PCF GROUP PLC (LON:PCF)

FINANCIAL SERVICES

17/04/2018

SHARE PRICE	52 WEEK LOW
▲ 32.5p	▲ 21.55p
MARKET CAP	**52 WEEK HIGH**
▲ £68.97m	▲ 35.00p
MARKET	**CET1 ratio**
▲ AIM	▲ 26.3%

PCF Group Plc: Funding Update

ANNOUNCEMENT OF SIGNIFICANT INCREASE IN DEPOSITS

PCF Group (LON:PCF) has announced that deposit funding from retail investors, which only started in July 2017, has increased substantially again and now exceeds £100m. This compares to previous announcements of £53m at the end of September '17, and £81m at the end of February '18. We estimate that compared to the last reported Group total liability dated September '17, the bank now only requires an additional c.£35m of deposit funding to be able to completely replace, should it be desirable to do so, all of the third party bank funding reported at that date. However, whilst funding has grown significantly since the full year results, loans to customers continue to expand also. It is likely therefore that the bank will continue with at least some sort of diversified funding for some time yet to help manage this growth.

DEPOSITS, GREATER STABILITY, GEARED FOR EXPANSION

Retail deposits are preferred bank funding in a number of asset markets precisely because of the inherent stability, and liquidity, of individual deposits and deposit flows. Banks also tend to be able to manage deposit books better through the cycle as opposed to lumpy third party funding which maybe withdrawn on a whim. Deposits can also be cheaper. PCF has not guided specifically with this update as to what the average cost is between £100m of deposits and £100m of third party funding, but we believe the difference could be a spread equal to c.300bps or £3m.

Despite the obvious Eps benefit that this could achieve, PCF Group (LON:PCF) has stated previously that this saving is not directly earnings enhancing, preferring instead to roll the gain into better loan pricing and a greater share of the prime asset market where risks and impairments are nominally lower. This is sensible in our view, given where we believe we are in the asset and interest rate cycles and the potential for growth in this larger prime market. Furthermore we believe that given PCF's 20 years of market and customer data, the Group is able to accurately choose customers that have credit profiles which suit their risk appetite for each credit band.

CAPITAL NETWORK BALANCE SHEET ASSUMPTIONS

We currently see little reason why portfolio assets cannot reach or even exceed, £200m by September '18. Although likely to be variable, at the current rate of deposit funding growth (c.£10m per month) another £50m of funding would comfortably exceed £200m in portfolio assets by September in our view. This could however be an embarrassment of riches – funding exceeding market opportunities in the right asset areas at the right prices. The Group has repeatedly stated it will not chase volume for volume's sake. We therefore hold off from definitively forecasting portfolio assets greater than £200m for this financial year and instead await further company guidance.

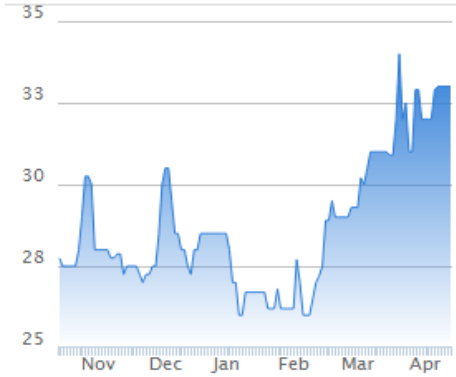
We also have to consider that in 2018 £62.2m of drawn short term loans will mature leaving another £14.8m to mature in 1 year or more. To what extent short term loans are rolled into financial year 2019 is not yet known, nor to what extent undrawn longer term facilities are utilised. Retail deposits add fixability to this strategy. It is also noted that the CET1 ratio is strong and adequate to sustain the forecast growth.

MAJOR SHAREHOLDERS

1) Bermuda Commercial Bank Limited 54.5%.
2) Somers Limited – 10.93%
3) Miton Asset Management – 4.20%

Shares in issue	212.23m
Avg volume	129,020
Primary index	AIM
EPIC	LON:PCF
Next key announcement	June 2018
Sector	Financial Services

SHARE PRICE CHART



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Company Information

UK Address – Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER
www.pcf.bank

Analyst Details

James Dolman, CFA
james.dolman@capitalnetwork.com
+44(0)20 7264 3921

MORE OF THE SAME - WELCOME NEWS FOR BUSINESS DEVELOPMENT

At this stage in the Groups development, more of the same is a definite plus. Change is, after all, a business risk to either operations, model, or funding and has the potential to negatively shape firm development. The fact that PCF has been able to navigate this period well is in our view testament to the management teams ability to transition to a fully fledged bank and seize the opportunity to grow.

UNCHANGED POSITIVE GUIDANCE

The group has also once again restated its medium and long term objectives which are unchanged from previous guidance. Portfolio assets are still expected to be £350m by 2020 and £750m by 2022. Furthermore, ROE guidance is once again reconfirmed for 12.5% in the medium term.

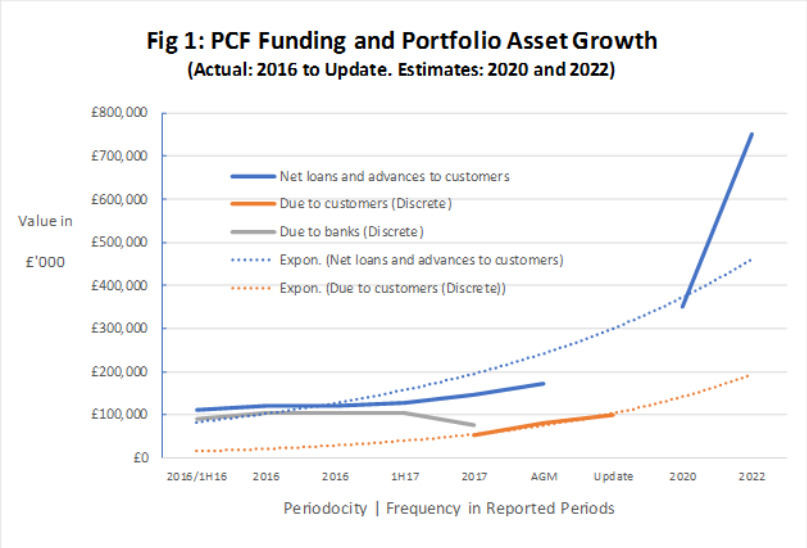


FIGURE 1 NOTES

In the chart above, we show the asset and funding positions as reported by PCF, the trend lines of asset growth and deposit growth, and PCF's estimates for portfolio assets by 2020 and 2022. The funding 'Due to Banks' and the funding 'Due to Customers' are shown discretely, not cumulatively. As can be seen, 'Due to Banks' is rolling down, but funding 'Due to Customers' is gradually increasing.

We believe that the Group can continue to fund in either deposit or third party wholesale markets sufficiently to match the Groups aspiration for future portfolio asset growth, shown in the right of the chart.

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