People's Finance plc (PFF.L)

Rating: BUY
Price: 75.25
Target Price: 101.00

Research analysts:
Rahul Sharma
Christopher Ross

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.

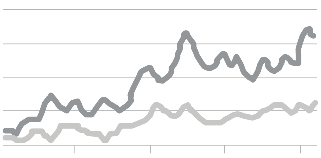
Investment Thesis:

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



Moneysafe plc (MONEY.L)

Rating: BUY
Price: 25.25
Target Price: 35.00

Research analysts:
Rahul Sharma
Christopher Ross

BUY

First Half Results Comment

Summary:
Moneysafe results were solid and show the bank is making progress in retaining market share for its proprietary products but also benefiting from offering third party products on its platform. Despite modest pressure on net interest margins in its traditional lending business, fees from transactions on its third-party platform are allowing the bottom-line to progress.

Investment Thesis:
We believe Moneysafe's pre-eminent position in the banking and financial services market will remain unchallenged. We believe the bank's significant investments into customer data analytics and opening up its distribution platform to third parties will lead to market share gains. A significant increase in fee-based revenue from its third party business should provide fuel for rising dividends, coupled with a reasonable valuation.

Details:

- **Moneysafe's market share** across all major product lines including mortgages, credit cards and overdrafts remains strong. We believe the key factor is tighter product pricing, its strong brand, but also the early benefits of its personalisation strategy, driven through its investment in data analytics.
- **However, we noted a 2bp tighter net interest margin.** We believe the key factor is primarily tighter spreads in its mortgage book as greater competition through increased transparency on both its own and competitor platforms is driving tighter mortgage pricing in the marketplace, benefiting consumers.
- **While we noted modest pressure in traditional fee income** (such as in overdrafts), we were impressed by a tripling in platform fee income. Despite this still being a relatively small part of Moneysafe's revenue, at 5%, we believe it validates the relevance of the brand and demonstrates the necessity for financial services brands to be present on its platform.
- **This rising fee income was a key factor** behind a 10% increase in the interim dividend, as we note legacy banking business profit rose just c4%. We believe this rise in fee income is likely to be sustained and should drive further dividend growth both in the second half and in the years to come.

Share price performance