

Mossberg's Investor Digest

Best Idea Profile:

The Cash Store Financial, Inc. (NYSE:CSFS)

DESCRIPTION:

Headquartered in Edmonton, Alberta (Canada); The Cash Store Financial Services, Inc. operates two of the leading alternative financial services brands in the Canadian market along with a growing presence in the UK market. The Company has two well-known store franchises known as The Cash Store Financial and Instalozans. Both of these divisions are brokers of short term loan advances, bank accounts, cheque cashing, prepaid MasterCard, Ria money transfers and other services to consumers. The Company currently has a network of 574 branches in over 200 Canadian communities along with twelve branches in the United Kingdom. Cash Store Financial employs over 2,300 associates.

KEY INVESTMENT CONSIDERATIONS:

Dominant Franchise – Cash Stores holds a dominant position in the Canadian market. The Company has built a network of 573 branches with Canadian locations in nine provinces and two territories. Cash stores are the largest provider of alternative financial services in Canada.

Growth – Cash Stores has a history of strong growth. The Company experienced revenue growth of 45% from FY2007 to FY2011. During the same timeframe the number of branch locations grew from 358 to 596.

Shareholder Returns – The Company has a strong track record of profitability. From FY2007 through September of FY2010 Cash Stores grew adjusted ebitda from \$33 MM to \$59MM.

Inflection Point – The Company reported Earnings-Per-Share of \$0.06 for Q1FY2011 vs. \$0.19 on a year-over-year basis. Cash Stores reported that adjusted Ebitda and earnings were reduced nearly \$1.5 million for investments in product development, expanded operational infrastructure and expansion into the United Kingdom. New, non-mature branches also reduced quarterly earnings by \$696k. Rates caps and operations restrictions from new provincial regulations also reduced loan volume. The Company is likely to resume growth in the future providing an entry point for investors.

Strong Margins – Mature branch offices are maintaining operating margins of 40% to 48%. The Company has 45% of its branches that are newer and in growth mode. These branches should mature into a level of profitability similar to older, more mature branches.

Cash Flow – Cash Store's business is a strong cash flow generator. The Company reported \$19.2mm in operating cash flow for FY2011 and 42MM in operating cash flow for the 15 months ended FY2010. The Company's branch build-out was financed with internal cash flows.

Company Tender/Buyback – The combination of strong cash flows and an all-time low in stock price could prompt Cash Stores to initiate a tender offer or a stock buyback.

Perpetual Take out Candidate – Cash Stores could be a tempting target for an Alternative financial company looking for a market leader with which to diversify its product portfolio and establish a leading market position.

Growth Initiatives – The Company has a new credit line and Insurance product to roll out in FY2012. These products along with additional branch expansion should provide ample growth opportunities.

VALUATION:

The recent needed investments and regulatory changes for The Cash Store Financial Services have created a unique opportunity for investors looking to invest in a leading financial franchise. Analysts are estimating \$0.85 in earnings per share for FYSep2013, which equates to a cheap 6x multiple. The Company also pays an attractive yield at 8.8%.

The Cash Store Financial Services, Inc. (NYSE:CSFS)

Investment Data (as of 4/26/12)

Recent Price	\$5.42
52-Week Range	\$5.21 - \$16.05
Fiscal Year End	Sep
Dividend	\$0.48
Yield	8.8%
Shares Outstanding	17.4MM
Average Trading Volume (3 mos)	20k
Market Capitalization	\$96MM
Cash	\$11.4MM
Long Term Debt	\$11MM
Enterprise Value (EV)	\$96MM
Book Value	\$5.00
TTM Revenue	\$189MM
P/ Revenue	0.51x
TTM EPS	\$0.38
P/ EPS	14.3x
TTM EBITDA	\$24mm
EV/ EBITDA	4.1x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.