International Personal Finance
2012 full year results conference call
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Speaker key
GR Gerard Ryan, Chief Executive Officer, IPF
DB David Broadbent, Finance Director, IPF

GR Good morning everybody and thank you for joining our call this morning. As you know, we announced our results for 2012 earlier today. Hopefully you've had a chance to look at our press releases. What I'll do is I'll give you some top line headlines and then we'll open it up to questions, and I'm here with David Broadbent, our Finance Director.

So just in terms of the top line results, I have to say we're particularly pleased with the result, a very solid performance all round. Underlying growth was a solid £20 million increase in pre-tax profits. When you take out the exceptional charge we come in at £19 million and the headline is £95m. We saw a 9% increase in top line revenue and a 13% increase in credit issued. Some of that came through relaxations of credit rules that we've done in selected countries and in selected areas. And the good thing to note is that in terms of impairment to revenue, which is our key risk metric, it is bang in the middle of our target range of 25-30%.

You have probably seen that for the first time the cost-income ratio has come below 40%, which is a good indicator for us and we feel that we've got further to travel on that journey. And in terms of the full year dividend we're proposing a 9% increase on that, and as you know we completed our first year buyback last year of £25 million. So when we look at the balance sheet in terms of equity to receivables, we're currently over our target of 55%, we probably have excess capital in the region of £17 or £18 million, and we're currently examining the best way to invest that on behalf of shareholders. In accordance with our commitment that we made last year to the extent that we don't find sensible investments that will give a decent return for shareholders, we will find a way of getting that money back to the shareholders.

In terms of market specifics, we have what we would call standout performances from Poland and Hungary; a good performance from Czech Republic in the face of slightly elevated competition. Romania, which is by far our smallest market, has had the toughest period, the toughest year I guess, and that was largely during Q1 2012, so we're pleased with the way they remainder of the year went and how we see 2013 panning out. And Mexico is obviously one of the businesses that people pay a lot of attention to. We've rolled out the new credit relaxation rules there in 18 out of 54 branches and as you'll see from the numbers that we've put forward the impairment to revenue line is moving in the right direction, despite the fact that we're growing the top line and growing the average issue value of the loans that we give to our customers. So all in all, Mexico are heading in the direction that we want it to be and that's targeting £30 to £33 of profit per customer by the end of 2015. So, in summary in terms of the results to date, we are very pleased with where we stand, but not complacent; a lot to do as we look forward to 2013.

In terms of expanding the footprint of the business, we've spent the last six or seven months following up on the strategy that we announced about adjacent market entry, and so we've done a very detailed scan of all the countries that border our existing presence in Central Europe, and we have come to the conclusion that there is a very good opportunity for us to open up new businesses in Bulgaria and Lithuania, and the way we're going to do this is on what we call a 'hub and spoke' basis. So Lithuania will leverage the resources and the management structure in Poland and Bulgaria will do likewise for Romania. Based on how we look at these markets, we think that there'll be a P&L drag of approximately £4 million to £5 million in the current year for investment in those businesses, and at maturity we would see Bulgaria having probably of the order of 100,000 customers, and Lithuania somewhere in the region of 75 to 80,000 customers, and our targeted profitability for these will be about £75 per customer.

You'll also have seen that we rolled out a number of new products: a longer term product in Poland of 90 weeks; and a 100 week product in Czech Republic - these are on a pilot basis, but so far proving very successful. And we announced at the half-year that we were going to also look at preferential pricing. We did get some pushback at the time saying why would you do that if these customers continually come back to you? But the reality is that we feel that we should be offering good quality customers, that we have history with, a better deal and as it turns out, based on the pilot in Slovakia, it works for both parties. So when we've offered this discount to customers, rather than just take the discount, they've used that extra repayment capacity to increase the scale of the loan and for the pilot that we ran in Slovakia, in fact the increased loan value has offset the reduction in the interest rate. That's now in pilot in Poland and Hungary also, and will be moved on to Czech and to Romania later in 2013. Our treasury team has done a lot of work during the year in diversifying our funding sources, and the really pleasing thing to note there is that those funding sources are coming in significantly cheaper than our existing funds, so that bodes well for the future.

One of the things that I should note, and that is we've explained that we're going to go for a secondary listing in Warsaw. Now clearly we're not looking for any additional capital, but we do feel that that it's a good move for the business because it will bring us closer to the Polish market. In addition, I think having a higher profile there would be good for our reputation and will also be beneficial when we come to doing additional refinancing.

So overall I think a solid set of results, lots of ticks in the boxes that we wanted to do but still plenty to do in 2013 and beyond. And that's it, really, in terms of summary, so I'd be happy now to take any questions, and Dave and I are ready to answer those.

Caller 1 Hi. I've got one question regarding Poland. Can you please present what is the sensitivity of Polish business to the rate caps which are currently in Poland today. Can you give us some guidance on this?

DB Yes. I'll try to. So obviously there's a… For everyone's benefit, there's an interest rate cap in Poland that's basically set at around four times the Libor rate, which is pretty similar to the base rate. In terms of our core loan product obviously we charge interest on that product, and basically I think if the rates drop by another 25 basis points then we might have to change the rates of interest that we charge on a loan. But they have a marginal impact on business.

Caller 1 Thank you.

Caller 2 Thanks for the nice set of results today. Just maybe a couple of quick things for you. One is it's great to see that you're following through on the plan of expanding into adjacent geographies. I'm just curious to know why Lithuania and Bulgaria simultaneously? Was there a logic to doing two at once versus just doing one and seeing how that developed?

GR Let me take that question. We have the capacity within the business to carry these two as they're relatively small countries. But the thing to note is that over the past several years we've been running significant development camps or training programmes within the organisation to develop future leaders of the business, but we haven't actually opened any new businesses. We've got a significant number of people who are waiting for an opportunity to get involved in a new business, so from that point of view we feel confident that we will have the resource to do this.

The second thing is that Poland is a very long, well-established, well-run business, so if we're taking on Lithuania for them isn't really a big issue at all. And Bulgaria and Romania actually we think that will work quite well. Because Romania doesn't have to supply the resources on its own, it will actually leverage resource from other areas of the Group. If we look at the two countries individually, Bulgaria already has a very well-established market in this area pretty much so why would you go in and compete there? The reality is we think that we're able to deliver this product better and in a more, I suppose, ethical and transparent way than other people, and when we met with the regulators they welcomed us very warmly because they believe that we will be able to bring great transparency to the market, and we believe that to be true as well. And it will give us an opportunity to take market share. Lithuania is slightly different in that it's a more technologically-driven market, that is to say the pay-day lending end, and so whilst we mightn't have as many direct competitors there, we believe there's an opportunity for us to, in effect, create a new market based on the way that we do lending. So we think it's perfectly possible for us to do the two in one. And the model will be 95% similar between the two.

Caller 2 Got it. Is there a number three on the list as well, and if so, how far is it behind the two that you've announced today, in qualitative terms?

GR Yes. When we did the research, we clearly did a lot more than just these two countries, and in fact we went up and covered the whole of Scandinavia as well, and we believe there are other opportunities. So I suppose the way I'd put it is that we'll get these two set up and established, and I don't mean to maturity, but let's say 12 to 18 months, something like that, and we will still be looking at other opportunities with a view to opening new markets. So I think you should expect to hear from us probably in a year, give or take just beyond that, for our next opportunity.

Caller 2 Next question would be I feel like my press release was missing a page on the additional stock buyback re-authorisation, so I'm curious to know where you're headed in terms of deploying capital by way of buybacks! I thought that what we saw earlier this year and in 2012 was an excellent start, and given where the balance sheet is, it certainly seems like there is capacity to continue a modest programme like the one you introduced in 2012.

GR So you'd like us to send you a new deck with that page included?!

Caller 2 You're welcome to revise it and send that out today I'd be happy to see that. Thank you!

GR I'm sure you would. No, look; it's a very fair question, and we have said that we are very committed to making greater returns for our shareholders. It's not that long since we completed the last buyback. As you'd expect, we are looking to see whether or not there are ways for us to invest some of this additional capital that we do have, and you have my commitment to the extent that if we don't find something sensible - and I mean genuinely sensible ways of investing that during the coming months - we will find a route to get it back to shareholders, but I don't feel that we need to rush in to do that just now. We have enhanced the dividend. We did that buyback probably less than four months, three or four months ago, and so I feel like we have another few months and then we'll come back to you on that one.

Caller 2 Fair enough. One very last quick question for Dave. In going through the numbers, it looked like the customer counts in central Europe may have changed comparing 2012 to 2011: it looks like they may have rebased to 2011. Could you just explain what was going there?

DB We tried to trail this at the Q3 IMS and in effect what we've done is look at our policy for how quickly we transfer customers, where the agent relationship has broken down, into our debt recovery process. So as part of that it meant that some customers that we would class as customers before now drop out of that definition. So what we're doing is re-basing all of the stats from the website so you can see a true like-for-like comparison. So yes, we have gone through that transition as part of this year-end process.

Caller 2 It looks like nothing else beyond 2011 changed. It looks like 2010 and that was all unchanged. Is that accurate? I just want to make sure we're using the right numbers here.

DB I think we've rebased for the last two years and all the quarters in between, but we haven't gone through to the first year of trading. So we've tried to make the last two years of fully rebased.

Caller 2 Fair enough. Thank you very much, guys. I appreciate the time this morning.

GR No problem. Everybody; thank you very much for joining the call. As I said, I think a solid and credible set of results, and some interesting things happening as we look forward to 2013. Dave and I look forward to catching up with you over the coming weeks and months on some of those strategic initiatives that we're working on. Thank you very much, everybody.

DB Thank you.