

Finance and credit services



Source: Refinitiv

Market data

EPIC/TKR	HAT
Price (p)	417.0
12m high (p)	510.0
12m low (p)	311.3
Shares (m)	43.85
Mkt cap (£m)	182.9
EV 2022 (£m)	180.1
Free float*	86.3%
Country/Ccy	UK/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 274 stores and online. 63% of 2022 gross profits were generated from pawnbroking and 17% from retail.

Company information

CEO	Chris Gillespie
CFO	Diane Giddy
Chair	Simon Walker
NEDs	James Thornton (SID), Toni Wood

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Key shareholders (4 Apr'23)

Octopus Investments	11.54%
Fidelity	9.96%
Close Bros	8.74%
Cannacord	5.64%
Artemis	4.92%
Stichting Value	4.28%
Premier Miton	3.29%
JP Morgan AM	3.27%

Diary

Early Aug	Interim results
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Analyst

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H&T GROUP

AGM statement: strong core growth as expected

H&T's 10 May *AGM statement* confirmed all the key messages in our 15 March *initiation*. The end-April pledge book was £106.5m (from £100.7m end-Dec'22) despite one-off redemption of jewellery pledge ahead of coronation events. As other small-sum, short-term lenders have withdrawn at a time of high demand, H&T's well-capitalised, low-risk proposition has unique growth opportunities. January and March were record months for lending. Retail, the second key division, saw sales to the end of April up 13% YoY. Our group 2024E EPS is 4.2x 2021 levels. A progressive dividend follows (2024E yield: 5.3%).

- **Forex:** Foreign currency revenues were up 10% YoY. The peak trading period of the summer months is likely to reflect additional currencies in store, an online click-and-collect ordering process, which H&T believes will be market-leading (live from mid-May), and enhanced marketing support.
- **Other divisions:** Money Transfer and cheque cashing services continue to perform in line with expectations. Gold purchase volumes have been in line with forecasts. Scrap margins continue to benefit from a strong gold price. The group's store estate stands at 274 locations with seven new stores added YTD.
- **Valuation:** We use a range of valuation approaches, including a GGM, a DDM and a DCF. On the assumptions we detailed in our initiation, the average indicative valuation is 606p, with upside potential moving forward the base year. The dividend is expected to grow steadily and covered ca.3x on our forecasts.
- **Risks:** H&T's customers are cash-constrained. Its money laundering, stolen goods risk and other regulatory controls are appropriate to pawnbroking. Sentiment to the industry is an issue, which needs careful communication to overcome. Inflation risk to the cost base is 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 that 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	198,007	221,400	236,770
Gross profit	82,799	76,355	101,916	125,589	140,470	151,183
Total expenses	(65,915)	(65,155)	(69,607)	(77,937)	(84,007)	(89,240)
Pre-tax profit	15,632	7,862	19,005	30,205	37,962	43,574
EPS (p)	32.11	15.43	37.15	52.69	64.93	74.53
DPS (p)	8.5	12.0	15.0	18.8	22.0	25.0
Receivables	55,751	72,449	104,046	117,500	127,500	137,500
Inventories	27,564	28,421	35,469	36,229	38,764	40,703
Cash	34,453	17,638	12,229	11,959	12,633	12,297
Shareholders' funds	134,549	136,618	164,119	179,979	199,778	222,471
PE ratio (x)	13.0	27.0	11.2	7.9	6.4	5.6
Dividend yield	2.0%	2.9%	3.6%	4.5%	5.3%	6.0%

Source: Hardman & Co Research