



23 July 2024

Finance and credit services



Source: LSEG, 2024

Market data

EPIC/TKR	HAT
Price (p)	408.0
12m high (p)	502.0
12m low (p)	305.0
Shares (m)	44.0
Mkt cap (£m)	179.5
EV 2023 (£m)	211.1
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 280 stores and online. 69% of 2023 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, Sally Veitch, Toni Wood (SID)
	+44 (0)800 838 973
	www.handt.co.uk

Key shareholders (1 Jul'24)

Fidelity (22/7/24)	11.55%
Octopus Investments	11.32%
Close Bros	8.54%
Stichting Value	5.09%
Artemis	4.37%
HL / II Execution only	9.58%

Diary

20 Aug'24	Interim results
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Analyst

Mark Thomas mt@hardmanandco.com

H&T

Pawnbroking: the global perspective for H&T

In this note, we put pawnbroking into a global and historical context: i) the global market is large, ca.\$40bn, UK just ca.5%; ii) pawnbroking is widely adopted across a range of cultures/geographies from China, India, Islamic countries to US, Europe and UK; iii) many UK immigrants are comfortable with pawnbroking from experiences in their country of origin; iv) the largest listed pawnbrokers trade at over 2x the PER rating of H&T with similar forward earnings growth; iv) it is generally a regulated business with largely favourable regulators' comments, as in the UK. Pawnbroking has been available globally for centuries, debunking the misconception some have of it as a UK Dickensian practice.

- ▶ **Global business relevance to H&T:** In business terms, the key factor is that many UK immigrants are familiar with pawnbroking services creating a new customer base. Some estimate that nearly a fifth of all owned gold in India is pledged. 1.5m Poles are estimated to have used the service. The Philippines has 16,000+ pawn shops.
- ▶ **Global valuation relevance to H&T:** By investing in H&T, international investors who like pawnbroking can diversify their exposure by geography, at relatively low multiples. The largest listed peers trade at wide P/E and P/BV premiums to H&T, opening the door to trade and private-equity-backed corporate activity.
- ▶ **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 528p. As H&T is a growing business, there is upside potential from 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, a 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 2024, there is further growth in customer demand from the cost-of-living crisis, with few alternative regulated competitors. Our forecasts are unchanged for the recent "in-line" [trading statement](#).

Financial summary and valuation

Year-end Dec (£000)	2021	2022	2023	2024E	2025E	2026E
Revenue	121,995	173,941	220,775	248,410	267,161	281,641
Gross profit	76,355	101,916	127,236	149,391	162,340	173,902
Total expenses	(65,155)	(69,607)	(77,427)	(86,272)	(93,731)	(99,999)
Pre-tax profit	7,862	19,005	26,360	31,935	34,653	38,888
Fully diluted EPS (p)	15.43	37.15	48.49	55.09	59.78	67.09
DPS (p)	12.0	15.0	17.0	18.5	19.5	20.5
Pledge book	66,862	100,732	128,887	155,000	165,000	175,000
Inventories	28,421	35,469	40,711	43,576	45,655	47,837
Cash	17,638	12,229	11,387	15,420	16,958	21,135
Shareholders' funds	136,618	164,119	177,370	192,602	209,439	229,016
PE ratio (x)	26.4	11.0	8.4	7.4	6.8	6.1
Dividend yield	2.9%	3.7%	4.2%	4.5%	4.8%	5.0%

Source: H&T, Hardman & Co Research

Global business context

Size of the market

Market ca. \$40bn, UK about 5%

According to Cognitive Market Research, the global pawnbroking industry is nearly \$40bn,¹ with the UK being just 5% of the total. The assessment of the counter-party and the asset being pledged is very much locally based, but it is a service which is very large and well established across the globe.

Present in all major European countries.
Ca. 1.5m Poles use pawnbroking services.

Europe

According to Cognitive Market Research, Europe makes up around a third of the global market, with the largest countries being Germany (\$2.4bn), UK (\$2.0bn), Russia (\$1.8bn), France (\$1.1bn), Italy and Spain (both \$1.0bn). In 2020, ca. 1.5m Poles used pawnbroking services, according to the Union of Entrepreneurs and Employers – ZPP,² with 1,235 companies providing money lending and pawnbroking services.³ We highlight this market given the number of Polish immigrant workers in H&T's target demographic.

Asia

The key Asian markets include:

Estimated 5,300 tonnes of gold pledged in India (around a fifth of total owned), with money lenders and pawnbrokers having a 65% share

▶ In India, the Marwari Jain community pioneered the pawnbroking business, but today others are involved; the work is done by agents called "saudagar" (or trader). Instead of working from a shop, they go to people's homes. The industry associations tend to be at state level (see, for example, *The Madras Pawnbrokers Association*, which has 3,900 associated members alone). Data from the Reserve Bank of India suggests that around a fifth of all gold owned in the country is pledged (a staggering 5,300 tonnes).⁴ Money lenders and pawnbrokers have a 65% market share.

Philippines has more than 16,000 pawn shops

▶ One of the biggest markets (by number of stores) is the Philippines, where there are more than 16,000 pawn shops. The Chamber of Pawnbrokers of the Philippines was established in 1949, although some believe pawnbroking came to the country with the Spanish (original conquest in 1565).⁵

Hong Kong has over 200 pawnbrokers

▶ In Hong Kong, there are more than 200 pawnbrokers. Their symbol is also slightly different, with a bat holding a coin, rather than three golden balls. In China itself, while arguably the original home of pawnbroking, the industry was prohibited until the late 1980s.

Malaysia has sharia-compliant service

▶ In Malaysia, pawn shops have existed since 1871 and are now governed by the Pawnbrokers Act 1972.⁶ A sharia-compliant version of pawnbroking (Ar Rahnū) started in 1992.⁷

Singapore has 242 licensed pawnbrokers

▶ In Singapore alone, there are 242 licensed pawnbrokers.⁸

¹ <https://www.cognitivemarketresearch.com/regional-analysis/europe-pawn-shop-market-report>

² <https://www.kpr.pl/en/revolutionary-changes-to-the-business-of-pawnbrokers>

³ <https://lb.kompas.com/z/pl/a/moneylenders-and-pawnbrokers/82160/>

⁴ <https://bfsi.economicstimes.indiatimes.com/news/banking/explained-indias-gold-loan-market-share-of-banks-and-nbfcs/98255016>

⁵ <https://cebuanalhuillier.com/pawnshops-the-traditional-choice/>

⁶ <https://ipajak.com.my/tips/how-to-pawn-pajak-di-malaysia/>

⁷ *The Development of Islamic Pawnbroking in Malaysia, Application and its Challenges*

⁸ <https://rop.mlaw.gov.sg/information-for-pawners/list-of-licensed-pawnbrokers-in-singapore/>

US

US has 11,000 pawnbroking shops

According to the *National Pawnbrokers Association*, in the United States today, there are more than 11,000 pawn shops, most of which are family-owned, small businesses. The association says they provide a safety net to 30m unbanked or under-banked Americans. In the UK, the FCA has concluded that pawnbroking is a low-risk area. The US overview body (The Consumer Financial Protection Bureau) also did a report in 2017, noting that pawnbroking does not harm consumers, is not confusing and does not put consumers in a cycle of debt.⁹

Regulation

Generally regulated activity. In France, actually run by municipalities.

In most countries, there is national and/or state-level regulation of pawnbroking. Some notable examples include:

- ▶ In the US, security can vary depending on where you are, given the varying Federal vs. State laws. There are 14 federal statutes and regulations alone.
- ▶ France is also different in its approach. There are 49 “official” Crédit municipal pawn shops, which are public institutions, and municipal, with a state guarantee. The Paris shop alone had end-2023 advances of €214m and 150,000 clients.

Historical context

Origins 3,000 years ago in China, present in ancient Rome and Greece. Widespread across Europe in Middle Ages.

There is a view that pawnbroking started in China 3,000 years ago¹⁰ and was seen in both ancient Greece and Rome. More recently, King Edward III famously pawned his jewels to the Lombards in 1388 to help finance war against France, and Queen Isabella of Spain is said to have put up her jewellery as collateral to fund Christopher Columbus' expeditions to the New World.¹¹

Relevance to H&T

Global footprint relevant to H&T, as:

- i) it reinforces the messages that pawnbroking is welcomed by a broad range of customers and regulators; and
- ii) potential source of new business from immigrants familiar with the service

We see the following as key H&T takeaways from the paragraphs above:

- ▶ Pawnbroking is a widely accepted business practice across a whole range of countries and cultures. It is not a Dickensian-style abuse of the vulnerable impoverished but rather a widely accepted service, liked by millions of customers.
- ▶ The share of foreign-born citizens in the UK's total population increased from 9% in 2004 to 14% in 2021.¹² Of the 9.7m non-UK born population in 2021, India accounted for 920k, Poland for ca.743k, Pakistan for 624k, and Romania for 539k.¹³ We have detailed, above, how, in India, it is estimated that a fifth of all gold owned is pledged, showing that it is standard practice there. Immigrants from these countries are well used to the service, and H&T has a number of customers with this background. Indeed, in its trading statements, it has noted that events such as Diwali can affect redemption rates.

⁹ <https://www.nationalpawnbrokers.org/pawn-industry-faqs/>

¹⁰ <https://en.wikipedia.org/wiki/Pawnbroker> or <https://www.britannica.com/money/pawnbroking>

¹¹ <https://www.history.co.uk/shows/pawn-stars/articles/pawning-history>

¹² <https://migrationobservatory.ox.ac.uk/resources/briefings/migrants-in-the-uk-an-overview/>

¹³ <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/thechangingpictureoflongterminternationalmigrationenglandandwales/census2021>

Valuation of listed vehicles

Low relative rating means:

- i) international investors who like the service can diversify their exposure; and
- ii) the door is open to corporate activity.

The table, below, shows the key business metrics and valuations of a number of globally listed pawnbrokers. We believe the key takeaways for H&T are:

- ▶ H&T is one of the lowest-rated pawnbrokers globally, using price-to-earnings as the metric. UK small caps, generally, are out of favour, but international investors who like pawnbroking are able to diversify their exposure by geography at relatively low multiples.
- ▶ The largest listed peers (FirstCash and Muthoot Finance) trade at significant premiums to H&T. This opens the door to corporate activity. We also note that, in the US, Speedy Cash is owned by the PE house, Insignia Capital Group. For many PE-backed businesses, buy and build is a core option for value creation and this has become increasingly so in a period of higher rates (see our notes on Apax Global Alpha, ICG Enterprise Trust or NB Private Equity Partners).
- ▶ Where there are consensus estimates, the sector as a whole is expected to show strong growth.

Range of selected metrics for H&T and listed global peers (£m)

Company	Website	Country	Ticker	Market cap	Revenue	Attrib. income	Equity	Total assets
FirstCash	https://investors.firstcash.com/	US	FCFS.O	3,771	2,347	176	1,568	3,370
EZ Corp Inc	https://investors.ezcorp.com/	US	EZPW.O	453	856	31	611	1,203
Oi Wah Pawnshop	https://www.pawnshop.com.hk/en	HK	1319.HK	47	18	9	109	120
Credit Holdings Ltd	https://www.maxi-cash.com/investor-relations/	Singapore	ASPL.SI	106	283	11	99	548
Maxi-Cash Financial Services Corp Ltd.	https://www.cashconverters.com/investor-centre	Aus	CCV.AX	65	169	(54)	108	232
Cash Converters	https://investor.sawad.co.th/en/home	Thai	SAWAD.BK	1,082	438	116	644	2,549
Srisawad Power 1979 Public Company Ltd.	https://www.muthootfinance.com	India	MUTH.BO MUTH.NS	6,893	1,448	416	2,386	9,169
Muthoot Finance	http://www.cnartfin.com.hk/en/index.html	HK art/asset	1572.HK	22	7	1	122	125
China Art Financial	https://www.valuemax.com.sg/corporate/investor-relations/corporate-profile/	Singapore	VAMG.SI	209	198	32	252	641
ValueMax	https://handt.co.uk/pages/investor-relations	UK	HTGR.L	168	221	21	177	252
H&T								

Source: LSEG, Hardman & Co Research

Range of selected valuation metrics for H&T and listed global peers

Company	P/BV	P/EPS	Forward P/E	Implied EPS growth
FirstCash	2.4	17.6	14.1	25%
EZ Corp Inc	0.6	10.9	8.5	28%
Oi Wah Pawnshop Credit Holdings Ltd	0.4	n/a	n/a	n/a
Maxi-Cash Financial Services Corp Ltd.	1.1	n/a	n/a	n/a
Cash Converters	0.7	n/a	5.6	n/a
Srisawad Power 1979 Public Company Ltd.	2.0	10.6	9.4	13%
Muthoot Finance	2.4	18.3	14.4	28%
China Art Financial	0.1	n/a	n/a	n/a
ValueMax	0.6	n/a	n/a	n/a
Average	1.1	14.4	10.4	23%
H&T	1.1	8.0	6.4	24%

Note: We have used consensus estimates for all companies from LSEG for consistency. Source: LSEG, Hardman & Co Research

Financials

Our forecasts are unchanged given the in-line [trading update](#).

Profit & loss (£000)									
Year-end Dec	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Total revenue	143,025	160,213	129,115	121,995	173,941	220,775	248,410	267,161	281,641
Costs of sales	(54,781)	(58,852)	(46,316)	(45,640)	(72,025)	(93,539)	(99,020)	(104,821)	(107,739)
Gross profit	88,244	101,361	82,799	76,355	101,916	127,236	149,391	162,340	173,902
Other direct expenses - impairments	(25,881)	(20,798)	(6,438)	(6,012)	(11,756)	(20,298)	(24,902)	(27,039)	(28,729)
Other direct expenses	(32,855)	(40,044)	(43,750)	(40,239)	(47,779)	(53,223)	(59,447)	(64,398)	(68,906)
Total other direct expenses	(58,736)	(60,842)	(50,188)	(46,251)	(59,535)	(73,521)	(84,349)	(91,436)	(97,634)
Admin. expenses	(13,272)	(18,031)	(15,727)	(18,904)	(21,828)	(24,204)	(26,824)	(29,333)	(31,093)
Recurring operating profit	16,236	22,488	16,884	11,200	20,553	29,511	38,217	41,570	45,175
Non-recurring expenses	-	-	-	(2,099)	-	-	-	-	-
Operating profit	16,236	22,488	16,884	9,101	20,553	29,511	38,217	41,570	45,175
Investment revenues	3	-	5	8	-	82	-	-	-
Finance costs	(2,468)	(2,405)	(1,257)	(1,247)	(1,548)	(3,233)	(6,282)	(6,917)	(6,287)
Profit before tax	13,771	20,083	15,632	7,862	19,005	26,360	31,935	34,653	38,888
Tax	(2,818)	(3,393)	(3,070)	(1,818)	(4,093)	(5,277)	(7,984)	(8,663)	(9,722)
Attributable underlying profit	10,953	16,690	12,562	6,044	14,912	21,083	23,951	25,990	29,166
Fully diluted EPS (p)	29.59	43.80	32.11	15.43	37.15	48.49	55.09	59.78	67.09
DPS (p)	11.0	4.7	8.5	12.0	15.0	17.00	18.50	19.50	20.50
Dividend cover (x)	2.7	9.3	3.8	1.3	2.5	2.9	3.0	3.1	3.3

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

Balance sheet (£000)									
@ 31 Dec	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Goodwill	17,643	19,580	19,330	19,330	20,969	21,851	26,851	26,851	26,851
Other intangibles	343	3,889	2,729	1,892	6,368	7,618	8,257	8,896	9,535
Property, plant and equipment	6,032	7,739	8,635	11,101	13,045	15,686	18,560	22,105	25,650
Right of use assets	20,159	21,147	18,337	17,400	18,991	19,581	20,115	20,649	21,183
Deferred tax assets	1,683	2,180	2,822	1,726	251	0	0	0	0
Total non-current assets	45,860	54,535	51,853	51,449	59,624	64,736	73,783	78,501	83,219
Inventories	29,262	29,157	27,564	28,421	35,469	40,711	43,576	45,655	47,837
Receivables (Pledge book)	73,379	90,891	55,751	72,449	104,046	135,271	155,000	165,000	175,000
Other current assets	877	714	1	0	0	0	0	0	0
Cash and cash equivalents	11,414	12,003	34,453	17,638	12,229	11,387	15,523	17,061	21,238
Total current assets	114,932	132,765	117,769	118,508	151,744	187,369	214,099	227,716	244,075
Total assets	160,792	187,300	169,622	169,957	211,368	252,105	287,882	306,217	327,294
Trade and other payables	(6,015)	(10,578)	(10,807)	(10,154)	(9,097)	(7,955)	(7,955)	(7,955)	(7,955)
Lease liabilities	(249)	(4,890)	(3,568)	(3,191)	(3,743)	(3,965)	(4,465)	(4,965)	(5,465)
Tax payable	(842)	(2,066)	(1,972)	(375)	(937)	(858)	(858)	(858)	(858)
Total current liabilities	(7,106)	(17,534)	(16,347)	(13,720)	(13,777)	(12,778)	(13,278)	13,778)	(14,278)
Borrowings	(24,888)	(26,000)	-	-	(15,000)	(43,000)	(63,000)	(63,000)	(63,000)
Lease liability	(23,724)	(19,670)	(17,077)	(15,792)	(16,326)	(18,002)	(19,002)	(20,000)	(21,000)
Deferred tax liability	-	-	-	-	-	(508)	-	-	-
Long-term provisions, incl. retirement	(1,253)	(1,490)	(1,649)	(3,827)	(2,146)	(447)	-	-	-
Total non-current liabilities	(49,865)	(47,160)	(18,726)	(19,619)	(33,472)	(61,957)	(82,002)	(83,000)	(84,000)
Share capital	1,883	1,987	1,993	1,993	2,193	2,199	2,209	2,219	2,229
Share premium	27,152	33,179	33,486	33,486	49,423	49,723	49,037	48,351	47,665
Retained earnings	74,821	87,475	99,105	101,174	112,537	125,479	141,387	158,900	179,153
EBT share reserve	(35)	(35)	(35)	(35)	(34)	(31)	(31)	(31)	(31)
Total equity	103,821	122,606	134,549	136,618	164,119	177,370	192,602	209,439	229,016
No. of shares at year-end	37.7	39.7	39.9	39.9	43.9	44.0	44.0	44.0	44.0
NAV per share (p)	275.7	308.5	337.5	342.7	374.3	403.3	437.9	476.1	520.6

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

Valuation

Summary

Range of valuation approaches, including GGM, DCF and DDM

Average of all is 528p

GGM valuation, at 627p, captures value added and growth

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 627p, the dividend discount model (DDM) 424p and the discounted cashflow (DCF) model 532p. We believe the differences in strategy and business model make comparisons with the closest listed peer, Ramsdens, of limited value.

GGM

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'24E (p/sh)	438	438	438	438
Valuation (p/sh)	627	675	570	635
Variance (p/sh)		48	-57	8

Source: Hardman & Co Research

DDM valuation 424p

DDM

Using the assumptions detailed in our initiation, the implied valuation on the DDM is 424p. The terminal value accounts for 34% of the total value. In terms of sensitivity to assumptions, an 11% CoE, the value would be 402p. There has been an increase (from 417p) as we roll forward the dividend year and, in particular, a higher dividend in our year four estimate, based off a long-term sustained assumption of 50% cover on higher earnings.

DCF valuation 532p

DCF

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 27% of the value (pre-balance sheet allocation). In terms of sensitivity to assumptions, an 11% CoE, the value would be 393p.

“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 8.0x, against consensus for H&T of 6.5x. RFX’s current dividend yield is 5.5%, against H&T’s 5.2%, and RFX’s forward yield is 5.7%, vs. consensus’s 5.7% for H&T.¹⁴ There is no consistency in these relative ratings.

¹⁴ All sourced from LSEG, as at 18 July 2024

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