25 August 2023

H&T

Delivering the pawnbroking growth opportunity

In our 15 March initiation, *Pawnbroking royalty, with strong, profitable growth,* we highlighted that H&T's core is pawnbroking and related retail services operations. The *8 August* interim results confirmed that H&T is delivering on the opportunities, with i) gross pledge book lending up 22%, to £128m, and the end-period pledge book up 14%, to £115m (December 2022: £101m) – with this growth achieved across the customer spectrum, ii) retail sales up 11%, iii) scrap volumes particularly strong, with profits ahead of expectations, and iv) foreign exchange (forex) volumes rising 19% YoY, and at record levels. We have raised our revenue forecasts, although they are offset by higher cost of sales, expenses and finance costs.

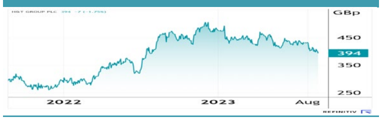
- **Core pawnbroking:** A key message for us was that growth was achieved across the whole spectrum of customers, which is encouraging for its sustainability. Demand for pledge lending continued to gather momentum during 1H'23, at a time of reduced market supply. We believe H&T's strong balance sheet, continued investment in its stores and economies of scale mean it is well-placed to seize opportunities.
- **Costs:** Payroll costs increased by 21%, of which 11% was due to planned increased staff numbers (1,637 vs, 1,423, including the Swiss Time Services acquisition). The other 10% included an accelerated pay award and inflation increases. There were unexpectedly large increases in non-payroll costs, such as insurance, which nearly doubled. Costs are significantly in the run rate.
- **Valuation:** We use a range of valuation approaches, including a Gordon Growth Model (GGM), a Discounted Dividend Model (DDM) and a Discounted Cashflow Model (DCF). On the assumptions we detail below, the average indicative valuation is 607p. As H&T is a growing business, there is upside potential moving forward the base year.
- **Risks:** H&T's customers are cash-constrained. Its money laundering, stolen goods risk and other regulatory controls are appropriate to pawnbroking. We believe sentiment to the industry is a specific risk, which needs careful communication to overcome. Inflation risk to the cost base is also a specific short-term consideration.
- **Investment summary:** H&T is focused on delivering the opportunity in its core pawnbroking and related retail businesses. Having gained pawnbroking market share, and with the collapse of most other competitors, its strong balance sheet means it is structurally well-positioned to finance demand for small-sum, short-term credit. This generates a strategic, long-term competitive advantage from which to grow earnings. For 2023, there is growing customer demand from the cost-of-living crisis, with few alternative, regulated competitors.

Financial summary and valuation

Year-end Dec (£000)	2020	2021	2022	2023E	2024E	2025E
Revenue	129,115	121,995	173,941	218,470	228,791	244,389
Gross profit	82,799	76,355	101,916	124,792	139,329	149,922
Total expenses	(65,915)	(65,155)	(69,607)	(80,933)	(86,780)	(91,902)
Pre-tax profit	15,632	7,862	19,005	30,320	37,971	43,613
Fully diluted EPS (p)	32.11	15.43	37.15	52.73	64.74	74.36
DPS (p)	8.5	12.0	15.0	18.8	22.0	25.0
Receivables	55,751	72,449	104,046	125,000	135,000	145,000
Inventories	27,564	28,421	35,469	36,229	38,764	40,703
Cash	34,453	17,638	12,229	16,987	26,839	36,524
Shareholders' funds	134,549	136,618	164,119	180,041	199,817	222,505
PE ratio (x)	12.3	25.7	10.7	7.5	6.1	5.3
Dividend yield	2.1%	3.0%	3.8%	4.7%	5.6%	6.3%

Source: H&T, Hardman & Co Research

Finance and credit services



Source: Refinitiv

Market data

EPIC/TKR	**HAT**
Price (p)	**396.0**
12m high (p)	510.0
12m low (p)	383.0
Shares (m)	43.99
Mkt cap (£m)	174.2
EV 2022 (£m)	157.0
Free float*	86.3%
Country of listing	UK
Currency of listing	GBP
Market	AIM

**As defined by AIM Rule 26*

Description

H&T's products include pawnbroking, jewellery retail, cheque cashing, Western Union money transfer and Foreign Exchange, offered through 273 stores and online. 65% of 1H'23 gross profits were generated from pawnbroking, and 13% from retail.

Company information

CEO	Chris Gillespie
CFO	Diane Giddy
Chair	Simon Walker
NEDs	Robert van Breda, Lawrence Guthrie, Catherine Nunn, James Thornton (SID), Sally Veitch, Toni Wood

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Key shareholders (15 Aug'23)

Octopus Investments	12.57%
Fidelity	9.93%
Close Bros	8.84%
Artemis	4.72%
Canaccord Gen WM	4.68%
Stichting Value	4.61%
Premier Miton	3.28%
HL / II Execution only	8.78%

Diary

Jan'24	Trading update

Analyst

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Summary

The key highlights of the interim results are:

- Profit before tax increased by 31%, to £8.8m (1H'22: £6.7m). EPS increased by 24%, reflecting the equity raise at the back end of 2022.
- The pledge book grew 14%, to £114.6m (December 2022: £100.7m, June 2022: £85.1m), with demand for pledge lending remaining at record levels. Gross pledge book lending grew 22%, to £128m (1H'22: £105m).
- Retail sales increased 11%, to £23.0m (1H'22: £20.8m), with online originated sales at record levels and representing 23% (1H'22: 14%) of total sales value. Retail margins reduced, as expected, to 28% (2H'22: 37%, 1H'22: 42%), as the group chose to prioritise stock turnover, particularly of some high-value watch brands. Margin compression was substantially offset by increased scrap profits. Price increases have been implemented, and the company expects margins to rise in the second half.
- Foreign currency transaction volumes increased 19%, with net income up 12%, to £2.9m (1H'22: £2.6m). Momentum is building into the peak summer months, supported by the launch of the *Click and Collect* service in June and a broadened currency range (non €/US$ transactions up double the overall rate).
- Net asset value was £166.8m (December 2022: £164.1m).
- Net debt was £17.1m (December 2022: £2.8m). Funding facilities and the recent equity raise have been deployed primarily to fund the growing pledge book, increased inventory and investment in the store portfolio.
- Post-period, funding facilities increased to £50m in July (previously £35m), on attractive terms and with no change to existing covenants.
- The interim dividend increased by 30%, to 6.5p per share (2022 interim dividend: 5p per share), reflecting the board's growing confidence in the future prospects for the group.

The inclusion of many ongoing costs in the 1H'23 run rate means that the rate of the cost increase should moderate (see section below). There is expected to be a material widening of revenues/costs in 2H'23, owing to i) the usual 1H/2H bias (peak revenue for forex and retail, both in 2H), ii) structural growth opportunities in pawnbroking (more demand, less competition), retail (demand for pre-owned, low-cost product) and forex (from low market share), and iii) the benefit from the growing store footprint and refurbished sites.

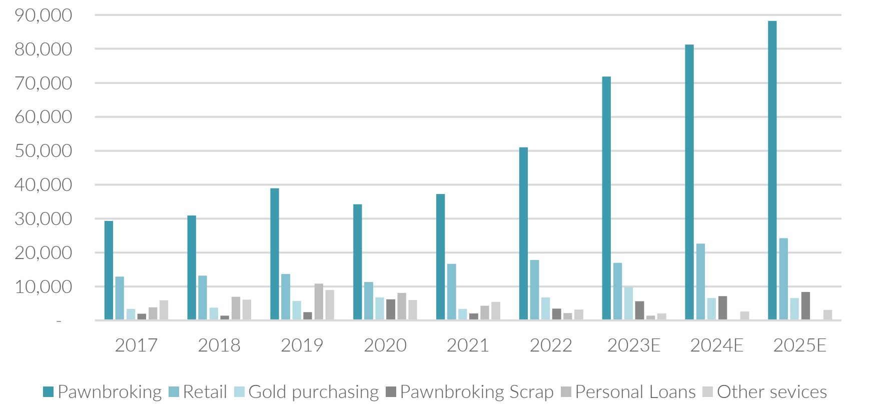
In our view, the strong 1H'23 numbers provide comfort that the growth built into our forecasts is achievable. Our 2024E EPS is 4x the level of 2021.

Core pawnbroking business

Pawnbroking (including scrap) is expected to account for three quarters of group profits

As the chart below highlights, pawnbroking has been, and is expected to remain, the key division for H&T, accounting for three quarters of group gross profits (including the pawnbroking scrap operations). On our forecasts, retail accounts for a further fifth.

Divisional gross profits (£000)



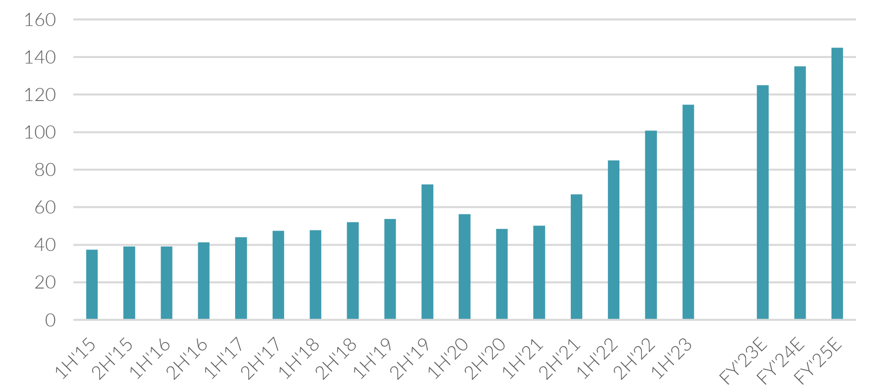
Source: H&T, Hardman & Co Research

Record pledge book growth

H&T seeing record monthly new lending

The 1H'23 pledge book was up 14% on end-2022, which is nearly as high as our previous 17% annual forecast, driven by gross pledge book lending up 22%, to £128m. We discuss the structural reasons for the growth in the section below. We note that demand for lending has been growing consistently through the period, across all customer segments and all geographies. This is especially important in considering the sustainability of the growth, as it is indicative of there being no bubble at risk of bursting. Net revenue rose 42%, to £32.4m (1H'22: £22.9m), with an annualised risk-adjusted margin of 60% (1H'22: 61%). The redemption rate (stable at 85%) remains above historical normal levels.

H&T's net pledge book – includes accrued income and impairment (£m)



Source: H&T, Hardman & Co Research

What is driving the growth?

Less active competition…

In looking at the competition, it is critical to understand the amount and term of a loan. On average, in 1H'23, the mean pledge lending value was just £423 (median £200), and the average duration of the borrowing was 97 days (long-run average 108 days, against contractual term of six months). In our initiation, we detailed why most regulated providers, who, in the past, provided similar facilities, have significantly withdrawn and why those issues do not apply to H&T. In summary:

HCCs, in our view, killed by CMCs

- Claims Management Companies (CMCs) have been active against home collect companies (HCCs), many of which have now ceased trading/restricted new lending, while resolving historical claims issues. It is uneconomic for CMCs to pursue pawnbroking advances, given their size, non-rollover characteristics and the fact that the loan is against an asset without recourse to the customer.

Credit unions moved to larger lending – smallest loans well-above H&T's average

- Credit unions have moved to larger loans, and are using customers' credit scores, which may or may not be appropriate for the borrower. Typically, they want borrowers to have saved for a period before they can borrow, and they are not competing directly with H&T's target customers.

Branch-based lenders closed after GFC, and, again, looking to lend larger amounts

- Most branch-based lenders closed after the Global Financial Crisis (GFC), leaving Everyday Loans as, effectively, the "last man standing". Its minimum loan, at £1,000, is well-above H&T's average, and it is a term facility offering the customer much less flexibility. Its distribution network is modest, at just over a third of the size of H&T's.

…and strong current customer demand

Lower-income deciles face specific pressure, because higher proportion of their income spent on energy and food costs

In understanding near-term growth, it is important also to understand that customers often use pawnbroking for their immediate day-to-day living needs. H&T's customer base is being particularly hard-hit by inflationary pressure. In the UK, an average 10.8% of household spend went on food in 2019/20, while, for the lowest 20% of households by equivalised income, it was higher, at 14.7%.[1] With basic necessities now costing more, we believe that increasingly more customers will turn to pawnbrokers for small-sum, short-term finance. The level of demand is already evident in the 1H'23 results, and will, we believe, rise further into 2023-24.

Low-risk model

Pawnbroking is a low-risk form of financing

Risk reduced by i) low LTVs, ii) control over assets, iii) marketable assets, iv) short-term exposure, v) proven affordability

Despite the loan growth, and associated upfront IFRS charges, the risk-adjusted margin remains stable (1H'23: 60%, 1H'22: 61%). Compared with other forms of financing, pawnbroking risk is lower, for the following reasons:

- It has relatively low loan to value (LTVs – 65% in H&T's case). The valuation price is conservative, being based on a rate per gramme (for gold), and these prices are constantly reviewed, along with output prices from scrappage and retail. H&T's quoted LTV does not reflect the retail value of the item, which is likely to be considerably higher.

- The assets are directly under H&T's control at all times. H&T does not suffer the risk of the asset being allowed to deteriorate from poor maintenance or theft.

[1] https://www.gov.uk/government/statistics/family-food-201920/family-food-201920

- The assets are readily marketable, with jewellery, for example, having a gold-backed inherent value, based off its scrap value.
- Advances are short-term debt, meaning that risk is limited.
- The customers own the asset being pledged and against which H&T is lending.

H&T's incremental risk reduction

99% of H&T's pawnbroking loans are secured against jewellery, gold and watches, with the remaining 1%, by exception, against, say, a car or luxury handbag. There is no lending at all against electronic assets, as H&T is focused on items that have inherent underlying intrinsic value, in which it has expertise and a long experience. It has prudent valuations, as the assets are not generally depreciating in value. The strength of the teams is in their ability to appropriately identify and value items such as jewellery and watches, not iPads or computers.

Robust processes

In our view, any lending business requires very close control – so processes and management information are hugely important, as we highlight below.

- Before a lending decision is made, i) the in-store team tests the item to identify the intrinsic value, and ii) if an item is more unusual, say a bespoke item of jewellery or a watch, the valuation of the item is referred to the valuations team. This team can assess/value the item through specific photographs taken, or by physically inspecting the item to provide a valuation.
- After the decision has been made, H&T has comprehensive, store-level, daily management information. Its anti-money laundering (AML) transaction monitoring should identify trends or triggers if transactions are not in line with group policies and procedures. Those situations are investigated immediately, and the root cause analysed and addressed promptly.
- Fraud, including staff collusion, is another aspect that can lead to material credit losses, although we understand that this is not the case for H&T. It comments that its internal audit team visits all the stores to conduct a set of agreed-upon procedures. The outcome of the store audit will affect the required period until the next store audit; and, again, the automated AML monitoring procedures are designed to identify and provide alerts to any in-store suspicious activity.

Jewellery and watch retail

H&T offers range of pre-owned, new jewellery and watches for sale

H&T is the sixth-largest jewellery and watch retailer in the UK, and offers a range of pre-owned and new items (82% and 18% of 1H'23 sales, respectively). Some of the key developments in H&T's retail offering in 1H'23 were:

- As expected, there was good retail sales growth (11%, to £23m), although profits were down to £6.3m (1H'22: £8.7m).

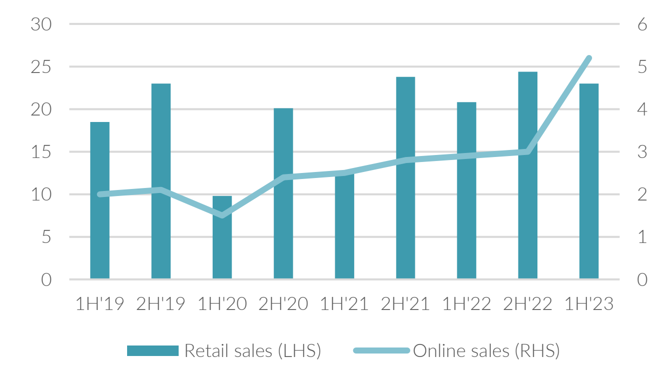
Margins down on mix and inventory management, but expected to revert to historical levels

- Margins are sensitive to the mix, and fell in 1H'23, to 28% (1H'23: 42%, 2H'22: 37%), with an increase in pre-owned, high-end watches (which are lower-margin), together with dynamic pricing and inventory management to reduce an unexpectedly large holding of certain high-value watch brands. This appears to be a market phenomenon (as per Watches of Switzerland comment, *Group expects a modest sales decline in Q1 FY24 before normalising in Q2*).This inventory reduction exercise is now complete, and, along with price rises across the majority of H&T's retail stocks, margins are expected to improve in 2H'23. The full year is still expected to be below historical levels, given the 1H impact, but we assume that 2024 and 2025 will return to historical averages. The right-hand chart below shows that some six-month volatility in the retail margin has been experienced in the past.

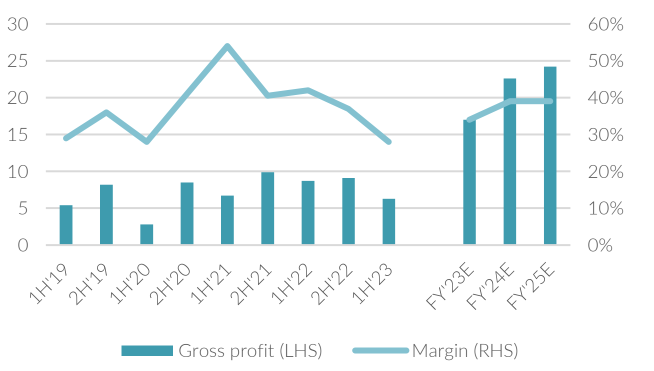
Growth in online sales, but over half still viewed in-store

- Online sales account for 23% of the total (1H'22: 14%), and were up 79% on 1H'22. Over half of these sales were viewed in-store by the customers, prior to them completing their purchase, showing the value of H&T, having both *click and brick* distribution. Branding has now been aligned with the old, decommissioned retail brand, Est1897.

Total retail and online sales (£m)



Retail gross profit (£m) and margin (%)



Source: H&T, Hardman & Co Research

Structural growth opportunity from favourable ESG characteristics of selling pre-owned items…

…as well as low ticket prices when customers cash-constrained

We detail the many synergies and competitive advantages of having the jewellery retail arm sitting alongside the pawnbroking arm in the *Investment attractions* section in our initiation. Looking to the future, H&T's pre-owned bias is increasingly attractive to customers who have ESG considerations. Additionally, it typically has a lower price point compared with mainstream jewellers, which should, again, be attractive in a market where customers are cash-constrained.

Other businesses

Purchasing

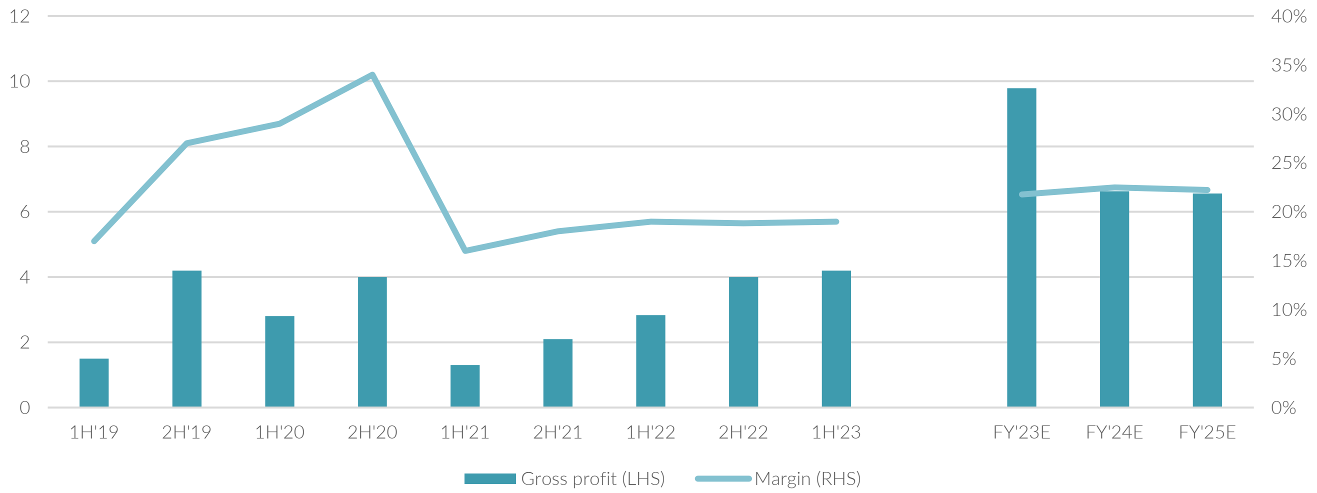
Customers can access funds by choosing to sell items, mainly pre-owned jewellery and watches, to H&T…

…rather than to use the items as pledge for pawnbroking loan

Customers can access funds by choosing to sell items, mainly pre-owned jewellery and watches, to H&T, rather than to use the items as a pledge for a pawnbroking loan. The average gold price per troy ounce during the period was high, at £1,566 (1H'22: £1,445), and, coupled with the impact of inflation on customers' disposable income, H&T saw a 44% increase in purchase values YoY. Purchasing scrap contributed net revenue of £4.2m (1H'22: £2.8m) on sales of £21.8m (1H'22: £15.1m). Some of the volume is yet to be processed, and was held in inventory at cost. The gross margin was consistent YoY, at 19%.

For our forecasts, we have not taken a view on the gold price directly; rather, we have taken the average revenue for the previous five years and the average margin over the same period, and used that for our forecasting purposes.

Purchasing profits (LHS, £m) and margin (RHS, %)



Source: H&T, Hardman & Co Research

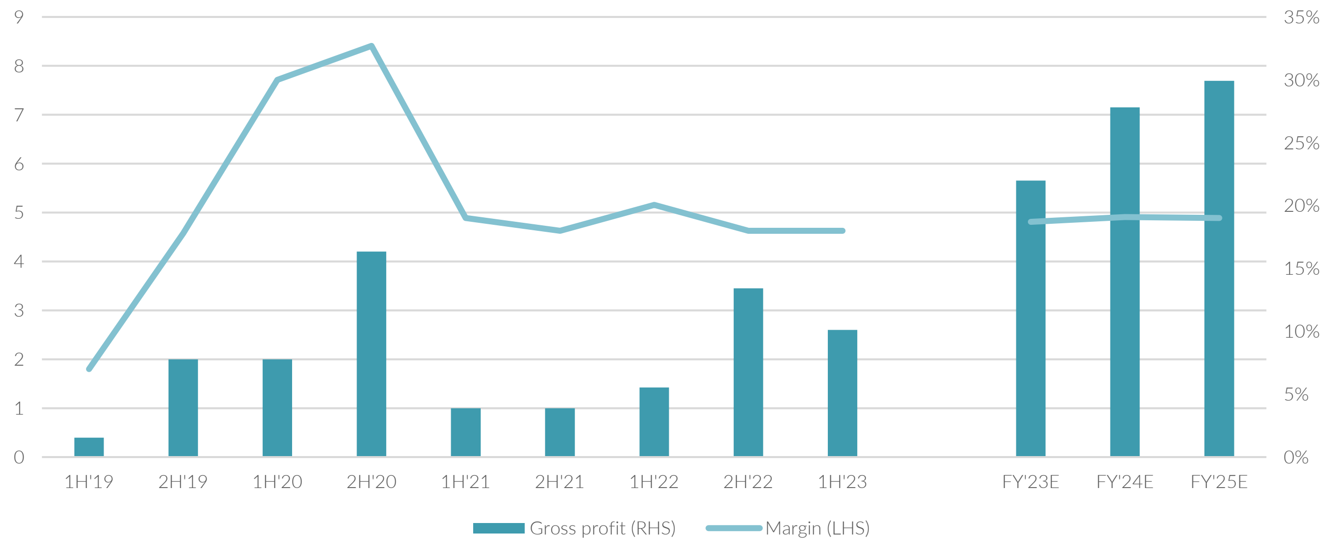
Pawnbroking scrap

Items damaged beyond repair are slow-moving or surplus to group's requirements, and smelted down as scrap

Pawnbroking scrap comprises all other proceeds from gold scrap sales of H&T's inventory assets, other than those reported within gold purchasing. The items that are damaged beyond repair, are slow-moving or are surplus to the group's requirements, or not deemed suitable for the retail arm, are smelted and sold at the current gold spot price, less a small commission. As the pledge book grows and matures, the volume of items released for retail sale or scrap rises commensurately. The gross value of pawnbroking scrap sales to June 2023 was £14.6m (1H'22: £7.1m), with a gross margin of £2.6m (1H'22: £1.4m). Margins remained broadly consistent, at 18% (2H'22: 18%, 1H'22: 20%).

For our forecasts, we have taken the revenue based off the percentage of opening pledge assets for the previous five years and the average margin over the same period. As in 1H'23, the growing pledge book should see strong growth in scrap volumes and profits for the full year and beyond.

Pawnbroking scrap profits (LHS, £m) and margin (RHS, %)



Source: H&T, Hardman & Co Research

Forex

Forex accounted for 6% of group gross profit in 1H'23

H&T offers currency exchange services, available across the store estate. The target market is holidaying retail customers, with an average transaction size of £398. Foreign currency transaction volumes are at record levels, and increased 19% YoY, with net income up 12%, to £2.9m (1H'22: £2.6m). The provision of foreign currency services has been identified as a future growth opportunity for the group (starting from a very small market share in the point-of-sale forex market), and it is receiving increased focus and investment. *Inter alia*, this will be supported by the launch of a *Click and Collect* service in June (ahead of peak summer holiday demand), and by a broadened range of currencies held in stock at the store level, and available for immediate purchase. There was a 37% growth in non €/US$ transactions, nearly double the overall growth rate.

Other services

Management advises that other services brought in ca.750k of footfall to the stores per year, creating significant opportunities to cross-sell, as well as the income from the other services themselves. The services provided include:

£0.6m of revenue in 2022, generated from money wire transfer

- Money wire transfer: in partnership with Western Union, H&T allows customers to transfer money worldwide from all stores. Revenues reduced to £0.6m (1H'22: £0.8m) on lower overall transaction volumes – in particular transfers to and from Romania. Customer numbers are broadly consistent, but they have been transferring funds less often.

Cheque cashing generated £0.4m, and is in long-term decline

- Cheque cashing: H&T offers same-day cheque cashing, allowing almost instant access to funds. Volumes of cheques cashed have normalised, following the short-term increase in cheque issuance during 2022. Revenue earned reduced to £0.4m (1H'22: £0.5m). The overall contribution remains modest, as the use of cheques in the UK economy is in long-term decline.

Personal loan book in run-off – contributed £0.3m revenue and impairment release of £0.4m

- The personal loan book is in run-off, and continued payments have allowed the release of impairment provisions (£0.4m). The outstanding loan book has reduced to £0.3m (1H'22: £1.8m), with revenues earned reducing to £0.5m (1H'22: £1.2m).

Other issues

Rising administration and finance costs

As we noted above, the benefit from the increased pawnbroking revenue has been offset in our forecasts, owing to higher costs.

Payroll costs up 21% – roughly half owing to staff numbers

Balance owing to inflation award and accelerated date of paying increases

- Administration costs, which rose 19% in 1H'23, reflect the sustained inflation at higher levels than previously forecast. Payroll costs were up 21%, largely in line with expectations, and reflecting an increase in staff numbers (accounting for 11% of the 21%) with accelerating the pay award increase to January, as well as inflation-related salary increases, accounting for the remaining 10% of the increase. Part of the increase in employee numbers is due to filling existing vacancies (around two thirds of the increase), mostly in 2H'22, with the full period effect in 1H'23. We characterise H&T's business as having largely fixed or volumetric spend, with very little discretionary spend; so, management's job is to work the fixed costs as hard as possible by growing revenue.

- The unexpected cost increases have come in non-payroll costs, with material increases in secure courier costs (well above inflation) and insurance (nearly doubling) as just two examples.

- Much of the growth in costs is in the 1H run rate; so, the rate of growth 2H on 2H is likely to be lower than 1H on 1H.

Finance costs and debt facility

Interest costs rising with volume and base rate

Extra potential financing put in place, creating optionality

Interest costs reflect both the raised interest rate expectations and increased volumes requiring finance. H&T announced an increased financing facility on *24 July 2023,* raising the quantum to £50m (£45m revolving credit facility, expiring in December 2025, with the option to extend for a period of up to two further years, and a £5m annual overdraft facility). The revolving credit facility is subject to revised margins of between 2.4% and 3.3% (previously 1.7% and 2.45%) above SONIA, with an unchanged non-use fee of 50% of the margin on the undrawn portion of the facility. There has been no change to the existing covenants. The overdraft margin remains unchanged, at 1.7% above the Bank of England base rate, and renews annually in December. Earlier in the year, H&T had forecast that growth in the pledge book would slow, but there are no signs of that yet, and thus the financing cost of the book will rise. Additionally, H&T will continue to open stores and offer a range of other options (such as M&A, which may or may not come to fruition). The increased facility gives optionality and headroom to take business to the next level.

Corporate governance

Board expertise strengthened, with four new NEDs appointed in July

On *16 June 2023,* H&T announced four new NED appointments, commenting: "*The appointment of these new non-executive directors will significantly progress the Company's aim to evolve its governance structures by broadening the range of skills, experiences and diversity around the Board table. The appointments will support the continued growth the Company is experiencing in both pawnbroking and retail, and the Group's longer-term growth plans*". Additionally, a new Chair was appointed with the retirement of the long-serving previous incumbent.

Financials

As noted above, we have increased our pawnbroking and scrap revenue forecasts, but this is offset by higher administration, interest and inventory costs, leaving the bottom-line forecasts broadly unchanged.

Profit & loss (£000)									
Year-end Dec	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Total revenue	124,697	143,025	160,213	129,115	121,995	173,941	218,470	228,791	244,389
Costs of sales	(46,567)	(54,781)	(58,852)	(46,316)	(45,640)	(72,025)	(93,677)	(89,462)	(94,467)
Gross profit	**78,130**	**88,244**	**101,361**	**82,799**	**76,355**	**101,916**	**124,792**	**139,329**	**149,922**
Other direct expenses - impairments	(20,846)	(25,881)	(20,798)	(6,438)	(6,012)	(11,756)	(10,605)	(11,081)	(10,910)
Other direct expenses	(32,594)	(32,855)	(40,044)	(43,750)	(40,239)	(47,779)	(55,922)	(59,268)	(61,639)
Total other direct expenses	**(53,440)**	**(58,736)**	**(60,842)**	**(50,188)**	**(46,251)**	**(59,535)**	**(66,527)**	**(70,349)**	**(72,549)**
Admin. expenses	(12,234)	(13,272)	(18,031)	(15,727)	(18,904)	(21,828)	(25,011)	(27,512)	(30,263)
Recurring operating profit	12,456	16,236	22,488	16,884	11,200	20,553	33,254	41,468	47,110
Non-recurring expenses				-	(2,099)	-			
Operating profit	**12,456**	**16,236**	**22,488**	**16,884**	**9,101**	**20,553**	**33,254**	**41,468**	**47,110**
Investment revenues	-	3	-	5	8	-	-	-	-
Finance costs	(567)	(2,468)	(2,405)	(1,257)	(1,247)	(1,548)	(2,935)	(3,497)	(3,497)
Profit before tax	**11,889**	**13,771**	**20,083**	**15,632**	**7,862**	**19,005**	**30,320**	**37,971**	**43,613**
Tax	(2,396)	(2,818)	(3,393)	(3,070)	(1,818)	(4,093)	(7,125)	(9,493)	(10,903)
Attributable underlying profit	**9,493**	**10,953**	**16,690**	**12,562**	**6,044**	**14,912**	**23,195**	**28,478**	**32,710**
Fully diluted EPS (p)	25.91	29.59	43.80	32.11	15.43	37.15	52.73	64.74	76.36
DPS (p)	10.5	11.0	4.7	8.5	12.0	15.0	18.8	22.0	25.0
Dividend cover (x)	2.5	2.7	9.3	3.8	1.3	2.5	2.8	2.9	3.1

Source: H&T Report and Accounts, Hardman & Co Research

Balance sheet (£000)									
@ 31 Dec	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Goodwill	17,643	17,643	19,580	19,330	19,330	20,969	21,233	21,233	21,233
Other intangibles	331	343	3,889	2,729	1,892	6,368	7,782	9,196	10,610
Property, plant and equipment	6,381	6,032	7,739	8,635	11,101	13,045	16,000	16,000	15,500
Right of use assets	23,073	20,159	21,147	18,337	17,400	18,991	18,500	19,176	19,852
Deferred tax assets	1,988	1,683	2,180	2,822	1,726	251	35	35	35
Total non-current assets	**49,416**	**45,860**	**54,535**	**51,853**	**51,449**	**59,624**	**63,550**	**65,640**	**67,230**
Inventories	34,102	29,262	29,157	27,564	28,421	35,469	36,229	38,764	40,703
Trade and other receivables	63,089	73,379	90,891	55,751	72,449	104,046	125,000	135,000	145,000
Other current assets	665	877	714	1	0	0	0	0	0
Cash and cash equivalents	8,676	11,414	12,003	34,453	17,638	12,229	16,987	26,839	36,524
Total current assets	106,532	114,932	132,765	117,769	118,508	151,744	178,215	200,604	222,227
Total assets	**155,948**	**160,792**	**187,300**	**169,622**	**169,957**	**211,368**	**241,765**	**266,244**	**289,457**
Trade and other payables	(8,362)	(6,015)	(10,578)	(10,807)	(10,154)	(9,097)	(12,000)	(12,000)	(12,000)
Lease liabilities	(237)	(249)	(4,890)	(3,568)	(3,191)	(3,743)	(4,243)	(4,743)	(5,243)
Tax payable	(1,033)	(842)	(2,066)	(1,972)	(375)	(937)	(937)	(937)	(937)
Total current liabilities	**(9,632)**	**(7,106)**	**(17,534)**	**(16,347)**	**(13,720)**	**(13,777)**	**(17,180)**	**(17,680)**	**(18,180)**
Borrowings	(21,810)	(24,888)	(26,000)	-	-	(15,000)	(30,000)	(30,000)	(30,000)
Lease liability	(26,789)	(23,724)	(19,670)	(17,077)	(15,792)	(16,326)	(12,828)	(17,500)	(18,000)
Long-term provisions, incl. retirement	(1,313)	(1,253)	(1,490)	(1,649)	(3,827)	(2,146)	(1,646)	(1,146)	(646)
Total non-current liabilities	**(49,912)**	**(49,865)**	**(47,160)**	**(18,726)**	**(19,619)**	**(33,472)**	**(44,474)**	**(48,646)**	**(48,646)**
Share capital	1,872	1,883	1,987	1,993	1,993	2,193	2,200	2,210	2,220
Share premium	26,641	27,152	33,179	33,486	33,486	49,423	50,391	51,356	52,321
Retained earnings	67,926	74,821	87,475	99,105	101,174	112,537	127,484	146,285	167,998
EBT share reserve	(35)	(35)	(35)	(35)	(35)	(34)	(34)	(34)	(34)
Total equity	**96,404**	**103,821**	**122,606**	**134,549**	**136,618**	**164,119**	**180,041**	**199,817**	**222,505**
No. of shares at year-end	37.4	37.7	39.7	39.9	39.9	43.9	44.0	44.0	44.0
NAV per share (p)	257.5	275.7	308.5	337.5	342.7	374.3	409.3	454.3	505.8

Source: H&T Report and Accounts, Hardman & Co Research

Valuation

Summary

Range of valuation approaches, including GGM, DCF and DDM

Average of all is 607p

We apply a range of different valuation approaches, as shown below, and give some of the key sensitivities to our assumptions. Our Gordon Growth Model (GGM) indicates a fair value of 630p, the dividend discount model (DDM) 472p and the discounted cashflow (DCF) model 720p. We believe the differences in strategy and business model make comparisons with the closest listed peer, Ramsdens, of limited value.

GGM

GGM valuation, at 630p, captures value added and growth

Looking at H&T, the assumptions were outlined in our initiation report, and we show them in the table below.

GGM and key sensitivities

	Base	+1% RoE	+1% CoE	+0.5% G
RoE	13%	14%	13%	13%
CoE, post-tax	10%	10%	11%	10%
G	5%	5%	5%	55%
P/BV (x)	1.3	1.4	1.2	1.3
Disc./prem. re near-term performance	10%	10%	10%	10%
P/BV (x)	1.4	1.5	1.3	1.4
BV Dec'23E (p/sh)	440	440	440	440
Valuation (p/sh)	630	678	572	637
Variance (p/sh)		49	(58)	8

Source: Hardman & Co Research

DDM

DDM valuation 472p

Using the assumptions detailed in our initiation, the implied valuation on the DDM is 478p. The terminal value accounts for 34% of the total value. In terms of sensitivity to assumptions, an 11% CoE, the value would be 447p.

DCF

DCF valuation 720p

A DCF analysis is complicated by H&T, as is the case for any lender needing to use cash as its working capital, and, again, the assumptions were outlined in our initiation. The terminal value accounts for 36% of the value (pre-balance sheet allocation). In terms of sensitivity to assumptions, an 11% CoE, the value would be 576p.

"Peer" companies

The only listed "peer" is Ramsdens (RFX). However, in making comparisons, there are some very important business model, size and strategy differences, which means that any comparison needs to be treated with caution. RFX is currently trading on a 12-month forward consensus P/E of 9.2x, against consensus for H&T of 6.4x. RFX's current dividend yield is 4.4%, against H&T's 4.1%, and RFX's forward yield is 4.9%, vs. consensus's 5.8% for H&T.[2] There is no consistency in these relative ratings.

[2] All sourced from Refinitiv, as at 24 August 2023

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The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

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