STOCKS DOWN UNDER

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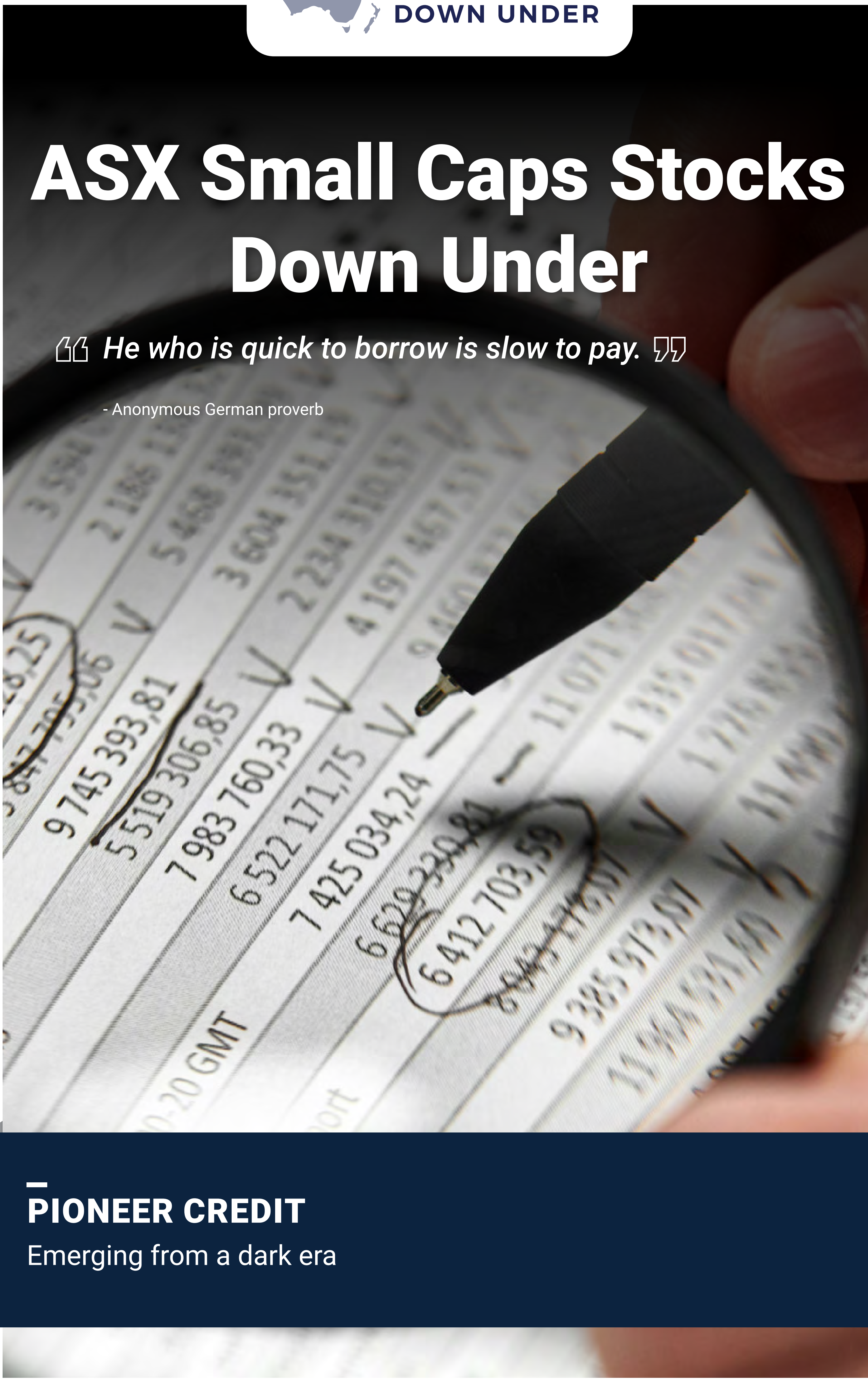

ASX Small Caps Stocks Down Under

"He who is quick to borrow is slow to pay."

- Anonymous German proverb

PIONEER CREDIT

Emerging from a dark era

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Stocks Down Under rating: ★ ★ ★ ★

ASX: PNC
Market cap: A$33.0M

52-week range: A$0.30 / A$0.66
Share price: A$0.295

Sometimes when lenders, such as the big banks, are owed money and are sick of waiting for repayment, they pass the job on to debt management firms and Pioneer Credit (ASX: PNC) is one of them. Pioneer has gone through a difficult few years that nearly caused it to collapse. But if its FY22 results are anything to go by, Pioneer just might have a very bright future ahead.

Share price chart

Source: Tradingview

Ethical debt collection

Pioneer Credit was founded in 2006 and listed in May 2014, having raised $40m at $1.60 per share. It acquires and services unsecured retail debt portfolios (credit cards and personal loans). This is lay talk for taking on debt that the big financial institutions have given up on recovering (typically over 180 days overdue) and trying to recover the debt yourself.

You may imagine that this involves taking people to court, but this would be wrong, as it is only used as a last resort. Pioneer seeks payments over a longer period of time rather than an early repayment with less interest. This works out better both for the debtor and the company. Pioneer is actually progressing towards formal ESG certification, having completed B Corp self-certification and is being audited for this purpose.

Pioneer listed as the third largest company of its kind in Australia, but is now second after Credit Corp (ASX: CCP). It claims to have 'helped' 100,000 people since its inception and is currently supporting a further 250,000 customers. It boasts a NPS of +30, impressive for a financial institution.

Corporate cops drag the company down

The first few years of listed life went well, with the company reaching an all-time high of $3.65 a share in mid-2018. But 2019 was the company's annus horribilis with a change in accounting standards (from fair value to amortised cost) causing a big hit to earnings and the carrying value of its assets. Pioneer had been the only operator in its space that had valued its assets at fair value (the price agreed between the buyer and seller) and was forced to change to amortisation (where the value is written down over time) by corporate regulators.

The consequential impact on the books nearly sank the company. 2020 began even worse with a falling out with its secured creditors. And the impact also caused investors to look at other accounting issues that would otherwise have been minor, such as a large number of related-party transactions and the broken promise to launch a credit card (eventually). At one point up to 20% of its shares were shorted. And of course, considering that many of the big financial institutions pressed the pause button on debt collection for a few months at the onset of the pandemic, they also stopped selling debt.

The outlook looks rosier

Two years on, things are looking up for Pioneer. It became the second largest firm in its space after forking out over $45m to buy a debt collection portfolio that belonged to Collection House. Collection House collapsed only hours after Volt Bank collapsed, given that Volt owed a significant amount of debt to it and attempts to offload it in the weeks before had failed.

In FY22, Pioneer recorded $106.7m of revenue (up 12.7%), or in other words PDP liquidations. The company's total Purchased Debt Portfolio exceeded $100m in FY22, the most in the company's history and more than its combined investment of the previous two financial years. It also recorded EBITDA of $60.7m (up 11.6%), Net Assets of $73.3m (up 3.9%) and LVR at 84.6%.

Consensus estimates are optimistic for FY23 suggesting $157.3m in revenue and $99.7m in EBITDA for FY23, which would be 26% and 32% higher than the FY22 results - $106.8m revenue and $60.6m in EBITDA. The company's P/E multiple for FY23 is 5.5x and its Price to Book Value is 0.8x, both of which suggest it is reasonably priced right now. The latter metric says the market is valuing the company at less than the value of its equity. By comparison, most banks and insurance companies are valued at a P/B multiple higher than 1x.

Let's briefly look at industry behemoth Credit Corp. It is expecting EBITDA growth to slightly retreat, by 2%, and it is trading at 11.9x P/E, 2.4x PEG and a P/B of 1.6x. The P/E ratio is reasonable, but the PEG and P/BV multiples suggest it is overvalued in its own right, even before you consider Pioneer.

Pioneer has repented, but the market hasn't forgiven it

When companies go through a rough period, let alone near-liquidation, it takes the market a while to forgive them. Judging by Pioneer's share price, it seems the market has still not forgiven it, with the shares down another 30% this year. Credit Corp is also down in CY22, by 47%.

However, we think a lot of this is to do with market sentiment towards the lending sector generally, with investors thinking rising interest rates will cause an increase in bad debts and a drop in new business. The irony is that increasing bad debts might actually be a good thing for Pioneer so long as the sector doesn't hit a collective pause button on on-selling their bad debt to companies such as Pioneer. Still, the latest actions by the RBA provide hope that monetary tightening may be coming to an end, or at least may slow down.

If the company can achieve the revenue and earnings growth forecasted by consensus estimates, we think investors will finally take notice of it. Notwithstanding that the company has not given specific guidance, but is forecasting further growth and becoming profitable on an NPAT basis, we are giving it four stars assuming it can reach consensus estimates.

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