Hartleys

# GOLDFIELDS MONEY LTD (GMY)

## ADI – the beauty within

To the outside world, Goldfields Money Ltd (GMY) has for the majority of its six-year listed life been a thinly traded, sub-scale regional banking operation. To industry players, however, the beauty within has been hiding in plain sight. Interested parties have been building material shareholdings and entering into various distribution agreements as they each aim to leverage the benefits of GMY's status as an Authorised Deposit-taking Institution (ADI). In simplistic terms it is the ability of ADIs, such as GMY, to accept deposits from the public (backed by the $250,000 Australian Government guarantee) that provides a cheap source of funding otherwise inaccessible to non-ADIs.

## Proposed Finsure merger to transform GMY

In January 2018 binding documentation was executed for the merger of GMY with the fast-growing mortgage aggregation business Finsure, at an agreed price of $1.50 / share. Should the merger proceed, Finsure shareholders will emerge with ~62% of the merged entity. The combination of Finsure's rapidly growing network of over 1,300 loan writers with GMY's ability to access cheap funding has the potential to drive material profitability in coming years.

## Approval from the Treasurer the first hurdle

Under the FSSA, approval from the Treasurer is required should a person seek to hold more than 15% of an ADI. As Finsure co-founders John Kolenda and Calvin Ng will emerge with a post-merger ~35% holding in GMY, this approval is not a foregone conclusion. Having said that, approval was recently received by Firstmac (100% controlled by one "person") to move to 100% ownership of GMY, prior to making its recent on-market takeover bid. A decision on this key issue is expected around the time of the shareholder meeting to approve the merger, expected late March 2018.

## Risks of the unknown

Post a merger, there are risks related to the execution and ultimate performance of the merged entity. While Finsure (and GMY) hold a high level of confidence as to the continued strong growth of the business there is limited detail available to investors regarding Finsure's future prospects. Providing a degree of comfort here, ~60% of the shares to be issued to Finsure's shareholders will be subject to various escrow provisions.

## High upside potential with high risk; Price Target $1.80

The ability for the merged entity to fund a significantly increased volume of loans on-balance sheet provides a strong opportunity for a material increase in profits. We view the key risks being i) the merger not proceeding due to an inability to gain the necessary approvals or the approvals are gained subject to materially restrictive conditions, and ii) the ability for the newly merged entity being able to deliver on expectations. We believe a degree of downside protection exists given Firstmac's recent cash bid of $1.27 / share provides an indication of the underlying value in GMY (at least in the eyes of a potential acquirer). On balance we view that the potential earnings and share price upside compensate for the risks involved. We initiate coverage of GMY with a Speculative Buy recommendation and a price target of $1.80.

**GMY.asx**
**Speculative Buy**

16 Feb 2018

| | |
|---|---|
| **Share Price:** | $1.40 |
| **12mth price target:** | $1.80 |

**Brief Business Description:**
GMY is a small Authorised Deposit-taking Institution, providing clients with basic lending and deposit products. GMY is currently working toward a merger with mortgage aggregator Finsure.

**Hartleys Brief Investment Conclusion:**
Success in completing the proposed merger with Finsure will provide GMY with significant growth potential

**Chairman & CEO:**
Peter Wallace (Non-Exec. Chairman)
Simon Lyons (Exec. Director / CEO)

**Top Shareholders:**

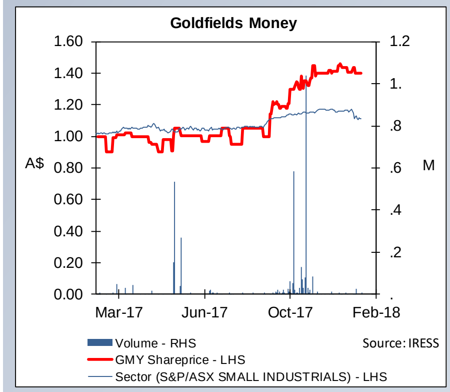
| | |
|---|---|
| Firstmac | 15.0% |
| Aoyin Group | 13.4% |
| Aura FM | 12.5% |
| Pioneer Credit | 11.3% |

**Company Address:**
Unit 30, 118 Royal St.
Perth, WA 6004

| | |
|---|---|
| **Issued Capital:** | 22.5m |
| - fully diluted | 29.0m |
| **Market Cap:** | $31.5m |
| - fully diluted | $40.6m |

| | FY17a | FY18e | FY19e |
|---|---|---|---|
| Op. Revenue | 4.2 | 4.3 | 30.8 |
| NPAT (A$m) | -1.0 | -0.8 | 7.8 |
| **NPAT (A$m)*** | **-1.0** | **-0.8** | **6.4** |
| EPS (c,basic) | -5.1 | -3.4 | 10.3 |
| P/E (basic) | | | 13.5x |
| P/E (diluted) | | | 13.5x |
| DPS (cps) | 0.0 | 0.0 | 0.0 |

Source: Hartleys Research. *Cash NPAT

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Hartleys has assisted in the completion of part of a capital raising in the past 12 months for Goldfields Money Limited for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Goldfields Money for which it will earn fees.

# SUMMARY MODEL

## Goldfields Money Ltd (GMY)

## Speculative Buy

| Company Information | | |
|---|---|---|
| Date | 16 Feb 2018 | Unit 30, 118 Royal St. |
| Share Price | $1.40 | Perth, WA 6004 |
| 52 Week High-Low | $0.90 - $1.46 | Ph: 1300 464 4653 |
| Dil. Market Cap ($m) | $41 | www.goldfieldsmoney.com.au |
| Ordinary Shares | 22.5 | |
| Fully Diluted Shares | 29.0 | |
| | | |
| Price Target | $1.80 | |
| Upside / Downside | 29% | |

| Price Target | |
|---|---|
| 12 Month Price Target | $1.80 |
| | |
| *P/E (FY19) at price target - Reported EPS* | 17.4x |
| *P/E (FY20) at price target - Reported EPS* | 14.1x |
| | |
| *P/E (FY19) at price target - Cash EPS* | 21.2x |
| *P/E (FY20) at price target - Cash EPS* | 16.2x |

| Multiples (S/price at $1.40) | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| P/E (basic, weighted) | | | 13.5x | 11.0x |
| P/E (diluted, weighted) | | | 13.5x | 11.0x |
| Cash P/E (basic, weighted) | | | 16.5x | 12.6x |
| Cash P/E (diluted, weighted) | | | 16.5x | 12.6x |
| Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% |
| Price / Book | 1.6x | 1.6x | 1.2x | 1.0x |

| Ratios | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| Return on Equity | -5.0% | -4.0% | 8.6% | 9.3% |
| Return on Assets | -0.6% | -0.5% | 1.7% | 1.8% |

| Share Data | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| Ord Issued shares (m) | 22.5 | 22.5 | 75.2 | 85.2 |
| *growth* | 25% | 0% | 234% | 13% |
| Weighted ave shares (m) | 19.6 | 22.5 | 75.2 | 85.2 |
| *growth* | 22% | 15% | 234% | 13% |
| Diluted shares wgted (m) | 24.1 | 29.0 | 75.2 | 85.2 |
| *growth* | 17% | 20% | 160% | 13% |

**Unpaid Capital**

| Expiry | Number (m) | Avg Price | $m unpaid |
|---|---|---|---|
| 30-Nov-21 | 1.94 | $0.00 | $0.00 |
| 11-May-19 | 4.50 | $1.50 | $6.75 |
| **TOTAL** | **6.44** | | **$6.75** |

| Directors & Senior Mgt | Substantial Shareholders | |
|---|---|---|
| Peter Wallace (Non-Exec. Chairman) | Firstmac | 15.0% |
| Simon Lyons (Exec. Director / CEO) | Aoyin Group | 13.4% |
| Derek La Ferla (NED) | Aura FM | 12.5% |
| Keith John (NED) | Pioneer Credit | 11.3% |
| Peter Hall (NED) | | |
| Malcolm Cowell (CFO) | | |

| Profit & Loss ($m) | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| **Operating Revenue** | **4.2** | **4.3** | **30.8** | **36.3** |
| Operating Expenses | -5.3 | -5.3 | -19.0 | -20.0 |
| Loan Provisions | -0.3 | -0.1 | -0.6 | -0.8 |
| Depn & Amort. | -0.3 | -0.3 | -1.0 | -1.0 |
| **PBT** | **-1.3** | **-1.1** | **11.1** | **15.5** |
| Tax | 0.3 | 0.3 | -3.3 | -4.7 |
| **NPAT** | **-1.0** | **-0.8** | **7.8** | **10.9** |
| | | | | |
| **Non-cash Adjustments** | | | | |
| NPV of Trail Book (pre-tax) | 0.0 | 0.0 | 2.0 | 2.0 |
| NPV of Trail Book (post-tax) | 0.0 | 0.0 | 1.4 | 1.4 |
| **Cash NPAT** | **-1.0** | **-0.8** | **6.4** | **9.4** |
| | | | | |
| **Reported EPS (basic, wghtd)** | **-5.1** | **-3.4** | **10.3** | **12.7** |
| **Reported EPS (dil, wghtd)** | **-4.1** | **-2.7** | **10.3** | **12.7** |
| **Cash EPS (basic, wghtd)** | **-5.1** | **-3.4** | **8.5** | **11.1** |
| **Cash EPS (dil, wghtd)** | **-4.1** | **-2.7** | **8.5** | **11.1** |
| **DPS (cps)** | **0.0** | **0.0** | **0.0** | **0.0** |

| Balance Sheet ($m) | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| Cash | 16.2 | 14.7 | 28.6 | 54.2 |
| Deposits with ADI's | 26.9 | 26.9 | 26.9 | 26.9 |
| FRNs with ADI's | 11.1 | 11.1 | 11.1 | 11.1 |
| Loans & Advances | 157.0 | 182.0 | 345.6 | 526.5 |
| NPV of Trail Comms - Receivable | 0.0 | 0.0 | 195.7 | 223.9 |
| Shares in CUSCAL | 0.4 | 0.4 | 0.4 | 0.4 |
| Property, Plant, Equipment | 0.8 | 0.8 | 0.8 | 0.8 |
| Goodwill | 0.0 | 0.0 | 37.3 | 37.3 |
| Other Intangibles - Computer software | 0.5 | 0.5 | 0.5 | 0.5 |
| Deferred Tax Assets | 0.6 | 0.6 | 0.6 | 0.6 |
| Other | 1.6 | 1.6 | 1.6 | 1.6 |
| **Total Assets** | **215.2** | **238.7** | **649.3** | **883.8** |
| | | | | |
| Deposits | 194.1 | 219.1 | 382.7 | 563.6 |
| NPV of Trail Comms - Payable | 0.0 | 0.0 | 172.1 | 198.8 |
| Creditors & other payables | 0.6 | 0.0 | 0.0 | 0.0 |
| Current Tax Liabilities | 0.0 | 0.0 | 3.7 | 5.0 |
| Provisions | 0.2 | 0.2 | 0.2 | 0.2 |
| Interest Bearing Liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Liabilities** | **195.0** | **219.4** | **558.7** | **767.6** |
| | | | | |
| **Net Assets** | **20.2** | **19.4** | **90.5** | **116.2** |

| Cashflow Statement ($m) | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| Net Operating Cash Flow | -1.7 | -0.5 | 12.5 | 13.2 |
| Net Investing Cash Flow | -44.2 | -26.0 | -165.6 | -182.9 |
| Net Financing Cash Flow | 59.7 | 25.0 | 167.0 | 195.3 |
| **Movement in Cash** | **13.8** | **-1.5** | **13.9** | **25.6** |

| Key Metrics - Finsure | 6/17A | 6/18F | 6/19F | 6/20F |
|---|---|---|---|---|
| Loan writers | 1,213 | 1,516 | 1,744 | 1,918 |
| *Growth* | *31%* | *25%* | *15%* | *10%* |
| Loan writers - average | 1,069 | 1,365 | 1,630 | 1,831 |
| Settlements per avg. loan writer ($m) | 9.7 | 9.5 | 9.3 | 9.3 |
| *Growth* | | *-2%* | *-3%* | *0%* |
| Total Settlements ($m) | 10,400 | 13,017 | 15,081 | 16,940 |
| *Growth* | | *25%* | *16%* | *12%* |
| | | | | |
| Aggregation - Upfront net revenue | 0.035% | 0.035% | 0.035% | 0.035% |
| Aggregation - Trail net revenue | 0.014% | 0.014% | 0.014% | 0.014% |
| | | | | |
| Aggregation - Loan book ($m) | 25,000 | 32,697 | 40,608 | 48,647 |
| Wholesale - Loan book ($m) | 1,500 | 2,225 | 2,180 | 2,244 |

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*Sources: IRESS, Company Information, Hartleys Research*

# PROPOSED MERGER

On 23 November 2017 GMY announced the signing of a Process Agreement with Finsure outlining the key commercial terms under which each party would explore a merger. Subsequent to this, on 15 January 2018, signing of a binding Share Sale and Purchase Agreement (SSPA) was announced.

## RATIONALE

In simple terms, the merger will combine Finsure's rapidly growing mortgage aggregation business with access to the cheaper funding that GMY's status as an ADI brings (Figure 1).

The transaction will also bring GMY greater market relevance, as the business will move from a market capitalisation of ~$30m to ~$100m.

*Fig. 1: GMY & Finsure – Complementary Combination*

| | |
|---|---|
| **COMPLEMENTARY COMBINATION** | The Proposed Transaction, if implemented, will result in the combination of a **FAST GROWING NATIONAL MORTGAGE AGGREGATION NETWORK AND WHOLESALE MORTGAGE BUSINESS** and an Authorised Deposit-taking Institution ("**ADI**") with a **DISTINCT FUNDING ADVANTAGE** that will have:<br>▪ Material profitability<br>▪ Increased scale<br>▪ Material revenue uplift and diversified income-streams<br>▪ Improve growth prospects |

*Source: GMY*

## KEY TERMS & CONDITIONS

The key terms of the proposed transaction include:

- **Consideration.** GMY will issue 40.75m shares to Finsure shareholders at an agreed price of $1.50 / share, equating to an equity value for Finsure of ~$61m. Finsure is expected to bring net debt of ~$11m, giving an Enterprise Value of ~$72m. Finsure will emerge with ~62% of the combined entity, reducing to ~58% on a fully diluted basis.

- **Escrow.** Approximately 24.6m (~60%) vendor shares will be subject to escrow provisions. Of this amount ~19.9m shares (representing 49% of vendor shares and ~31% of shares in the merged entity) held by entities associated with Finsure co-founders John Kolenda and Calvin Ng will be escrowed until the date of release of GMY's results for the period ended 31 December 2019. The residual 4.7m shares, to be issued to entities associated with RESIMAC, will be escrowed until 12 months post completion of the transaction.

- **Board & Management.** Finsure co-founder and CEO John Kolenda will join the Board of GMY as an Executive Director. Current GMY Executive Director and CEO, Simon Lyons, will remain in his current role.

- **Conditions Precedent.** In addition to standard conditions precedent for a transaction of this nature, the key condition is the granting by the Treasurer of the necessary approvals under the FSSA.

- **Shareholder Vote.** Shareholders will have the opportunity to vote on the merger proposal at the shareholder meeting. Approval for the transaction is by simple majority (i.e. 50%).

## TIMELINE FOR COMPLETION

GMY's anticipated transaction timetable is shown in Figure 2.

*Fig. 2: Transaction Timetable*

| Event | Date |
|---|---|
| Dispatch Notice of Meeting | February 2018 |
| Shareholder meeting | March 2018 |
| Completion | March 2018 |

*Source: GMY*

# GOLDFIELDS MONEY

Established in 1982 in Kalgoorlie, Western Australia, Goldfields Credit Union (GCU) operated as a mutual for the benefit of its members, who largely resided in the Goldfields and Esperance regions of Western Australia.

In late 2010 GCU announced its intention to demutualise, paving the way for the business to be listed on the ASX in May 2012 as Goldfields Money (GMY). At this time GMY was still very much a local Kalgoorlie-based business, which upon listing had a vision to *"create a significant Western Australian financial institution".*

GMY has branches in Kalgoorlie, Esperance and Perth offering clients a range of basic banking products covering deposit accounts (e.g. savings accounts, term deposits) and lending products (e.g. home loans, credit cards). GMY also provides white-labelling of many of its products for distribution by a range of partners.

## AUTHORISED DEPOSIT-TAKING INSTITUTION (ADI)

An Authorised Deposit-taking Institution (ADI) refers to financial institutions that are authorised, under the Banking Act 1959, to accept deposits from the public. ADIs are supervised by the Australian Prudential Regulation Authority (APRA). As an ADI, GMY depositors are covered by the $250,000 Australian Government guarantee.

GMY also holds both an Australian Financial Services Licence (AFSL) and an Australian Credit Licence (ACL), which among other things enables GMY to engage in the provision of credit and provide financial advice across a range of financial products.

It is these attributes that we see as the key "asset" of GMY. As noted in the recent Independent Expert Report (IER) an ADI may be highly attractive to companies seeking to diversify their funding sources through customer deposits. It is this (cheaper) source of funds that would likely result in significant funding synergies for a non-ADI acquirer.

## BOARD & MANAGEMENT

*Fig. 3: GMY Board*

| Name | Position | Director since | Shares | % |
|---|---|---|---|---|
| Peter Wallace | Chairman | Aug-2014 | 70,838 | 0.3% |
| Simon Lyons[1] | Managing Director | Oct-2017 | 258,000 | 1.1% |
| Derek La Ferla | NED | Nov-2015 | 0 | 0.0% |
| Keith John[2] | NED | May-2016 | 0 | 0.0% |
| Peter Hall | NED | Nov-2015 | 13,534 | 0.1% |
| **Total** | | | **342,372** | **1.5%** |

*1. Excludes performance rights*
*2. Pioneer Credit (ASX:PNC) of which Mr John is MD, holds 2.54m shares, representing 11.3% of issued capital*

*Source: GMY, Iress, Hartleys*

The GMY Board has changed significantly since listing, with no original Directors (who had connections to Kalgoorlie and the Goldfields region) remaining. The senior management team, comprising Managing Director Simon Lyons (January 2016), CFO Malcolm Cowell (March 2017) and Head of Risk and Compliance Steve Ellis (July 2016) are also relatively recent appointments to GMY.

## STRATEGY

GMY has invested much effort and money into developing its new strategy, seeking to move perceptions (and reality) that the business was a simple, stable, relatively non-progressive, yet valued provider of banking services to customers predominantly in the Kalgoorlie, Esperance and Perth regions. The new strategy is focussed on becoming a tech-savvy, digital bank targeting "digital natives" in the 24-35yo age group. Incorporated with the new strategy was a proposed rebranding of GMY to "Bare Money Limited". This initiative is currently on hold following the proposed change of name not receiving the necessary shareholder support at the 2017 AGM.

## EARNINGS

GMY has been, and prior to the proposed merger proceeding, continues to be a small entity, reflected in the historic financials of the business (Figure 4).

*Fig. 4: Historic Earnings*

| GMY | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 |
|---|---|---|---|---|---|---|
| Total Loans Outstanding | 49.1 | 83.3 | 118.4 | 145.8 | 154.8 | 183.4 |
| Net Interest Margin | 2.0 | 2.2 | 2.6 | 2.9 | 3.1 | 2.8 |
| Average NIM | 3.32% | 2.30% | 2.04% | 1.87% | 1.98% | 1.49% |
| Other Revenue | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 1.5 |
| **NIM + Other Revenue** | **2.5** | **2.7** | **3.0** | **3.3** | **3.6** | **4.2** |
| Operating Expenses | -1.8 | -2.5 | -2.7 | -3.1 | -3.6 | -5.0 |
| Loan Impairments | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.3 |
| Depn & Amort | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.3 |
| **PBT** | **0.6** | **0.2** | **0.2** | **0.1** | **-0.2** | **-1.3** |
| Tax | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.3 |
| **NPAT** | **0.5** | **0.2** | **0.2** | **0.1** | **-0.1** | **-1.0** |

*Source: GMY, Hartleys*

- Despite material growth in loans outstanding, Net Interest Margin (NIM) revenue has remained fairly flat as rate competition in residential lending and increased competition for deposits has seen a tightening of the NIM %. In FY17 NIM was also impacted by funds being utilised as part of the cash convenience agreement with Stargroup (ASX:STL).

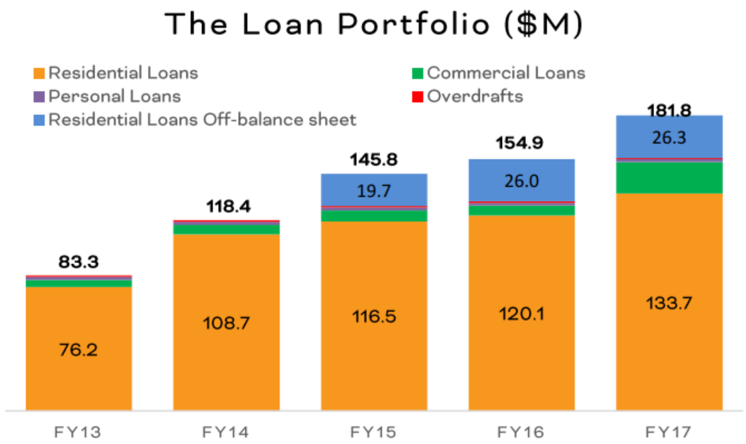
- Other revenue was boosted in FY17 due in large part to the STL agreement. This level of revenue is not expected again in FY18 due to the appointment of Receivers and Managers to STL and the subsequent reduction in the cash convenience facility limit from $30m to $10m.

- There has been a material increase in operating expenses over the last two years, following the overhaul of the Board and Management, as a result of investment into people, brand and systems, primarily GMY's new Core Banking System (CBS).

## LOAN BOOK

GMY has more than doubled its loan book since FY13, representing annualised growth of ~20% (Figure 5), driven predominantly by GMY's residential loan portfolio where distribution has been boosted through the use of third party mortgage brokers. GMY entered into an off-balance sheet funding agreement in mid-2014 with Bendigo and Adelaide Bank (ASX:BEN) which has provided the business with increased loan funding capacity. At FY17 this vehicle held $26m of loans and had residual capacity of $34m.

*Fig. 5: Loan Portfolio*

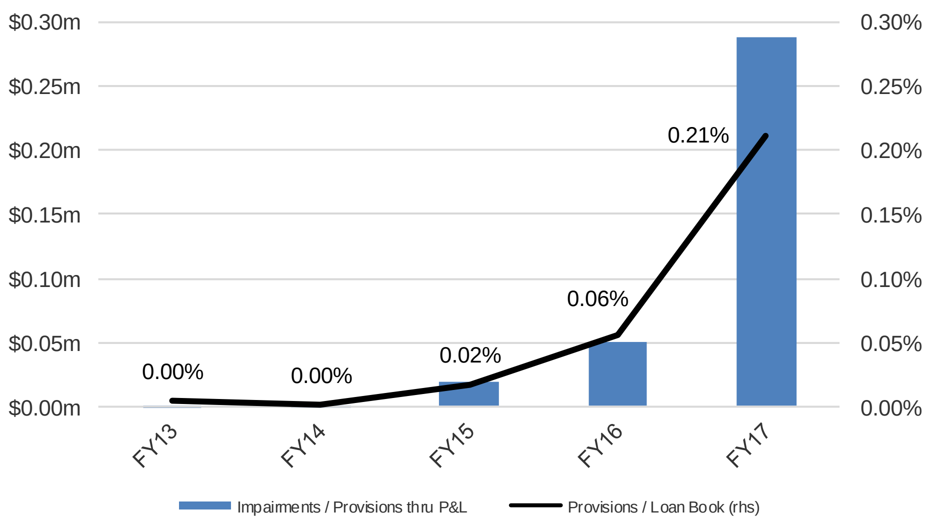



*Source: GMY*

## LOAN BOOK – PROVISIONS & IMPAIRMENTS

The historic loan losses from GMY's portfolio have been very small. In FY17 GMY established a collective provision of $234,000. At FY17 GMY's loan loss provisions were equivalent to 0.21% of the outstanding on-balance sheet loan book (Figure 6).

*Fig. 6: Loan Portfolio – Provisions & Impairments*

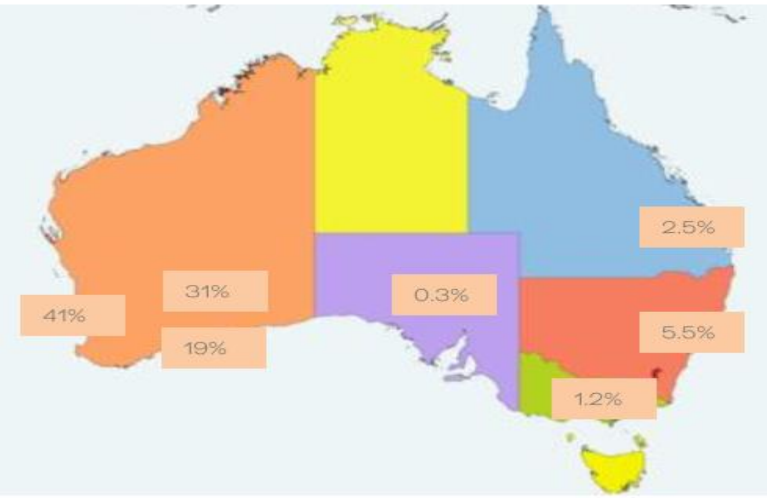



*Source: GMY, Hartleys*

## LOAN BOOK – GEOGRAPHIC SPREAD

GMY has sought to diversify the geographical spread and concentration of its portfolio; it does however remain very concentrated in its home markets (Figure 7).

*Fig. 7: Loan Portfolio – Geographical Spread*

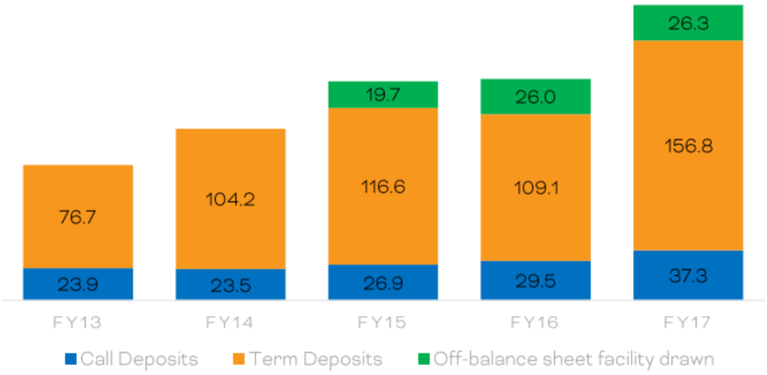



*Source: GMY*

## FUNDING SOURCES

GMY funds its' loan portfolio primarily through depositor funds in addition to the off-balance sheet facility discussed above. Included within the Term Deposits balance is $35m of Term Deposits branded by Firstmac and issued by GMY under their white label distribution agreement. One of the benefits of the Finsure transaction is the access it will provide to a greater distribution network, potentially reducing reliance on the existing Term Deposit funding source which should result in reduced funding costs.

*Fig. 8: Loan Portfolio – Funding Sources*

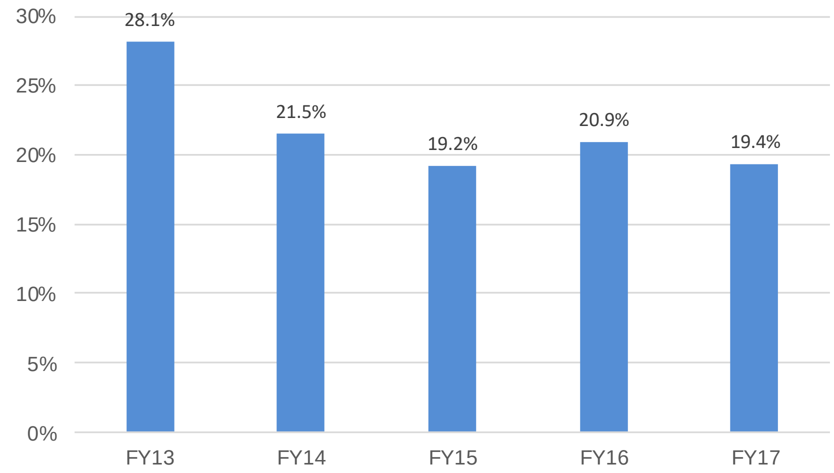



*Source: GMY*

## CAPITAL ADEQUACY

APRA guidelines require GMY to maintain a minimum capital adequacy ratio of 16.5%, which is to increase to 17.0% in January 2020. GMY's capital adequacy ratio has been bolstered by small capital raisings in FY16 ($2.1m) and FY17 ($4.2m).

*Fig. 9:* ***Capital Adequacy Ratio***




*Source: GMY, Hartleys*

## SUBSTANTIAL SHAREHOLDERS

Given the attraction of GMY's status as an ADI, there are a number of financial services companies that have accumulated material shareholdings (Figure 10). GMY has a variety of distribution and other agreements with a number of these major shareholders.

We note that under the Financial Sector (Shareholdings) Act (FSSA) the approval of the Treasurer is required should a "person" seek to hold more than 15% of an ADI.

*Fig. 10:* ***GMY Substantial Shareholders***

| Name | Shares | % |
|---|---|---|
| Firstmac Holdings | 3,375,032 | 15.0% |
| Aoyin Group | 3,008,049 | 13.4% |
| Aura Funds Management | 2,819,842 | 12.5% |
| Pioneer Credit | 2,540,397 | 11.3% |
| **Total** | **22,528,066** | **52.1%** |

*Source: GMY (as at 11 December 2017), Hartleys*

- **Firstmac Holdings.** Firstmac moved to 15% ownership of GMY in May 2013 and has remained at this level through participation in subsequent equity raisings. Firstmac, which has distribution and loan purchase agreements with GMY, launched an on-market takeover bid for GMY in October 2017, this is discussed in greater detail below.

- **Aoyin.** Aoyin established itself in Australia in 2015 with a view to provide a full range of financial products and services to the Chinese migrant community in Australia. Aoyin acquired an initial 15% GMY shareholding in December 2015.

- **Aura Funds Management (Aura).** Aura was co-founded by John Kolenda and Calvin Ng. Messrs Kolenda and Ng are also the co-founders, and major shareholders, of Finsure. Aura initially became a substantial shareholder (with a holding of 5.0%) in May 2016 through participation in GMY's equity raising.

- **Pioneer Credit (ASX:PNC).** PNC acquired a 14.1% holding in GMY in April 2015, purchasing the holding from entities associated with Keith John, PNC's Managing Director, who commenced building his stake in May 2014. PNC and GMY have distribution agreements in place for the provision of credit products to PNC's client base. Mr John is a non-executive director of GMY.

## FIRSTMAC

Firstmac is an unlisted company owned by interests associated with Kim Cannon. Established in 1979, Firstmac currently manages $9bn in mortgages and $250m in cash investments and has held a 15% stake in GMY since May 2013.

Firstmac CFO James Austin was a Non-Executive Director of GMY from November 2013 until October 2017 when, subsequent to Firstmac making its initial takeover offer, his re-election to the GMY Board was voted down at the AGM.

On 16 October 2017, Firstmac launched an unsolicited, unconditional, on-market cash offer of $1.12 / share for GMY. The offer, which was subsequently increased to $1.27 / share on 9 November 2017, lapsed on 1 December 2017 without Finsure acquiring any additional shares. Notably, prior to making its offer, Firstmac had received approval (subject to numerous conditions) from the Treasurer to hold 100% of GMY.

Firstmac and GMY have had several commercial agreements in place since FY15 including the white-labelling of deposit products, primarily Term Deposits distributed by Firstmac and issued by GMY. At FY17 $35m of deposits held by GMY related to Term Deposits distributed by Firstmac.

# FINSURE

Finsure was founded in 2011 by John Kolenda and Calvin Ng and was established as a 50/50 joint venture with RESIMAC.

Prior to establishing Finsure, Mr Kolenda held various executive roles in the mortgage broking industry spanning over 20 years, including 10 years at Aussie Home Loans where Mr Kolenda was General Manager of Sales & Distribution.

Finsure provides B2B mortgage aggregation services, acting as the intermediary between a panel of over 60 financial product issuers (e.g. banks, credit unions) to a network of mortgage brokers / loan writers across Australia. More recently Finsure has established a wholesale business operating under the Better Choice and MyLoan brands, providing white-label products funded by third parties.

## OWNERSHIP

Until April 2017 Finsure remained a 50/50 JV with RESIMAC. Subsequent transactions, including a partial share buyback, saw RESIMAC's ownership diluted to 28.6% at end FY17. The recently executed Share Sale & Purchase Agreement (SSPA) shows this ownership level has been further diluted to 16%.

Details of Finsure's current ownership structure is shown in Figure 11.

*Fig. 11: Finsure Ownership*

| Ownership | Finsure Equity Holding | Finsure Equity Holding (post Con. Note conversion) | GMY Equity Holding |
|---|---|---|---|
| John Kolenda | 46% | 33% | 21% |
| Calvin Ng | 21% | 16% | 10% |
| RESIMAC | 16% | 12% | 7% |
| Joseph Kolenda | 7% | 5% | 3% |
| Other | 11% | 8% | 5% |
| **Sub-Total** | **100%** | **73%** | **46%** |
| Convertible Note Holders | 0% | 27% | 17% |
| **Total** | **100%** | **100%** | **62%** |

*Source: GMY (SSPA - 15 January 2018), Hartleys*

*NB. GMY Equity Holding based on post-merger shares diluted for outstanding GMY Performance Rights*

Holders of Finsure Convertible Notes will ultimately receive 27% (11.0m) of the GMY shares to be issued to Finsure on completion of the transaction. Full details of the Convertible Note holders have not been disclosed.

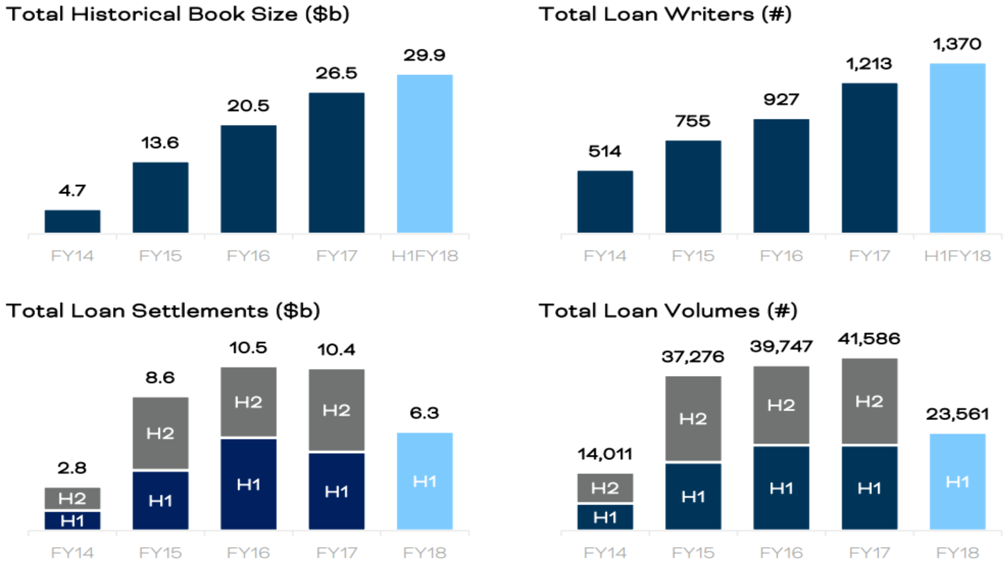
## GROWTH TO DATE

Finsure has grown rapidly since it was established, appearing in BRW's Fast100 list in both 2016 (6th) and 2017 (31st).

Since FY14, material growth in loan writer numbers, driven both organically and by acquisition, has underpinned loan settlements growth. This has resulted in the loan book growing more than six-fold from $4.7bn in FY14 to $29.9bn at 1H18.

With residential dwelling commitments of ~$395bn in Australia in FY17, Finsure has ~3% of the overall market and ~6% of the market for loans originated by brokers, providing material room for ongoing growth in market share.

*Fig. 12: Finsure – Growth to date*




*Source: GMY*

Finsure provides loan writers with flexible commission models offering the option of either volume-based or flat fee commission schemes. Loan writers are able to transition to different commission structures to suit their experience and business requirements. Finsure believes this flexibility has been a key attraction in driving its growth in loan writers.

## EARNINGS

Finsure's audited FY17 accounts shows that PBT of $6.0m and NPAT of $4.2m was delivered (Figure 13). We note that one-off accounting revaluations contributed $2.1m in PBT.

*Fig. 13: FY17 Earnings*

| **FY2017** | **A$'000** |
|---|---|
| Commission income | 152,787 |
| Fees income | 8,204 |
| Other | 2,367 |
| **Total operating income** | **163,358** |
| | |
| Commission expense | (140,689) |
| Employee benefits | (7,045) |
| Professional services | (2,089) |
| Marketing | (1,675) |
| Travel and entertainment | (340) |
| Occupancy | (568) |
| Other admin. | (2,051) |
| **Total operating expense** | **(154,457)** |
| | |
| **EBITDA** | **8,901** |
| Depreciation and amortisation | (654) |
| **EBIT** | **8,246** |
| Net interest expense | (2,214) |
| Income tax | (1,821) |
| **Profit after tax** | **4,212** |

*Source: GMY*

# MERGED ENTITY

Initially the merged entity will continue to operate under the Goldfields Money name, with Finsure maintaining a stand-alone brand. Corporate headquarters of each business will remain in Perth (GMY) and Sydney (Finsure).

The existing management structure of the listed entity is expected to remain. Upon completion of the merger, Finsure Managing Director, John Kolenda will become an Executive Director of GMY, whilst also maintaining operational control of Finsure.

## CAPITAL STRUCTURE

GMY's post-merger capital structure (Figure 14) will result in the vendors owning between 58% and 62% of the merged entity.

*Fig. 14: Post-merger Capital Structure*

| Capital Structure | Shares (m) | % diluted for Perf. Rights | % fully diluted |
|---|---|---|---|
| Shares on Issue - Current | 22.5 | | |
| Rights | 1.9 | | |
| **Total SOI - post Rights exercise** | **24.5** | | |
| *Shares to be issued - Finsure Equity Holders* | *29.7* | *46%* | *43%* |
| *Shares to be issued - Finsure Con Note Holders* | *11.0* | *17%* | *16%* |
| Total Shares to be issued - Finsure | 40.8 | 62% | 58% |
| **Total SOI - diluted for Perf Rights** | **65.2** | | |
| Unlisted Options | 4.5 | | |
| **Total SOI - Fully diluted** | **69.7** | | |

*Source: GMY, Iress, Hartleys*

Inclusive of the 2.8m GMY shares already held by Aura Funds Management (John Kolenda and Calvin Ng), entities associated with Finsure will, upon completion, own between 62% and 67% of the merged entity.

- GMY has 1.94m Performance Rights on issue. These rights (subject to Board discretion) have change of control provisions attached. We assume these Performance Rights will vest should the merger proceed.

- Finsure Convertible Note holders will have their notes exchanged for equity immediately prior to the transaction proceeding.

- GMY has 4.5m unlisted options exercisable at $1.50 / share, expiring 11 May 2019. The options were issued at the time of the IPO on the basis of 1 option for every 2 shares.

## FUNDING

GMY's Target's Statement (3 November 2017) highlights that additional capital is likely to be required as GMY seeks to continue growth of their business. One of the keys in seeking this merger is the opportunity to utilise GMY's balance sheet to drive additional on-balance sheet lending. To achieve this GMY will need to grow its regulatory capital base, requiring additional equity to be raised.

At FY17 GMY's "Total Regulatory Capital" was $18.4m and its Capital Adequacy Ratio was 19.36%, above APRA's current minimum requirement of 16.5%.

We estimate that each $10m in additional on-balance sheet lending will require between $0.6m - $1.0m in additional regulatory capital.

Based on our forecasts (see below) we have assumed that GMY raises $15m equity in both FY19 and FY20.

## FORECASTS

Our forecasts (Figure 15) assume that Finsure contributes earnings from the start of FY19. GMY is expecting the merger to complete by end of March 2018; we will make any adjustments as necessary upon conclusion of the merger.

*Fig. 15: Hartleys Forecasts*

| GMY | | 2017a | 2018e | 2019e | 2020e |
|---|---|---|---|---|---|
| Net Interest Margin | $m | 2.8 | 3.5 | 5.1 | 7.8 |
| Aggregation Net Revenue | $m | 0.0 | 0.0 | 19.2 | 21.2 |
| Fees & Other Revenue | $m | 1.5 | 0.8 | 6.5 | 7.2 |
| **Total Revenue** | **$m** | **4.2** | **4.3** | **30.8** | **36.3** |
| Operating Expenses | $m | -5.3 | -5.3 | -19.0 | -20.0 |
| Loan Provisions | $m | -0.3 | -0.1 | -0.6 | -0.8 |
| **PBT** | **$m** | **-1.3** | **-1.1** | **11.1** | **15.5** |
| Tax | $m | 0.3 | 0.3 | -3.3 | -4.7 |
| **NPAT** | **$m** | **-1.0** | **-0.8** | **7.8** | **10.9** |
| EPS (basic) | cps | -5.1 | -3.4 | 10.3 | 12.7 |
| **Cash NPAT** | **$m** | **-1.0** | **-0.8** | **6.4** | **9.4** |
| Cash EPS (fully diluted) | cps | -4.1 | -2.7 | 8.5 | 11.1 |

*Source: GMY, Hartleys*

*NB. Cash NPAT is after excluding the non-cash impact of changes in the NPV of the trail book.*

Our FY18 forecasts assume an increase in GMY revenue driven by increased on-balance sheet lending (up from $183m at FY17 to ~$201m at 1H18), offset by increased costs (e.g. Finsure transaction, Firstmac defence, rebranding strategy).

Fees & other revenue predominantly relates to revenue generated from the provision of Finsure's proprietary Loankit platform to loan writers. Growth in these fees largely moves in line with growth in loan writer numbers.

Into FY19 and forward our key assumptions for growth in settlements and aggregation net revenues are shown below (Figure 16).

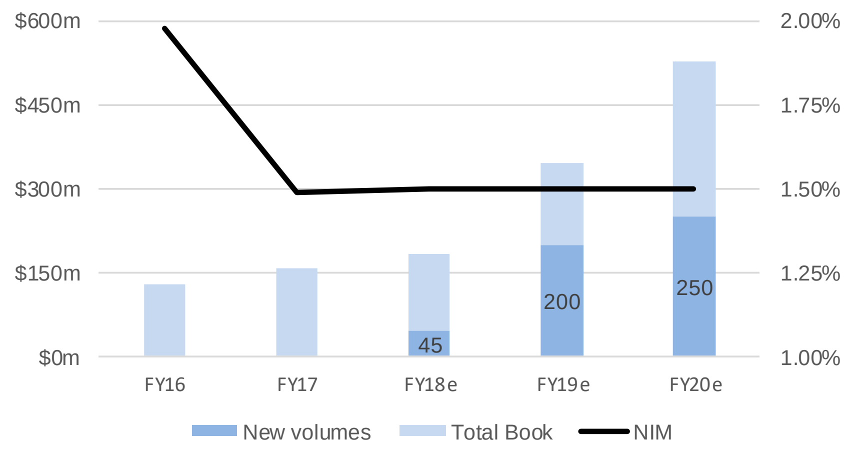
*Fig. 16: Hartleys forecasts – Total Settlements*

| Finsure | FY17 | FY18e | FY19e | FY20e |
|---|---|---|---|---|
| Loan writer numbers | 1,213 | 1,516 | 1,744 | 1,918 |
| Growth | | 25% | 15% | 10% |
| Settlements per avg. loan writer | $9.7m | $9.5m | $9.3m | $9.3m |
| Growth | | -2.0% | -3.0% | 0.0% |
| **Total Settlements** | **$10.4b** | **$13.0b** | **$15.1b** | **$16.9b** |
| Aggregation - Upfront net revenue | | 0.035% | 0.035% | 0.035% |
| Aggregation - Trail net revenue | | 0.014% | 0.014% | 0.014% |

*Source: GMY, Hartleys*

Figure 17 shows our forecasts for GMY's on-balance sheet settlements and the resultant on-balance sheet total loan book, along with the forecast net interest margin (NIM) achieved on these balances.

*Fig. 17: Hartleys forecasts - On-balance sheet loans & NIM*




*Source: GMY, Hartleys*

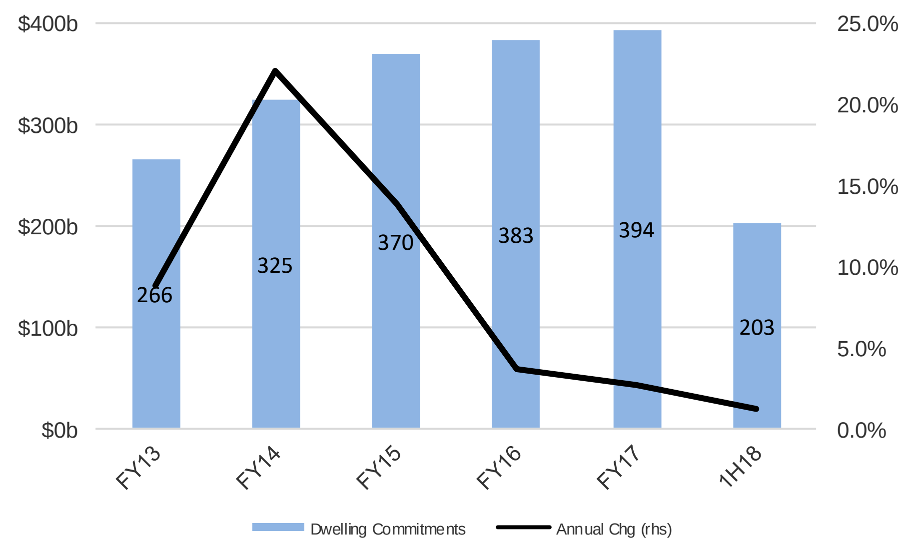
**Potential for material earnings upside rests with GMY's ability to increase its on-balance sheet loan book. For example, an additional $500m in on-balance sheet lending at a NIM of 1.50% - 2.00% would add approximately $7.5m - $10m PBT annually.**

Over coming years GMY's growing scale may provide the potential for the business to consider alternative, cheaper, funding sources (e.g. RMBS, warehouse funding). Success in this regard would position GMY to achieve improving NIM%.

## MARKET SIZE

Lending for dwelling commitments reached a record $394bn in FY17 (Figure 18), notwithstanding a moderation in growth over recent years.

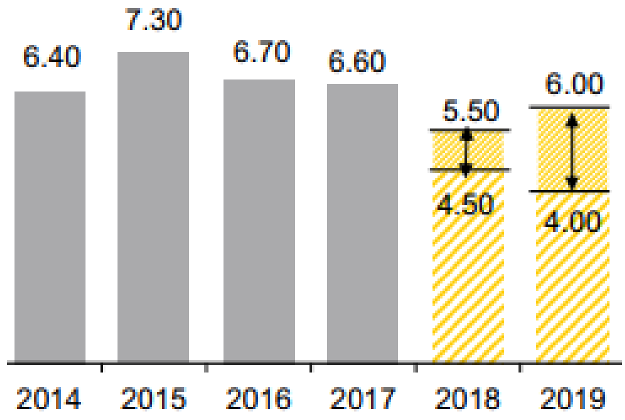
*Fig. 18:* *Australia – lending for dwelling commitments*




*Source: ABS, Hartleys*

The CBA expects housing credit growth to remain reasonably solid at between 4%-6% over the next two years (Figure 19).

*Fig. 19:* *Housing Credit Growth (financial year)*




*Source: CBA (7 February 2018)*

# MORTGAGE BROKING INDUSTRY

The mortgage broking industry commenced in the early 1990's and is now entrenched as an important part of the home loan market, responsible for greater than 50% of all home loan originations.

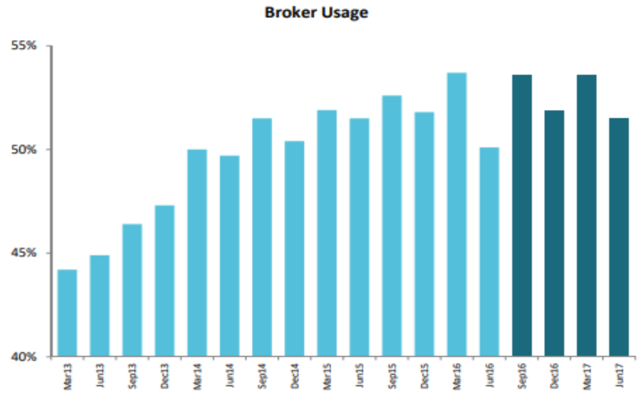
Mortgage brokers act as an intermediary between borrowers and lenders. This can aid in providing borrowers with greater choice and ease of access, while providing lenders with a much broader and less capital-intensive distribution channel.

Mortgage brokers often join or align themselves with a mortgage aggregator, such as Finsure. While there are a number of different models, in general an aggregator provides the mortgage broker with access to a wide panel of lenders and products, in addition to providing additional services, such as technology support, lead generation, marketing and back office administration.

## SHARE OF MARKET

Mortgage broker share of the home loan market has been fairly consistent at ~50% over recent years (Figure 20).

*Fig. 20: Mortgage Broker Share of Market*




*Source: MOC (25 October 2017)*

From time to time, for a variety of reasons, some lenders adjust the level of usage of mortgage brokers to suit their own business needs. As an example, the CBA has recently been reducing its share of broker-originated home loans. At 1H18 broker originated loans accounted for 36% of CBA's new home loans, versus 43% in the prior corresponding period.

## REGULATORY ENVIRONMENT

In recent times the mortgage broking industry has attracted significant interest from regulatory bodies. Most notably, in March 2017 ASIC handed down a review into mortgage broker remuneration, highlighting six key recommendations, for further consultation.

These recommendations are focussed on i) reducing volume-based commissions, ii) reducing soft-dollar incentives, and iii) providing greater disclosure of ownership interests.

In response to these proposals the mortgage broking industry established the Combined Industry Forum (CIF) which brought together over 30 different stakeholders including industry associations, brokers, aggregators, lenders, consumer advocacy groups and independent legal advisors.

The industry, via CIF, has agreed on six principles, in line with the ASIC recommendations (Figure 21). CIF has undertaken to report on the progress of implementation to Government, Treasury and ASIC on a semi-annual basis.

*Fig. 21: CIF's commitments*

- Changes to commissions structures **by end 2018**;
- Addressing bonus commissions and volume bonus based payments **by end 2017**;
- Implementing changes to tiered service models and eligibility of non-monetary benefits **by end 2018**;
- Implementing the new ownership disclosure and public reporting framework **by end 2018**;
- Commencing work on an industry code **by mid-2018**; and
- Completion of governance frameworks **by end 2020**.

*Source: CIF Report, November 2017*

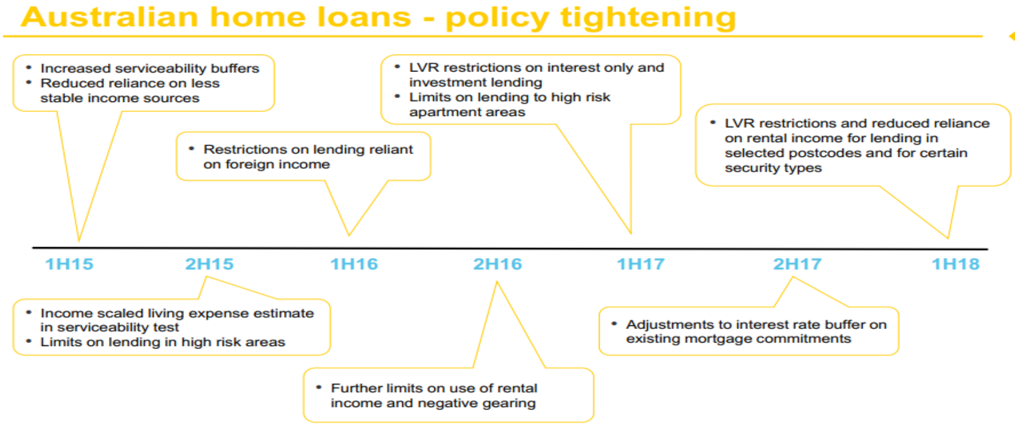
We believe the ASIC recommendations and CIF's proposals in response, to be balanced and reasonable, which upon implementation should enable the mortgage broking industry to continue to grow in a manner which will engender a greater level of confidence from the wider community.

Finsure are generally supportive of the CIF commitments, noting they do not see any material change to their business and earnings upon implementation of the proposals.

It is reasonable to expect that regulatory risk will be an ongoing and ever-present companion to the mortgage broking industry.

While not specifically related to mortgage broking, Figure 22 clearly shows that the mortgage market in Australia is no stranger to dealing with ongoing regulatory change.

*Fig. 22: Home loans - regulatory changes a constant.*




*Source: CBA (7 February 2018)*

# VALUATION CONSIDERATIONS AND PRICE TARGET METHODOLOGY

## VALUATION

For much of its listed life GMY has traded around its issue price of $1.00. It was at this price that GMY closed the day prior to Firstmac launching its initial takeover bid in October 2017.

Our below valuation is predicated on the Finsure merger proceeding under conditions (if any are imposed) that are not overly restrictive to the growth of the business. Should the proposed merger not proceed, we believe that the Firstmac cash takeover offer of $1.27 / share (~$31m) provides a degree of comfort as to the underlying value that GMY's status as an ADI brings.

We also note that the Independent Expert Report (November 2017) valued GMY under a change of control scenario at $1.27 - $1.39 / share.

## PEER VALUATIONS

The peer group shown in Figure 23 are all businesses that are more mature, materially bigger and more profitable than the post-merger GMY. This greater maturity is reflected in the modest forecast earnings growth of the group when compared to the potential earnings upside in GMY resulting from the proposed merger.

*Fig. 23:Peer Valuations*

| Peers | Code | Share Price | Mkt. Cap ($m) | FY17 NPAT ($m) | FY17a P/E | FY18e P/E | FY19e P/E | FY17 P/BV |
|---|---|---|---|---|---|---|---|---|
| ***ADI's*** | | | | | | | | |
| MyState Limited | MYS | $5.04 | 448 | 30 | 14.8x | 13.6x | 12.7x | 1.4x |
| Auswide | ABA | $5.30 | 222 | 16 | 13.8x | 12.6x | 11.4x | 1.0x |
| ***ADI Average*** | | | | | ***14.3x*** | ***13.1x*** | ***12.0x*** | ***1.2x*** |
| *Average Earnings Growth* | | | | | | *9%* | *9%* | |
| | | | | | | | | |
| ***Mortgage Brokers*** | | | | | | | | |
| Australian Finance Group | AFG | $1.60 | 345 | 30 | 11.4x | 10.6x | 9.7x | |
| Mortgage Choice | MOC | $2.28 | 285 | 23 | 12.6x | 12.2x | 12.0x | |
| ***Mortgage Broker Average*** | | | | | ***12.0x*** | ***11.4x*** | ***10.8x*** | |
| *Average Earnings Growth* | | | | | | *6%* | *5%* | |

*Source: Company Reports, Bloomberg, Hartleys*

## PRICE TARGET

We set our price target for GMY at $1.80 / share.

*Fig. 24:* *GMY Valuation*

| GMY | | FY18e | FY19e | FY20e |
|---|---|---|---|---|
| EPS (fully diluted) | cps | -2.7 | 10.3 | 12.7 |
| **Cash NPAT** | **$m** | **-0.8** | **6.4** | **9.4** |
| Cash EPS (fully diluted) | cps | -2.7 | 8.5 | 11.1 |
| | | | | |
| **PER ($1.40)** | | | | |
| EPS (fully diluted) | | | 13.5x | 11.0x |
| Cash EPS (fully diluted) | | | 16.5x | 12.6x |
| | | | | |
| PER (Cash EPS) @ price: | **$1.60** | | 18.8x | 14.4x |
| | **$1.80** | | 21.2x | 16.2x |
| | **$2.00** | | 23.5x | 18.0x |

*Source: Hartleys*

Our price target implies a PER of 16.2x our FY20 forecasts, representing a material premium to the peer group.

Justification of this premium relies upon the management of GMY and Finsure to deliver upon the significant opportunities available to the combined entity, subsequent to the successful finalisation of the merger.

We see the potential range of earnings outcomes for the combined business as wide, and as such, our forecasts entail a high degree of risk. However, given our relatively conservative assumptions we believe that the risk to our forecasts is weighted to the upside.

Figure 25 shows a matrix highlighting the potential valuation upside should GMY deliver over and above our expectations.

*Fig. 25:* *Valuation Matrix*

| | | | Cash NPAT | | |
|---|---|---|---|---|---|
| **PER** | **$8m** | **$10m** | **$12m** | **$14m** | **$16m** |
| **10x** | $0.94 | $1.17 | $1.41 | $1.64 | $1.88 |
| **12x** | $1.13 | $1.41 | $1.69 | $1.97 | $2.25 |
| **14x** | $1.31 | $1.64 | $1.97 | $2.30 | $2.63 |
| **16x** | $1.50 | $1.88 | $2.25 | $2.63 | $3.00 |
| **18x** | $1.69 | $2.11 | $2.53 | $2.96 | $3.38 |
| **20x** | $1.88 | $2.35 | $2.82 | $3.29 | $3.76 |

*Source: Hartleys*

# RECOMMENDATION & RISKS

## INVESTMENT THESIS & RECOMMENDATION

The proposed merger with Finsure provides GMY with a fast-growing aggregation business, well placed to deliver material profit growth. Additionally, the combination of the two businesses provides GMY with a significant opportunity to fund a greater level of lending from its own balance sheet, thus capturing increased benefits from its ability, as an ADI, to fund this lending at relatively low cost.

We view a post-merger GMY in a similar vein to an early-stage listed entity. As with most stocks of this nature, if GMY is able to deliver on expectations in the short-term this will engender increased market confidence which would likely be rewarded through the market ascribing a higher earnings multiple in valuing the business.

Coupled with the share price upside should the merger prove successful, we believe there is also a reasonable level of downside protection to the share price provided by GMY's attractive status as an ADI, reflected in Firstmac's recent $1.27 cash offer.

We initiate coverage of GMY with a Speculative Buy recommendation and a price target of $1.80.

## RISKS

- **Regulatory approval for the merger.** Should FSSA approval for the transaction not be granted, GMY, in the immediate term at least, will continue on in its current form as a relatively sub-scale, regional banking operation.
- **Restrictive approval conditions.** If FSSA approval is received, though with materially restrictive conditions, this may impact on the potential future growth of the combined entity. For example, as part of Firstmac's approval, one of the FSSA conditions was that GMY's Tier 1 Capital was to remain below $50m at all times. Should a similar condition be applied to any approval that Finsure may receive this would reduce GMY's on-balance sheet lending capacity to ~$500m.
- **Integration.** While operationally GMY and Finsure will likely be kept quite separate, there will be risks related to bringing the businesses and their respective management teams together.
- **Ongoing Finsure growth.** Finsure has grown strongly since its establishment, the ability to continue this growth to a large extent rests on the ability of the business to continue to attract good quality loan writers.
- **Maintenance of credit quality.** Post-merger, as GMY seeks to accelerate its lending growth there is increased potential for lower quality loans to be approved. GMY will need to ensure it has the necessary credit approval capability to cope with the expected large increase in on-balance sheet loan applications.
- **Concentration.** This is an existing risk for GMY, both in regard to region and client. A merger of the two businesses will serve to greatly reduce this risk.

- **Illiquidity.** GMY's shares are very illiquid. Completion of the proposed merger will increase the shares on issue and potential for greater liquidity, however we expect that overall liquidity will remain low.

- **Firstmac "retribution".** Term Deposits distributed by Firstmac provide GMY with a relatively large pool of depositor funds from which it can draw upon. In addition, Firstmac is a distributor of GMY's home loan products. Given the recent course of events, with the Firstmac offer being rebuffed and Mr Austin's subsequent removal from the GMY Board, it is reasonable to assume that relations between the two parties are less than cordial. While we view this situation as unlikely to have a material financial impact, it may be a management distraction from time to time.

- **Mortgage broking regulatory environment.** We believe it is reasonable to expect that regulatory risk (perceived and real) will be an ongoing and ever-present companion to the mortgage broking industry.

- **Demand for home loan products.** The overall health of the domestic economy and its impact on consumer demand for home loan-type credit is an important macro driver.

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*Note: personal email addresses of company employees are structured in the following manner:firstname.lastname@hartleys.com.au*

## Hartleys Recommendation Categories

| | |
|---|---|
| Buy | Share price appreciation anticipated. |
| Accumulate | Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy". |
| Neutral | Take no action. Upside & downside risk/reward is evenly balanced. |
| Reduce / Take profits | It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period. |
| Sell | Significant price depreciation anticipated. |
| No Rating | No recommendation. |
| Speculative Buy | Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk. |

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