



Credit Corporation Limited (CCP)

Not quite clear sailing

Event

FY2016 results highlight strong performance.

Impact

Operating profit jumps 57% to K98.9m from pcp

Operating profit for FY2016 increased significantly buoyed by an increase in the fair value adjustments for financial assets by K43.5m and a modest contribution from the Finance Business. Net finance income for the year saw a 5% increase from K49.2m to K51.8m.

Finance business chips in with a modest contribution

The finance business segment made modest contributions across with Fiji contributing almost 20% or K25.8m of revenues behind PNG adding K36.1m during the year. Fiji recorded a 13% growth in its operating profit before tax, while both the Solomon Islands and Vanuatu business posted K9.8m and K4.1m respectively. We expect FY2017 results to be on par with FY2016 results.

Rental income impacts investment property portfolio, near term headwinds expected

The investment property portfolio saw a decrease of K22.05m reflecting the reduction in the rental levels and occupancy rates. The Era Dorina stages 1, 2 and 3 have seen a marked decrease in rental rates with the occupancy rates falling to 70%. Rental income during the year was down 21% from K29.2m to K23.1m. However, the company remains optimistic in the high end and commercial property market with an improving outlook in 2018 and beyond. The company also owns the Credit House Limited, Era Dorina Limited, Era Matana developments and a commercial block.

Balance sheet features strong growth in financial assets

Group total assets saw a modest increase from K1.16 billion to K1.25 billion. The company continued to see improvement in its investment portfolio. Credit Corporation owns 7.55% of BSP as well as other unlisted investments including a 25% holding in Capital Life Insurance.

Investing in new opportunities...

Credit Corporation applied for a finance license in Timor Leste in 2Q16. The license is expected to be granted in the 3Q17. According to the management all is progressing well. CCP has also applied for a FX license in 2Q15 pending approval from the Central Bank.

Earnings & Valuation

We forecast for CCP's finance earnings to remain flat in FY2017, property rental income will continue to be subdued given new developments within Port Moresby to put stress on rental rates, however, this will be offset by continued strong dividend flows from its investments in BSP and Capital Life Insurance. We forecast the CCP's dividends to remain stable in FY2017 and gradually rise in 2019 and beyond. Using the Residual Income Method (RIM), assuming stable growth in dividends, and cost of equity at 9.01%, we are of the opinion that CCP's fair value to be at K2.22 per share.

Recommendation

Difficult trading conditions in PNG and across the region continue to restrict the business to deliver expected shareholder returns. CCP's share price reached to a low K1.60 during the year reflecting excess supply despite strong metrics. CCP has historically traded at 5x to 6x earnings this presents upside opportunities for CCP compared to recent share price performance. Strong organic growth is an obvious catalyst for most companies and we are of the view that realizing these new opportunities mentioned above could alter the financial metrics of the company. We have a **Buy** rating on the stock with a total shareholder return of 33.3%

Recommendation

Buy (Stable)

Price

K1.80

Target (12 months)

K2.22 (previously K1.98)

Expected Return

Capital growth	23.3%
Dividend Yield	10.0%
Total Expected Return	33.3%

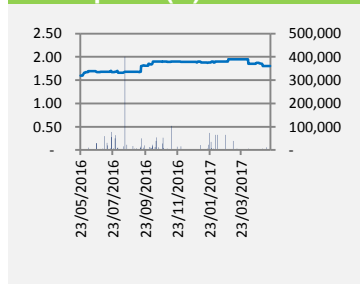
Company Data & Ratios

Enterprise value (K)	558.6m
Market cap (K)	566.9m
Issued capital	314.7m
Avg. daily val.	K9,380.15
12 month price range	K1.60- K1.90
Sector	Diversified Finance

Price Performance

	1m	6m	12m
Price (K)	1.67	1.90	1.80
Absolute (%)	4.38	18.75	12.50

Share price (K)



Credit Corporation	CMP		1.80			
Year Ending Dec 30	2016	2017	2018	2019	2020	2021
PER SHARE DATA	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Price to Earnings	5.70	5.51	5.33	5.18	5.08	4.99
Reported EPS (toea)	0.32	0.33	0.34	0.35	0.35	0.36
Reported EPS growth (%)	57.41%	3.35%	3.42%	3.01%	1.95%	1.84%
Dividend per share (kina)	0.14	0.18	0.15	0.16	0.16	0.16
Book Value Per share (Kina)	2.50	2.55	2.60	2.65	2.71	2.76
Net Tangible Asset (Kina)	2.50	2.55	2.60	2.65	2.71	2.76
Shares on Issue (m)	314,965	314,965	314,965	314,965	314,965	314,965
VALUATION METRICS						
P/BV Stated	2.28	2.16	2.05	1.95	1.88	1.81
RoE (%)	12.63%	12.80%	12.98%	13.11%	13.10%	13.08%
RoA (%)	8.11%	8.02%	8.10%	8.08%	8.00%	8.00%
Dividend Yield (%)	7.78%	9.89%	8.25%	8.69%	8.86%	9.03%
Dividend Payout (%)	44.33%	54.54%	44.00%	45.00%	45.00%	45.00%
Dividend cover (%)	2.26	1.83	2.27	2.22	2.22	2.22
PROFIT & LOSS (PGK)						
Finance Income	66,125	68,770	74,959	80,956	86,623	91,821
Finance costs	-14,542	-13,754	-14,992	-16,191	-17,325	-18,364
Net Finance Income	51,583	55,016	59,968	64,765	69,299	73,456
Other Revenue	68,827	70,892	73,018	74,479	75,968	77,488
Fair value gain/(loss)- shares	57,396	57,970	57,680	57,969	58,258	58,550
Fair value of investment properties	-22,052	-22,494	-23,168	-23,632	-24,577	-24,823
Net Operating Income	155,753	161,384	167,498	173,581	178,948	184,671
Impairment loss on financial receivables	-13,482	-13,617	-13,753	-13,890	-14,029	-14,170
Personnel expenses	-16,978	-17,827	-18,718	-19,654	-20,637	-21,669
Depreciation expenses	-2,738	-2,875	-3,019	-3,170	-3,329	-3,495
Other Operating expenses	-23,170	-23,865	-24,581	-25,318	-26,078	-26,860
Results from operating activities	99,385	103,200	107,427	111,548	114,876	118,478
share of profit of equity accounted	1,901	1,958	1,958	1,958	1,958	1,958
share of profit of equity accounted	101,286	105,159	109,385	113,506	116,834	120,436
Income Tax (expenses)/benefit	-1,812	-2,356	-3,063	-3,982	-5,176	-6,729
Profit for the year	99,474	102,803	106,322	109,524	111,658	113,707
Foreign currency translation attributable to Owners of the company Non-controlling interests revaluation of subsidiaries						
Total Comprehensive Income	99,474	102,803	106,322	109,524	111,658	113,707
BALANCE SHEET & CAP AD (PGKm)						
Cash and Cash equivalents	88,413	90,624	92,889	95,211	97,592	100,031
Finance receivables	395,381	403,289	411,354	419,581	427,973	436,533
Other Investments	350,389	359,149	368,128	377,331	386,764	396,433
Total Assets	1,249,150	1,311,608	1,350,956	1,404,994	1,461,194	1,505,030
Shareholders' funds	787,292	803,038	819,099	835,481	852,190	869,234
Deposits	339,004	349,175	359,650	370,439	381,553	392,999
Total Liabilities	461,858	508,570	531,857	569,513	609,004	635,796
Preferred Shares	-	-	-	-	-	1.00
KEY RATIOS & GROWTH						
Finance Income growth (%)	9%	4.0%	9.0%	8.0%	7.0%	6.0%
Operating Income growth (%)	36%	3.6%	3.8%	3.6%	3.1%	3.2%
Cost growth (%)	24%	3.2%	3.2%	3.3%	3.3%	3.3%
Cost to Income (%)	36.2%	36.1%	35.9%	35.7%	35.8%	35.8%
Liquid Asset Ratio (%)	7.1%	6.9%	6.9%	6.8%	6.7%	6.6%
Capital Adequacy (%)						
Top 5 SHAREHOLDERS						
	m	%				
Nambawan	66,296	20.00%				
Nasfund	62,099	19.72%				
Teachers Savings & Loans	48,614	15.44%				
Lamin Trust	19,159	6.09%				
Motor Vehicle Insurance Limited	17,100	5.43%				

Recommendation definitions

Buy - expect >15% total return on a 12 month period. For a stock regarded as speculative an expected return of > 30pc

Hold - expected total return between -5% and 15% in a 12 month period

Sell - expect < -5% in total return in a 12 month period.

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