

Credit Opinion

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MoneyMe (MME) HoldCo Secured

Following the recent MME FY21 results and funding update we provide our current views on the credit. This would be my main message:

The key is that MME is in a much strong credit position than it was 12 months ago from both a funding and business perspective. Management is growing the business – in tandem with the credit quality of the book - which should pay-off in the long-run. The upside and restructuring of MME's HW20 Major Bank warehouse facility alongside the AUD7m corporate bond tap increased funding to support MME's customer growth. An equity raise also looks increasingly likely, which would be positive for creditors and result in the MMEAU 8 ¼ 04/29/25s outperforming.

I still believe these bonds continue to trade cheap – especially with the MME Horizon Trust scheduled to mature in December 2021.

BondIncome View

In our view, this would be an equivalent B rating range credit on an improving trajectory. The upside and restructuring of MME's HW20 Major Bank warehouse facility, alongside the AUD7m corporate bond tap increased funding to support MME's customer growth, in particular the Autopay product. Growth from recently added MoneyMe+ and List Ready products has also been strong increasing revenue diversification away from the Personal Loans and Freestyle products.

The recent MME corporate bond tap offers both funding diversity and avoids the dilutive effects of issuing new equity. While we are comfortable with the current funding position, we expect additional equity support in parallel with asset growth.

Positively, the business' record originations and gross customer receivables have flowed directly through to the bottom line as well as share price. Part of this has been the result of the stronger domestic backdrop, which, alongside government support measures, has helped consumers manage their way through a difficult 2020. The credit quality of its customer base has improved with COVID-19 hardship payment plan deferrals continuing to be insignificant.

Furthermore, funding costs have improved over FY21 leading to an improvement in the company's profitability (or NIM). MME's market capitalisation is now sitting around the AUD345m mark (up from around AUD250m as at 31 December 2020). The share price is up 38% calendar YTD or an annual equivalent increase of 77% (as at 23 July 2021). This compares to the ASX200, which is up 15% calendar YTD or an annual equivalent increase of 28% (as at 23 July 2021).

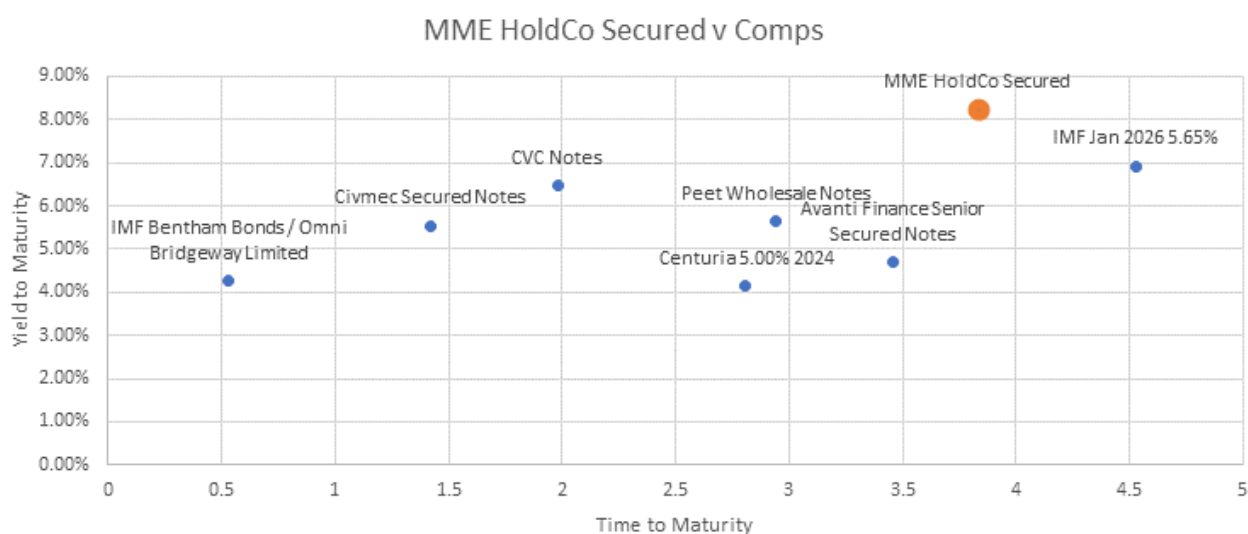
The improvement in the share price will make it more palliative for MME to undertake an equity raising, increasing the loss-absorbing buffer and de-gearing the balance sheet. We note that this credit is highly-levered and despite the security pool, creditors are structurally subordinate to the two warehouse trust vehicles. While MME does have a high concentration of funding at the warehouse level, we note the MME Horizon Trust has a scheduled maturity of December 2021.

Relative Value

We believe this bond is attractive when compared to its opportunity set of unrated and high-yielding securities. MME's notes sit almost 3.5% above the Avanti Finance HoldCo secured notes which are BB rated. To adjust for the credit differential of three notches, we think 2% is appropriate. We note the MME notes will be more illiquid; however, we believe 1.5% offers more than adequate compensation, especially in the context of MME's growing equity subordination and de-gearred balance sheet.

The MME bonds also contain a guarantee where a pool of subsidiaries must represent at least 90% of total assets of the group and at least 90% of the EBITDA of the group. Furthermore, investors are protected by dividend distribution limits, financial covenants, events of default, delisting events, and changes of control mechanisms.

Chart 1. MME HoldCo Secured Relative Value



Source: BondAdviser

Key Terms

- MME Ltd and the Guarantors: a pool of subsidiaries representing at least 90% of total assets of the group and at least 90% of the EBITDA of the group (jointly the obligors), unconditionally and irrevocably guarantee the notes on a joint and several arrangement;
- The notes rank *pari passu* with all present and future secured and unconditional obligations of the issuer;
- Interest payments are non-discretionary, fixed rate, and paid semi-annually in arrears with an 8.25% coupon;
- Investors are protected by dividend distribution limits, financial covenants, events of default, delisting events, and changes of control mechanisms;

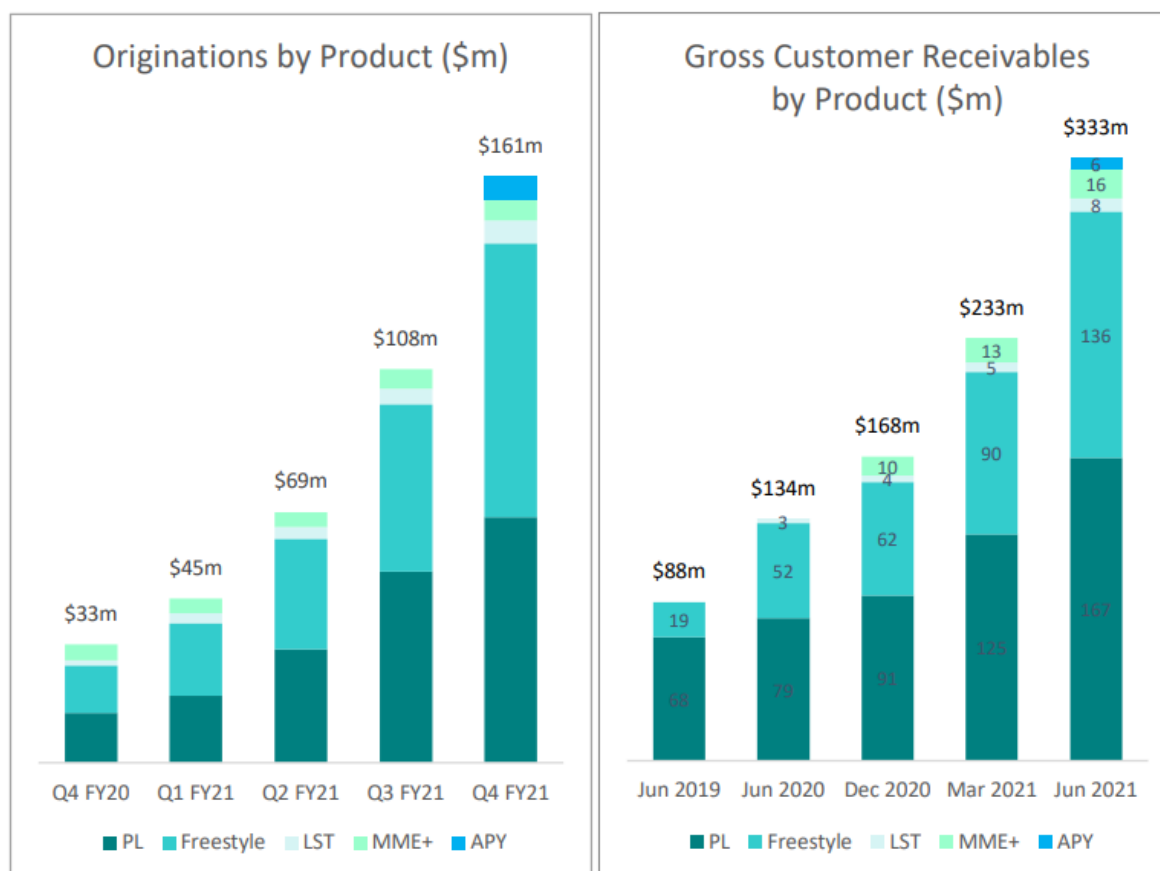
- A step-up event subsists in an event of default. In each case of default, the interest paid on the notes will increase by 2.00%; and
- MME Ltd (issuer) can redeem the notes at 105% of par value if prior to 29 April 2022, at 103% if redemption occurs between 29 April 2022 and 29 April 2023, at 101.5% if redemption occurs between 29 April 2023 and 29 April 2024, at 101% if redemption occurs between 29 April 2024 and 29 October 2024, or at par subsequently.

MME FY21 Results

FY21 results were credit positive. The key highlights to note:

- Originations of AUD384m, up 115% pc;;
- Gross customer receivables of AUD333m, up 149% pc;;
- Revenue of AUD58m, up 21% pc;;
- Cost of funds reduced by 55% from 11% in Q1 FY21 to 5% in Q4 FY21;
- Core operating costs margin reduced by 17% from 12% in FY20 to 10% in FY21; and
- COVID-19 deferrals steady at 0.1% of gross customer receivables (0.1% in Q3 FY21) and net charge-offs reduced from 7% in FY20 to 5% in FY21.

Chart 2. MME FY21 Originations and Receivables



Source: MME FY21 Investor Report

MME Funding Update

- MME's Horizon 2020 Trust (HW20) external funding capacity increased by AUD108m (or 47%) to AUD338m;
- Diversification of HW20 mezzanine investor note holders to comprise two of Australia's leading securitisation mezzanine investors, involving a refinance of the AOFM's AUD80m investment and a further capacity increase to AUD113m;
- An increase of AUD75m (or 50%) to AUD225m in the Major Bank HW20 senior note commitment;
- A broader HW20 eligibility criterion which will include the recently-launched Autopay product; and
- Increase in MME's corporate bond by AUD7m, to add support for the accelerating growth.

Business and Credit Background

MME is a digital consumer credit business that delivers a risk-based loan and virtual credit card offering via a proprietary technology platform. MME is ASX-listed (MME.ASX) with a market capitalisation of AUD358m (based on the closing price of MME's shares on 30 June 2021). MME is also a licensed and regulated credit provider operating in Australia. The company provides customers with a convenient and simple platform to credit directly from their mobile, iPad, or other tech device. Much of this experience has been underserved by the major banks.

MME leverages their technology platform (Horizon Technology Platform) and AI (big data analytics) to deliver highly-automated and innovative products and customer experiences. The Horizon Technology Platform allows applications to be completed, credit checks done, for funds to be disbursed, and credit limits available, in a timely manner.

MME originate through a diversified mix of credit products and distribution channels to create scale and long-term customer experiences. As of 31 December 2020, the income was derived from four main product areas:

- **Personal Loans:** A fixed instalment loan product which charges interest and fees to offer up to AUD50,000 to retail consumers. Personal loans represented 54% of MME's gross receivables at 31 December 2020;
- **Freestyle:** A virtual line of credit product that is MasterCard-enabled to offer up to AUD20,000 in credit to retail consumers with interest and fee charges. Freestyle represented 37% of MME's gross receivables at 31 December 2020;
- **MoneyMe+:** A retail point-of-sale-focused product launched in August 2020 that offers interest free periods to the retail consumer, a financing range up to AUD50,000, and interest and fee-based pricing. MoneyMe+ represented 6% of MME's gross receivables at 31 December 2020; and
- **List Ready/Rent Ready:** Property sector-focused Buy Now Pay Later products that charge a service fee to support property listing (List Ready) or rental-related expenses (Rent Ready). List Ready and Rent Ready represented 3% of MME's gross receivables at 31 December 2020.

From its original funding source of founder equity and family office funds, MME is now funded via an established securitisation program with the MME Horizon Trust warehouse facility established in 2018 and the more recent MME Horizon 2020 Trust warehouse facility established in 2020.

Details of the two vehicles are as follows:

- **MME Horizon 2020 Horizon Trust (HW20):** Funded via a Major bank as senior lender and two of Australia's leading securitisation mezzanine investors as mezzanine funders. This replaced funding via the Velocity Trust, which was wound up in December 2020, with the new funding vehicle providing significant savings to the MME funding profile; and
- **MME Horizon Trust:** Funded via wholesale investors in the family office, fund manager, and SMSF client space. The funding in this warehouse has a scheduled maturity of December 2021, with a legal maturity date in December 2022.

Key Financials

Income Statement (\$,000)	2020	2019	2018	2017	Cashflow Statement (\$,000)	2020	2019	2018	2017
Loan Interest Income	43.0	27.6	22.7	15.4	Income from Customers	46.9	31.8	23.7	15.9
Other Income	4.7	4.3	1.3	0.5	Payments to Suppliers and Employees	-16.0	-10.8	-8.0	-5.9
Total Revenue	47.7	31.9	24.0	15.9	Net Funding Interest Paid	-11.3	-7.3	-1.7	-3.0
Interest Expense	-12.8	-8.5	-5.7	-3.0	Income Tax Paid	0.0	0.0	0.1	0.3
Operating Expense	-18.8	-11.6	-9.2	-10.2	Net Operating Cashflows	19.6	13.7	11.1	7.3
Loan Impairment Expense	-16.0	-11.9	-9.8	-4.8	Payments for PPE	-1.1	-0.2	0.0	0.0
Net Profit Before Tax	-0.1	0.1	0.7	2.1	Payments for Intangible Assets	-1.7	-0.4	-0.9	-0.3
Income Tax Benefit	1.4	0.2	0.0	-0.4	Net Loan Disbursement	-58.4	-46.7	-16.5	-38.3
Net Profit After Tax	1.3	0.3	0.7	1.7	Net Investing Cashflows	-61.2	-47.3	-17.4	-38.6
					Net Proceeds from Borrowings	31.6	37.2	3.4	32.2
Balance Sheet (\$,000)	2020	2019	2018	2017	Proceeds from Issued Share Capital	41.3	0.0	1.1	0.0
Cash and Cash Equivalents	35.4	6.1	3.5	5.3	Borrowing Transaction Costs	-1.4	-1.0	0.0	0.0
Loan Receivables	120.8	78.3	45.1	38.4	Principal Lease Repayment	-0.6	0.0	0.0	0.0
Deferred Tax Asset	4.3	0.8	0.0	0.4	Net Financing Cashflows	70.9	36.2	4.5	32.2
Property, Plant and Equipment	1.1	0.1	0.0	0.0	Net Change in Cash	29.3	2.6	-1.8	0.9
Intangible Assets	2.2	0.8	0.5	0.2	Cash at Beg of Period	6.1	3.5	5.3	4.4
Other Assets	2.8	0.5	0.6	0.2	Cash at End of Period	35.4	6.1	3.5	5.3
Total Assets	166.6	86.6	49.7	44.5					
Payables	1.9	1.1	0.5	0.4					
Lease Liabilities	2.1	0.0	0.0	0.0					
Borrowings	113.1	81.6	44.4	41.0					
Current Tax Payable	1.6	0.0	0.2	0.4					
Employee Related Provisions	1.0	0.2	0.1	0.1					
Total Liabilities	119.7	82.9	45.2	41.9					
Net Assets	46.9	3.7	4.5	2.6					

Source: BondAdviser

CONTACT US

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