

People's Finance plc (PFF.L)

Rating: BUY
Price: 75.25
Target Price: 101.00

Research analysts:
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BEST IDEAS LIST

Quarterly Metrics Comment

Summary:

We were impressed by People's quarterly metrics update. New customer adds have outpaced our forecasts in each of the past three quarters, while transaction growth is outpacing customer growth, suggesting new product attachment rates with existing customers are also rising. We upgrade our estimates for new customers by 5%, and now see full year revenue up 80%, vs our prior estimate of 75%. We believe lower-than-expected marketing costs suggest significant scope for earnings upside, suggesting a larger-than-expected dividend increase with full year results.

Investment Thesis:

We believe People's strong consumer branding is unique in financial services and is likely to lead to significant market share gains, as it captures greater share of wallet, at relatively low customer acquisition costs. In addition, its largely fee-based revenue pool is generating significant free cash flow, allowing for a unique hybrid of both high growth and high cash returns for investors.

Details:

- **Quarterly customer adds grew 78% y/y**, ahead of our 60% forecast. Customer adds also grew sequentially, unusual for the third quarter, and reflective of the momentum in the business, in our view.
- **New-contract fee growth of 120%** was well in excess of customer adds and suggests existing customers are choosing to transact across more financial services on the platform.
- **People's** also announced that SafetyFirst plc will be offering its full range of insurance products on the platform. We believe that this latest addition with its sizeable market share is indicative of the strength of People's innovative platform. People's also announced a new suite of budgeting and forecasting tools as well as a slew of new partners providing options for savings products ranging from P2P to emerging markets specialist active equities.
- **Marketing costs grew 42%**, well below our forecast, and importantly, well below customer growth. This implies People's strong consumer brand is helping build awareness, engagement and trust in its financial services platform.
- **We believe the combination of higher-than-forecast customer adds and lower marketing costs suggest upside on profits with full year results.** This combination is likely to drive significant free cash flow, and we believe the likelihood of a higher-than-expected dividend raise with full year results is growing. All in, this latest update increased our confidence in this stock and in its position on our Best Ideas List.

Share price performance

