1pm plc

Interim results: delivering value-added strategy

The results confirm 1pm is on track to deliver the substantial profit growth the market expects. We believe greater confidence in delivery will be a trigger for re-rating as the current May 2019E P/E of 6.5x and P/B of 0.8x are inconsistent with a profitable, growing company. The results also confirm impairment losses, although rising modestly, remain well controlled and more than priced into lending, and that provisions coverage is increasing. Funding continues to be well diversified and the average cost of funds is down nearly a third. We expect the second half to show a continuation of these trends, together with more integration benefits.

- **Strategy:** After recent acquisitions, 1pm can provide all the major SME financing products through all the distribution channels. It is optimising discrete business brands with appropriate central efficiency, and the balance between broked and on-book loans. 1pm tightly controls credit, funding and customer behaviour risk.
- **Attractive market and market position:** We see a huge opportunity to take share (current level ca.0.1%) in a market showing consistent growth. The group's above-average risk is more than compensated for in a higher yield. 1pm is already delivering low-teen RoE, and we expect this to increase.
- **Valuation:** We detail the assumptions in dividend discount and Gordon Growth models later. The average indicates an end-2018 value of ca.88p (GGM 103p, DDM 73p, DDM normal pay-out 81p). The current 2019E PE of 6.5x and P/B of 0.8x appear highly inconsistent with the group's profitability and growth.
- **Risks:** Credit risk is a key factor and is managed by each business unit according to its own specific characteristics, with a group overview of controls. Funding is widely diversified and at least matches the duration of lending. Acquisitions would appear well priced and delivery of synergies provides earnings upside.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible, with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment-driven (payback for management actively engaging the investor community). A profitable, growing company should trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018E	2019E
Revenue	5,534	12,554	16,944	29,596	32,946
Cost of sales	(2,503)	(4,480)	(6,094)	(9,849)	(10,820)
Admin. expenses	(1,394)	(4,290)	(6,469)	(10,834)	(11,983)
Operating profit	1,637	3,418	4,121	8,619	9,822
Pre-tax profit	1,620	3,346	4,080	7,946	9,048
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.3
Total receivables	24,991	56,061	73,955	150,893	169,000
Equity to recbls.	49%	43%	39%	32%	33%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.4
P/adj. earnings (x)	14.5	8.3	8.3	6.9	6.5
P/BV (x)	1.6	1.2	1.0	1.0	0.8
Yield	0.6%	0.9%	0.9%	1.1%	1.5%

Source: 1pm, Hardman& Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	54.0
12m High (p)	66.0
12m Low (p)	40.3
Shares (m)	83.8
Mkt Cap (£m)	45.3
EV (£m)	44.4
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing over 16k UK SMEs with a variety of products, including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-250k. The company distributes directly, via finance brokers and vendor suppliers.

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

Tel number: 01225 474230
www.1pm.co.uk

Key shareholders

Lombard Odier (17/7/17)	19.91%
Ronald Russell (director 27/10/17)	12.40%
Sapia Partners (4/12/17)	10.26%
Henderson Global (17/7/17)	11.78%
Mike Nolan (director 3/11/17))	6.31%
Charles Stanley (4/9/17)	4.99%

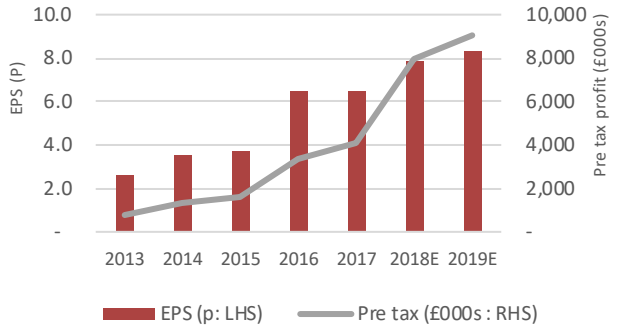
Next event

July	Trading update

Analysts

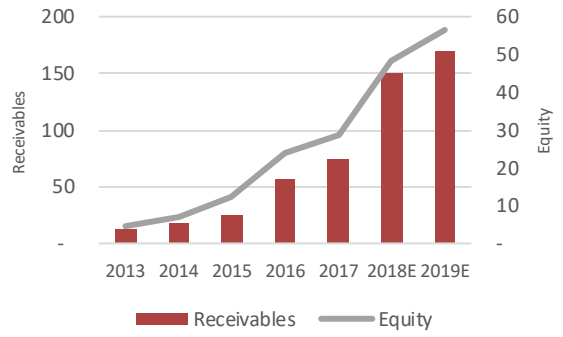
Mark Thomas 020 7194 7622
mt@hardmanandco.com

Pre-tax profit and EPS, 2013-19E



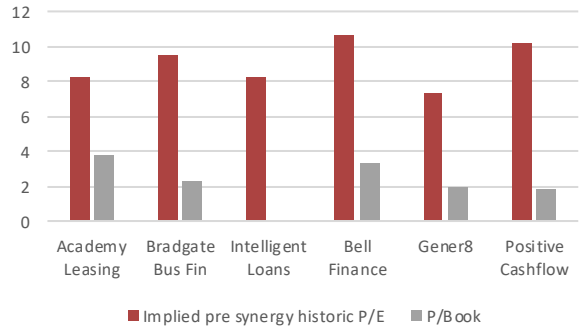
- Group has changed dramatically over past two years. Despite the number of shares rising 3.8x (2019E on 2013), EPS is still expected to more than treble over the period.
- Sharp increase in pre-tax profits, driven by acquisitions. Supported by double-digit underlying organic growth.
- With the transformation of the group in the past two years, investors should not place undue reliance on pre-2016 numbers.

Receivables and equity, 2013-19E (£m)



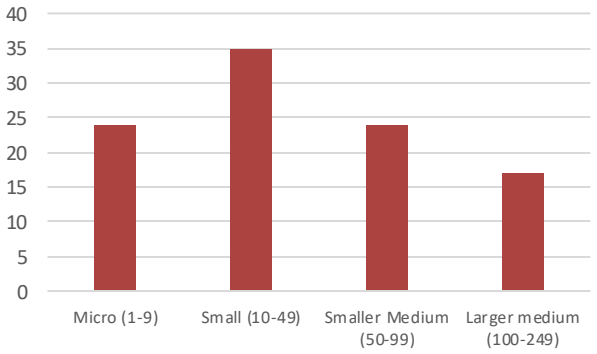
- Acquisitions-driven strong receivables growth, with double-digit organic growth.
- Opportunity to accelerate organic growth with cross-selling opportunities, a key management focus.
- Balance sheet gearing stable, with equity rising in line with receivables.
- We estimate retained equity over period in excess of £22m. ca. £30m issued as consideration and to investors.

Price multiples for recent acquisitions



- Price to historical earnings range from 7-10x.
- Lower P/E paid where there was no element of contingent consideration.
- We estimate post-synergy, year 2 prospective P/E at ca.6x.
- P/B has ranged from 1.8-4.3x but reflects how vendor has wanted to get value from business and accounting issues.

Customers who feel bank does not understand them by number of employees



- Banks currently provide ca. £110bn of loans and overdrafts to SME customers. In 3Q'17, BBA data showed bank loans to medium-sized business fell from £52.4bn to £50.5bn, and smaller business were broadly flat.
- At the smaller end, a significant proportion of business customers feel they are not understood.
- We are forecasting end-2019 1pm group receivables of £169m, 0.15% of the bank's current financing. A tiny loss of share by the banks is a huge opportunity for 1pm.

Source: 1pm Hardman & Co Research

1H FY18 results (Nov 17 period-end)

Financial highlights

Revenue growth 74%, organic growth 22%

- 1H FY18 revenue increased 74% to £13.9m (1H FY17 £8.0m). This comprised £9.8m (1H FY17: £8.0m) at Onepm, Academy and Bradgate, an organic increase of 23%, and £4.1m at the more recently acquired subsidiaries, iLoans, Gener8 and Positive. Included in revenue is £2.4m (1H FY17: £1.0m) of commission income in respect of the broked-on activities.

Cost of sales +64% – primarily broker commission

- The cost of sales (£4.8m, up 64% on 1H FY17 £2.9m) is predominantly expenses, such as broker commissions, and this has risen with volumes.

Cost of sales also includes the charge for impairments and new provisions, which are gently rising, as expected, but broadly stable on H2

Stock of provisions rising

- Additionally, cost of sales includes credit impairments (net write-offs using 1pm terminology), which, in the period, were £0.7m, 0.5% of total receivables at period-end (1H FY17: £0.3m, 0.4%, 2H FY17 £0.6m, 0.5%).
  - At end November 2017, the stock of bad debt provisions was £2.1m (30 November 2016: £1.2m, 31 May 2017: £1.2m). £1.7m relates to lease, hire and loan receivables, 1.8% of the aggregate receivables amount (30 November 2016: 1.6%). The group continues to be conservative, with the stock of provisions rising towards its 2% of receivables target.

Admin. expenses up 72%

Profit up 77%

- Administration expenses rose 72% to £5.2m, a rate marginally below the rapid growth in income. Group profit before tax and exceptional items increased 77% to £3.6m (1H FY17: £2.0m). Basic earnings per share increased 5% to 3.23p (1H FY17: 3.08p), despite the increase in shares in issue (average 83m vs. 53m).
- Net assets at 30 November 2017 increased 56% to £44.5m (31 May 2017: £28.5m).

Operational highlights

New origination +106%. Greater proportion has been broked on.

- Combined origination amounted to £56.3m of new lease, hire and loan agreements (1H FY17: £27.2m), an increase of 106%. 1pm maintained flexibility to either fund on 'own-book' or generate cash commissions from broking, with ca.55% of new lease and loan contracts brokered for commission (1H FY17: 24%).

Retained origination +45%, mainly in lending to assets with good residual values

- The combined 'own-book' assets, loans and invoice finance portfolio increased 45% to £130.1m (31 May 2017: £89.5m). Own-book origination in the period was £25.3m, up from £19.0m in 1H FY17, with £4.2m of the increase in the Bradgate hard-asset finance (i.e. good residual value) book.

Funding well diversified. Cost of funding down nearly a third, partially mix but also group benefit.

- Funding facilities were £137.0m at 30 November 2017 (31 May 2017: £74.5m). Usage of facilities at that date totalled £97.2m, giving £39.8m of headroom. Block funding facilities (£91.5m) continue to be the largest element and have six active providers. Blended cost of borrowings fell to ca.3.8% (year to 31 May 2017: 5.3%). We believe there is potential to secure cheaper facilities in 2H FY18 through the newly established group treasury function.
- Integration and cross-selling progress at each entity is said to be in line with operational expectations and objectives set by management.

Strategic update

Growth

New business origination

Strong growth in new business. Of business retained, biggest increase was in Bradgate "hard asset" finance.

Unsecured lending reduced

With these results, we note a significant increase in new business origination in the traditional lease, HP and loan arms of the Group, to £56.3m, +106% on 1H FY17. Of the growth, 45% was retained on book and 55% was broked on for commission. The mix is more broked than in 1H FY17 (24%) because of the iloans acquisition, where most new business is broked, and which was acquired after the comparable period last year. Academy saw a small increase in broked over own book, reflecting market conditions. In contrast, Bradgate, with the greater availability of funding being part of 1pm, saw more loans retained. The critical business message is that having flexibility is important in optimising volumes, risk and returns. We understand that new business pricing in each business line has been stable. While the markets are competitive, we note that the volume of bank lending is muted and that net new lending to businesses by members of the Peer to Peer Association has been falling over the last three quarters.

Figure 1: New business origination kept on own books

£m	1H FY17	1H FY18	Comment
Academy	4.6	3.6	Increase in broked business seen as less retained
Bradgate	5.0	9.2	More own book with eased funding
Onepm leases	5.0	5.8	Steady growth
Onepm loans	4.4	4.4	Policy constrained re tighter unsecured credit
iloans	n/a	2.3	New to group
Total	**19.0**	**25.3**	

Source: 1pm, Hardman & Co Research

Divisional performance

Figure 2: Divisional performances

	Revenue			Profit before tax and exceptional items		
£m	1H FY17	1H FY18	% change	1H FY17	1H FY18	% change
Onepm	4.2	4.3	3	1.3	1.4	1
Academy	3.1	3.3	6	0.9	1.0	6
Bradgate	0.7	2.2	248	0.1	0.7	507
iloans	0.0	1.1	n/a	0.0	0.2	n/a
Gener8	0.0	1.2	n/a	0.0	0.3	n/a
Positive	0.0	1.8	n/a	0.0	0.6	n/a
Centrals	0.0	0.0	n/a	(0.3)	(0.6)	(44)
Group	**8.0**	**13.9**	**74**	**2.0**	**3.6**	**77**

Source: 1pm, Hardman & Co Research

Onepm brand restrained by less unsecured lending. Academy steady growth. Bradgate shows benefit of being part of bigger group.

The figure above highlights the revenue and profit performances by business. Within Onepm, both were restrained in this period by management deciding to slow unsecured loans growth in prior periods in order to lower the risk profile of the portfolio. Academy has shown steady improvements, with the main organic growth coming from the hard asset finance business, Bradgate. The growth has been driven by the company being released from funding constraints, as well as payback for the infrastructure of being a bigger group.

Credit

Net write-off up on 1H FY17 but only a small increase on 2H FY17; still below through-cycle levels, so we expect further modest increases over time.

The net write-off, the charge taken through the profit and loss, increased to £0.7m in 1H FY18, from £0.3m in 1H FY17 and £0.6m in 2H FY17. As a percentage of the book, it is now 0.5% (up from 0.4% in 1H FY17), although this number is modestly flattered by the rapid growth in new business, which is included in receivables but which is not yet incurring losses. The scale of losses remains below what we consider a normalised level, reflecting both management action and the favourable economic outlook, and modest increases should be expected from here. 1pm has been prudently building its stock of provisions (now £2.1m, 1.6% of lease receivables).

No change in recovery rates

The company actively enforces its security, including pursuing personal guarantees. With a high recovery rate, it believes that net write-offs are a more appropriate consideration than gross write-offs, as the latter do not reflect what it expects to lose. We understand that there has been no material change in recovery rates – so there is no significant distortion to trends from that feature.

Arrears disclosed annually, but we understand they are showing a gently rising trend over time, as we expect, given the below-average level at present.

Arrears ratios are disclosed annually but, in line with market trends, we believe they also remain favourable and below what may be expected through an economic cycle. 1pm has such small levels of arrears that single situations can distort bottom-line numbers but we understand there has been a gentle, but not significant, rise compared with the prior period. This is in line with expectations and not a cause for concern.

Downside risk reduced significantly by acquisition of low-risk business and prudently tightening unsecured credit

We reviewed 1pm's credit processes and practices in pages 20-26 of our initiation note (Financing Powerhouse: A lunchtime treat). The group's downside recessionary exposure has been significantly reduced by the acquisitions of extremely low loss invoice financing businesses. We also note that the group has prudently reduced unsecured loan origination and been building its stock of provisions.

Funding

Well diversified, with costs falling. Opportunity for further cost reduction in due course.

The group continues to have highly diversified funding, as detailed in the figure below. All new receivables have funding with at least the same maturity, limiting liquidity risk. New facilities to the enlarged group reflect its lower risk profile and treasury bulk buying, with new block funding at an average of 4.8% against 5.1% last year. Group average funding costs fell by nearly a third in 1H FY18 vs. 1H FY18 (from 5.3% to 3.8%), with the low cost back-to-back invoice finance facility now accounting for nearly a third of funding (from zero last year pre-acquisition). Management has established a group treasury function, with the intention of further improving the cost of funds.

Figure 3: Key funding lines

£m	Facility	Usage	Headroom
Bank overdraft	1.0	0.0	1.0
Block funding	91.5	64.6	26.9
Secured loan note	7.5	2.9	4.6
B2B invoice finance	37.0	29.7	7.3
Total	**137**	**97.2**	**39.8**

Source: 1pm, Hardman & Co Research

Financials

Change in forecasts

We have not made any material changes to our forecasts with these results.

Figure 4: Estimate changes

Year-end May (£000)	2018E Old	2018E New	2018E % change	2019E Old	2019E New	2019E % change
Revenue	29,596	29,596	0%	32,946	32,946	0%
Cost of sales	(9,650)	(9,849)	2%	(10,604)	(10,820)	2%
Administration expenses	(11,034)	(10,834)	-2%	(12,201)	(11,983)	-2%
Operating profit	8,621	8,619	0%	9,825	9,822	0%
Pre-tax profit	7,883	7,946	1%	8,971	9,048	1%
EPS (p)	7.8	7.9	1%	8.2	8.3	1%
DPS (p)	0.6	0.6	0%	0.8	0.8	0%
Total receivables	145,123	150,893	4%	162,538	169,000	4%
Equity to receivables	34%	32%	-4%	35%	33%	-4%

Source: Hardman & Co Research

Profit and loss

Figure 5: Profit and loss

Year-end May (£000)	2013	2014	2015	2016	2017	2018E	2019E
Revenue	3,107	4,212	5,534	12,554	16,944	29,596	32,946
Cost of sales	(1,651)	(1,994)	(2,503)	(4,480)	(6,094)	(9,849)	(10,820)
Gross profit	**1,455**	**2,217**	**3,031**	**8,074**	**10,850**	**19,747**	**22,126**
Other operating income	0	0	0	2	3	0	0
Administration expenses	(663)	(845)	(1,394)	(4,290)	(6,469)	(10,834)	(11,983)
Exceptional items	0	0	0	(368)	(263)	(294)	(321)
Operating profit	**792**	**1,372**	**1,637**	**3,418**	**4,121**	**8,619**	**9,822**
Finance costs	(17)	(26)	(21)	(74)	(82)	(673)	(774)
Finance income	0	1	4	2	41	-	-
Profit before income tax	**775**	**1,346**	**1,620**	**3,346**	**4,080**	**7,946**	**9,048**
Income tax	(172)	(297)	(349)	(480)	(794)	(1,542)	(1,754)
Profit for year	**603**	**1,049**	**1,271**	**2,866**	**3,286**	**6,404**	**7,294**
Average number of shares (m)	23.15	29.60	34.18	48.85	**53.94**	**85.09**	**88.02**
Adjusted EPS (p)	**2.60**	**3.54**	**3.72**	**6.47**	**6.48**	**7.85**	**8.29**
Total dividend (p)	-	-	0.35	0.50	0.50	0.60	0.80
Dividend cover (adjusted EPS) (x)	n/a	n/a	10.6	12.9	13.0	13.1	10.4
Ratios (%)							
Revenue to year-end bal. sht.	24%	24%	22%	22%	23%	20%	19%
Cost of sales to revenue	-53%	-47%	-45%	-36%	-36%	-33%	-33%
Admin. costs to revenue	-21%	-20%	-25%	-34%	-38%	-37%	-36%
Finance costs to revenue	-1%	-1%	0%	-1%	0%	-2%	-2%
Finance cost as % year-end int.-bearing liabilities	-2%	-3%	-3%	-4%	-7%	-10%	-11%
Return on net assets	13%	15%	10%	12%	12%	13%	13%

Source: 1pm, Hardman & Co Research

Balance sheet

The figure below details the expected balance sheet. We have modestly increased our receivables and associated funding assumptions.

Figure 6: Balance sheet

As at 31 May (£000)	2013	2014	2015	2016	2017	2018E	2019E
Non-current assets							
Goodwill	-	-	-	10,289	14,908	27,375	27,375
Intangible assets					84	224	224
Property, plant and equipment	41	73	239	1,251	1,744	1,700	1,700
Trade and other receivables	-	-	14,502	33,166	49,966	51,966	58,202
Deferred tax	-	-	-	208	411	611	811
Total non-current	**41**	**73**	**14,741**	**44,914**	**67,113**	**81,876**	**88,312**
Inventories	-	-	-	81	135	-	-
Cash and cash equivalents	13	3	12	910	2,078	2,582	1,008
Trade and other receivables	12,900	17,324	10,489	22,895	23,989	98,927	110,798
Total current assets	**12,913**	**17,327**	**10,501**	**23,886**	**26,202**	**101,509**	**111,806**
Total assets	**12,953**	**17,400**	**25,242**	**68,800**	**93,315**	**183,385**	**200,118**
Non-current liabilities							
Trade and other payables	3,112	4,405	5,685	19,664	32,097	67,104	73,604
Financial liabilities - borrowings	100	100	100	399	250	3,450	3,450
Deferred tax	-	-	40	-	-	-	-
Provisions (contingent consideration)	-	-	-	1,833	2,300	2,300	966
Total non-current liabilities	**3,212**	**4,505**	**5,825**	**21,896**	**34,647**	**72,854**	**78,020**
Trade and other payables	4,109	4,807	6,182	19,979	26,533	56,091	58,896
Financial liabilities - borrowings incl. bank overdrafts	520	403	357	519	-	-	-
Interest-bearing loans and borrowings	400	380	200	729	949	3,149	3,916
Provisions		-	-	1,245	1,733	1,854	1,854
Tax payable	148	297	310	543	943	943	943
Total current liabilities	**5,177**	**5,887**	**7,049**	**23,015**	**30,158**	**62,037**	**65,609**
Total liabilities	**8,390**	**10,392**	**12,874**	**44,911**	**64,805**	**134,891**	**143,629**
Share capital	2,315	2,997	3,685	5,253	5,494	8,611	8,821
Share premium	1,569	2,288	5,606	13,077	14,170	24,853	25,859
Employee share			83	90	91	291	295
Retained earnings	679	1,724	2,994	5,469	8,755	14,740	21,515
Total equity	**4,563**	**7,008**	**12,368**	**23,889**	**28,510**	**48,494**	**56,490**
Period-end no. shares (m)	23.31	29.97	36.85	52.53	54.94	86.39	88.41
NAV per share (p)	0.20	0.23	0.34	0.45	0.52	0.56	0.64
Tangible NAV per share (p)	0.20	0.23	0.34	0.26	0.25	0.24	0.33
Ratios							
Equity/total receivables	35%	40%	49%	43%	39%	32%	33%
Current trade recs. to payables	n/d	n/d	1.70	1.15	0.90	1.76	1.88

Source: 1pm, Hardman & Co Research

Investors should be aware that when the company refers to own book loans and assets, it is referring to the gross amount due, which includes unearned interest. The accounting balance sheet line excludes this, and thus is a lower number. Similarly, when 1pm refers to drawn facilities, it includes contractual interest due, which again is a larger number than appears in the balance sheet liabilities.

Cash flow

As a lender, we believe the cash flow needs to be treated with a degree of caution – there is likely to be positive cash flow when a business is shrinking and negative when it is growing. Investors should also be aware that, as noted above, the mix of funding between bank facilities (and so in financing activities) compared with block funding (in payables and so in operating activities) will affect lines within the cash flow statement, but not the overall cash position.

Figure 7: Cash flow

Year-end May (£000)	2013	2014	2015	2016	2017	2018E	2019E
Profit before tax	775	1,346	1,620	3,346	4,080	7,946	9,048
Depreciation charges	15	23	79	354	544	758	739
Finance costs	17	26	21	74	82	673	774
Finance income	-	(1)	(3)	(3)	(41)	-	-
Increase in trade receivables	(2,787)	(4,425)	(7,667)	(12,649)	(9,134)	(22,000)	(18,107)
Increase in trade/other payables	1,168	1,990	2,656	11,996	11,476	15,000	9,305
Total cash from operations	**(812)**	**(1,039)**	**(3,294)**	**3,118**	**7,007**	**2,377**	**1,759**
Interest paid	(17)	(26)	(21)	(74)	(82)	(673)	(774)
Tax paid	-	(148)	(297)	(637)	(615)	(2,393)	(768)
Net cash from operating activities	**(829)**	**(1,213)**	**(3,612)**	**2,407**	**6,310**	**(689)**	**217**
Acquisition of subsidiaries	-	-	-	(7,588)	(3,141)	(16,017)	(1,300)
Purchase of prop., plant & equip.	(17)	(55)	(246)	(547)	(1,089)	(758)	(739)
Interest received	-	1	3	3	41	-	-
Net cash from investing activities	**(17)**	**(55)**	**(243)**	**(8,132)**	**(4,189)**	**(16,775)**	**(2,039)**
New loans/loan repayments	400	(20)	(180)	(179)	(22)	5,400	767
Share issue	-	1,395	4,090	6,769	(150)	12,988	-
Equity dividend paid	-	-	-	(129)	(262)	(419)	(518)
Net cash from financing activities	**400**	**1,375**	**3,910**	**6,461**	**(434)**	**17,969**	**249**
Increase in cash and cash equivalents	(446)	107	55	736	1,687	504	(1,574)
Opening cash/cash equivalents	(61)	(507)	(400)	(345)	391	2,078	2,582
Closing cash/cash equivalents	(507)	(400)	(345)	391	2,078	2,582	1,008

Source: 1pm, Hardman & Co Research.

Valuation

Summary

Average valuation upside on absolute measures 62%

Our assumptions were detailed in our initiation note (Financing Powerhouse: A lunchtime treat), and these have not changed. With the revisions to forecasts, our absolute valuation techniques imply an average upside of 62%. The limited peer group relative valuation measures would indicate between 60% and 100% upside.

Figure 8: Summary of different valuation techniques

	Implied price (p)	Upside (%)
Gordon Growth Model	103	90%
Dividend Discount Model	73	34%
Average absolute measures	**88**	62%

Source: Hardman & Co Research

Gordon Growth Model

GGM captures both value-added and growth. Upside more than double.

Our preferred valuation approach is to consider the value added by a business, which is captured by the Gordon Growth Model (GGM). A growing business delivering above its cost of capital should trade above book value because it is adding value. This model still indicates a value of 103p. For a business like 1pm, which is growing its equity base rapidly (partially due to our assumed low dividend pay-out ratio), rolling forward to a new base year will see a material increase in valuation. For example, if we used 2019E NAV rather than 2018E, the valuation would be 117p.

Dividend Discount Model

DDM 73p, upside 34%; would rise to 81p if company immediately adopted long-term pay-out ratio.

Our Dividend Discount Model (DDM) produces a valuation of 73p, of which just 12p is in the terminal value. It is also worth noting that the short-term pay-out ratio is well below that we expect over the long term. If the company were to immediately adopt our long-term ratio, it would add a further 8p to the valuation under this methodology.

Peer comparisons

Closest peers indicate share price could double. Broader range suggests 60%+ upside.

1pm has no immediate quoted peers. For illustrative purposes only, we have included, in the figure below (i) other specialist lenders in the SME space, (ii) smaller consumer finance companies, including Non-Standard Finance (a lending business with multiple channels, which has been built through acquisitions in recent years), and (iii) selected challenger banks. Using the quoted specialist lenders on P/E or P/B measures would suggest a share price broadly double the existing one. The smaller consumer finance companies imply ca.60% upside. The challenger banks are more mixed, but again have upside.

Figure 9: Peer valuation comparisons

	Share price (p)	Market cap. (£m)	2018E P/E (x)	2018E yield (%)	P/latest tang. BV (x)
1pm	**54**	**45**	**6.7**	**1.3%**	**1.1**
SME finance					
PCF (Sept)	26.7	57	14.2	1.2%	1.9
Orchard Funding Group (July)	101	22	14.5	3.1%	1.7
Average			14.35	2.2%	1.8
Smaller consumer financials					
Non-Standard Finance	72	226	11.0	4.5%	0.9
Ramsdens (March following year)	209	65	12.5	3.5%	2.4
H&T	355	133	12.8	3.2%	1.3
Challenger banks					
Secure Trust	1,800	332	10.4	4.5%	1.5
Metro	3,632	3,213	46.3	0.0%	3.0

Source: Hardman & Co Research. Share prices and consensus forecasts as at 15/01/18.

Triggers for a re-rating

We believe the triggers to a share price re-rating include the following.

- Delivery of profit growth. Given the transformation of the group through acquisitions, delivery of the expected strong growth in profits is likely to eliminate some of the current uncertainty as to whether the acquisitions have worked. The share price reaction to the trading update in December (+6%) is indicative of this effect.

- Positive news flow confirming group synergies. In particular, we believe evidence that the group's funding costs can be reduced will re-affirm that the theoretical synergies are real and that the strategy to date is adding value.

- We believe delivery on earnings and the planned enhanced investor relations programme should address these issues and so see a share price re-rating.

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The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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