	Real 2008	GDP 2009	2010	2011e	2012e	2009	2010	2011e	2012e
Finland	4.9	4.2	1.0	(8.0)	3.6	3.5	2.2	8.3	8.4	7.8	7.6
Estonia	10.0	7.2	(3.6)	(13.9)	3.1	6.5	4.0	13.8	16.9	13.5	11.5
Latvia	12.2	10.0	(4.6)	(18.0)	(0.3)	4.0	3.0	17.3	19.0	16.1	14.5
Lithuania	7.8	8.9	3.9	(14.8)	1.3	6.0	3.4	13.7	17.8	15.5	14.0

Source: IMF, Table 2.2, p97 World Economic Outlook, September 2011

Improving penetration in existing countries

MCB's below-prime, short-term lending is a relatively new product in Fenno-Baltic region. The company believes it could be attractive to 20-30% of the population from time to time, although clearly not all would be borrowing at the same time. If this assumption is correct, the potential market is significant.

New geographies

MCB pays MC Global a licence fee for the perpetual, exclusive and irrevocable right to use the Credit 24 brand across a number of countries in addition to those mentioned above. The list includes Czech Republic, Slovakia, Hungary, Poland, Romania, Slovenia, Croatia, Serbia, Macedonia, Montenegro, Bosnia, Albania, Kosovo, Bulgaria, Moldova, Ukraine and Belarus. Incremental costs should be modest, primarily marketing, as the infrastructure is already in place and local fixed costs are minor.

In its 2011 results, MCB made comment about opportunities in Australia, New Zealand and the Nordic region. These markets would be materially larger than the current ones and are attractive in terms of the regulatory environment, availability of customer data and online penetration. We do not believe MCB would expand without a detailed review of each market and, specifically, having appropriate people in each country to run the business. We have not built any new geographies into our forecasts, though such growth is likely, because the visibility of the effect on estimates is too poor at this stage.

Expanding distribution lines

As outlined above, MCB has a distribution agreement with Maxima and the Latvian Post Office, which generate 5-10% of group lending. This is being expanded across Estonia and Latvia. MCB has also re-launched its lending through the Latvian post office. With a well-recognised brand in Credit24, MCB makes an attractive partner for retailers.

New products

We believe management is looking at expanding from online instalment loans into product areas that are closely aligned to this business. In particular small-scale, short-term point of sale finance has many characteristics that are similar to the internet, low-cost model of MCB.

Credit

In addition to economic risk, credit losses will also be driven by whether good or bad lending decisions are made. Most credit officers are taught the “canons of lending”, sometimes shortened to CAMPARI and ICE. MCB is an online lender, a common delivery channel in the Fenno-Baltic region, and adopts the standard statistical modelling typical to this type of business.

Exhibit 6: Canons of lending

Canon		MCB's approach
Character	Can customer be trusted	Statistical modelling
Ability	Is customer financially aware	Statistical modelling
Means	What are customer means	Statistical modelling
Purpose	What is loan wanted for	Market analysis not customer specific
Amount	Is amount appropriate	Smaller loans for newer customers
Repayment	How will repayment be made	Shorter loans for newer customers, statistical modelling
Insurance	Any security taken	Not applicable to unsecured lending
&		
Interest	What rate should be charged	MCB does not currently use risk adjusted pricing
Charges	Any extra fees	Including new loan fees / early redemption charges etc
Extras	Any other sources of revenue	Possible but hard on direct approach

Source: Edison Investment Research

MCB's approach

The most important canon is character and whether the customer will actually make a repayment when they have the ability to. Some lenders, such as Provident Financial and International Personal Finance, use agents who live in the community in which they are lending and who know the customers, often on a personal basis. This can be especially useful where the borrower (often the matriarch) may not be the main earner in the household. The weakness of this is that it opens the agent to personal bias; this risk increases the closer the agent is to the borrower. One major advantage of statistical modelling, including behavioural analysis, and the MCB approach is that it reduces the risk of bias. Such modelling also means that loan applications are processed automatically thus materially reducing administration expenses.

The statistical models MCB uses have a wide range of inputs. In the Baltic countries this includes market-wide central database, national registers (including phone and social security) and tax authority data. All customers have a bank account (penetration rates are very high across the region), which provides both a means of confirming customer identity and an inherent credit check. Confirming identities is important to limiting identity-theft fraud losses. In addition to this third-party data, MCB has been developing its own dataset of its own clients' behaviour. The analysis tries to identify behavioural patterns as well as trends across the database. There is clearly no competitive advantage in the external data, although being one of the largest players in the market creates a better internal database than peers.

MCB's experience, ex-Latvia, has been for c 15% of accounts to move into over 30-day delinquency. When an account is 30 days in arrears, MCB uses external debt collectors and typically recovers 50-70% of the principal outstanding. The expected loss is thus c 6-7% of credit issued or 25-30% of revenue (consistent with International Personal Finance's target range of loss).

MCB actively manages risk. New customers are offered smaller loans over a shorter duration and every new customer in the Baltics receives a call to welcome them to the business and to verify their application. Once a repayment record is established, MCB will lend larger sums over longer periods. It will not lend to customers with negative credit histories – its customers may be non-standard but they are not bad credits. MCB does not refinance or re-age delinquent loans although, where appropriate, it re-negotiates payment plans with customers in arrears.

Management information means credit performances across the portfolio are monitored daily, allowing for any problem concentrations to be rapidly addressed. The automated model also trades a certain degree of risk against the cost, potential impact on revenue, and complexity of requiring too much input from customers.

Statistical modelling has its weaknesses. Modelling is reliant on historic data, which creates incremental risks and over-reliance on statistical techniques, and was a major factor in the losses seen at say HSBC Finance Corporation in the US. These are mitigated by MCB as follows: 1) Inaccurate data. MCB uses a wide range of customer, internal and external data (the sources are detailed above). 2) Inaccurate modelling, especially with changes of customer behaviour. MCB limits this risk with relatively short-duration loans, although in extreme situations it may choose to limit lending to establish new credit scores and this may affect revenue. In normal conditions, MCB is continually reviewing and upgrading its credit scoring system, without having a dramatic impact on income. 3) Over-confidence. We believe that, ahead of the credit crisis, many lenders in the US

relied excessively on what computer modelling told them. MCB seems to be taking a cautious approach to credit, but this remains an area to monitor.

We note that these risks are incrementally higher in a new country. We would expect any geographic expansion by MCB to be measured while it builds country specific experience and expertise. We also note that new country expansion has been under discussion for some time and the fact that it has not concluded is indicative of a cautious management approach.

Sensitivities

MCB is sensitive to the economic cycle with both credit cost and revenue (through the appetite to lend) affected. We believe that the business model is likely to prove more robust than investor sentiment towards the economies, and we note the company only lost money in Latvia. After the deep recession of 2008/09 most forecasters are now predicting average 2012 GDP growth of around 3% across MCB's countries, which creates favourable conditions for a return to lending and growth. Other sensitivities include:

- **Funding and liquidity:** MCB currently funds itself from a single bank provider.
- **Tax rates:** Specifically the tax deductibility of credit losses.
- **Regulatory issues:** MCB is not a bank but subject to consumer protection rules.
- **Competition:** The main competition is from specialist private lending companies.
- **Currency:** It is unlikely the currency pegs in the Baltics will be changed, but a new country could introduce this risk.

Funding and liquidity

MCB has historically been financed by a one-year facility from one bank (Rietumu Bank) rolled over annually. Rietumu is one of the Baltics' largest corporate banks and has liquidity and capital ratios around twice regulatory requirements. Rietumu is in a position to continue the facility, and it was recently extended to 31 March 2014 at an increased level of €17m with the interest rate reducing to 12.5% (from 13%) in April 2012. Rietumu has the right to exercise options (at 45p). We believe MCB will widen and diversify its funding sources over time (including potentially corporate bonds), and we believe investors will welcome such a move.

Tax rates and geographic split of profits

Forecasting MCB's earnings will always be complicated by where it generates its profits and the tax rates in that country, prior-year negotiations and taxable losses carried forward. We note:

- Profits in Finland, Lithuania and Estonia cannot be offset against the losses in Latvia.
- In Lithuania most bad debts are not immediately allowable for tax purposes, so the tax charge for that country was very high in 2009 when credit losses were high.
- In Latvia not all bad debts are allowable for tax purposes.

Overall we believe a blended group tax rate of c 25% is not unreasonable, but it will be volatile.

Currency risk

All the countries are either using euros, are pegged to the euro or float in a tight band: Finland (euro), Latvian lats (floats around 1% of LVL0.71/€, planned for euro in 2014), Lithuanian litas pegged at LTL3.45/€, planned for euro on 1 January 2014) and Estonian (euro from 2011). If any of these pegs/fixed floats were broken, or a new country entered, there could be a risk, although in several markets MCB has a clause requiring customers to repay in euros. In addition, MCB shares are quoted in sterling, and so some valuation comparisons and investors are rate sensitive.

Regulation

MCB is not a bank (no retail deposits), so it falls under consumer protection and disclosure regulations in each country, as well as data protection. While this incurs noticeable regulatory burdens, the compliance costs are less than for a bank.

Competition

MCB's direct competitors are small private companies, not big institutions. In some markets such as Latvia there was historically competitive pressure for longer average loans, which we believe was a factor in Latvia reporting a loss in 2009. Pressure to lend long term in Latvia has gone, but there is intense competition in all markets, which management believes is addressed by a good product range, service and brand.

Valuation

On our numbers, a DCF model indicates a value of 113p and our Gordon's growth model (GGM) indicates 133p. Every 1% growth or 1% on cost of equity is worth c 7p on the DCF and 9p on the GGM. We believe the near-term share price has been adversely affected by some investors attempting 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. Should management deliver higher earnings than we forecast (in 2011 we had to double our numbers), 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 6x 2012 EPS and 1.5x NAV, both below the levels peers trade at. We outline the rationale for this approach below:

Peer group comparisons

None of the direct competitors in the Fenno-Baltic region are directly quoted. IPF is the closest comparator (2012e consensus c 8x). The comparison is still weak, though, as IPF's operations are more in Central Europe and Mexico, it uses an agent-distribution model, has seen significant FX impact, and recently been a much slower growth story. 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 2011, 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's 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. The group currently has low gearing (net 1.1x) and so has considerable debt financing capacity. However, we believe organic growth and especially geographic expansion mean that some equity raising will be probable over the 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 Risicum, a competitor to MCB in Finland, for \$46m. Risicum had a different business model (much shorter duration loans) but is indicative of value. The trailing annual EBITDA for Risicum 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 Risicum multiples, this would imply an MCB valuation well in excess of £20m. DFC Global trades on a June 2012 multiple of 9x.

In the UK Provident Financial trades on 10.5x 2012 P/E, Cash Converters on c 5x and S&U on c 9x.

Discounted cash flow model – 113p

Our DCF model assumptions are company specific, forecast to 2013, 8% compound growth for 10 years and a 10x multiple applied for the terminal cash flow. Discounting these cash flows by 15% per year and adding in current cash, generates a value of €23.2m, which converting at €1.194/£, gives 113p per share. Just 31% of the value is in the terminal value.

Gordon's growth model – 133p

Assuming long-term RoE of 20% (conservatively below the level the 2012 forecast of 30% 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-2012 BV per share (84.4c) indicates 140c, which we then inflate by 10% to reflect the fact that near-term returns are above long-term, sustainable returns; this suggests a value of 159c (converting at €1.194/£ gives 133p).

Financials

The upgrades seen through 2011 had nearly doubled our forecasts over the period. With these results there has been a modest further uptick with growth in profits especially robust in Estonia and Latvia. We have included for the first time our 2013 forecasts where we have continued double-digit business across all regions albeit at slower rates than expected for 2012. Good profit growth continues to be seen despite rising credit costs associated with a maturing book. 700k shares were brought back in September 2011 partially offsetting an increased share-price driven dilution effect of share options. In 2011 this was, we believe, depressed below sustainable levels because of the depressed share price. We have not included any new countries nor product line expansions; new country expansion could be material and is a core part of group strategy.

Exhibit 7: Profit and loss (€'000s)

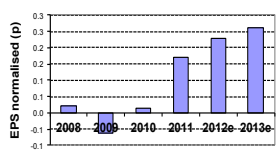
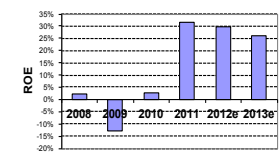
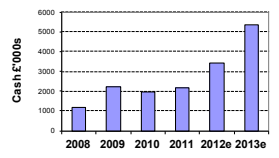
Year-end 31 December	2009	2010	2011	2012e
PROFIT & LOSS (000s)				
Gross revenue	15,668	11,783	18,182	25,750
Net interest payable on bank deposits/borrowings	(1,322)	(725)	(1,201)	(2,524)
Revenue	14,346	11,058	16,981	23,226
Credit losses (reported in direct operating costs)	(7,764)	(2,805)	(2,901)	(5,600)
Other Direct operating costs	(2,060)	(2,130)	(3,022)	(3,500)
Other Administration expenses	(5,156)	(5,546)	(7,388)	(9,075)
Cost of share options	15	(43)	(94)	(120)
Termination of contracts	0	0	0	0
Operating profit	(619)	534	3,575	4,931
Pre-tax profit	(619)	534	3,575	4,931
Adjusted pre-tax profit	(634)	577	3,669	5,051
Tax	(422)	(343)	(702)	(1,233)
Post tax profit	(1,041)	191	2,873	3,698

Source: MCB, Edison Investment Research

Exhibit 8: Balance sheet (€'000s)

BALANCE SHEET	2009	2010	2011	2012e	2013e
Fixed assets					
Goodwill	738	738	738	738	738
Intangible assets	21	73	135	200	250
Property Plant and Equipment	54	33	53	58	64
Deferred tax assets	0	82	161	0	0
Trade and other receivables	16	392	1,617	1,617	1,617
Total fixed assets	828	1,318	2,702	2,612	2,668
Current assets					
Debtors	12,965	11,876	21,144	33,500	40,250
Cash	2,214	1,950	2,170	3,392	4,000
Held for sale assets	0	0	0	0	0
Total current assets	15,179	13,826	23,315	36,892	44,250
Total assets	16,007	15,144	26,017	39,505	46,918
Current liabilities					
Trade and other payables	(733)	(973)	(1,108)	(1,219)	(1,341)
Current income tax liabilities	(367)	(210)	(115)	(400)	(400)
Deferred income	(980)	(1,060)	(507)	(558)	(614)
Short term borrowings	(6,460)	(5,200)	(13,700)	(23,146)	(26,143)
Total Current Liabilities	(8,541)	(7,444)	(15,431)	(25,322)	(28,498)
Long term borrowings	0	0	0	0	0
Total liabilities	(8,541)	(7,444)	(15,431)	(25,322)	(28,498)
Net assets	7,467	7,700	10,586	14,182	18,420

Source: MCB, Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	●
			GDP growth / unemployment	●
			Currency	○
			Stock overhang	○
			Interest rates	●
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details	
EPS CAGR 08-13e	83	Impairment as % rev	17	Net Gearing 2011	1.1x	Address:
EPS CAGR 11-13e	23	Cost as % revenue	62	Interest cover 2011	4x	Lootsa 8
EBITDA CAGR 08-13e	64	ROE 11	31	CA/CL 2011	1.5x	Tallinn 11415
EBITDA CAGR 11-13e	37	Gross margin 11	16	Stock turn 2011	n/m	Estonia
Rev CAGR 08-13e	23	EBITDA margin 11	27	Debtor days 2011	n/m	Phone +358 9 4259 7644
Rev CAGR 11-13e	27	Gr mgn / Op mgn 11	1.7	Creditor days 2011	24	www.mcbfinance.com

Principal shareholders (04.10.2011)	%	Management team
MC Global Limited	45.9	CEO: Rami Ryhänen
IIU Nominees Limited	11.1	Mr Ryhänen has been CEO since MCB's inception in 2005. Previously he was CEO of Jippii Mobile Entertainment Oy, CEO of Small Planet Limited and customer relationship director of Sonera Oyj. Mr Ryhänen has an MBA from the Institute for International Management Centers.
Orient Equity Partners (subsequently raised to 9.6%)	9.1	
Henry Nilert (FD)	5.9	
Europanel AB	4.4	
P Lorange	3.9	CFO: Henry Nilert
P Duleyrie	3.3	Mr Nilert joined the company as CFO in March 2006 before which he was a partner of Crystal Capital Partners LLP, a private equity advisory firm based in London. Previously he co-founded iobox, a wireless software company. Mr Nilert worked in investment banking in London, New York and Helsinki.
Forthcoming announcements/catalysts	Date *	Chairman: Dr Anton Mayr
AGM	Mid-May	Dr Mayr is the founder and managing director of Stratos Ventures Inc, a US venture development company and of its Finnish early stage venture capital fund. He was a founder of an early-stage research-focused biomedical company and was an investment manager at Citicorp Venture Capital. He holds doctorate in law from Salzburg, an LLM from McGeorge School of Law and an MBA from Columbia Business School.
Trading update	End June	
Interim results	Early September	
<i>Note: * = estimated</i>		
Companies named in this report		
International Personal Finance (IPF.LN), Provident Financial (PFG.LN), S&U (SUS.LN), Cash Converters (CCVU.LN)		

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