International Personal Finance plc
Q1 2013 Interim Management Statement
Conference call transcript

Speaker key

GR Gerard Ryan – Chief Executive Officer
DB David Broadbent – Finance Director

Welcome to the International Personal Finance Quarter One Interim Management Statement Conference Call, hosted by Gerard Ryan, CEO. Also on the call today is Finance Director, David Broadbent.

GR Thank you James, good morning everybody, and thank you for joining our call this morning. As James just said, I'm here with Dave, our Finance Director, and we're delighted to be able to take you through what I think are a very good, solid set of results for Quarter One. Hopefully you've all received the announcement by now, so I will skip through it, and hopefully we will get some questions at the end.

In terms of Quarter One itself, a record profit for our business, coming in at £9.1 million. We've no desire to take any credit for FX moves, so we set that out there clearly, and we've also noted the impact of ESRs, which are generally where we expected them to be. We only talk about ESRs now in relation to Poland and by the end of 2013 it will be a non-event. So a very good quarter in terms of underlying profit growth, which was £5.1 million.

Driving that really was the continued growth of the top line. Credit issued was up 11% and receivables up 13%. Revenue was less than double digit at 8% but tracking very well. On the impairment as a percentage of revenue side, which is obviously something we're very keen on, we're happy with where we stand, bang in the middle of our target range at 27.6%. On the cost side, we've seen further improvements from the record result that we delivered at the year end, so we now have a 39.3% cost-income ratio. We announced at our annual results that we were going to launch new two new countries, Bulgaria and Lithuania. We've only put in a comment here to say that those plans are on track. Essentially what that means is that we're mobilising our resources, we're getting the infrastructure ready, there are no delays versus where we expected to be, so we're recommitting to opening both of those countries later this year.

Hopefully you will have seen, earlier this week, we announced the new bonds that we've raised - the retail bond issue, where we took 70 million Sterling at 6.125% on a seven year term. We were very happy with the way that turned out. We initially said to the market that we were going to go for something around £50 million, but if we were encouraged to take more, we might take a bit more. As it turned out, we closed, probably almost a full week early. In fact we could have closed within 72 hours, the demand was that strong. By the time we closed, we had to do quite significant scaling back, just to take £70 million.

You will also have noticed that we did our secondary listing on Warsaw. We were very pleased that it went so successfully, and now our task is to make sure that we provide sufficient liquidity in the stock in Warsaw so that the shares get traded over there, because we are very much aware that there are buyers out there who would like to invest in the business.

From a macro point of view, the economic growth in the countries in which we operate in Europe is obviously low, but consumer confidence is stable. As you can see, it's not adversely impacting our business. By contrast, obviously Mexico is doing very very well. We are seeing some early signs of additional competition, not in every market, probably more focussed in the Czech Republic and Poland, but it's too early to say that they're having any impact on our business, but something that clearly we will watch carefully as we go forward.

Net receivables grew by 13%, just under £670 million, and as I said, the costs are coming down nicely. Other than that, really, it was a very very good quarter. Everything went according to plan; there were no hiccups or anything unusual happening within the business. We opened a new branch in Mexico, which is basically on track for where we wanted it to be. Nothing really surprising or new on the regulatory front. Clearly, interest rates are coming down in some of the markets in which we operate, and obviously we're mindful that wherever we have rate caps, we have to operate within those, but we don't see that having any material impact on the business at this point in time.

So, overall, a very solid set of results, good top line growth feeding through to the bottom line because of good credit control and also good cost control, and we're really happy that we've been able to demonstrate that we will be able to diversify our funding at a significantly cheaper rate than we currently have on the books. Dave, any additional comments?

DB No, I think that was an excellent briefing, ready to take questions.

GR Okay, thank you. Right, James, we'd be happy now to take any questions that might be available on the phone.

JA Thank you. So ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone keypad. If you change your mind and want to withdraw your question, please press *1 again. You will be advised when to ask your question. We have several questions coming through, the first of those comes from the line of Gary Greenwood from Shore Capital, please go ahead.

Caller 1 Ok morning guys. I've got three areas that I wanted to pick up on if possible. The first was on the competition angle that you mentioned, if you could just expand a little bit in terms of where the competition is coming from and what it looks like in Poland and Czech Republic. That's the first one. The second one was on funding, so it's split into two parts really, first of all, in terms of the money that you've raised, I understand you're going to use that to pay down some bank debt. So I just want to understand what the current interest rate is on that bank debt. Then secondly, in terms of reducing the overall cost of funding, I guess the key is refinancing the Euro Bond, so I guess the question is whether you think you can refinance that before it matures in 2015 obviously given that it's currently trading at quite a decent premium to PAR. And then the last one was just on costs. I was just trying to understand whether there's any cost associated with Lithuania and Bulgaria in Q1, and I think also at the full year, you mentioned additional marketing spend this year of about £4 or £5 million. So if you could just sort of comment on whether there's much in Q1 for that as well.

GR Okay, thanks, it's Gerard here. Right, so on the competition one, your first question, yes, Poland and Czech are the two countries where we see it most. In the Czech Republic there are a couple of new start-ups, one in particular, which basically, they've taken some of our people, it's one of the copycat type start-ups, so a me too version of IPF. Essentially they started trading on the 1st of April, no impact yet because it's just too early. Their pricing is generally about where we are, we know that what they're paying the staff they're taking from us is slightly above where we're at, so nothing really radical there, but we expect there will be a bit more competitive activity, in terms of getting a share of the voice on TV and radio. We will probably have to work a little bit harder to make sure that that is the case and that we don't slip there. So nothing really radical there.

Caller 1 Sorry, just out of interest, who are their backers?

GR Individuals, private individuals who are funding it. It's what we see in a lot of our markets, because we do disclose our information, we're very transparent about it. I guess people can see that we're successful and we're very profitable and they decide they will have a go as well. From my point of view, there's nothing wrong with that, competition is going to make us work harder and be smarter about how we go to market.

Caller 1 Okay.

GR In Poland I suppose the two names that you would be aware of, one would be Wonga, who have recently entered the market, and rather interestingly, when they entered it, they made the statement that they weren't competing with us, which I took as a compliment. So they're going to start up there. I don't see that they are competing with us, because the people that they are dealing with, you know, they have to find a sufficiently deep electronic footprint for those customers, that they can make their credit decision, and clearly, every person that we lend money to, we see them personally, because their electronic footprint isn't that good.

The second would be Vivus at least that's the way it's pronounced, and they're offering…

Caller 1 How do you spell it?

GR Vivus. And they're doing this gimmicky thing of personal loan for free. I have to say that I'm not enamoured with that kind of approach to the market, I think it's likely to get up the nose of the regulators, who think the people are being tempted into credit because it looks like there's no cost to it. So we will see how they get on. Clearly, you might want to talk about Vanquis who have their credit card offering out there, but I think they're still around the 9000 credit card mark, and they're deciding what to do with the business. So I suppose we're just saying that we see a bit of extra activity in the market place, but nothing dramatic at this point.

In terms of funding, yes, we will use the bond to pay down the bank debt, and it terms of the cost of that bank debt, it's pretty similar to the cost of the funds that were raised, so you shouldn't expect to see any cost in the P&L as a result of that happening. And as regards to refinancing the larger bond, yes, it will mature in the summer of 2015. It does trade at a very significant premium, I think it's 117/118, so ideally I would like to be able to buy that back in, and I think if we could show them we could refinance the business, at let's say, six% then clearly that would have a dramatic impact on the P&L.

Caller 1 So it would be about a 30 million hit to equity I think wouldn't it?

GR Yes, and you know, I suppose in theory what you do is you'd go out, you'd buy it in, and you'd take an exceptional charge for that, and then your P&L going forward would be significantly enhanced, and therefore you would expect the share price would improve quite significantly. But the reality is if we wait, and the bond matures, the share price will reflect that improvement in the P&L over time, and we won't have paid out in cash. It would be neat to be able to tidy it up now, but I don't think we are interested in wasting cash to bring forward a pop in the share price.

DB I will pick up the two questions on cost. So on Bulgaria and Lithuania, nothing significant in these results. As Gerard says, we're currently signing leases on our premises and recruiting our first employees. So we will have some costs in Q2 but you won't really see any impact until Q3/Q4, once we've got our entry level scale.

Caller 1 And I think you previously said about £4 or £5 million this year, so double that next year?

DB Yes, so for the full year, £4 to £5 million, and the vast bulk of that will come through in the second half of the year.

Caller 1 And double next year?

DB Yes, in terms of start-up process, yes. And in terms of marketing, roughly we spent probably an extra million pounds on marketing in the first quarter compared with Q1 last year.

Caller 1 And I think you talked about, sort of about £5 million of extra, for the year as a whole?

DB Yes, that was about right, yes.

Caller 1 So nothing's changed here?

DB No, not at all.

Caller 1 Excellent, thanks very much for your time.

GR Thanks.

Caller 2 Good morning gentlemen. Just a quick question on the balance sheet, now with the diversification of your funding and the lowering of interest rates, I guess what are your thoughts on the target receivables ratio. I know it's currently at 55%; would that be able to be lowered to 50% this year, and hopefully release some capital back to shareholders?

DB I think that's called a leading question Peter.

GR Good morning Peter. Well obviously, you know, despite numerous requests, we're probably not going to put out a new target so I'm sorry to disappoint you on that one, but I will reaffirm that we are committed to making the balance sheet work harder and I have no intention of holding excess capital on the balance sheet. So people's expectations should be driven by that. We will look at it over the coming three or four months, obviously we're looking at it now, but over the next three or four months, we will decide how best to manage the capital position and we will come back to people as soon as we're ready.

Caller 2 Great, thank you very much gentlemen.

Caller 3 Morning. Can you just remind me of your plans to grow the agency network this year, in terms of numbers, and how those plans are working in practice?

DB Morning, it's David here. In broad terms, we will look to grow agents this year, in sort of high single digits, obviously with more growth in the developing markets, especially in Mexico and less so in Europe. Agent growth in the first quarter is seasonally quiet, so the agent numbers are pretty much where they were at year end, and our agency growth plans and our branch expansion in Mexico don't really start until Q2, so I would say what you're not seeing in any of these numbers is the benefit from that increase in agency growth, but you should see more of that coming through from Q2 onwards. As Gerard says, we said in Mexico we probably open around four branches this year, and we started that with the first branch opening at the beginning of April and obviously that will help agency growth in Mexico as well.

Caller 3 Good, thank you.

Caller 4 Morning guys. A couple of questions around the growth rates. Firstly when I look at customer numbers, it looks like in the last eight quarters this has been probably the slowest quarter in terms of customer recruitment, at less than 2% growth. Any thoughts on that? And then secondly, I understand that your impairment to revenue ratio is lying in the middle of your target range, 27.5% but if you were to look at various economies, in Poland, Mexico, Romania, you are towards the top end now. Hungary and Czech are moving towards that. Again, what impact does it have on your thinking on credit relaxation or loosening of the criteria's going forward?

GR Sure, hi. So in terms of customers year-on-year, you're quite right, it's not as high as I'd like it to be, so Poland was 3%, Hungary was 10% and Romania 4%, and then Czech-Slovakia was flat, as was Mexico. So, I'm happy with Poland, given the scale of Poland, you know, to be adding 3%, I would think is quite a good result. Hungary at 10%, very positive, Romania at 4%, obviously we spent the back end of 2012 focussing very much on collections, because of the hangover from early 2012, and what that meant is that growth coming into 2013 was at a lower run rate than we would have planned, let's say a year ago. So I would expect to see Romania tick up quite nicely. In terms of Mexico, clearly we've made the decision in Mexico to focus on profitability, but notwithstanding that, I would have like to have seen some extra customer growth in both Mexico and Czech Republic in particular, and I couldn't want to hide from that. I think, you know, a couple of percent, 3% in each of those countries, would be where I would have preferred to have been. In terms of impairment to revenue, you know, we are as I said, bang in the middle. You're right, Poland is at the top end at 29.2%. Now Poland had been up there for quite some time, but I will be honest and say we're very comfortable, it's a very mature business, you know, superb management team, so we're very comfortable with where Poland sits. As regards Czech-Slovakia and Hungary, as you know, those are the two countries that we are actively working to get into our target range, because they've been so far below, and I think both teams are doing a very good job of taking on additional risk, but in a very measured way.

Just to reassure people on the call that this isn't one direction only, you know, what we do is we test and learn, so in Poland, we've tested some things and where we feel we go a step too far, we then tighten back the credit criteria. So we're always trying to find the sweet spot on that. In Mexico and Romania, both of which are at 30.2 and 30.3% respectively, you know, those we will see come down, and we're very comfortable that they will be within the target range I think by the end of Q2. So it's slightly high just now, but we feel pretty confident that they'll be exactly where they should be by the end of this quarter.

So overall, comfortable, but take your point that when you look at individual countries, some of them look high, but we're generally actually quite happy with where we are at this point in time.

Caller 4 Sure. Can I just ask, what gives you more confidence on Mexico, given that in the last four quarters it has been just trending up again now, I think it bottomed out in June 12, and since then it is up almost 3% impairment to revenue ratio?

GR Well, as you know, what we've decided to do in Mexico is where the branches meet the criteria that we've set in Europe, in terms of performance, we're rolling out the more relaxed credit rules. What we're doing is a trade-off between the credit line and the amount of revenue we're able to generate through offering higher value loans. So what we're expecting is that it would tick up for a little bit, and then flatten and come back down. But at the same time we would expect the revenue per customer to be going up quite significantly.

D Yes, obviously the impairment to revenue ratio is, in some respects, a backward looking measure, I can tell you that the performance in Mexico is very good, and if you look at the underlying growth cash loss cohorts and how they're developing, then they look just fine.

Caller 4 Okay, great, thanks.

Caller 5 Good morning. I was wondering if you could provide an update on how the Hungarian insurance test that has been running in Hungary, I wonder how receptive customers and agents have been to that product, and if you could comment roughly on when you might expect to make a decision on whether to roll the product out to other regions too please.

GR Sure, hi, it's Gerard here. Yes, so the roll out, the test is still underway, it's probably in its ninth week I think, give or take, something like that, and we've been pleasantly surprised. It is probably within a point of exactly where we expected it to be. We have had a slight surprise in so far as the call centre is proving to be more effective than the agent. I personally hadn't expected that to be the case, I thought given how strong our agents and customer relationships were, that the sale from the agent would be more effective, but it's proving to be the other way round. What we're doing is we're looking at that, we're looking at the call scripts, we're working with our agents to see what language they're using, to understand why there is a difference between the two. I don't want to quote any penetration levels just yet, but based on what we're doing, there is no reason at this point to believe that we wouldn't continue to roll this out further. So that's not a pre-judgement, that's just to say that we're happy with how it's going and we would likely make a decision, probably in around Q3, about further roll out and then onward in other countries, once we figure out what the product would be and how it would work in other countries. We're comfortable at this point, and trying to understand the difference between the agent and the call centre.

Caller 5 Okay great, thank you.

GR Well thanks everybody for joining the call. As I said at the outset, a very solid set of results for Q1, pleased with that, some highlights being the bond and the Warsaw piece. Good top line growth, good cost control, some further work to do, obviously in terms of customer growth, watching competition very closely, but feeling positive about where we stand versus consensus and the outlook for the rest of the year. So thank you very much everybody for joining, thanks a lot.