Time Finance plc

Momentum clearly building

22 April 2021

In our Jan 21 initiation note 'Time to be rerated' we suggested that Time's results for H1 to 30 Nov 20 showed that a recovery from a Covid-induced slump in good quality lending demand and spike in bad debt provisions was well underway. In a corporate update released today Time has confirmed ongoing momentum of that recovery.

Forbearance levels have reduced from the Jun 20 pandemic peak of £25m to under £2.5m on 31 Mar 21, with total arrears now below the 28 Feb 20 pre-Covid level. This has contributed to net tangible assets rising to £28.5m on 31 Mar 21 (31 May 20: £26.5m; 30 Nov 20: £27.8m) and cash and equivalents rising to £6m (31 May 20: £1.5m; 30 Nov 20: £3m). The numbers are clearly moving in the right direction.

Time has also announced renewed funding facilities which total over £170m. This **provides significant headroom to grow** (£97m as at 30 Nov 20). Since our initiation note, Time has appointed **Ed Rimmer as interim CEO**. Ed has 20 years of commercial finance experience, was previously Time's COO (after being MD of the Commercial Finance Division formed from the acquisitions of Gener8 Finance and Positive Cashflow Finance), and UK CEO and main board director of Bibby Financial Services Limited.

Outlook improving

Prospects for the main markets Time operates in are also showing positive signs. In asset finance (>50% of group revenue), figures released by the Finance & Leasing Association (FLA) show that new lending in Feb 21 actually exceeded the pre-pandemic Feb 20 level by 1%.

While FLA consumer car finance figures remained relatively weak, its outlook was far more positive. Geraldine Kilkelly, Director of Research and Chief Economist at the FLA, commented: "*The UK lockdown restrictions over the winter months contributed to a fall in consumer car finance new business volumes of just over a quarter. As car showrooms re-open and consumer confidence recovers, we expect a strong rebound in demand. The value of annual new business in the consumer car finance market is expected to reach its pre-pandemic level this year*."

More generally, the most recent UK economic forecasts have steadily improved. The Apr 21 HM Treasury report, *Forecasts for the UK economy: a comparison of independent forecasts*, shows that **UK GDP growth forecasts have been upgraded - the average of new forecasts of 19 independent economists now stands at 5.7% for 2021 and 5.6% for 2022**. The 2021 forecast was significantly up on the average forecasts polled in March (4.7%). Continuing vaccination success and the opening up of the economy are obviously playing a key role in the economic outlook.

Shares performing well, but still undervalued vs peers

All of the above suggests that momentum is positive for the fundamentals of Time Finance. We now await a further corporate update and the reinstatement of guidance – probably soon after the end of the financial year. **It is worth reminding readers that Time looks undervalued with respect to peers. Its price-to-book ratio of 0.5 is far below the peer group median of 1.3** (see chart overleaf - the difference has in fact increased since our initiation note in January: 0.4 vs 1.0). **We still see potential for further rerating.**

Company Data

EPIC	TIME
Price (last close)	28p
52 weeks Hi/Lo	30p / 15p
Market cap	£26.7m
Net tangible assets	£29m
Avg. daily volume	218k

Share Price, p

Source: ADVFN

Description

Time Finance ('Time', previously 1pm plc), established in 1998, is a non-bank lender and loan broker. It has four operating divisions:

Asset finance: for SMEs to purchase hard and soft assets;

Invoice finance: for SMEs to borrow against debtors books;

Loans: commercial SME loans and consumer property loans;

Vehicle finance: for SMEs and consumers to purchase commercial or private vehicles.

Most asset, invoice, and SME loans are written to 'own-book'. Consumer and vehicle loans are 'broked-on'.

London Stock Exchange Group 1000 COMPANIES TO INSPIRE BRITAIN 2020

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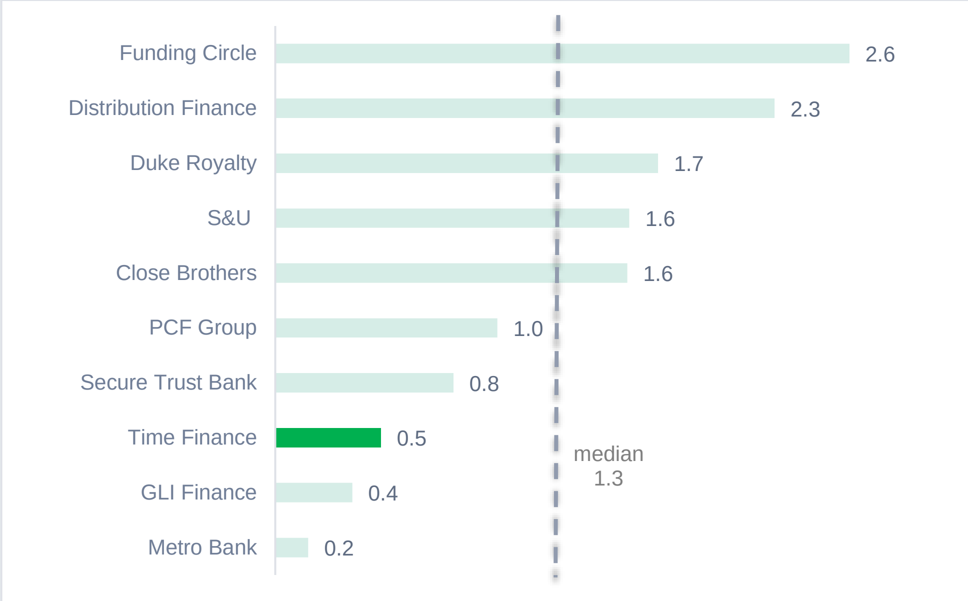
Relative valuation and historic financials

Peer Comparison: price-to-book ratios



Source: ADFVN as at 21 April 2021

Key Financials

Year-end 31 May	FY 17A	FY 18A	FY 19A	H1 20A	FY 20A	H1 21A
Loan originations, £m	83	143	161	88	147	57
Net lending book*, £m	71	125	124	123	108	106
Net interest margin	11.5%	12.0%	12.0%		12.0%	
Revenue, £m	30.0	16.0	31.8	15.6	29.2	11.9
Op ex incl. credit losses, £m	22.0	12.1	23.8	12.5	27.1	10.3
Bad debt provisions, £m	1.2	2.2	2.4	2.7	5.1	5.1
Bad debt prov, % of book	1.9%	2.3%	1.9%	2.2%	4.4%	4.8%
PBT, £m	4.1	7.9	7.9	3.0	2.0	1.4
EPS basic, p	6.1	7.6	7.3	2.8	1.8	1.2
Div**, p	0.50	0.65	0.84	0.00	0.00	0.00
Yield, %	1.8%	2.3%	3.0%	0.0%	0.0%	0.0%
Price Earnings Ratio	4.6	3.7	3.8	5.0	15.8	11.5
Price to Book Ratio	0.9	0.5	0.5	0.4	0.5	0.4
Net tangible assets***, £m	13.6	19.8	25.9	28.2	26.5	27.8
Net assets, £m	28.5	47.7	53.8	56.1	55.2	56.6

Source: Company Historic Data. PER, Price to Book and Yield based on share price of 27.75p
*excluding unearned interest **interim dividend for half-years ***excluding goodwill

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