

# Mortgage Choice Ltd

## Banking on digital efficiencies

Mortgage Choice Ltd is engaged in mortgage broking as well as financial planning and wealth advice. The company has arranged more than 600,000 loans over its life, at June 30 had a loan book of \$54b and more than \$1.1b in funds under advice, a 15% increase on the prior year. It generates its revenue from fees and commissions from lenders for arranging mortgages as well as provision of financial advice and writing of risk insurance products through its financial planning arm. The company ended FY20 having settled \$10b in home loans, an increase of 7% on FY19. The total loan book stood at \$54b on June 30. Mortgage Choice announced an increased final dividend of 3.5cps, up from 3.0cps in FY19 and bringing the total dividend for the year to 6.5cps fully franked, up from 6.0cps in FY19.

### Business model

The Company delivers two product segments, Mortgage Choice and FinChoice through two separate franchise networks. Mortgage Choice primarily writes home loans. Its brokers also help customers to source commercial loans, car loans, asset finance, deposit bonds, and risk and general insurances. FinChoice delivers financial advice on investments and on risk insurance products. The Company has 385 franchised mortgage broking businesses (including 554 credit representatives) and 34 advice franchised businesses (including 38 financial advisers). Its national network of brokers has access to a panel of more than 25 lenders offering a range of home and other loans.

### Recent company commentary

The company noted that the settlements growth for the year of 7% was in line with the first half performance despite the impact of the January/February bushfires and the COVID-19 pandemic. In the final quarter of the year, settlements grew 18% compared with the same period in FY19 with strong customer enquiries. The company reported FY20 NPAT of \$9.4m which was down 31% on the prior year. Cash NPAT of \$11.7m was down 16% on the prior year of \$14m. The fall in NPAT relates to a restructuring of the business in FY19. The business restructure shared a higher percentage of commission income with its franchisees setting the business up for long term sustainable growth. Mortgage Choice increased its final dividend by 0.5cps to 3.5cps, bringing the total dividend for the year to 6.5cps. This puts the company on a dividend yield at the year end share price of 10% and 8.6% on the current share price of \$0.75/share. The company noted that the positive momentum from the fourth quarter had continued into July and August. Mortgage Choice is focussing on accelerating its investments in an enhanced and digitally driven customer experience through the delivery of systems and processes that create a digitally efficient platform for its mortgage brokers and advisers.

### Consensus forecast is for a small decline in earnings in FY21

Mortgage Choice is trading at a significant discount to Australian Finance Group which we view as its nearest competitor in terms of business model, although AFG's market capitalisation and loan book are substantially larger. We note that consensus forecasts (two analysts) for MOC anticipate a small decline in revenue, EBITDA and NPAT in FY21 but for this to stabilise in FY22.

#### Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	Gross Profit	EBITDA	NPAT* Adj.	NPAT Rep.	EPS Adj* (c)	EPS Rep.	Dividend (c)	EV/EBITDA^ (x)	P/E^ (x)	Div. Yield
06/17a	199.8	68.4	33.5	21.0	22.2	18.1	17.8	17.5	8.3	11.9	8.1
06/18a	217.8	40.7	7.4	25.6	4.2	18.7	3.4	18.0	24.3	7.6	12.7
06/19a	177.4	49.5	21.7	14.0	13.7	11.2	11.0	6.0	6.3	9.7	5.5
06/20a	175.4	46.1	19.0	11.7	9.4	9.4	7.5	6.5	4.0	6.9	10.0

Source: Company data \*Adjusted on a cash basis ^Using the closing price year end

## Financial Services

4 September 2020

### Share details

ASX Code	MOC
Share price (3-Sep)	\$0.75
Market Capitalisation	\$100.6M
Shares on issue	125M
Net cash at 30/06/2020	\$6.0M
Free float	64.7%

### Share performance (12 months)



### Upside Case

- Trading at a discount to its non-bank peers
- Attractive dividend yield
- Opportunity to use its mortgage broker footprint to expand its financial planning business

### Downside Case

- Highly exposed to residential housing market
- Increasing regulatory scrutiny in finance sector
- Increasing competition from fintech/non-bank lenders

### Catalysts/upcoming events

- Demonstrated continued margin growth
- AGM commentary November 2020

### Comparable companies (Aust/NZ)

Australian Finance Group (ASX:AFG), Resimac (ASX:RSM), Yellow Brick Road Holdings (ASX:YBR)

### Top 5 shareholders

Spheria Asset Management Pty Ltd	18.92%
Finconnect (Australia) Pty Ltd	16.49%
Rodney Higgins	12.30%
Pinnacle Investment Management Group	5.55%
SCJ Pty Ltd	1.60%

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# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 26<sup>th</sup> November 2018**

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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**What Financial Services are we authorised to provide?** RaaS is authorised to

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  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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