

Speculative Buy

From Market Perform

Price 5¼p

Reuters/BBG Index	UFG.L / UFG LN
Sector	FTSE AIM
Market Cap	Speciality & Other Finance
	£1.0m

MORNING COMMENT

Ultimate Finance*

Steady H1 and positive outlook underpin FY forecasts

- The company has delivered a solid set of H1 figures with PBT of £140,000, +5% ahead of last year's comparative of £133,000 (when stripping out severance costs). EPS were 0.51p. These figures, together with the relatively upbeat outlook, would seem to underpin WHI forecasts for the current year which we are maintaining at PBT £350k and EPS of 1.26p. We have introduced forecasts for FY10 for the first time where we expect top line growth of +7% to feed a PBT of £400k and EPS of 1.44p.
- Turnover was +4% at £2.14m for the half year reflecting a +14% increase in total client sales financed to £99.1m. Average client numbers were a same-again 217, although the company continued to increase its transaction size with average client turnover of £915,000 (vs. £789,000 at Dec-07). We expect an increase in client numbers in H2, particularly given the company added 25 new clients in January and February alone with three of the last five months said to have been a record.
- Rates in the invoice discounting market are increasing in response to wider financial conditions and this is leading to a substantial increase in enquiries for Ultimate's products. Past experience suggests that the use of specialist asset financiers may increase in times of tight credit availability with positive implications for margins.
- The company has successfully extended its £18m back-to-back facility with Lloyds TSB Commercial Finance to Mar-10, providing additional comfort on one area of uncertainty. At Dec-08, the facility had circa £6.4m unutilised, providing ample scope for the company to grow the business in line with its medium term growth aspirations.
- The shares have been pedestrian since our last update in September (and have thus outperformed the wider sector) meaning they continue to trade on a prospective multiple of just 4.2x, a figure which falls further to 3.6x for FY10. Whilst we accept these ratings are a sign of the times at the lower end of the speciality finance market on AIM, the current market capitalisation of £1m does not seem a high price to pay for a company that could potentially deliver a PBT of £400,000 next year. For that reason, we have raised our recommendation from Market Perform to Speculative Buy.

*WH Ireland Limited acts as Broker.

WH Ireland Group Plc, its directors, connected parties and discretionary clients have a 28.60% shareholding in Ultimate Finance Group. Richard Lee is a non-executive director of Ultimate Finance and a Director of WH Ireland Group Plc.

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

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Y/E June (£m)	2007A	H108A	2008A	H109A	2009E	2010E
Sales (£m)	4.03	2.06	4.15	2.14	4.35	4.70
PTP (£m)	0.30	0.13*	0.30*	0.14	0.35	0.40
EPS (p)	1.09	-	0.41	0.51	1.26	1.44
P/E (x)	4.8	-	12.8	-	4.2	3.6
DPS (p)	-	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-	-

Source: WH Ireland estimates

* before one-off severance/ restructuring charge

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Disclosures

WH Ireland Recommendation Definitions

Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the quarter ending 31st December 2008 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	36	38%	12
Speculative Buy	15	15%	14
Outperform	20	21%	0
Market Perform	14	14%	0
Underperform	9	9%	0
Sell	3	3%	0
Total	97	100%	24

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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