

11 November 2020

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Eclipx Group Ltd (ECX)

Diversified Financials

HOLD

ECX A\$1.715
TARGET PRICE A\$1.75

Eclipx Group is an established leader in vehicle fleet leasing, fleet management and diversified financial services in Australia and New Zealand. The Group helps consumers and businesses of all sizes access the funds they need to operate through fleet leasing, novated leasing, vehicle sales, commercial equipment finance and consumer motor vehicle finance solutions.

Company Data

Number of shares	319.6M
Market Capitalisation	\$540.2M
Free float (%)	90
12-month high/low	\$1.835/\$0.4
Average Daily Turnover (\$m)	1.1438
% S&P/ASX200	0.03%
DDM Ranking	132
% All Ordinaries	N/A
GICS Industry Group	Consumer Finance

Source: FactSet, Barclay Pearce Capital

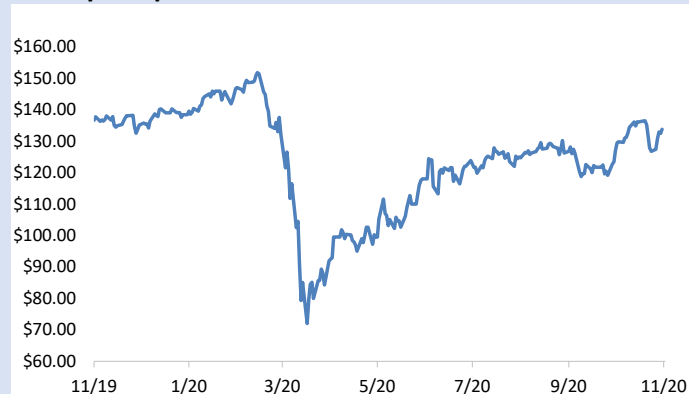
Earnings Summary (AUD)

Year end March	2020A	2021F	2022F	2023F
Revenue (\$M)	674.3	293.8	331.9	374.4
EBITDA (\$M)	71.2	74.5	86.8	97.9
Reported NPAT (\$M)	18.2	35.6	43.0	48.5
Adjusted NPAT (\$M)	33.6	40.0	45.8	51.6
Adjusted EPS (c - FD)	10.5	12.5	14.9	16.8
Adjusted EPS growth (%)	-28.0	19.3	18.8	12.8
Adjusted P/E (x)	0.1	13.5	11.3	10.1
Dividend (c/sh)	0.0	3.3	6.5	9.0
Gross yield (%)	1.1	3.1	5.5	7.6
Net yield (%)	0.0	2.2	3.9	5.3
ROIC (%)	2.3	2.5	2.5	2.5

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

FY20 Results Media Release

On 11 November 2020, Eclipx Group Ltd (ECX) reported FY20 results with highlights:

Group

- Successful return to its core operating model with Group net profit after tax of \$18.2m for FY20 (versus a loss of \$341.5m for FY19);
- Against a challenging macroeconomic backdrop, the core fleet and novated business delivered a solid result, reflecting the defensiveness of the underlying business;

Core

- Core Earnings before Interest, Tax, Depreciation, Amortisation of \$85.4m (\$90.6m post AASB16), representing a like for like growth rate of 4.3% versus FY19;
- Core cash Net Profit After Tax & Amortisation of \$47.5m, up 2.2% compared to FY19;
- Assets under Management or Finance reduced by 4.1%, reflecting lower new business writings in the period, as a result of the impact of COVID-19;

Non-core

- Non-core EBITDA loss of \$14.2 million (\$13.2 million loss post AASB16), reflecting contribution from Carloans.com.au & Georgie (divested in May 2020) and Right2Drive (divested in August 2020);

Simplification Plan

- All six non-core divestments completed between July 2019 and August 2020;
- \$15m cost reduction target exceeded on an annualised basis;
- 56% reduction in gross corporate debt, down from \$350m to \$155m, ahead of \$175m target;
- 80% change to the executive team over the last 16 months;
- Post Simplification, ECX is a pure-play fleet management platform, with a clear focus on growth in its three target markets—Corporate, Novated and SME (Strategic Pathways);

Outlook

- The delivery of the Simplification Plan ahead of schedule places the Group in a position of strength;
- This position provides the Group with confidence, going into FY21, that it will successfully implement the next phase of its strategy, Strategic Pathways, and;
- As the Group progresses through FY21, it will assess the best use of excess capital for shareholders having regard to balancing macro risk and organic growth alternatives.

Earnings changes

ECX reported adjusted EPS of 10.5 cents. This result is 7.9% lower than market expectations of 11.4 cents. Also, reported NPAT was \$18.2m, which was 45% lower than market expectations of \$33.2m. However, as ECX is in the process of executing their simplification plan which involves the divestment of businesses outside their core fleet business, we expect earnings to rebound in future periods. Hence, we expect negative earnings revisions of 10% for FY21 and no significant earnings revisions for future periods.

We are initiating on ECX with a 12-month price target of \$1.75 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	41.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)