11th August 2017

Non-Standard Finance

H117 Delivering multiple growth options

NSF's H117 results give greater visibility on further franchise and profit growth. The branch network has opened 8 branches already this year (now 49). The home collect business recruited 229 experienced agents in H117 (and a further 124 in July, up 25% on end 2016). The guarantor business has been quadrupled by acquisition, offering broader products and distribution. The group has also locked in funding for six years thus reducing financing risk in uncertain times. We expect profits from the franchise growth to more than offset further investment and higher funding costs. Our 2018e earnings estimates have been increased by 3%.

- **H1 Results detail:** Loan book growth +17% overall (16% in branch and home collect, and 44% in guarantor loans). Revenue was up 16%. Impairments rose 13%. Costs rose by 20% (more investment). Operating profit grew 10%, which with lower funding costs, saw pre-tax profit up 26%. The DPS rose 67%.

- **Outlook post results:** Our 2018 estimates have seen modest upgrades (EPS +3%). Increased profits from including George Banco and the incremental agent hires in home collect have been nearly offset by higher interest costs as NSF has locked in the certainty of a much larger facility for six years.

- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in our initiation "Carpe Diem" and more recent note Branching Out Investment Accelerated. These indicate a range of 99-108p p/sh on absolute measures. The relative-measures upside is less as the sector appears cheap.

- **Risks:** Credit risk remains the biggest issue and part of NSF's model is to accept higher credit risk where a higher yield justifies it. NSF is innovative and may incur losses piloting new products, customers, distribution. Regulation is an issue noting management take appropriate action to mitigate this risk

- **Investment summary:** Substantial value should be created as: (i) competitors have withdrawn; (ii) NSF is well-capitalised with access to significant debt funding; (iii) positive macro-economic drivers, and (iv) NSF has an experienced management team delivering technological efficiency without compromising the key F2F model. Targets of 20% loan book growth and 20% EBIT ROA appear credible and investors are paying just 9x 2018 PE and getting a 5% yield.

Financial summary and valuation

Year end Dec (£000)	2016	2017E	2018E
Revenue	94,674	120,307	159,111
Impairments (exc FRS9)	(25,705)	(29,400)	(37,692)
Total costs (exc dep)	(49,600)	(61,574)	(73,847)
EBITDA	19,369	29,333	47,572
Pre-tax	13,056	18,364	27,892
Statutory pre-tax	(9,342)	(2,346)	8,484
Pro-for norm EPS (p)	3.37	4.67	7.13
Dividend (p)	94,674	2.25	3.25
P/ Adj Earnings (x)	19.3	14.0	9.2
P/BV (x)	0.8	0.9	0.9
P/tangible book	2.1	3.3	2.9
Yield	1.8%	3.4%	5.0%

Source: Hardman & Co Research

Financial Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	65.25
12m High (p)	99.25
12m Low (p)	56.0
Shares (m)	317
Mkt Cap (£m)	207
EV (£m)	289
Free Float*	99%
Market	Main

**As defined by AIM Rule 26*

Description

In the UK, non-standard lending market, NSF has the market leading network in unsecured branch-based lending, is number three in home credit, and has a scalable platform in the growing guaranteed loans market.

Company information

CEO	John van Kuffeler
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Exec Dir	Miles Cresswell-Turner

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Key shareholders

Invesco	26.69%
Woodford Investment	26.40%
Marathon Asset Mgt	10.18%
Aberforth Partners	5.06%
Quilter Cheviot AM	3.94%

Next event

Nov-17	Investor Day
Jan-18	Trading update
Mar-18	FY17 results

Analysts

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H117 Results Summary

Key numbers

Loans +17%, Revenue +16%, U/L PBT +26%

- Loan book growth of 17% (16% in branch business and home collect, 44% in guarantor loans) drove underlying revenue growth of 16%, impairments up 42%, costs up 22%, finance costs down 11% and pro forma normalised pre tax profit growth of 26%.

Acquisition of George Banco and guaranteeing finance for 6 years

- NSF also announced the £53.5m acquisition of George Banco the second largest guarantor loan provider with a book of c£30m and EBITDA of £4m. It also announced a funding restructuring creating enough headroom to fund expected growth through end 2018. The main £225m facility is a locked-in, six-year committed line and NSF will pay a higher interest cost to ensure this funding through an uncertain economic outlook.

- Statutory numbers continue to be distorted by acquisition accounting adjustments but show a 28% drop in the post-tax earnings loss.

Most KPI targets met except those impacted by heavy franchise investment

Figure 1: KPIs (Rolling 12 month to June 2017)

%	Everyday Loans (Branch based)	Loans at Home (Home Collect)	TrustTwo (Guarantor)
Loan Book growth	16.0	16.0	43.8
Normalised Revenue Yield	45.3	152.6	31.7
Risk adjusted Margin	35.7	95.4	27.4
Impairments / Revenue	19.6	37.5	15.3
Operating Profit Margin	37.9	4.5	11.7
Return on Assets	17.2	6.9	3.7

Source: NSF, Hardman & Co Research

Changes to estimates

Net small uplift to 2018e earnings

The key driver to estimate change is the inclusion of George Banco, offsetting higher interest costs. We also include some further investment. The full benefit of the enhanced franchise sees a small net uplift to our 2018 estimates.

Figure 2: Estimate changes

		2017e			2018e	
	Old	New	% change	Old *	New	% change
Profit and Loss (£'000s)						
Reported revenue	110,285	120,307	9%	135,612	159,111	17%
Total impairments (ex FRS9)	(26,254)	(29,400)	12%	(32,504)	(37,692)	16%
Total cost (exc dep)	(57,434)	(61,574)	7%	(65,986)	(73,847)	12%
EBITDA	26,596	29,333	10%	37,122	47,572	28%
Pre-tax	19,435	18,364	-6%	26,993	27,892	3%
Pro for norm EPS (p)	4.94	4.67	-6%	6.91	7.13	3%
Dividend (p)	2.3	2.25	0%	3.25	3.25	0%
Balance Sheet (£ms)						
Amounts Receivable	208.0	235.4	13%	259.3	306.6	18%
Borrowings	117.3	182.3	55%	162.8	247.3	52%
Shareholder's Equity	245.5	242.5	-1%	247.7	241.4	-3%

*Source: Hardman & Co Research * prior year re-stated to exclude FRS9*

Everyday Loans (EL)

Everyday Loans is NSF's largest business representing c76% of the group total loan book, 54% of revenue and 92% of pro forma normalised operating profit (up from 74%, 53% and 82% at FY16). NSF completed the acquisition of branch-based lender EL on 13 April 2016.

Key features from results

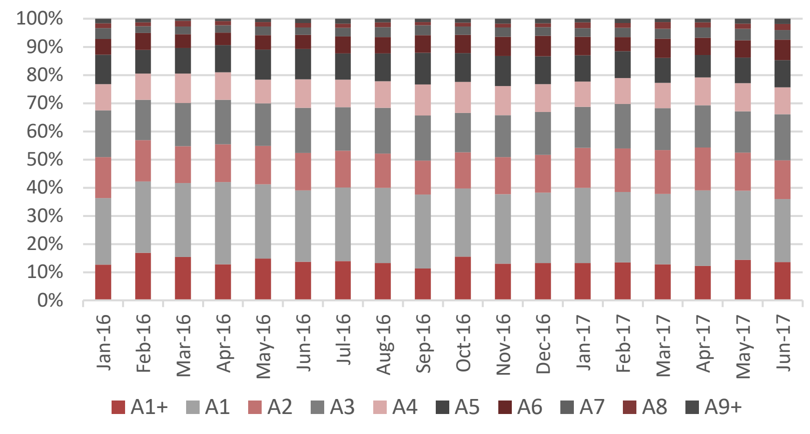
Branch expansion as promised (YE 53 v 41 end 2016). Risk on new opening mitigated by using existing, experienced staff

We identify three key issues with these results. Firstly, management has delivered the footprint growth that it promised. H117 saw 3 new branches with a further 4 opened in July and another in August taking the total to 49. The targeted increase of 12 in FY17 looks credible. Management highlighted how the risk of this expansion is carefully managed with the transfer of existing staff / management. Appropriate customers have also been migrated meaning that existing branches can be kept at an optimal size (c£4m loans, 1,500 customers).

Expansion of higher risk customers carefully controlled as promised

Second, management promised a carefully targeted growth in higher risk customers (with the higher yield more than offsetting higher impairments). A key consideration for us was that this expansion was not rushed with the pace of higher risk customer growth being managed within resources available for the control functions. As Figure 3 highlights, the growth to date in higher risk A8 and A9 customers has been very controlled.

Figure 3: Mix of loans

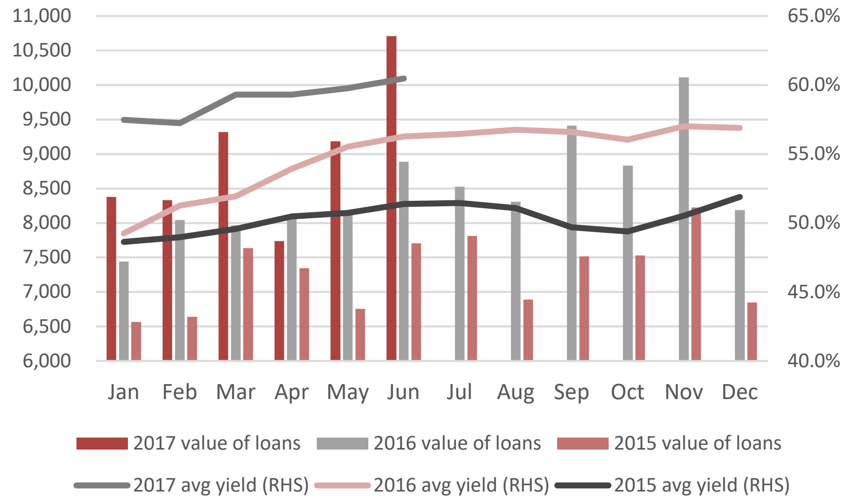


Source NSF, Hardman & Co Research

Volume growth and re-pricing delivered exactly as promised

Third we highlighted in our initiation "Carpe Diem" that the strategic policy of volume growth, re-pricing, and economies of scale, offsetting credit deterioration. As can be seen in Figure 4, volumes are markedly higher (average H117 £8.9m pm v average in H116 of £8.1m and H115 of £7.1m) and average pricing has also risen (average H117 59% v 53% in H116 and 50% in H115).

Figure 4: EL new loans issued and average yield by month 2015-17



Source NSF, Hardman & Co Research

Change in outlook with these results

Underlying business unchanged.

Increase on average funding cost

We have marginally increased revenue (+£0.9m), costs (+£1.1m) and impairments (+£0.1m) for 2018 with operating profit largely unchanged (£27.9m v £28.3m previously). The division is forecast to have higher funding costs which have reduced our forecast pre-tax profits.

Figure 5: Financial summary and ratios Everyday Loans

	Pro forma normalised		
Year end Dec (£000)	**2016**	**2017E**	**2018E**
Reported Revenue	50,088	61,818	76,437
Impairments	(10,034)	(11,745)	(15,670)
Revenue less Impairments	40,054	50,073	60,768
Administration expenses	(20,631)	(27,818)	(32,868)
Operating profit	19,423	22,255	27,900
Net Finance Costs	(4,720)	(6,500)	(10,080)
Profit before tax	14,703	15,755	17,820
Number of branches	41	53	60
Period end customer numbers (000s)	39,600	48,000	55,000
Period end Loan book (exc FV	122,400	149,328	186,660
Average loans	113,400	135,864	167,994
Ratios			
Revenue (pre FV) as % average loans	44.2%	45.5%	45.5%
Impairments as % pre FV revenue	-20.0%	-19.0%	-20.5%
Risk adjusted margin	35.3%	36.9%	36.2%
Pre-tax return (exc FV) on avg loans	13.0%	11.6%	10.6%
Cost as % pre FV revenue	-41.19%	-45.00%	-43.00%
Operating % pre FV revenue	38.78%	36.00%	36.50%
Net Finance costs as % pre FV revenue	-9.42%	-10.51%	-13.19%
Impairment as % average loans	-8.85%	-8.65%	-9.33%
Costs as % average loans	-18.19%	-20.48%	-19.57%
Net Finance cost as % average loans	-4.16%	-4.78%	-6.00%
Average loan per customer (£)	3,091	3,111	3,394
Pre FV revenue per customer (£)	1,264.8	1,287.9	1,389.8

Source: Hardman & Co Research

Loans at Home (LAH)

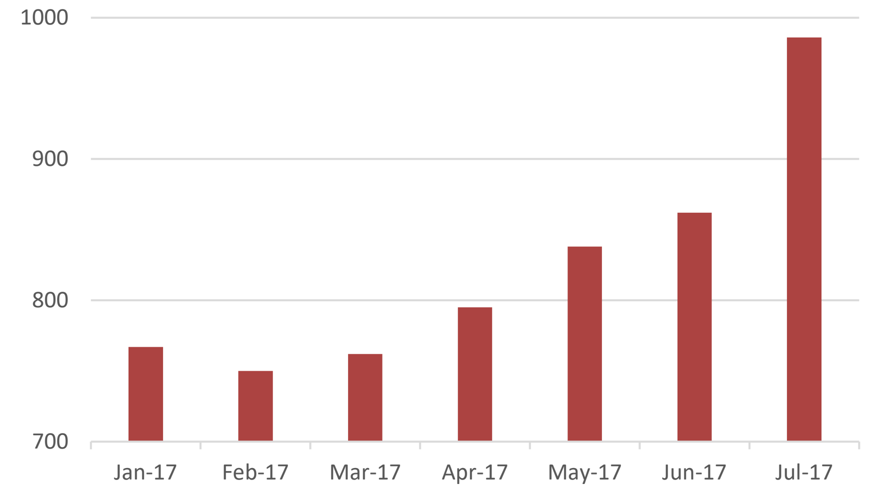
Based on H117 results LAH is NSF's second largest business with c18% of the Group's total loan book, 43% of revenue and 7% of pro-forma, normalised operating profit (FY16 20%, 45% and 15% respectively). LAH is the UK's third largest home collect credit business. NSF completed the acquisition of SD Taylor (that trades as LAH) on 4th August 2015 and it received its full FCA permissions on 16th May 2017.

Key features from results

One off opportunity to increase agent numbers by 25% in seven months – quality, experienced agents delivering ahead of plan but some disruption in H117

Having had underperformance in FY16, with impairment levels higher than expected due to a period of experimentation with three different agent hiring practices, H117 reflected some disruption for much more positive reasons. The self-imposed restructuring by Provident Financial (the market leader) saw a marked increase in the number of experienced agents trying to join LAH. Compared with 785 agents at end 2016, 229 joined in H117 and a further 124 in July. This has been partially offset by the departure of a number of agents as NSF has sought to shed poorly performing agents as well as the usual agent attrition. By the end of July 2017, the total number of agents had increased to 986, up 201 versus the year end, a 25% increase. Operationally, the interviewing, hiring, training and integration of these agents, has resulted in some disruption to the day-to-day operations and in particular resulted in a temporary deterioration in collections as resources were necessarily focussed on this one-off opportunity for franchise growth. The influx of new agents also meant that there has been an increase in temporary agent commissions. NSF report that the new agents are delivering profits ahead of plan with collections and impairment significantly ahead of the business as a whole. We believe most agents had a six-month restriction on approaching their old clients so the full impact is unlikely to be felt until FY18 although there should be a meaningful uplift in H217.

Figure 6: Agent numbers

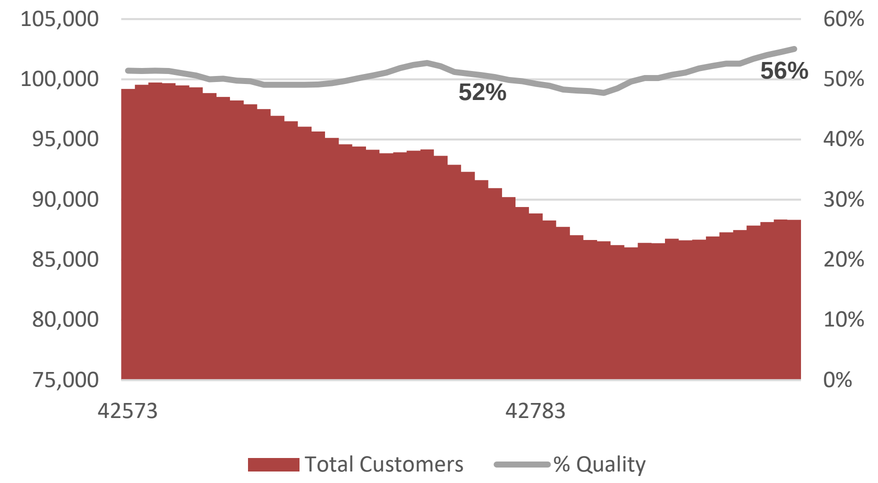


Source NSF, Hardman & Co Research

Delivered on promise to improve underlying customer quality

The second key feature from the results is that management has delivered on their promise to improve the asset quality. With two of the three agent recruitment programmes in H116 disappointing, there had been a growth unsatisfactory customer numbers. This has been addressed with tighter scorecards and the removal of underperforming agents. As can be seen in Figure 7 There has been a marked improvement in quality customers (defined as one whose payments in the previous 13 weeks have been at 70% of due payments of higher). There has been an initial reduction in customer numbers but we expect this to reverse sharply once the new agents become fully operational.

Figure 7: LAH customer numbers and customer quality



Source NSF, Hardman & Co Research

Change in outlook with these results

30% increase in 2018e profits despite higher funding costs

We have increased 2018e average loans from £35m to £42m to reflect the acceleration in agent numbers. This feeds through to higher revenue (+£10m), provisions (+£3m) and costs (+£4m). There has been a modest increase in funding costs - for historic reasons LAH was significantly equity funded but new lending will be debt funded. Our forecast PBT in 2018 is thus up £3m.

Figure 8: Financial summary and ratios Loans at Home

	Pro forma normalised		
Year end Dec (£000)	**2016E**	**2017E**	**2018E**
Reported Revenue	42,170	49,339	64,141
Impairments	(15,313)	(16,282)	(19,242)
Revenue less Impairments	26,857	33,057	44,898
Administration expenses	(25,000)	(26,875)	(31,175)
Operating profit	1,857	6,182	13,723
Net Finance Costs	(323)	(600)	(1,154)
Profit before tax	1,534	5,582	12,569
Number of branches	47	55	58
Number of agents	785	1,000	1,050
Period end customer numbers (000s)	93,600	105,000	120,000
Period end Loan book (exc FV	33,400	39,078	50,801
Average loans	27,600	32,292	41,980
Ratios			
Revenue (pre FV) as % average loans	153%	153%	153%
Impairments as % pre FV revenue	-36.3%	-33.0%	-30.0%
Risk adjusted margin	97.3%	102.4%	107.0%
Pre-tax return (exc FV) on avg loans	5.6%	17.3%	29.9%
Cost to % pre FV revenue	-59.3%	-54.5%	-48.6%
Operating % pre FV revenue	4.4%	12.5%	21.4%
Net Finance costs as % pre FV revenue	-0.8%	-1.2%	-1.8%
Impairment as % average loans	-55.48%	-50.42%	-45.84%
Costs as % average loans	-90.58%	-83.22%	-74.26%
Net Finance cost as % average loans	-1.17%	-1.86%	-2.75%
Average loan per customer (£)	357	372	423
Pre FV revenue per customer (£)	451	470	535

Source: Hardman & Co Research

TrustTwo

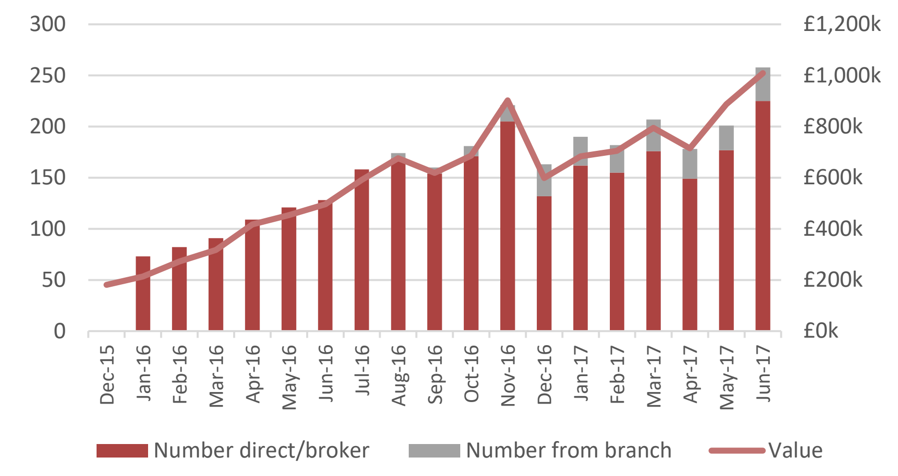
In H117 TrustTwo was the smallest of NSF's three business and representing c6% of the Group's H117 loan book, 3% of revenue and 1% of pro forma normalised operating profit (2016 5%, 3% and 3% respectively). It offers loans to non-standard customers who are able to get someone else, often a family member, with a good credit rating to guarantee their loan. With the guarantee, the interest rate the borrower has to pay is significantly lower than if they were to borrow on their own, making the loan much more affordable. TrustTwo was acquired as part of EL on 13 April 2016. This business will be transformed with the announced acquisition of George Banco on 3rd August 2017 (on a pro forma basis guaranteed loans will represent 20% of the loan book, 11% of revenue and 16% of EBIT).

Key Features from results

Delivered on promises to show strong loan growth (44%), rising cross referrals, stable credit and investing in the franchise

NSF has again delivered on what its promises. Firstly, loan growth has been strong (up 44%, consistently though the period). Second, there has been a solid delivery of cross referrals from the branch network. Third, credit quality remains good (impairments 15% of revenue down from 19% in H116). Fourth, there has been further investment (principally people and systems) with costs increasing 133% against revenue growth of 32%. We also note that operational improvements have seen the conversion rate of applicants whose guarantor has also passed the credit assessment in June 2017 more than doubling the rate seen in June 2016

Figure 9: TrustTwo numbers of loans and total amount lent per month



Source: NSF, Hardman & Co Research

Acquisition of George Banco (GB)

George Banco acquired for £53.5m – delivered £4.1m EBITDA in previous 12 months.

Credit quality in line with TrustTwo

With these results, NSF also announced the acquisition of GB for £53.5m. Management advised it expected the deal to be earnings enhancing in FY18 noting the business delivered an EBITDA of £4.1m in the year to May 2017 (on revenue of £9.3m and a loan book of £30m). Growth has been exceptionally strong (at current run rates c80% annualised). Management note that the 30 days arrears at George Banco has been exactly the same as TrustTwo and, combined with its due diligence investigation, they conclude that the credit risk profile is very similar.

Complementary products and distribution should allow cross selling in due course

This business is a good strategic fit with TrustTwo. While both provide guarantor loans GB distributes most of its loans through brokers (TrustTwo is more direct and through price comparison websites) and GB has focussed on more complex applications which require greater manual intervention. The latter may provide opportunities for further cross selling from EL branches of loans which would not currently be of interest to TrustTwo and also to the brokers of TrustTwo more automated guarantor loan product.

George Banco had previously been financed by RateSetter (a peer to peer platform). RateSetter announced on 1 June its proposed new funding structure would not continue and so George Banco needed a backer with a good funding capacity. (existing funding will roll off as the loans mature).

GB already delivering strong growth, opportunities to cross sell, economies of scale. Rapid profit growth expected.

On pro forma numbers. guarantor loans will rise to 20% of the loan book, 11% of revenue and 16% of EBIT after the acquisition. While the historic PE multiple paid is full, the deal should be earnings enhancing in the first year with debt funding more than offset by earnings. Forward looking multiples are expected to drop sharply and this opportunity provides a step change in capacity in a rapidly growing market that we believe is likely to viewed very favourably by regulators. It provides opportunities for future cost synergies, economies of scale and revenue enhancement by cross selling between the different channels and product specialisms. We anticipate rapid profit growth from a business with lower credit risk than the NSF book as a whole.

Change in outlook with these results

2018 GB contribution offset by higher funding. Expect more benefits in 2019.

The inclusion of George Banco operating results materially increases revenue, costs and impairments. The gain in EBIT is largely offset by higher funding costs (we have allocated the interest cost of the acquisition to this division). There is a small net uplift in 2018E estimates. We will provide 2019 estimates with the results in March and currently expect a big increase in profits on 2018.

Figure 10: Financial summary and ratios Trusttwo

	Pro forma normalised		
Year end Dec (£000)	**2016**	**2017E**	**2018E**
Reported Revenue	2,416	9,150	18,533
Impairments	(358)	(1,373)	(2,780)
Revenue less Impairments	2,058	7,778	15,753
Administration expenses	(1,402)	(3,700)	(7,000)
Operating profit	656	4,078	8,753
Net Finance Costs	(316)	(3,050)	(7,000)
Profit before tax	340	1,028	1,753
Period end customer numbers (000s)	3,300	15,000	21,000
Period end Loan book (exc FV	8,800	43,200	69,120
Average loans	7,700	30,000	56,160
Ratios			
Revenue (pre FV) as % average loans	31.9%	30.5%	33.0%
Impairments as % pre FV revenue	-14.8%	-15.0%	-15.0%
Risk adjusted margin	26.7%	25.9%	28.1%
Pre-tax return (exc FV) avg loans	4.4%	3.4%	3.1%
Cost to % pre FV revenue	-58.0%	-40.4%	-37.8%
Operating % pre FV revenue	27.2%	44.6%	47.2%
Net Finance costs as % pre FV revenue	-13.1%	-33.3%	-37.8%
Impairment as % average loans	-4.6%	-4.6%	-5.0%
Costs as % average loans	-18.2%	-12.3%	-12.5%
Net Finance cost as % average loans	-4.1%	-10.2%	-12.5%
Average loan per customer (£)	2,667	2,880	3,291
Pre FV revenue per customer (£)	732	610	883

Source: Hardman & Co Research

Other issues

Re-structuring of debt

Previously NSF had a committed facility of £115m (with an option still at the bank's discretion) to increase this to £140m. Of the committed line, £10m would have expired in June 2019 and the balance in March 2020. We estimate that the all-in costs were approximately 6%%.

Management faced increased funding requirement combined with an uncertain outlook

In considering new facilities we believe management will have focussed on (i) with the acquisition of George Banco for £53.5m and enhanced growth across all divisions, there was a material increase in the amount of funding required. (ii) In uncertain times bank finance cannot be relied upon (EL had direct experience of difficulties in getting finance following the financial crisis), (iii) until very recently the Retail Bond market had shown little signs of life.

Doubled facility and locked in funding for 6 years. Critically important as should see through uncertain macro-economic outlook.

Accordingly, NSF announced a new facility for £225m (£175m being immediately drawn) being fully committed by a range of institutional investors. The rate is 7.25% over LIBOR which with all fees included, which rises to an all-in cost of c9% so somewhat more expensive than existing funding. However, the facility is fixed for six years which should guarantee funding through what may be uncertain economic times ahead. There is an additional £35m revolving facility from RBS. Having a revolving facility helps match seasonal peaks without incurring unnecessary interest. These facilities on our numbers should ensure growth through to end 2018 is fully funded.

Regulation

We summarise NSF's regulatory comments as being there is a lot going on but NSF's current practices mean the economic impact should be modest.

High Cost Credit Review focusses on re-financing which NSF does not actively pursue

- The FCA High Cost Credit Review the HCC focus appears to be customers who incur permanent debt by re-financing existing loans. LAH has been reducing the volume of such re-financing (down 13% in H117 on pre-acquisition levels). The payday loan cap was not extended to HCC removing this potential uncertainty.
- FCA creditworthiness consultation (responses due October 2017) – NSF across all its divisions believes its practices meet all likely requirements.
- Staff incentives. NSF notes that commissions only structures (per LAH) are likely to be accepted so long as the provider can prove appropriate controls are in place. NSF believes it will meet any standard likely to be required.
- It is unclear if the LAH's self-employed agent model would see any changes following Matthew Taylor's review of the gig economy. Even if the self-employed agent status is changed, NSF's modelling of the costs (holiday and sickness pay etc) is that it would not be material to group earnings.

Financials

Figure 11: Profit and Loss (£000s)

Year ended 31 December	Statutory				Pro Forma normalised		
	2015	**2016**	**2017e**	**2018e**	**2016**	**2017e**	**2018e**
Business Interest Income	14,657	81,099	120,307	159,111	94,674	120,307	159,111
Fair value unwind on acquired portfolios	(5,456)	(8,342)	(12,000)	(3,833)	-	-	-
Total revenue	**9,201**	**72,757**	**108,307**	**155,278**	**94,674**	**120,307**	**159,111**
Underlying business impairments	(1,885)	(20,712)	(25,900)	(34,193)	(22,705)	(25,900)	(34,192)
Unwind of provision discount	(1,973)	(2,489)	(3,500)	(3,499)	(3,000) E	(3,500)	(3,500)
Total Impairments	**(3,858)**	**(23,201)**	**(29,400)**	**(37,692)**	**(25,705)**	**(29,400)**	**(37,692)**
FRS9 adjustment				(5,971)	-		
Gross profit	**5,343**	**49,556**	**78,907**	**111,615**	**68,969**	**90,907**	**121,419**
Administration expenses	(11,340)	(44,074)	(60,693)	(74,293)	(50,290)	(62,393)	(75,293)
O/w Depreciation	*(198)*	*(690)*	*(819)*	*(1,446)*	*(690)*	*(819)*	*(1,446)*
Amortisation of intangibles	(4,030)	(10,714)	(8,710)	(9,603)	-	-	-
Operating profit	**(10,027)**	**(5,232)**	**9,504**	**27,718**	**18,679**	**28,514**	**46,126**
EBITDA	*(5,799)*	*6,172*	*19,033*	*38,768*	*19,369*	*29,333*	*47,572*
Exceptional Items	(6,135)	(626)	(1,700)	(1,000)			
Net finance (cost)/income	70	(3,484)	(10,150)	(18,234)	(5,623)	(10,150)	(18,234)
Profit before tax	**(16,092)**	**(9,342)**	**(2,346)**	**8,484**	**13,056**	**18,364**	**27,892**
Income tax	3,022	1,344	454	(1,612)	(2,688)	(3,550)	(5,299)
Profit after tax	**(13,070)**	**(7,998)**	**(1,893)**	**6,872**	**10,368**	**14,814**	**22,592**
Avg no shares for EPS calculation	61.50	307.32	317.05	317.05	305.93	317.05	317.05
Statutory EPS (p)	(21.25)	(2.60)	(0.60)	2.17	n/a	n/a	n/a
Adjusted EPS (p)*		3.37	4.67	7.13	3.37	4.67	7.13
Total dividend (p)	-	1.20	2.25	3.25	1.20	2.25	3.25

Source: NSF Hardman & Co Research

Figure 12: Balance Sheet (£000s)

Year ended 31 December	2015	2016e	2017e	2018e
Non-current				
Goodwill	40,176	132,070	152,070	152,070
Intangible assets	14,119	17,412	28,701	19,098
Property Plant and equipment	1,718	5,459	9,640	12,694
Total Non-current assets	**56,013**	**154,941**	**190,411**	**183,862**
Current assets				
Inventories	3	-		
Amounts Receivable from customer	**28,412**	**180,413**	**235,439**	**306,581**
O/w FV adjustment	*426*	*15,833*	3,833	-
Trade and other receivables	10,275	10,753	11,828	13,011
Cash and cash equivalent	7,320	5,215	7,322	4,385
Total current assets	46,010	196,381	254,589	323,977
Total assets	**102,023**	**351,322**	445,000	507,839
Current liabilities				
Trade and other payables	9,490	8,146	9,146	10,146
Deferred tax liability	14,275	-	-	-
Total current liabilities	23,765	8,146	9,146	10,146
Net Current (liabilities) / assets	*29,150*	*188,235*	245,443	313,831
Non-current liabilities				
Financial Liabilities - borrowings	-	87,300	182,300	247,300
Deferred tax	-	6,793	10,802	8,696
Total non-current liabilities	**-**	**94,093**	193,102	255,996
Total liabilities	16,860	102,239	202,248	266,142
Net assets*	**85,163**	**249,083**	**242,752**	**241,698**

*Source: NSF, Hardman & Co Research * inc £255k of NCI*

Figure 13: Cashflow statement (£000s)

Year ended 31 December	2015	2016e	2017e	2018e
Profit (loss) before tax	(16,162)	(5,858)	7,804	26,718
Taxation paid	(350)	(1,341)	(1,341)	(1,341)
Depreciation,	198	690	819	1,446
Amortisation of intangibles	4,030	10,714	8,710	9,603
FV unwind on acquired loan book	5,456	8,342	12,000	3,833
Loss on disposal of fixed assets	51	(363)	-	-
Decrease in inventories	6	3	-	-
Increase in amounts receivable from customers (net of FV)	(5,394)	(21,039)	(34,026)	(74,975)
Increase in receivables	(16,445)	(7,737)	(1,075)	(1,183)
Increase in payables	19,078	(6,952)	1,000	1,000
Net cash outflow from operating activities	**(9,532)**	**(23,541)**	**(6,109)**	**(34,899)**
Cashflows from investing activities				
Purchase of prop, plant and equipmt	(341)	(4,327)	(5,000)	(4,500)
Purchase of subsidiaries	(81,111)	(230,784)	(64,500)	-
Net cash outflow - investing activities	**(81,452)**	**(235,111)**	**(69,500)**	**(4,500)**
Cashflows from financing activities				
Net finance Income	70	(3,484)	(10,150)	(18,234)
Proceeds from issue of share capital	98,234	172,869	-	-
Proceeds from borrowing	-	87,300	195,000	65,000
Repayment of borrowing	-	-	(100,000)	-
Interest Paid	-	813	-	-
Dividends	-	(951)	(7,134)	(10,304)
Net cash inflow - financing activities	**98,304**	**256,547**	**77,716**	**36,462**
Net change in cash / cash equivalents	7,320	(2,105)	2,107	(2,937)
Opening cash and cash equivalents	-	7,320	5,215	7,322
Closing cash and cash equivalents	7,320	5,215	7,322	4,385

Source: NSF, Hardman & Co Research

Valuation

Summary

Average valuation upside on absolute measures 59%

Our absolute valuation techniques imply an average upside of 59%. The peer valuations are 9% upside but we believe the whole sector is under-valued.

Figure 14: Summary of different valuation techniques

	Implied Price (p)	Upside (%)
Gordon's Growth	99.1	52%
DDM	108.6	66%
Average absolute measures	103.8	59%
Peer 2018 PE	70.8	9%
Peer P/BV	70.6	8%
Peer 2018 Div Yield	71.0	9%

Source: Hardman & Co Research Peer comparisons are against, PFG, MCL, S&U, H&T, STB Priced at 114/8/17

We detailed our assumptions in our initiation note Carpe Diem **The key changes are:**

- **Gordon's Growth model:** Our model is based off tangible equity and, ceteris paribus, the intangible assets associated with the GB acquisition would see the valuation fall. We have offset this by increased our assumed long run Return on Tangible Equity to 30% (from 25%). This figure is still below our 2018e estimate and given the lower equity base does not appear unreasonable.

- **Dividend Discount Model**: While our directly forecast dividends for 2017-2018 are unchanged, we have modestly increased the assumed dividend for 2019e to reflect the franchise growth seen in H117. This sees a small uplift in this valuation

- **Peer valuations:** There continues to be relatively modest upside when comparing NSF with peers. It should be remembered though that their valuations reflect inter alia concerns about business being lost of NSF (Provident Financial) and financing the car market (S&U) neither of which would appear relevant to NSF.

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