

# Creditcorp: under promising and over delivering

10/8/2018, Rhett Kessler, Pengana Australian Equities Fund

- Creditcorp (ASX: CCP) is comprised of three successful businesses: a post due date ledger collection (PDL) business, a consumer loans business in Australia and a PDL collection business in the United States.
- The company has demonstrated consistent discipline and restraint, with a history of under promising and over delivering.
- Since Thomas Beregi took over as CEO in 2008, the Company has recovered well and shown remarkable growth.
- The recent “short” report published in June provided us with the perfect opportunity to purchase additional stock at a discounted price.

## What is the business?

Creditcorp is comprised of three main businesses, the first, which makes up almost two thirds of the company, is a post due date ledger collection business. They operate by purchasing overdue ledgers mainly from the banks; they pay close to 20 cents in the dollar on the face value of the loans and generally collect 60 cents over the next four to five years.

This business is the largest and most disciplined in the country with close to 40% market share. They have also demonstrated a consistent record of efficient buying and collecting. Known for erring on the side of caution, they have a history of taking a step back during times of exuberant pricing, a move the market often perceives as negative but we feel shows restraint.

The second business, making up a quarter of the company, is a consumer loans business. Here they have constructed a loan product that solves a problem facing regulators, that being the need for credit from people who cannot get it from the bank, but where it also doesn't fall into the category of payday lending. This product is the cheapest in the market, has regulatory approval and funding from Westpac. Particularly important to note is their conservative presentation of results, across the business but especially in this sector. Every time they write a loan, even if it has a two year duration, they take the full loss that they expect on average across the book - they assume for every \$100.00 they lend out, they will write off \$20.00. A significant factor as it means the faster this business grows the lower the reported profitability but the better the underlying profitability going forward.

The third and final business is where they have focused their existing expertise on entering the PDL industry in the USA. So far, they have booked all their losses associated with the new business and have again showed great discipline in their approach. When pricing was irrational they exhibited admirable restraint, however recently with the resurgence of the US economy, PDL book prices have come down and Creditcorp have been able to take full advantage. Despite their bottleneck being their ability to sharply ramp up the number of trained personnel collectors, the US is a large growth market, ten times larger than Australia. They may currently be one of the smallest players in this market but they are growing rapidly.

### Is it a good business?

This business is disciplined and generates, even with conservative gearing and accounting, a high return on equity. History has also demonstrated a remarkable stability to their core business through different economic cycles, underpinned by the fact that there is a core segment of the population who will always spend more than they can earn creating consistent demand.

In addition, as a result of having critical mass, Creditcorp have access to a massive data lake allowing them to accurately predict reasonable purchase prices and compare book quality. This is something a company with a smaller customer base wouldn't be able to do as well.

### Is the management team competent?

CEO, Thomas Beregi started his position in 2008, post the global financial crises when the business and industry were in a state of disarray. Since that time, Thomas has been able to grow the company at a remarkable rate, consistently under promising and over delivering which is a key factor for us.

### Can we buy it at the right price?

The stock is currently available on a 7.5% after tax cash earnings yield or 13.5% price to earnings ratio. Given the underlying resilience to earnings and their future growth prospects this offers an excellent entry point.

### The short report

Creditcorp can't be discussed without also addressing the recent short report published in June by an anonymous author on online blogging site, HotCopper, the consequences of which were a temporary trading halt. A short report is a negative report on a company that recommends shorting its stock. This is something we took full advantage of as it resulted in a 20% drop in share price, allowing us to purchase a significant number of additional shares at a discounted price. The share price has now recovered and is trading at the same price it was previously. We remain their biggest shareholder.

We believe Creditcorp to be a sound investment and have purchased its stock for these main reasons:

1. It's a well-managed financial services business that's diversified across Australia, New Zealand and the United States – in terms of its PDL Collections business.
2. It has a rapidly growing consumer loan business.
3. Westpac funds Creditcorp at an compellingly low cost of debt highlighting their interpretation of the inherent corporate credit risk.
4. The company has grown its earnings and dividends consistently across the last ten years.
5. Management is credible and consistent.

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