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Thorn Group Limited (ASX: TGA)

THORN ANNOUNCES FIRST-HALF RESULTS

Thorn Group Limited (ASX: **TGA**) has today reported statutory net profit after tax of $3.8m for the six months to September 2018, compared with a loss in the prior comparable period of $9.7m.

The Group has introduced a range of customer measures to improve the performance of its Consumer Leasing division, resulting in an increase in installation volumes for the six months to September 2018 compared with the previous half year to March 2018.

Thorn reported first-half FY19 revenue from continuing operations of $111.6m (1H FY18: $125.3m), and earnings before interest and tax from continuing operations of $10.9m, compared with $19.3m in the prior comparable period (before goodwill write-off).

Key points

- Net profit after tax of $3.8m
- New securitised warehouse and corporate loan debt facilities now in place
- Operational improvements underway in Radio Rentals
- Consumers under pressure on disposable income
- Growth in Business Finance division receivables and profit
- AASB 9 bad debt provisioning regime introduced with higher loss provisioning
- Corporate costs remain elevated
- No interim dividend
- Guidance revised down to $6m to $8m NPAT (from $7m to $10m)

Managing Director and CEO, Tim Luce said, “As expected, the challenges facing Radio Rentals will take time to resolve, although we are encouraged by the early signs of improvement on the back of our renewed customer focus on providing more choice, more value and more convenience.

“Thorn Business Finance increased its receivables book and profit but the pace of originations was constrained by debt funding capacity for part of the first half. The outlook for Business Finance remains positive in the second half with the increased facility limits now in place.”

Consumer Leasing

Thorn’s financial performance reflects a marked reduction in installation volumes over the past two years in the Consumer Leasing division, Radio Rentals. Further, pressure on consumers’ disposable incomes is driving price sensitivity and a rising arrears trend. The business has responded with efficiency improvements and a coordinated marketing and promotional campaign offering customers a wider product range, trials of new store concepts, more flexible pricing and faster transaction processing.

These initiatives resulted in an increase in enquiries in the first half, and will help to position the division to return to growth in its receivables book over the longer term. While installations for the half year of 42,610 units were 14% below the prior comparable period (49,818 units for the six months to September 2017), the recent downward trend in volumes was reversed from 32,570 units for the six months to March 2018.

Revenue fell 17% to $90.1m (1H FY18: $108.4m) reflecting the decrease in installation volumes. Cost reductions partially offset the revenue decline, with EBIT falling 67% or $11.4m to $5.4m (1H FY18: $16.8m).

Thorn Business Finance

Thorn Business Finance reported lease originations of $84.6m in the half year, compared with $113.7m in the prior comparable period. The pace of growth in originations was constrained by the availability of credit until the new funding arrangements and increased facility limits were put in place during the reporting period.

The total receivables book increased to $333.2m (net of bad debt provision) from $326.1m at 31 March 2018 and $295.9m at 30 September 2017. Revenue increased by 27% to $21.5m, compared with $16.9m in the first half of FY18. This revenue increase plus tight cost control resulted in EBIT increasing by 38% or $3.7m to $13.5m (1H FY18: $9.8m).

Corporate

Corporate costs for the first half of the 2019 financial year increased by 10% to $8.0m (H1 FY18: $7.3m), with higher legal costs defending the class action, higher insurance costs and redundancy costs.

Funding

Thorn's borrowings increased by 6% to $302.5m (31 March 2018: $284.3m).

The corporate loan facility balance was reduced to $15m from $41m at 31 March 2018. On 9 November 2018, Thorn entered into a revised facility with a $30m limit and a new two-year tenor.

A new mezzanine investor was introduced into the TBF securitised debt warehouse on 10 August 2018 and facility limits were increased from $250m to $368m. This facility was drawn by a further $44m during the half year, to a total of $287.5m at 30 September 2018.

Outlook

The outlook for Thorn Group remains challenging as trading conditions remain tight, and Radio Rentals difficulties will, as previously stated, take time to resolve.

Business Finance is no longer constrained by credit availability and will focus on carefully rebuilding the pace of originations.

With the introduction of AASB 9, both divisions will experience higher loss provision coverage rates in an environment where arrears are rising. The Group also continues to record elevated legal fees and insurance costs.

The Group now expects to finish the 2019 financial year with a net profit after tax between $6m and $8m.

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ABOUT THORN GROUP LIMITED (ASX: TGA, www.thorn.com.au)
Thorn Group is a consumer leasing and business finance company. Thorn's foundation consumer leasing business, Radio Rentals (RR Rentlo Reinvented in South Australia), is a leader in the household goods rental market, operating since 1937 and with 62 retail stores nationally. Thorn Business finance is a provider of leasing and debt finance to businesses. Thorn employs approximately 550 people, has been listed on the ASX since 2006, is licenced under the National Consumer Credit Protection Act 2009 and operates a responsible lending policy.