Trading Statement and Notice of Results

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S&U plc

("S&U" or "the Group")

TRADING STATEMENT AND NOTICE OF RESULTS

S&U PLC, the specialist Motor and Property Finance financier, today issues its trading update for the period from its statement of 12th December 2023 to the Group yearend on 31st January 2024. S&U's full year results will be announced on 9th April 2024.

Since S&U's last trading statement two months ago, the headwinds I reported then of poor consumer confidence, continuing high interest rates, cost of living pressures and regulation have, unsurprisingly, impacted the Group's progress and profitability. The intemperate economic climate in Britain surrounding these unfortunately persists. Whilst we continue to invest in the receivables which drive our future profits, we do so with caution.

Thus, loan advances in the period for Advantage, our motor finance lender were 7% lower than last year. Although finance applications remain buoyant at Advantage, and their customer profile is good, the debilitating effects on some customers of continuing cost of living pressures and our obligations under the Customer Duty, make such prudence essential. In contrast and more positively, recent improvements in house price trends and mortgage rates have allowed an uptick in lending activity at Aspen, our secured property bridging business.

Inevitably, these headwinds affect collections. Thus, live monthly repayments at Advantage for the second half of the year were 90% of due (H1 23: 94%). Although Aspen cumulative repayments are no less than 50% up on last year, more recently that rate of increase has slowed.

Although these trends, particularly at Advantage, have largely been confined to the last quarter, a prudent approach to their likely effect on collections will have a temporary impact on profitability.
In particular, the reduction in the rate of collections has necessitated increased provisioning under the IFRS9 accounting standard. Thus, our group profit before tax for the year ended 31 January 2024 is likely to finish between 10% and 15% below consensus expectations of c£38m. Nonetheless, we expect a solid rebound; hence our continued funding investment in both businesses of £15m during the period.

Motor Finance

The past two months have seen interesting times for Advantage. FCA approval has now been received for the appointment of Karl Werner as the new CEO. After an impressive handover from Graham Wheeler, Advantage's CEO for the past four years, Karl's experience in the motor finance sector will stand him in good stead for the commercial and regulatory opportunities and challenges of the future.

During this period, the interaction with the FCA, through our Skilled Advisor appointed as part of their industry wide investigation into customer forbearance and affordability, has deepened. In response to this, Advantage has made precautionary changes to its collection and repossession processes with a particular focus on those customers in payment arrears, or who are identified as vulnerable. Given the evolving demands of the regulatory landscape, operating within them will require a proportionate and constructive dialogue between Advantage and the regulator.

In the meantime, the decline in collections referred to above is reflected in a percentage of due 4% lower than Advantage's habitual 94%. This may be partly seasonal and is expected to partly recover in the coming months. The actual levels of bad debts and voluntary terminations remain within budget.

More certain is that the new collecting environment requires adjustment to both pricing and risk profile at Advantage. This year, has seen Advantage shift towards slightly larger and longer-term products aimed at a more resilient customer base. Whilst we retain our "traditional" customer "tiers" they constitute a smaller proportion of the total. It is this shift, rather than an increase in transactions, which has driven a healthy rise in receivables this year. Customer numbers are just over 66,500.

Aspen Bridging

Aspen Bridging continues to make steady progress despite a UK housing market which remains subdued and relatively inactive. However, Halifax report a house price rise of 1.3% in January compared to the previous month, the fourth monthly gain in a row. Further, mortgage approvals on which around 50% of Aspen repayments depend, are, according to the Bank of England, back over 50,000 per month against 30,000 in the summer of 2023.

Thus again, the watchwords for Aspen are ambition tempered by caution. Net receivables now stand at just over £130m (2023: £114m) as the business achieved its budgeted annual gross lending target of £144m, and has also just achieved an impressive historical milestone of £500m of gross lending. Collections have been slower in the period, as refinancing and sale processes take longer. This followed an excellent performance for the year as a whole, when repayments (excluding retentions) at £126m were more than 50% up on 2022/23. Hence loan book quality remains good. Of 167 loans, the number of loans beyond term is 15 (December 23: 16).

Funding

Group borrowing now stands at £224m against £192m last year. Group funding facilities of £280m provide comfortable headroom for the sustainable growth path expected over the next two years. However, these funds come at an increased and not readily transferable cost, and the past year has seen interest payable by the Group rise to £15.1m from £7.5m last year.

Dividend

The past seven years has seen dividends to our loyal shareholders rise from 91p to 133p per share, an increase of 46% whilst profit before tax has risen by 64%. It is therefore right that at a time when the cost of living, funding and regulatory challenges have had an impact on profits, we partially protect returns to shareholders as we also did during the pandemic. Hence this year we propose that S&U's second interim dividend should be 35p (2023: 38p), payable on 8th March to shareholders on the register on 16th February.

Commenting on the Group's performance and outlook, Anthony Coombs, S&U Chairman, said: "Faced with an array of challenges ranging from weak consumer confidence, cost of living pressures, funding costs and regulatory activity, 2023 has not been a vintage year for either S&U or the specialist financial services sector. Given the underlying strength, resilience and expertise of our Group, I fully expect a resumption of S&U's habitual and robust profit growth in the years to come."

[This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.]

For further information, please contact:

Enquiries Anthony Coombs	S&U plc	c/o SEC Newgate
Financial Public Relations Bob Huxford, Molly Gretton, Harry Handyside	SEC Newgate	020 7653 9848
Broker Andrew Buchanan, Adrian Trimmings, Sam Milford	Peel Hunt LLP	020 7418 8900

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