

(AIM:CLEA) 3,4,5,F

ClearDebt Group

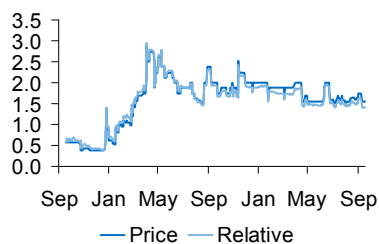
BUY
Share price 1.55p
Target price 3.6p

132% Upside

Market cap (£m)	4.8
Net debt (£m)	1.0
Enterprise value (£m)	5.8
Return on equity (%)	29.8
No. of shares (m)	308.3
Free float (%)	45.0
Price/book	1.0
Average daily vol (3m)	203
Dividend yield (%)	0.0
PE at target price (Y+1)	6.1
Sector PE	12.4
Sector dividend yield (%)	4.5

12 month high/low (p) 3/2

(%)	1m	3m	12m
Absolute	-6.1	-22.5	-34.9
FTA relative	-10.4	-32.0	-42.0

Price & price relative (-2yr)


Source: Datastream

Share price as at close: 7 October 10

Next news

AGM – 1 November 2010

Business

Provider of financial advice

www.cleardebt.co.uk

IVA winner

This morning's announcement that ClearDebt has achieved an increase of 102% in the number of IVA's passed during 1QFY11 compared with last year, has prompted us to raise our forecasts. We are increasing our sales estimate by 14% to £8.1m driven by 80% more IVA's than we had forecast but lower levels of DMP's. EPS rises to 0.59p from 0.54p. The business continues to deliver robust results and we maintain our Buy recommendation and 3.6p price target.

Strong growth in 1QFY11 new IVA's

ClearDebt have confirmed that 355 IVA's were passed during 1QFY up by 102% compared with the same quarter in 2009. The strong performance, in what is typically a weak quarter, also represents a 33% increase over the previous quarter. Management is confident that their fresh leads sources will continue to provide significantly higher numbers of new IVA's.

Raising our sales estimate for FY11 by 14%

We have adjusted our revenue forecasts to increase the estimated number of new IVA's secured during FY11 to 2,000 (799 in FY10). However, we are lowering our expectations for DMP's. It appears that in this uncertain economic environment individuals facing financial difficulties are beginning to realise that the defined, 5 year duration for IVA's with payments based on affordability has advantages over the indeterminate DMP.

Valuation undemanding

On our revised figures CLEA is trading on FY11E PER of just 2.6x which we consider unjustified in view of the solid track record for delivering growth. The most relevant peer, Fairpoint (N/R), is trading on 5x FY11E. A PER of 5x CY11E for CLEA translates to a share price of 3.6p and underpins our target price.

3,4,5 Please see regulatory disclosure notes at the end of this document

F Forecast change

Year end	Sales	EBIT*	PBT*	Tax	DPS	F.Dil.	PER	Div yield
June	(£m)	(£m)	(£m)	(%)	(p)	EPS* (p)	(x)	(%)
2008A	1.9	(0.9)	(1.0)	42.9	0.0	(0.1)	(10.4)	0.0
2009A	3.4	0.6	0.5	11.7	0.0	0.1	11.7	0.0
2010A	6.6	1.7	1.5	26.5	0.0	0.4	3.6	0.0
2011E	8.1	2.4	2.1	12.7	0.0	0.6	2.6	0.0
2012E	10.0	3.3	3.3	28.0	0.0	0.8	1.8	0.0

* excludes exceptional items and amortisation of intangibles.

Source: Company data, Seymour Pierce Ltd

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Financial model

Income statement

Year ending June (£m)	2009A	2010A	2011E	2012E
Group Turnover	3.4	6.6	8.1	10.0
Cost of Sales	(2.0)	(3.3)	(4.2)	(5.0)
Gross profit	1.4	3.3	3.9	5.0
Total operating expenses	(0.7)	(1.3)	(1.5)	(1.6)
EBITDA	0.7	1.5	2.4	3.4
EBIT	0.6	0.7	1.3	2.6
Adjusted EBIT*	0.6	1.4	2.4	3.3
Associate income	0.0	0.0	0.0	0.0
Net interest income	(0.1)	(0.2)	(0.4)	(0.2)
Adjusted PBT*	0.5	1.5	2.1	3.3
PBT	0.5	0.5	2.0	2.3
Tax	(0.1)	(0.1)	(0.3)	(0.7)
Effective tax rate (%)	11.7	26.5	12.7	28.0
Minorities	0.0	0.0	0.0	0.0
Adjusted earnings	0.4	1.3	1.8	2.6
Earnings	0.4	0.3	0.6	1.7
DPS (p)	0.0	0.0	0.0	0.0
EPS (p)	0.1	0.1	0.2	0.5
EPS [F. Dil.] (p)	0.1	0.1	0.2	0.5
EPS [Adj.]* (p)	0.1	0.4	0.6	0.8
EPS [Adj. F. Dil.]* (p)	0.1	0.4	0.6	0.8
Weighted average no. shares (m)	0.3	0.3	0.3	0.3
Fully diluted no. shares (m)	0.3	0.3	0.3	0.3

* excludes exceptional items and amortisation of intangibles.

Source: Company data, Seymour Pierce Ltd

Cashflow statement

Year ending June (£m)	2009A	2010A	2011E	2012E
Operating income	0.6	0.7	1.3	2.6
Depreciation & amortisation	0.2	1.1	1.1	0.9
Net change in working capital	(0.4)	(0.1)	0.0	(0.1)
Other	0.0	0.0	0.0	0.0
Operating cash flow	0.4	1.7	2.4	3.4
Capital expenditure	(0.1)	(0.1)	(0.1)	(0.1)
Net financial items	(0.1)	(0.2)	(0.2)	(0.1)
Tax paid	0.1	0.0	(0.2)	(0.6)
Net acqns./disposals	(0.0)	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Cash flow before financing	0.3	1.4	1.7	2.3
Proceeds from shares issued	0.0	(0.2)	0.0	0.0
Investments	0.0	(2.7)	0.0	0.0
Loans, etc.	0.0	0	0	0
Net movement in cash/(debt)	0.3	(1.5)	1.7	2.3
Opening net cash/(debt)	(0.9)	(0.6)	(2.2)	(0.5)
Adjustments (Forex, etc.)	0.0	0.0	0.0	0.0
Closing net cash/(debt)	(0.6)	(2.2)	(0.5)	1.8

Source: Company data, Seymour Pierce Ltd

Balance sheet

Year ending June (£m)	2009A	2010A	2011E	2012E
Property plant and equipment	0.2	0.2	0.2	0.2
Goodwill	0.0	0.0	0.0	0.0
Other intangibles	4.5	6.8	5.8	5.1
Other	0.3	0.2	0.2	0.2
Non current assets	5.1	7.2	6.2	5.4
Stocks & WIP	0.0	0.0	0.0	0.0
Trade receivables	0.6	0.0	0.7	1.2
Cash	0.6	0.5	1.2	1.8
Other	0.0	0.0	0.0	0.0
Current assets	1.3	1.7	2.6	3.6
Total assets	6.4	8.9	8.8	9.0
Trade creditors	1.0	1.3	1.5	1.7
Short term borrowings	0.0	0.0	0.0	0.0
Long term borrowings	1.2	2.8	1.8	0.0
Other liabilities	0.0	0.0	0.0	0.0
Total liabilities	1.9	3.8	3.2	1.7
Net assets	4.5	5.0	5.7	7.3
Issued share capital	6.2	6.2	6.2	6.2
Share premium account	0.3	0.3	0.3	0.3
Retained earnings	(2.0)	(1.7)	(1.0)	0.7
Other reserves	0.1	0.1	0.1	0.1
Minority interests	0.0	0.0	0.0	0.0
Total equity	4.5	5.0	5.7	7.3

Source: Company data, Seymour Pierce Ltd

Key ratios

Year ending June (£m)	2009A	2010A	2011E	2012E
Revenue growth (%)	81.2	95.9	22.2	23.5
EBITDA growth (%)		114	60	42
Adjusted EBIT growth (%)		183.3	38.7	38.4
Gross margin (%)	42.4	49.8	48.1	50.0
EBITDA margin (%)	26.9	46.8	43.8	43.2
Adjusted EBIT margin (%)	17.0	25.6	29.1	32.6
Gearing (%)	13.6	44.3	9.4	n/a
Interest cover (x)	5.0	8.3	6.2	13.7
Dividend cover (x)	n/a	n/a	n/a	n/a
Dividend payout (%)	0.0	0.0	0.0	0.0
ROE (%)	10.2	29.8	15.8	31.7
ROCE (%)	2.8	6.9	8.8	13.9
ROIC (%)	9.0	26.6	32.3	35.7
Net working cap / revenue (%)	19.5	10.5	17.0	20.6
Operating cash conversion (%)	95.1	177.1	150.7	129.5
Free cash conversion (%)	149.2	236.2	199.8	165.2
Cap Ex / revenue (%)	1.8	2.2	1.2	1.0

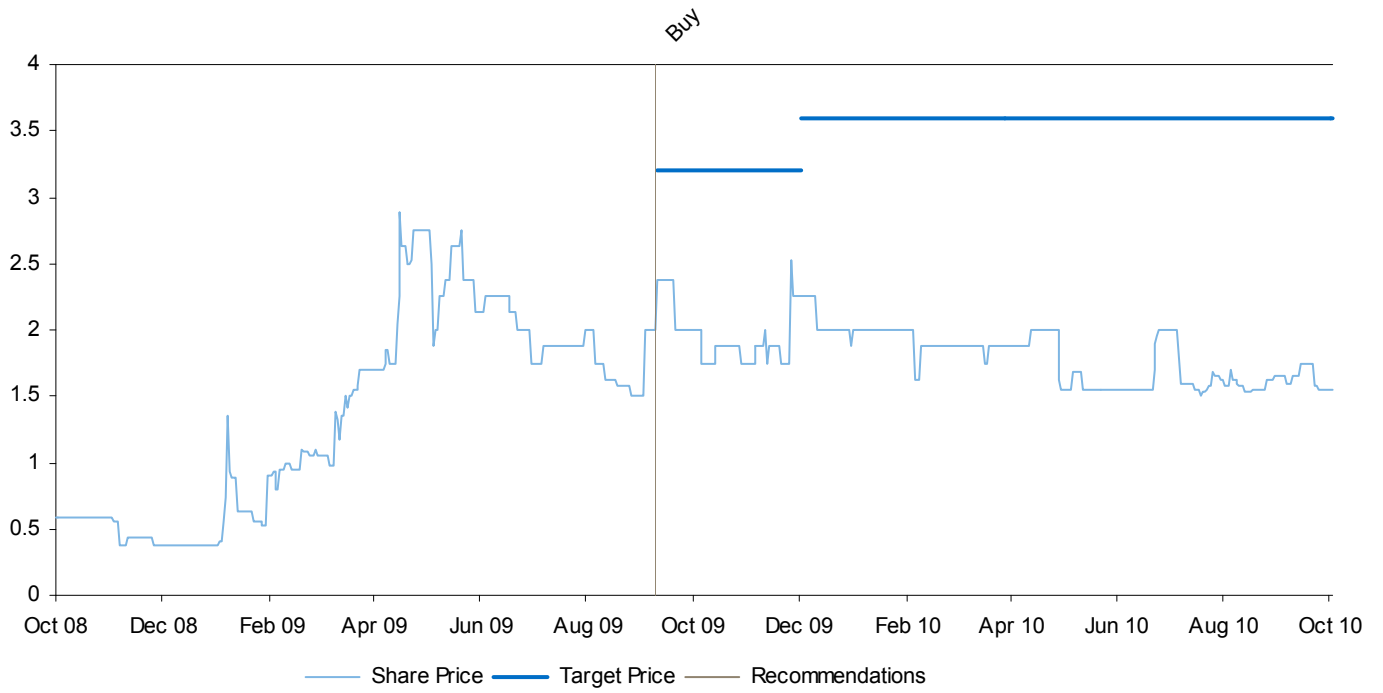
Source: Company data, Seymour Pierce Ltd

Valuation metrics

Year ending June (£m)	2009A	2010A	2011E	2012E
PER (x)	11.7	3.6	2.6	1.8
EV / Sales (x)	1.7	0.9	0.7	0.6
EV / EBITDA (x)	8.2	3.8	2.4	1.7
EV / adjusted EBIT (x)	1.8	0.6	2.5	1.8
Yield (%)	0.0	0.0	0.0	0.0
Earnings yield (%)	8.6	7.2	13.5	35.0
P / CFPS (x)	0.0	0.0	1.3	1.1
NAV per share (p)	1,481.1	1,626.9	1.8	2.4

Source: Company data, Seymour Pierce Ltd

Target Price & Recommendation History



Source: Datastream, Seymour Pierce Ltd

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Rating	Definition
Buy	Absolute return expected to increase by more than 10%
Outperform	Absolute return expected to increase by between 5% and 10%
Hold	Absolute return expected to change by between -5% and +5%
Underperform	Absolute return expected to decrease by between 5% and 10%
Sell	Absolute return expected to decrease by more than 10%

As at 30 September 2010 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
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Outperform	9.0%	43.8%
Hold	20.8%	18.9%
Underperform	3.9%	14.3%
Sell	6.2%	0.0%

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