

15 April 2005

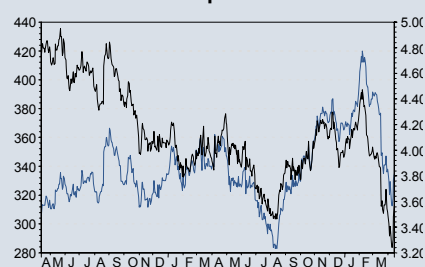
Equity Research

INITIATION OF COVERAGE

Key Data

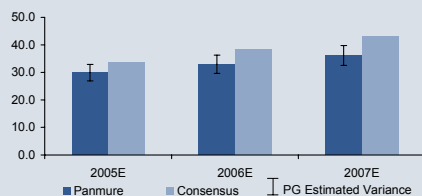
Price	336p
Price Target	275p
Market Cap	£1,104m
FT All Share	2,479
Sector	Specialty & Other Finance
Stock codes	CTT.L / CTT.LN
Next Event	AGM – 5 May
Gearing	Cash

Absolute & relative performance



— Absolute — Relative to FT All Share
Source Datastream

Panmure Gordon EPS rel to consensus



Source Reuters, Panmure Gordon

CATTLES

SELL

Earnings growth and dividend issues

In focusing on IFRS and income recognition, the market seems to have overlooked the potential for a significant slowdown in underlying growth this year, and the impact this will have on reported earnings growth over the next three years.

- **Lower loan growth.** Sharp declines in the UK used car finance and secured lending markets during the second half of 2004 have continued into the new year, according to the FLA, which could hinder loan growth at Cattles, particularly during the first half this year.
- **Reduced fees & commissions.** At the same time, new mortgage and insurance broking regulations, and forthcoming consumer credit regulations are likely to reduce Cattles' non-interest income (which accounted for 40% of Consumer Division turnover in 2004).
- **Dividend issues.** Based on our IFRS earnings and dividend forecasts, Cattles' internal capital generation is less than that required to finance 20% of its loan growth. In the absence of disposals or securitisation, this suggests rising balance sheet leverage or additional equity finance.
- **Valuation.** Based on our IFRS earnings projections, the shares currently trade on 14.8x 2005E earnings, which seems full given the earnings growth outlook. We consider 275p fair value, at which price the shares would trade on 12.2x 2005E earnings and yield an historic 5.1%. We rate the stock a Sell.

Year end December	Income* (£m)	PBTA* (£m)	EPS* (p)	P/E* (x)	DPS (%)	Yield (%)
2004A	716.5	100.8	21.73	15.5	14.00	4.2
2005E	770.0	105.5	22.74	14.8	15.12	4.5
2006E	875.8	113.4	24.40	13.8	16.33	4.9
2007E	980.0	110.7	23.81	14.1	17.64	5.3

* IFRS basis

Source Company Data, Panmure Gordon

Research Analysts

Tony Cummings

+44 (0)20 7187 2403

tony.cummings@panmure.com

INVESTMENT CASE

Since acquiring Welcome Finance in 1994, Cattles has been viewed as a top-line growth story with earnings exposed to rising bad debts. We expect loan and income growth to slow, although more conservative provisioning under IFRS should reduce earnings exposure to deteriorating credit quality.

There are four elements to our investment case:

- **Unresolved IFRS provisioning issues.** So far, share price weakness following the final results has absorbed around a third of the 30% step down in group profits and NAV under IFRS. This suggests the market has accepted as reasonable the 15% reduction in profits due to more conservative income and cost recognition under IFRS. However, it also implies that Cattles has been given the benefit of the doubt on the reduction in IFRS profits due to higher provisions.
- **Lower underlying growth.** The group's provisional IFRS restatement has diverted attention from the deteriorating growth outlook in the underlying business, due to lower loan growth and reduced non-interest income. Although the shift to IFRS will defer some of the impact of a slowdown this year, due to fee and commission smoothing, the effect will be reduced EPS growth over the next three years.
- **Increasing balance sheet leverage.** Management has stated that IFRS accounting will not materially impact the group's dividends. However, based on our forecasts, IFRS internal capital generation is insufficient to finance loan growth. This implies increasing balance sheet leverage, securitisation or additional equity finance, in our view.
- **Expensive valuation.** Based on our IFRS earnings projections, the shares currently trade on 14.8x 2005E earnings and 3.2x end-200E book value, both of which seem full given the slower earnings growth implied by our forecasts and a declining ROE.

We see potential for share price underperformance following (i) evidence of reduced receivables growth in forthcoming trading updates, (ii) reduced interim dividend growth, reflecting lower IFRS equity cash flows, and (iii) the gradual acceptance of IFRS provisioning (as more financial companies adopt the standard) which could see more of the reduction in IFRS earnings reflected in the stock price.

Based on our DCF and DDM analysis, we consider 275p represents fair value for the shares. At this price the shares would trade on 12.2x 2005E earnings and yield an historic 5.1%. We therefore initiate coverage with a Sell recommendation.

CATALYSTS

- The AGM statement on 5 May will include a brief Q1 trading update. The Chairman may wish to comment on difficult conditions in the secured loan and vehicle finance segments as reported by the FLA.
- Cattles will provide a full restatement of 2004 results under IFRS in June.
- Last year the group provided a trading and funding update in mid July, ahead of the interim results in the final week of August. These statements should provide detailed comments on underlying business performance.

Since our fair value estimate is based on lower returns on reduced receivables growth, better than expected performance on either are the main risks to our Sell recommendation

RISKS

The main risks to our Sell recommendation are better than forecast loan growth due to a pick up in secured lending volumes and used car finance, and less of a regulatory impact on non-interest income than included in our estimates.

LENDING VOLUMES

Our forecasts are based on reduced Consumer Division loan growth this year (to 15% from 20% in 2004) due to an industry-wide slowdown in secured lending volumes and in used car finance as reported by the Finance & Leasing Association (FLA). A significant recovery in these volumes would underpin increased earnings estimates.

REGULATION

We forecast reduced credit-related insurance sales commissions this year due to the impact of new insurance regulation introduced in January, and reduced early settlement fees following new Consumer Credit regulation to be introduced in May. Evidence of less of an effect than expected would lead us to increase our earning forecasts.

LEWIS

We have assumed lower purchased bulk debt at Lewis this year reflecting management comments regarding hardening prices. A reversal of the situation and increased purchases by Lewis would deliver higher earnings growth.

OPERATING EXPENSES

Changes to loan mix, distribution and collection patterns have led management to examine the cost effectiveness of its branch network. A substantial reduction in the group's infrastructure could result in lower costs and hence higher profits than implied by our estimates.

DISPOSALS

Following the disposal of Cattles Commercial Finance in January, the group still owns a non-core corporate credit business (Cattles Invoice Finance), which if sold, could alleviate some of the increased balance sheet strain implied by our dividend and loan growth forecasts under IFRS.

ACQUISITION RISK

Operating as a specialist in the relatively high growth, non-conforming/sub-prime segment of the UK consumer credit market, Cattles could be seen as an attractive acquisition target for a larger financial group.

After 10 years of strong top-line growth, the outlook is for lower growth, but also reduced risk due to more conservative provisioning

Financing forecast dividend and loan growth could stress balance sheet ratios and covenants

OUR CENTRAL CASE

The shares have fallen 11% since the 2004 final results on 17 March, as the market has focused on the income recognition issues raised by the group's IFRS restatement. The market seems to have overlooked the potential for a significant slowdown in underlying growth, and the impact of IFRS on the group's ability to finance both dividend and loan growth.

For the past 10 years, Cattles has been viewed as a top-line growth company with earnings exposure to deteriorating credit quality and hence rising provisions. The evolution of the group's asset and income mix, and the shift to IFRS accounting, have reversed the situation. Top-line growth – in receivables and income – looks to be coming under pressure, whilst more conservative provisioning under IFRS arguably reduces the group's exposure to a deterioration in credit quality.

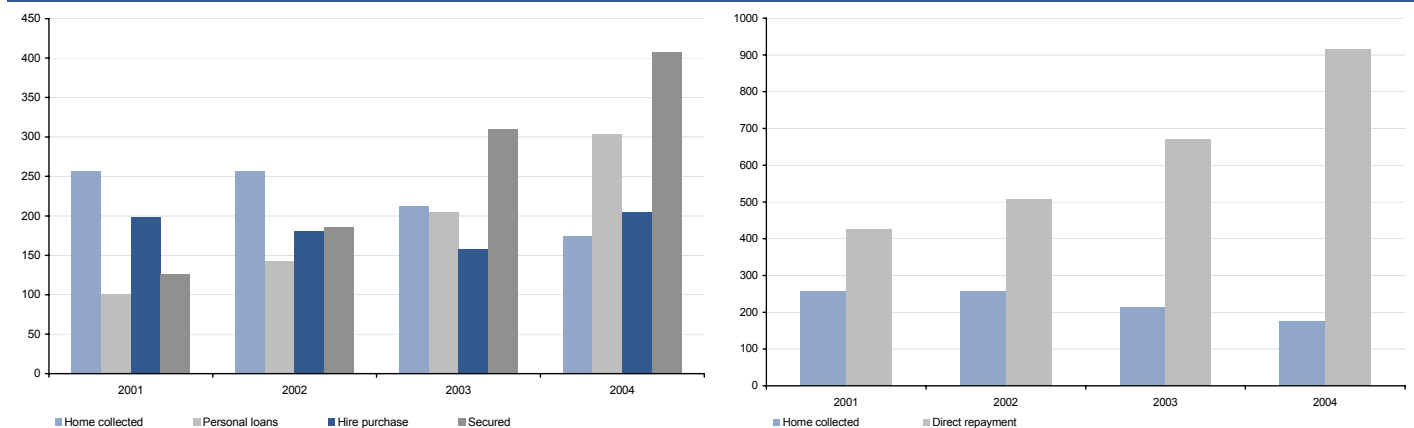
Valuation issues aside, the most significant impact of IFRS accounting on Cattles would seem to be upon its ability to finance both loan growth and dividend growth without stressing its balance sheet ratios and covenants. According to our forecasts, the outlook is for rising balance sheet leverage and/or additional equity capital raising.

THE UNDERLYING BUSINESS: LOWER GROWTH & DECLINING RETURNS

Shifting asset and income mixes

For some years (some would say since the acquisition of Welcome Finance in 1994!) Cattles has been a business in transition, reducing its exposure to very high APR weekly collected sub-prime credit (the Shopacheck business) whilst growing its not as high APR 'monthly collected' or direct repayment sub-prime credit activities (the Welcome business). The chart and tables below demonstrate the scale of this transition over the past four years.

Consumer credit advances (£m)



Source Company

- Home collected credit advances have fallen from 38% of total advances in 2001 to only 16% in 2004.
- Direct repayment loans have risen from 62% of the gross lending mix in 2001 to 84% in 2004.
- Secured lending accounted for only 18% of the mix in 2001; by 2004 this proportion had risen to 37%, and has been the fastest growing segment within the group's Consumer Division.

Consumer credit advances (£m)

Year to December	2001	2002	2003	2004	CAGR (%)	04 Mix (%)
Home collected	256.7	256.5	212.8	174.5	-12	16
Personal loans	101.1	142.1	204.6	303.5	44	28
Hire purchase	198.9	180.3	157.4	204.6	1	19
Secured	125.8	185.5	309.7	407.5	48	37
Direct repayment	425.8	507.9	671.7	915.6	29	84
Total	682.5	764.4	884.5	1090.1	17	100

Source Company

No longer a 'micro-lender'

Still perceived by some as a micro-lender, Cattles' average 'monthly collected' loan size has risen to around £3,000, with the fastest growing elements of its loan book, the secured lending segment, involving loans in the £7,000-£12,000 range. Average advance size, by direct repayment loan type, is set out below.

Direct repayment average advances (£m)

Year to December	2003	2004
Personal loans	1,200	1,400
Hire purchase	4,000	4,800
Standard secured	6,000	6,700
Superior secured	12,100	12,200
	2,500	3,000

Source Company

The result has been a reduced income yield on assets offset by higher non-interest income

The shift in the mix of the Consumer Division loan book has had the following implications for margins and income mix:

- The consumer credit interest margin on average receivables has fallen as the percentage of very high APR weekly collected lending has reduced in favour of larger-ticket, longer-term but lower APR direct repayment loans.
- The total income margin has fallen by less than the interest margin (based on new income disclosure for 2003 and 2004) due to rising non-interest income sources that are associated with direct repayment credit activities (see 'New Income Disclosures' below).

Consumer Division – income, expenses & margins (£m)

Year to December	2000	2001	2002	2003	2004
Interest				371.8	429.4
Fees & commissions				149.0	176.1
Other				61.8	104.5
Income	308.4	401.6	477.9	582.6	710.0
Operating expenses	-189.1	-247.6	-288.2	-352.2	-441.5
Pre-provision profit	119.3	154.0	189.6	230.3	268.5
Provisions	-54.3	-76.3	-94.4	-109.0	-128.1
Operating profit	65.1	77.7	95.3	121.3	140.4
Average net receivables	610.0	842.7	1130.8	1361.9	1594.4
Net receivables	697.9	987.4	1274.2	1449.7	1739.1
Interest/avg net receivables (%)				27.3	26.9
Fees & comms/avg net receivables (%)				10.9	11.0
Other/avg net receivables (%)				4.5	6.6
Income/avg net receivables (%)	50.6	47.7	42.3	42.8	44.5
Provisions/avg net receivables (%)	-8.9	-9.1	-8.3	-8.0	-8.0
Expense ratio (%)	-61.3	-61.7	-60.3	-60.5	-62.2
Provisions/pre-prov profit (%)	-45.5	-49.5	-49.8	-47.3	-47.7

Source Company, Panmure Gordon

First time disclosure of income breakdown shows significant non-interest contribution

NEW INCOME DISCLOSURES: NON-INTEREST INCOME DRIVING GROWTH

The final results included the following first-time breakdown of group operating income. All but £0.7m of last year's £281.3m non-interest income related to the Consumer Division (and all but £1.1m out of £211.9m in 2003).

Income mix & contributions to income growth (£m)

Year to December	2003	2004	Change (£m)	Change (%)	2004 mix (%)	Growth mix (%)
Interest	393.5	453.5	60.0	15	62	46
Fees & commissions	148.9	176.1	27.2	18	24	21
Vehicles	15.5	56.8	41.3	266	8	32
Collections	29.6	33.9	4.3	15	5	3
Catalogue sales	17.9	14.5	-3.4	-19	2	-3
	605.4	734.8	129.4	21	100	100

Source Company

- Non-interest income sources accounted for 38% of last year's total income (and 40% of Consumer Division income), with insurance fee & commissions around a quarter, and 'vehicles' (second hand car sales revenue) a further 8%. Collections, which accounted for 5% of last year's income, are earned by the debt collection business Lewis.
- Total income growth of 21% outstripped interest income growth of 15% last year due to a more than doubling on non-interest income. As a result, growth in non-interest income accounted for 54% of last year's total income growth.

Although we believe these new disclosures were provided to help explain the impact of IFRS on reported earnings (discussed later in this note), they also highlighted a number of areas of concern as far as near-term, cash-earnings growth is concerned.

CASH EARNINGS AT RISK

Non-interest income sources exposed to new regulations

In the following, we examine the business lines and activities where we believe earnings are at risk. Some of these are related to the impact of recent and forthcoming changes to mortgage broking, general insurance and consumer credit regulation, and the impact of these on non-interest income. The first relates to a significant industry-wide slowdown in the fastest growing segment of Cattles' loan book – secured lending.

Dial4aloan and secured lending in general

Wholly owned subsidiary Dial4aloan, in addition to being a stand-alone profit centre, is also a major finance broker for the Consumer Division, originating £42m of new secured and unsecured loans for the consumer division in 2004, up 41% on 2003.

Interest income exposed to reduced loan growth

According to the FLA, secured lending in the UK saw an 11% decline in the fourth quarter last year, and a 12% decline in December compared with December 2003. Data for January indicated a further deterioration, with direct secured lending down 32%. The better news is that unsecured lending growth remained strong at the beginning of the new year (up 21%).

As things stand, the outlook is for little or no growth in volumes at Dial4aloan this year, and perhaps a reduction in new secured lending by the Consumer Division as a whole. This is of concern since, as shown above, secured lending accounted for 37% of new direct repayment advances in 2004.

Management has already noted an impact from new regulation

Insurance commissions

Management has signalled that new mortgage broking regulations, introduced last November, and new general insurance regulations, introduced in January, have involved business disruption as well as additional cost. We suspect this implies reduced credit-related insurance sales and hence insurance commissions, particularly in the first half of 2005 (in all subsidiaries selling insurance, in addition to Dial4aloan). There is a double whammy at Dial4aloan, already suffering from reduced demand for secured lending, since any reduction in penetration rates for selling insurance alongside credit products would compound the impact on income growth. In this context, we note that, according to the final results statement, "Dial4aloan has experienced a noticeable slowdown in the level of new business enquiries, particularly as brokers become accustomed to...the new regulations".

Since we estimate that almost a quarter of last year's total fees & commissions were accounted for by insurance commissions (ie about £40m-£50m out of a total of £176m) – other contributors include early settlement fees and debt collection commissions – a 20% reduction in insurance income could reduce UK GAAP profits by around 6-7%.

New consumer credit regulation in May could reduce early settlement fees ...

Early settlement fees

The 2004 results announcement offered a number of comments relating to early repayment experience and the impact of changes in this on consumer credit income. Specifically, the statement noted a 9% increase in the early settlement of direct repayment loans (last year, 15% of opening customers settled early during the year, compared with a 15% run-off on maturity), and that steps taken to mitigate the effects of this were beginning to be reflected in Consumer Division earnings. Management has commissioned external research into the profile of customers likely to settle early, presumably in order to reduce the group's pre-payment exposure.

The impact of early settlement on earnings is complicated. The Rule of 78 can result in an increased overall yield on loans settled nearer to the end of a loan (eg after three years with a four-year loan). However, if loans are settled very early (within the first 18 months), the net effect can be negative, particularly after taking into account business acquisition costs, and this seems to have been the case at Cattles.

Direct repayment customer acquisition and run-off rates

Year to December 2004

Opening customers	291,000
New agreements	133,000
% opening customers	46%
Early settlements	-45,000
% opening customers	-15%
Maturities/bad debts	-42,000
% opening customers	-14%
Closing customers	337,000

Source Company

... although not substantially until 2006 and 2007

Looking forward, the group's exposure to early settlement looks set to increase. From 31 May onwards, new business written will not be subject to Rule of 78 early settlement charges. Although this is unlikely to impact overall returns in 2005 (we would not expect many loans written after 31 May to be settled as early as December this year), its effects are likely to be felt in 2006 and beyond. Without further disclosure, we are unable to estimate the likely magnitude of this exposure.

Slower growth from WCF at best

Vehicle sales

According to the FLA, there was a marked decline in used car sales during the second half of 2004. FLA data for January and February 2005 reported the value of finance provided for used car purchase down 11% and 6% respectively (and numbers of used cars financed down 15% and 8% respectively). With no new Welcome Car Finance branch openings planned for 2005 (2004 saw five new openings), the outlook is for modest growth at best from Welcome Car Finance this year.

More selective in bulk debt purchases

Debt recovery

Lewis, the group's debt recovery business, saw profits growth up 19% to £4.3m in 2004 based on third party commission income up 4% and collection income up 15%. We conclude that a substantial proportion of Lewis's income and earnings growth was due to its purchase of default debt portfolios for run-off (£21m in total at end 2004, up 55% during the year).

The 2004 results noted that Lewis "remains selective in the portfolios it purchases, particularly when prices harden, as has been the case in the second half of 2004". We therefore expect lower growth in purchased default debt in 2005 and, as a result, lower income and earnings growth from Lewis.

A net profit shortfall of ~£3.5m following the sale of CCF

Corporate credit

In 2004, the group's Corporate Division included two distinct units – Cattles Invoice Finance (factoring) and Cattles Commercial Finance (hire purchase and leasing to SMEs) – which contributed profits of £3.2m and £4.6m respectively.

On 14 January, Cattles Commercial Finance (CCF) was sold to Close Brothers for £16m, a £2m premium to net assets. Close also assumed the £54m debt funding of CCF's £70m loan book. According to our estimates, the net shortfall to current year UK GAAP profits amounts to around £3.5m.

Reduced reinsurance investment gains

Reinsurance income

The group established its own captive reinsurance company, Progressive Insurance Company Limited, on the Isle of Man on 1 August 2001. Progressive was formed to effectively insource the provision of payment protection and other insurance services to the three out of four direct repayment consumer credit customers that also take out insurance. Cattles reinsures 80% of the insurance business it introduces to Norwich Union. The original rationale for establishing Progressive was to save approximately £1m per annum in administration costs, rather than to create an additional profit centre. That said, we believe Progressive has contributed investment profits to group's profits, and that this contribution is set to decline.

The table below sets out the growth in Progressive's investment assets and the proportion of those assets that are held against potential future claims.

Progressive Insurance – Investment assets (£m)

As at December	2002	2003	2004	CAGR (%)
Direct repayment advances	507.9	671.7	915.6	34
Total investments	33.4	61.2	75.0	50
Held against potential future claims	24.6	36.1	44.5	34

Source Company

Since formation, Progressive's investment asset growth has outpaced direct payment receivables growth, whilst the proportion of these assets held against potential future claims (based on independent actuarial assessment of likely future claims) has grown in line with loan growth. This seems to suggest a stable claims experience and strong investment performance.

During 2004, Progressive changed its investment policy from investing in a mix of bonds and money market deposits to only deposits. Historically, marked to market profits (or losses) on the bond element of the portfolio have been booked to Cattles' profit and loss account as current asset investment gains. The change in investment policy effectively rules out future bond profits from Progressive, and hence a reduced overall reinsurance profit contribution.

Note: As direct repayment loans become increasingly important at Cattles, and with some three out of four borrowers taking out payment protection insurance, a deterioration in underlying credit quality, due to the impact of rising interest rates or rising unemployment, will not be immediately reflected in Cattles' asset quality as far as arrears and loan losses are concerned. Rising claims experience reflected in increased 'ring-fenced' investments within Progressive could therefore be an early indicator of rising loan losses and hence provisions a year or so ahead.

THE UNDERLYING BUSINESS: CONCLUSIONS

All in, the outlook is for a significant slowdown in underlying earnings growth ...

- The outlook is for continued Consumer Division receivables growth, although at a lower rate than in 2004 due to a slowdown in secured lending and used car financing.
- We expect total income margin erosion due to reduced consumer credit non-interest income (reduced insurance commissions and early settlement fees, and reduced growth in car sales income and debt recovery income).
- Since we estimate the net effect of the sale of Cattles Commercial Finance to be a reduction in profits of around £3.5m, the group outlook is for a significant slowdown in underlying earnings growth.
- Current consensus estimates, still being prepared under UK GAAP, are for 11% EPS growth this year, followed by 14% in 2006 (and 12% in 2007). Our UK GAAP estimates are for a 1% fall in EPS this year, followed by 10% growth in each of 2006 and 2007.

... but consensus UK GAAP estimates are still discounting 11-14% growth 2005-2007

The market might be forgiven for spending little time on updating UK GAAP forecasts for 2005 and out-years, since (i) results will never be reported on this basis, and (ii) it could be argued that since the group will report fully restated IFRS numbers in June, there is little point preparing new IFRS forecasts ahead of this date.

However, given our concerns over the underlying growth outlook, we think it worthwhile examining the impact of such a slowdown this year on the IFRS earnings outlook. To do so we need to consider the UK GAAP to IFRS transition in some detail.

ACCOUNTING ISSUES: UK GAAP TO IFRS

2004 PBT and NAV reduced by ~30% under IFRS ...

In the 2004 results announcement on 17 March, Cattles provided an early estimate of the impact of IFRS on 2004 profits and net assets (finalised numbers are expected in June). The magnitude of the reduction in profits and net assets – around 30% in each – took the market by surprise, especially coming only two days after Provident Financial indicated a PBT reduction of around 7%.

... due to more conservative income/cost recognition and provisioning

The main changes under IFRS relate to the timing of income recognition and loan loss provisioning.

Income and expense recognition

Under UK GAAP, fee income & commissions on the sale of insurance products are recognised immediately up-front. Under IFRS, all interest income, fees and commissions relating to a loan are recognised over the life of the loan.

New provisioning policies are complicated by unnecessary "grossing"

Under UK GAAP, a proportion of loan origination costs were spread over the life of the loan. Under IFRS, these costs are recognised immediately.

Provisioning

Under IFRS there are prescriptive rules that require provisions to be made when there is evidence of impairment. There are two elements to the impact of these rules on Cattles' provisioning:

- "Grossing-up" – IFRS requires Cattles to recognise income it cannot or will not collect (revenues from "pre-compute" loans which are fixed at the outset and where no additional interest is charged if the customer takes longer to repay), and so it is also required to provide for this income at the same time. There is no net effect on profits, only a grossing up of both income and provisions, although the latter will impact some performance ratios.
- Effective Interest Rate (EIR) basis – IFRS requires provisions to be calculated in relation to the present value of cash flows due on a loan, using the EIR of the loan as the discount rate. The difference between the discounted cash flows and the carried value of the loan on the balance sheet represents the appropriate provision under IFRS. While management argues that high APR lenders such as Cattles are penalised by such formulae, it could be argued that the IFRS approach is more conservative, and that either way, balance sheet provisions significantly in excess of loan loss experience should ultimately lead to higher releases.

The tables below set out the impact of IFRS on Cattles' profits and net assets. In setting out the profit impact, we have (in line with company's own presentation) stripped out the "grossing up" element on revenues and provisions.

IFRS impact – including & excluding "grossing up" (£m)

Year to December 2004	Direct Repayment	Other	Total
Including grossing-up			
Income recognition	-2.6	20.3	17.7
Loan loss provisioning	-40.1	-18.7	-58.8
	-42.7	1.6	-41.1
Interest rate hedging			-1.8
Pension accounting			0.9
Employee share schemes			1.6
Total	-42.7	1.6	-40.4
Excluding grossing-up			
Income recognition	-22.6	0.3	-22.3
Loan loss provisioning	-20.1	1.3	-18.8
	-42.7	1.6	-41.1
Interest rate hedging			-1.8
Pension accounting			0.9
Employee share schemes			1.6
Total	-42.7	1.6	-40.4

Source Company

The group's direct repayment activities (essentially Welcome Finance) bear the brunt of the IFRS impact, split broadly equally between reduced income and increased provisions. The table below provides greater detail on the income recognition effect:

- A net increase of £8.0m in the recognition of interest income;
- A decrease of £24.0m in the recognition of fees and commissions;
- An increase of £6.6m in the recognition of business acquisition costs.

Direct Repayment IFRS impact (£m)

Year to December 2004	Gross impact	Grossing-up	Net impact
Interest income	28.0	20.0	8.0
Business acquisition costs	-6.6		-6.6
Insurance commissions	-17.1		-17.1
Fees	-6.9		-6.9
Income/cost recognition	-2.6		-22.6
Provisioning	-40.1	-20.0	-20.1
Total	-42.7		-42.7

Source Company

Since the increased recognition of interest income is broadly offset by the increase in acquisition costs, the £24m reduction in the recognition of fee and commission income is the key factor as far as income and expenses are concerned.

NAV impact

As shown below, income recognition and provisioning account for more than 90% of the net reduction in group net assets under IFRS.

Net assets – UK GAAP to IFRS

As at 31 December 2004	£m	Contribution to change (%)
UK GAAP	437.3	
Income recognition	-68.8	59
Loan loss provisioning	-39.9	34
Interest rate hedging	-4.0	3
Pension accounting	-20.3	17
Employee share schemes	1.8	-2
Business combinations	-16.7	14
Dividends	30.9	-26
IFRS	320.3	
Difference	-117.0	100

*Source Company***IMPLICATIONS FOR EARNINGS & DIVIDEND GROWTH**

The main implications are a smoothing of annual cash earnings ...

In our view, the important implications of IFRS are: (i) the impact on out-year earnings growth of the deferral of reduced cash-earnings this year; (ii) the impact of the step down in the level of profits on the group's ability to internally fund its loan growth, and hence on its ability to pay dividends.

Earnings: deferring the recognition of reduced cash-earnings

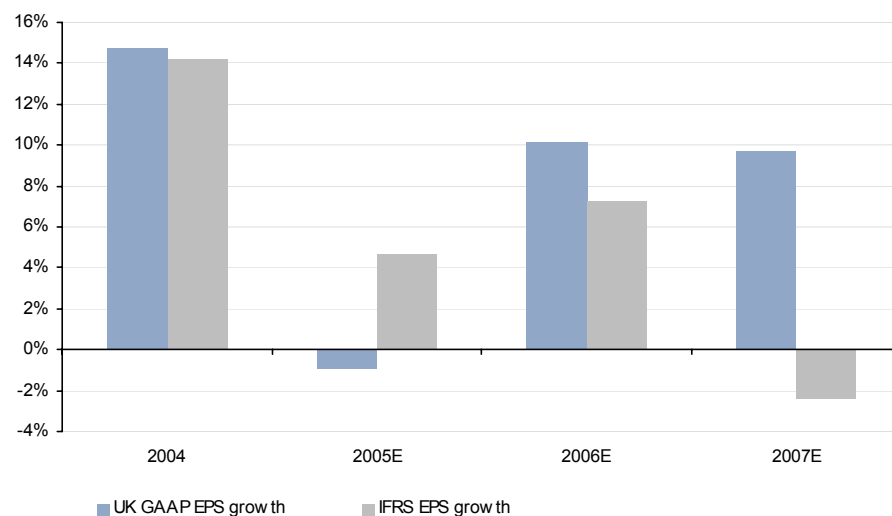
The table and chart below shows the UK GAAP to IFRS impact on our earnings and earnings growth forecasts out to 2007. Although the IFRS estimates include more than just the smoothing of fee and commission income, the impact on the relative growth rates is primarily due to smoothing (full details of our IFRS estimates are set out in the Analysis of Forecasts section later in this note).

UK GAAP & IFRS EPS forecasts & growth rates

Year to December	2004A	2005E	2006E	2007E	CAGR (%)
UK GAAP EPS (p)	30.20	29.92	32.98	36.17	6
UK GAAP EPS growth (%)	15	-1	10	10	
IFRS EPS (p)	21.73	22.74	24.40	23.81	3
IFRS EPS growth (%)	14	5	7	-2	

Source Panmure Gordon

UK GAAP & IFRS EPS growth



Source Panmure Gordon

- Our IFRS forecasts spread Consumer Division non-interest income over three years (three rather than four for practical reasons – we only have non-operating income disclosure back to 2003).
- This results in higher EPS growth under IFRS in 2005E since it includes non-interest income deferred from 2003 and 2004.
- Reduced earnings growth in 2006E reflects the inclusion of deferred income from 2005E, which we forecast will be down on 2004.
- Negative IFRS growth in 2007E reflects the absence of any deferred non-interest income from 2004, the last year prior to new mortgage, insurance and consumer credit regulation.
- Clearly, four year smoothing would dampen and extend the ultimate recognition of weaker cash-earnings we forecast for 2005.

Dividends: IFRS net profit insufficient to fund dividend and loan growth

Under UK GAAP, retained earnings are sufficient to fund our forecasts for (reduced) loan growth with some to spare in 2006E and 2007E (although our dividend forecasts do take into account IFRS), implying some easing of balance sheet leverage.

... and, given our dividend forecasts, insufficient internal capital generation to finance loan growth

Internal capital generation and receivables growth under UK GAAP (£m)

Year to December	2004A	2005E	2006E	2007E
Net receivables growth	292.0	230.8	191.0	191.0
Attributable profit	95.5	98.0	108.0	118.4
Funding requirement (at 20%)	-58.4	-46.2	-38.2	-38.2
Equity cash flow	37.1	51.8	69.8	80.2
Dividends	-45.8	-49.5	-53.5	-57.7
Net cash flow	-8.7	2.3	16.3	22.5

Source Panmure Gordon

Under IFRS, however, this is no longer the case. Based upon the same dividend forecasts (8% growth in each of the years 2005E-2007E, down from 16% in the last two years), and 20% equity loan growth funding, we calculate a £50m shortfall over the three years to 2007E.

Internal capital generation and receivables growth under IFRS (£m)

Year to December	2004A	2005E	2006E	2007E
Net receivables growth	292.0	230.8	191.0	191.0
Attributable profit	71.0	74.3	79.9	78.0
Funding requirement (at 20%)	-58.4	-46.2	-38.2	-38.2
Equity cash flow	12.6	28.2	41.7	39.8
Dividends	-45.8	-49.5	-53.5	-57.7
Net cash flow	-33.2	-21.4	-11.8	-18.0

Source Panmure Gordon

In the 2004 results announcement, it was stated that "the Board expects the change to IFRS will not affect materially the group's...future dividends". Management's options would therefore appear to be: (i) deliberately reduced receivables growth (potentially through disposals), (ii) increased balance sheet leverage; (iii) securitisation, (iv) raising additional equity capital.

We calculate that after funding forecast for receivable growth, IFRS equity cash flows are sufficient to finance an annual dividend of 12-13p in each of 2006 and 2007, as compared with our forecasts for 16.3p and 17.6p. With all respect to managements comments, and bearing in mind it has other options, we nevertheless cannot rule out the potential for a 25% step down in the group's dividend in line with reduced IFRS equity cash flow.

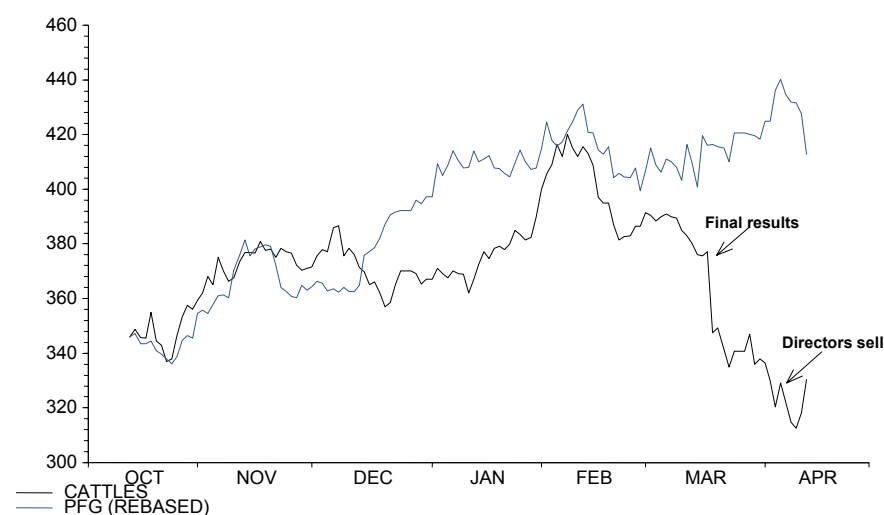
Note: On 5 April, Cattles announced that at its AGM on 5 May it would seek permission to buy-in up to 32.9m shares (10% of current shares in issue). Given the above analysis, we consider share repurchase unlikely.

Director share sales

Four Directors sold at below the current price

The chart below compares Cattles' share price performance with that of Provident Financial, highlighting price weakness following the final results announcement (and provisional IFRS restatement details) and the timing of Director share sales.

Price performance versus Provident Financial Group (PFG)



Source Datastream

Following the vesting of shares held by the Cattles Employee Benefit Trust, after the achievement of three-year performance targets, four senior Executive Directors sold shares at 326.7p on 6 April. Details are set out below.

Director share sales

	Vested 6 April	Total 6 April	Sold 6 April	% sold	Total 7 April	% shares issued
Sean Mahon (CEO)	121,107	225,383	95,383	42	130,000	0.04
James Corr (CFO)	60,553	85,807	42,807	50	43,000	0.01
Ian Cummine (COO)	76,124	157,516	67,516	43	90,000	0.03
Mark Collins (Treasury & Risk Director)	57,093	111,157	48,147	43	63,010	0.02
	314,877	579,863	253,853	44	326,010	0.10

Source Company
New long-term incentive plan (LTIP)

In the context of these sales, we note that approval will be sought at the group's AGM on 5 May to adopt a new LTIP to replace the restricted share scheme which resulted in the above share vesting and which expired in 2004. According to the group's 2004 report and accounts, the new LTIP has been designed to "encourage key executives to build and maintain a significant shareholding in the company".

BGI looks to have sold ~5m shares since the final results

Substantial shareholdings
Substantial shareholders* (%)

Barclays	16.49
FMR Corp/Fidelity International	6.97
Scottish Widows Investment Partnership	4.88
Legal & General Group	3.91
Morley Fund Management/Aviva	3.00

**As at 17 March 2005*
Source Company

On Thursday 14 April, Barclays announced that as at 12 April, its holding in Cattles was 15.01%, some 4.9m shares below that reported in Cattles annual report and accounts for 17 March. Barclays' holding (principally BGI) now amounts to 49.3m shares.

Ahead of full IFRS restatement, our UK GAAP forecasts drive provisional IFRS estimates

ANALYSIS OF FORECASTS

Our UK GAAP forecasts drive provisional IFRS estimates ahead of the company's full IFRS restatement of the 2004 results expected in June. The key assumptions underlying both sets of estimates are reduced loan growth this year (10% versus 18% last year), and lower fees and commissions.

Ahead of the company's full IFRS restatement, our formal forecasts are the UK GAAP figures set out in 'The Numbers' section of this note. However, for valuation purposes, we have attempted to represent these forecasts on an IFRS basis. Our provisional IFRS estimates are summarised below, with a more detailed presentation and comparison with our UK GAAP forecasts over the page.

Summary forecasts under IFRS (£m)

Year to December	2003A	2004A	2005E	2006E	2007E
Income & Expenses:					
Turnover	589.6	716.5	770.0	875.8	980.0
Operating costs	-375.1	-469.4	-494.8	-568.7	-648.6
Pre-provision profit	214.5	247.1	275.2	307.2	331.5
Provisions	-126.1	-146.3	-169.7	-193.8	-220.8
Profit before tax	88.4	100.8	105.5	113.4	110.7
Tax	-26.1	-29.8	-31.2	-33.5	-32.7
Attributable profit	62.3	71.0	74.3	79.9	78.0
Dividends	-39.5	-45.8	-49.5	-53.5	-57.7
Retained profit	22.8	25.2	24.8	26.4	20.2
Balance Sheet:					
Average net receivables	1480.5	1708.5	1931.4	2201.8	2501.4
Net assets	320.3	320.3	345.1	371.5	391.7
Intangibles	52.6	47.8	47.8	47.8	47.8
NTAV	267.7	272.5	297.3	323.7	343.9
Net borrowings	-920.7	-1131.5	-1130.7	-1140.9	-1154.3
Ratios: (%)					
Turnover/avg receivables	39.8	41.9	39.9	39.8	39.2
Provisions/avg receivables	-8.5	-8.6	-8.8	-8.8	-8.8
Expense ratio	-64	-66	-64	-65	-66
Provisions/pre-prov profit	-59	-59	-62	-63	-67
Borrowings/NTAV	344	415	380	352	336
Per Share Data:					
EPS (p)	18.93	21.24	22.74	24.40	23.81
Adj EPS (p)	18.41	21.73	22.74	24.40	23.81
Net div (p)	12.10	14.00	15.12	16.33	17.64
Cover (x)	1.6	1.6	1.5	1.5	1.4

Source Panmure Gordon

UK GAAP forecast assumptions

The key assumptions underlying our UK GAAP forecasts are as follows:

- Net receivables growth of 10% in 2005E, followed by a recovery to 14% in 2006E and 2007E. The reduction in growth assumed for the current year reflects FLA data indicating reduced secured lending volumes during the second half of last year (a trend that has continued into 2005) and also reduced industry-wide used car financing.
- Broadly maintained Consumer Division interest income margins for 2005E-2007E, but reduced non-interest margins, particularly in 2005E, to reflect the

impact on credit-related insurance sales following new regulations, reduced early settlement income, flat car sales income and bulk debt collection income.

- We have assumed a broadly maintained Consumer Division expense ratio to reflect the fact that Cattles' turnover/income disclosures are gross, and that any reduction in non-interest income is likely to be matched with a reduction in non-interest expenses.
- We have forecast a moderate increase in Consumer Division provisions as a percentage of average net receivables (from 8.1% in 2004 to 8.3% by 2007E).
- For the Corporate Division, we have factored in the loss of income and profit from Close Commercial Finance following its sale to Close Brothers in January. We have increased central income by £1.1m to reflect the notional interest earned on the sale proceeds.
- We have forecast a reduction in dividend growth from 16% per annum in recent years to 8% per annum 2005E-2007E to reflect our forecast for reduced earnings growth.

Additional IFRS forecast assumptions

In representing our UK GAAP forecasts on an IFRS basis we have made the following additional assumptions:

The main changes in our IFRS estimates are
(i) three-year smoothing of non-interest income and (ii) £18m pa higher provisions

- We have bumped up our Consumer Division interest income to reflect the higher interest income recognition set out in the company's provisional IFRS restatement.
- We have smoothed Consumer Division non-interest income over three years.
- Our UK GAAP provision estimates have been increased by a flat £18m in each of 2005E-2007E to broadly reflect the historical restatement.
- Corporate Division forecasts are basically unchanged.
- Central income and expenses have been adjusted to reflect the 2004 restatements for interest rate hedging, pension accounting and employee share schemes.

Returns on net customer accounts receivable (CAR)

The tables below provide a line-by-line analysis of the impact of our IFRS estimates on both return on loan assets (ROA) and return on equity (ROE).

Since the restatement reduces group shareholders' funds by a similar proportion to earnings, ROE is broadly unchanged in historic years. Looking forward, the smoothing of reduced UK GAAP returns in 2005E is reflected in a reduced ROE under IFRS in out-years.

More importantly, the analysis shows that while average ROE levels are broadly maintained under IFRS, this is effectively the result of greater balance sheet leverage offsetting a reduced ROA.

Analysis of returns on CAR under UK GAAP (%)

Year to December	2003A	2004A	2005E	2006E	2007E
Turnover	40.9	43.0	40.7	40.8	40.8
Operating costs	-25.1	-27.2	-25.6	-25.8	-25.9
Pre-provision profit	15.8	15.8	15.1	15.0	14.9
Provisions	-7.5	-7.5	-7.9	-8.0	-8.1
Pre-goodwill PBT	8.3	8.3	7.2	7.0	6.8
Tax	-2.5	-2.5	-2.2	-2.1	-2.0
Net profit (ROA)	5.8	5.8	5.1	4.9	4.7
Leverage (avg CAR/equity)	4.0	4.1	4.2	4.3	4.4
ROE	23.4	23.9	21.2	21.0	20.8

Source Panmure Gordon
Analysis of returns on CAR under IFRS (%)

Year to December	2003A	2004A	2005E	2006E	2007E
Turnover	39.8	41.9	39.9	39.8	39.2
Operating costs	-25.3	-27.5	-25.6	-25.8	-25.9
Pre-provision profit	14.5	14.5	14.2	14.0	13.3
Provisions	-8.5	-8.6	-8.8	-8.8	-8.8
Profit before tax	6.0	5.9	5.5	5.2	4.4
Tax	-1.8	-1.7	-1.6	-1.5	-1.3
Net profit (ROA)	4.2	4.2	3.8	3.6	3.1
Leverage (avg CAR/equity)	5.5	5.6	5.7	5.9	6.0
ROE	23.1	23.5	22.0	21.3	18.7

Source Panmure Gordon

Forecast summary – UK GAAP & IFRS (£m)

Year to December	UK GAAP				IFRS				%Ch IFRS		
	2004A	2005E	2006E	2007E	2004A	2005E	2006E	2007E	05E/04A	06E/05E	07E/06E
Income & Expenses:											
Turnover	734.8	786.2	898.5	1020.4	716.5	770.0	875.8	980.0	7	14	12
Operating costs	-465.3	-494.7	-568.6	-648.5	-469.4	-494.8	-568.7	-648.6	5	15	14
Pre-provision profit	269.5	291.6	329.9	371.9	247.1	275.2	307.2	331.5	11	12	8
Provisions	-128.3	-151.6	-175.7	-202.7	-146.3	-169.7	-193.8	-220.8	16	14	14
Operating profit	141.2	140.0	154.2	169.2	100.8	105.5	113.4	110.7	5	7	-2
Goodwill amortisation	-3.2										
Profit before tax	138.1	140.0	154.2	169.2	100.8	105.5	113.4	110.7	5	7	-2
Tax	-42.5	-42.0	-46.3	-50.8	-29.8	-31.2	-33.5	-32.7	5	7	-2
Attributable profit	95.5	98.0	108.0	118.4	71.0	74.3	79.9	78.0	5	7	-2
Dividends	-45.8	-49.5	-53.5	-57.7	-45.8	-49.5	-53.5	-57.7	8	8	8
Retained profit	49.7	48.5	54.5	60.7	25.2	24.8	26.4	20.2	-2	6	-23
Balance Sheet:											
Average net receivables	1708.5	1931.4	2201.8	2501.4	1708.5	1931.4	2201.8	2501.4			
Net assets	437.3	485.7	540.3	600.9	320.3	345.1	371.5	391.7			
Intangibles	47.8	47.8	47.8	47.8	47.8	47.8	47.8	47.8			
NTAV	389.5	437.9	492.4	553.1	272.5	297.3	323.7	343.9			
Net borrowings	-1131.5	-1130.7	-1140.9	-1154.3	-1131.5	-1130.7	-1140.9	-1154.3			
Ratios: (%)											
Turnover/avg net receivables	43.0	40.7	40.8	40.8	41.9	39.9	39.8	39.2			
Provisions/avg net receivables	-7.5	-7.9	-8.0	-8.1	-8.6	-8.8	-8.8	-8.8			
Expense ratio	-63	-63	-63	-64	-66	-64	-65	-66			
Provisions/pre-prov profit	-48	-52	-53	-55	-59	-62	-63	-67			
Borrowings/NTAV	291	258	232	209	415	380	352	336			
Per Share Data:											
EPS (p)	29.23	29.92	32.98	36.17	21.24	22.74	24.40	23.81			
Adj EPS (p)	30.20	29.92	32.98	36.17	21.73	22.74	24.40	23.81	5	7	-2
Net div (p)	14.00	15.12	16.33	17.64	14.00	15.12	16.33	17.64	8	8	8
Cover (x)	2.2	2.0	2.0	2.1	1.6	1.5	1.5	1.4			

Source Panmure Gordon

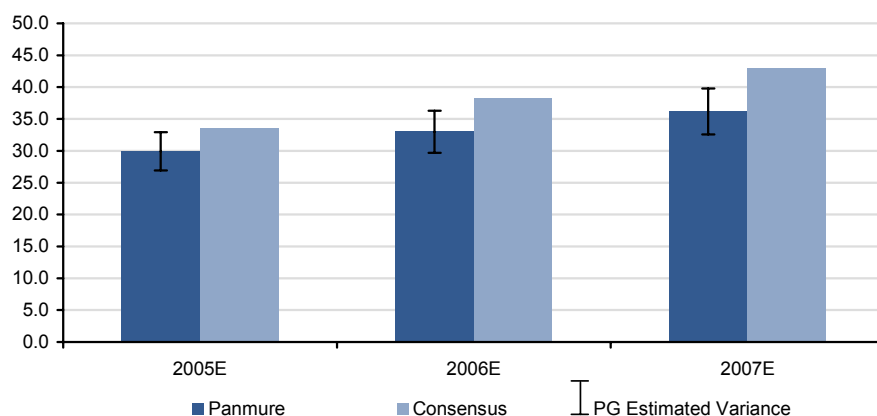
Forecasts by division – UK GAAP & IFRS (£m)

Year to December	UK GAAP				IFRS				%Ch IFRS		
	2004E	2005E	2006E	2007E	2004E	2005E	2006E	2007E	05E/04E	06E/05E	07E/06E
Consumer Division:											
Interest income	429.4	504.8	577.8	658.7	432.0	507.4	580.4	661.3	17	14	14
Non-interest income	280.6	271.1	310.3	351.3	255.2	251.6	284.5	307.8	-1	13	8
Turnover	710.0	775.9	888.1	1010.0	687.2	759.0	864.8	969.1	10	14	12
Operating expenses	-441.5	-481.0	-554.2	-633.3	-441.5	-481.0	-554.2	-633.3	9	15	14
Pre-provision profit	268.5	294.8	333.9	376.7	245.7	278.0	310.7	335.8	13	12	8
Provisions	-128.1	-151.4	-175.5	-202.5	-146.1	-169.4	-193.5	-220.5	16	14	14
Operating profit	140.4	143.4	158.4	174.2	99.6	108.5	117.2	115.3	9	8	-2
Average net receivables	1582.0	1869.5	2140.0	2439.6	1582.0	1869.5	2140.0	2439.6			
Net receivables	1739.1	2000.0	2280.0	2599.2	1739.1	2000.0	2280.0	2599.2			
Interest/avg net receivables (%)	27.1	27.0	27.0	27.0	27.3	27.1	27.1	27.1			
Non-interest/avg net receivables (%)	17.7	14.5	14.5	14.4	16.1	13.5	13.3	12.6			
Turnover/avg net receivables (%)	44.9	41.5	41.5	41.4	43.4	40.6	40.4	39.7			
Provisions/avg net receivables (%)	-8.1	-8.1	-8.2	-8.3	-9.2	-9.1	-9.0	-9.0			
Expense ratio (%)	-62.2	-62.0	-62.4	-62.7	-64	-63	-64	-65			
Provisions/pre-prov profit (%)	-47.7	-51.4	-52.6	-53.7	-59	-61	-62	-66			
Corporate Division:											
Turnover	24.8	9.3	9.3	9.3	24.7	9.2	9.2	9.2	-63	0	0
Operating expenses	-16.8	-5.9	-5.9	-5.9	-16.8	-5.9	-5.9	-5.9	-65	0	0
Pre-provision profit	8.0	3.3	3.3	3.3	7.9	3.2	3.2	3.2	-59	0	0
Provisions	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0	0	0
Operating profit	7.8	3.2	3.2	3.2	7.7	3.1	3.1	3.1	-60	0	0
Central:											
Turnover	0.0	1.1	1.1	1.1	0.7	1.8	1.8	1.8			
Operating expenses	-7.0	-7.7	-8.4	-9.3	-7.1	-7.8	-8.5	-9.4			
Pre-provision profit	-7.0	-6.6	-7.3	-8.2	-6.4	-6.0	-6.7	-7.6			
Provisions	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1			
Operating profit	-7.0	-6.6	-7.3	-8.2	-6.5	-6.1	-6.8	-7.7			
Group:											
Turnover	734.8	786.2	898.5	1020.4	712.6	770.0	875.8	980.0	8	14	12
Operating expenses	-465.3	-494.7	-568.6	-648.5	-465.4	-494.8	-568.7	-648.6	6	15	14
Pre-provision profit	269.5	291.6	329.9	371.9	247.2	275.2	307.2	331.5	11	12	8
Provisions	-128.3	-151.6	-175.7	-202.7	-146.4	-169.7	-193.8	-220.8	16	14	14
Operating profit	141.2	140.0	154.2	169.2	100.8	105.5	113.4	110.7	5	7	-2

Source Panmure Gordon

Our UK GAAP EPS forecasts are 11% below consensus for 2005E and around 15% below for 2006E and 2007E

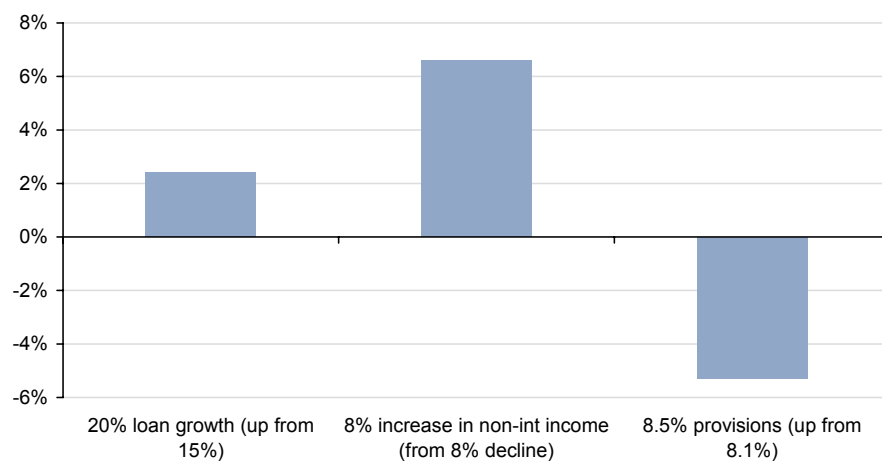
Panmure Gordon relative to consensus forecasts (EPS)



Source Reuters, Panmure Gordon

Key sensitivities are consumer credit loan growth, non-interest income growth and loan loss provisions

Sensitivities* for Panmure Gordon 2005E forecasts



*Group EPS sensitivity to Consumer Division changes

Source Panmure Gordon

According to DCF and DDM analysis, we derive fair value of 275p per share

VALUATION

We value Cattles in relation to discounted free cash flows based on our IFRS earnings estimates out to 2007E, steady state ROA and loan growth assumptions thereafter, and 5x balance sheet leverage for loan growth funding purposes. We derive a current fair value of 275p per share which equates to 12.2x estimated 2005E IFRS earnings.

Price earnings ratios and yields

	2004A	2005E	2006E	2007E
IFRS EPS (p)	21.73	22.74	24.40	23.81
DPS (p)	14.00	15.12	16.33	17.64
PER (x)	15.5	14.8	13.8	14.1
Yield (%)	4.2	4.5	4.9	5.3

Source Panmure Gordon

Since we forecast continued strong loan growth, but with declining returns on receivables over the next three years reflecting, primarily, the impact of new mortgage/insurance broking and consumer credit regulation, discounted free cash flow analysis seems particularly appropriate. As a cross check, however, we also consider price:book valuation in relation to sustainable ROE, cost of equity and sustainable long-term equity growth.

DCF ANALYSIS

DCF Valuation (£m)

Steady state CAR* growth	12%													
Steady state ROCAR	3.10%													
Discount rate	10%													
Terminal multiple	10.0													
	2005E	2006E	2007E	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Terminal
Avg net receivables	1931	2202	2501	2802	3138	3514	3936	4408	4937	5530	6193	6937	7769	7769
Average asset growth (%)	13	14	14	12	12	12	12	12	12	12	12	12	12	
Pre-exceptional PBT	105	113	111											
less tax	-31	-34	-33											
NOPAT	74	80	78	87	97	109	122	137	153	171	192	215	241	
ROCAR (%)	3.85	3.63	3.12	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	
less working capital	-38	-56	-64	-60	-67	-75	-84	-94	-106	-118	-133	-149	-166	
Free cash flow	36	24	14	27	30	34	38	42	47	53	59	66	74	
PV (free cash flow)	33	20	11	18	19	19	19	20	20	20	21	21	22	634
NPV (free cash flow)	896													
NPV/share (p)	274													

*Net customer accounts receivable

Source Panmure Gordon

The 3.1% "steady state" return on customer accounts receivable assumption is consistent with the analysis of returns set out in the Analysis of Forecasts section above. The analysis implies a DCF fair value of around 275p per share.

PRICE:BOOK VERSUS ROE ANALYSIS

We have also looked at a number of price:book = (ROE-g)/(COE-g) scenarios, set out below.

- At 275p per share, our DCF fair value, the group's 2005E IFRS price:book multiple would be 2.62x, which with a 19% steady state ROE (the 2007E ROE implied by our estimates) and a 10% COE (as in our DCF analysis), this implies a long-term NAV growth rate of 4.4%.
- Based on our forecast for a 74% dividend payout ratio in 2007E, a steady state ROE of 19% is consistent with a long-term NAV growth rate of 4.9%.

Our DCF approach is supported by DDM analysis

Incorporating this growth rate into our price:book valuation formula implies a fair value of 290p per share.

Price:book versus ROE analysis

Price (p)	275	300	325
Shares (m)	329	329	329
Market value (£m)	904	986	1,068
IFRS end-2005E NAV (£m)	345	345	345
Price:2005E book (x)	2.62	2.86	3.10
IFRS 2005E net profit (£m)	74.3	74.3	74.3
Steady state ROE (%)	19.0	19.0	19.0
COE (%)	10.0	10.0	10.0
Implied long-term growth rate (%)	4.4	5.2	5.7
Implied 2005E PER (x)	12.2	13.3	14.4
Implied 2005E yield (%)	5.5	5.0	4.7

Source Panmure Gordon

We prefer the DCF approach, but are comforted that an alternative approach delivers a similar result.

We therefore consider 275p per share a current fair value. At this price the shares would trade on 12.7x the group's provision estimate of 2004 IFRS earnings and 12.2x our IFRS forecast for 2005E. At 275p, and based on our existing dividend forecast (8% dividend growth this year) the shares would yield a prospective 5.5%.

THE NUMBERS

Flat UK GAAP EPS this year follows reduced loan growth, a lower Consumer Division ROA and a reduction in Corporate Division profits following the sale of CCF to Close Brothers in January

UK GAAP forecast summary (£m)

Year to December	2001A	2002A	2003A	2004A	2005E	2006E	2007E
Income & Expenses:							
Turnover	421.9	499.2	605.4	734.8	786.2	898.5	1020.4
Operating expenses	-265.9	-306.9	-372.1	-465.3	-494.7	-568.6	-648.5
Pre-provision profit	156.0	192.3	233.3	269.5	291.6	329.9	371.9
Provisions	-78.5	-96.6	-110.6	-128.3	-151.6	-175.7	-202.7
Pre-exceptional PBT	77.5	95.7	122.7	141.2	140.0	154.2	169.2
Goodwill amortisation	-1.6	-2.1	-3.2	-3.2			
Profit before tax	75.8	93.6	119.5	138.1	140.0	154.2	169.2
Tax	-22.1	-27.0	-36.6	-42.5	-42.0	-46.3	-50.8
Attributable profit	53.7	66.7	82.9	95.5	98.0	108.0	118.4
Dividends	-27.6	-33.0	-39.5	-45.8	-49.5	-53.5	-57.7
Retained profit	22.6	33.7	43.4	49.7	48.5	54.5	60.7
Balance Sheet:							
Average net receivables	939.3	1239.5	1480.5	1708.5	1931.4	2201.8	2501.4
-Hire purchase contracts	474.4	620.4	603.6	628.7			
-Other instalment credit	608.2	791.3	1021.2	1307.6			
-Purchased debt	24.8	24.8	26.3	34.4			
-Finance leases	30.8	29.5	29.6	30.1			
-Factoring	43.2	43.6	58.9	59.4			
Gross receivables	1181.3	1509.7	1739.6	2060.1	2265.7	2573.4	2924.2
Less provision for bad debts	-84.4	-127.5	-160.8	-189.3	-203.9	-231.6	-263.2
Net receivables	1096.9	1382.1	1578.8	1870.8	2061.8	2341.8	2661.0
Of which:-							
-Consumer Division	987.4	1274.2	1449.7	1739.1	2000.0	2280.0	2599.2
-Corporate Services	109.5	108.0	129.1	131.9	61.9	61.9	61.9
Average equity	192.8	287.0	367.7	413.5	461.5	513.0	570.6
Net assets	228.3	345.7	389.7	437.3	485.7	540.3	600.9
Intangibles	34.2	50.7	52.6	47.8	47.8	47.8	47.8
NTAV	194.1	295.0	337.0	389.5	437.9	492.4	553.1
Net borrowings	-717.0	-771.4	-920.7	-1131.5	-1130.7	-1140.9	-1154.3
Ratios: (%)							
Turnover/avg net receivables	44.9	40.3	40.9	43.0	40.7	40.8	40.8
Provisions/avg net receivables	-8.4	-7.8	-7.5	-7.5	-7.9	-8.0	-8.1
Expense ratio	-63	-61	-61	-63	-63	-63	-64
Provisions/pre-prov profit	-50	-50	-47	-48	-52	-53	-55
B/s provision/gross receivables	-7.1	-8.4	-9.2	-9.2	-9.0	-9.0	-9.0
Borrowings/net receivables	-65.4	-55.8	-58.3	-60.5	-54.8	-48.7	-43.4
Equity/net receivables	20.8	25.0	24.7	23.4	23.6	23.1	22.6
Borrowings/equity	-314	-223	-236	-259	-233	-211	-192
Borrowings/NTAV	-369	-261	-273	-291	-258	-232	-209
RoAvgAssets	5.9	5.5	5.8	5.8	5.1	4.9	4.7
ROE	28.7	24.0	23.4	23.9	21.2	21.0	20.8
Effective tax rate	-28.5	-28.2	-29.8	-30.1	-30.0	-30.0	-30.0
Per Share Data:							
Avg shares	295.7	304.4	327.3	326.8	327.4	327.4	327.4
End-period shares	298.9	327.7	328.0	327.4	327.4	327.4	327.4
EPS (p)	18.17	21.90	25.33	29.23	29.92	32.98	36.17
Adj EPS (p)	18.73	22.58	26.31	30.20	29.92	32.98	36.17
Net div (p)	9.00	10.40	12.10	14.00	15.12	16.33	17.64
NAV/share (p)	76.4	105.5	118.8	133.5	148.4	165.0	183.5

Source Company, Panmure Gordon

The key driver in our Consumer Division forecasts is a reduction of non-interest income as a percentage of average loans from 17.7% to 14.5%

UK GAAP divisional summary (£m)

Year to December	2004A	2005E	2006E	2007E
Consumer Division:				
Net interest	429.4	504.8	577.8	658.7
Non-interest income	280.6	271.1	310.3	351.3
Turnover	710.0	775.9	888.1	1010.0
Operating expenses	-441.5	-481.0	-554.2	-633.3
Pre-provision profit	268.5	294.8	333.9	376.7
Provisions	-128.1	-151.4	-175.5	-202.5
Operating profit	140.4	143.4	158.4	174.2
Average net receivables	1582.0	1869.5	2140.0	2439.6
Net receivables	1739.1	2000.0	2280.0	2599.2
Interest/avg net receivables (%)	27.1	27.0	27.0	27.0
Non-interest/avg net receivables (%)	17.7	14.5	14.5	14.4
Turnover/avg net receivables (%)	44.9	41.5	41.5	41.4
Provisions/avg net receivables (%)	-8.1	-8.1	-8.2	-8.3
Expense ratio (%)	-62.2	-62.0	-62.4	-62.7
Provisions/pre-prov profit (%)	-47.7	-51.4	-52.6	-53.7
Corporate Division:				
Turnover	24.8	9.3	9.3	9.3
Operating expenses	-16.8	-5.9	-5.9	-5.9
Pre-provision profit	8.0	3.3	3.3	3.3
Provisions	-0.2	-0.2	-0.2	-0.2
Operating profit	7.8	3.2	3.2	3.2
Central:				
Turnover	0.0	1.1	1.1	1.1
Operating expenses	-7.0	-7.7	-8.4	-9.3
Pre-provision profit	-7.0	-6.6	-7.3	-8.2
Provisions	0.0	0.0	0.0	0.0
Operating profit	-7.0	-6.6	-7.3	-8.2
Group:				
Turnover	734.8	786.2	898.5	1020.4
Operating expenses	-465.3	-494.7	-568.6	-648.5
Pre-provision profit	269.5	291.6	329.9	371.9
Provisions	-128.3	-151.6	-175.7	-202.7
Operating profit	141.2	140.0	154.2	169.2

Source Panmure Gordon

Distribution of investment ratings (as of 31st December 2004)

Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
45% (34%)	39% (13%)	15% (3%)

* Indicates the percentage of each category in the Overall Distribution that were Panmure Gordon banking clients in the previous 12 months

Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be $\pm 10\%$
Sell	Stock is expected to decline by 10% or more in the next 12 months

All of the recommendations and views about the securities and companies in this report accurately reflect the personal views of the research analyst named on the cover of this report. No part of this research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report.

This report has been prepared by a member of the Panmure Group (being Panmure Gordon & Co., Limited ("Panmure Gordon"), its "group" as defined in the Financial Services and Markets Act 2000 and each member of the Panmure Group's directors, employees, agents and nominees). It may not be reproduced, redistributed or copied in whole or in part for any purpose.

From time to time, we may offer investment banking and other services (IBS) to Cattles. We buy and sell these securities from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may make a market in the securities of Cattles.

This report has been approved in the UK by Panmure Gordon solely for the purposes of section 21 of the Financial Services and Markets Act 2000. In the UK, this report is directed at and is for distribution only to persons who (i) fall within Article 19(1) (persons who have professional experience in matters relating to investments) or Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001 (as amended) or (ii) are intermediate customers or market counterparties of Panmure Gordon (all such persons together being referred to as "relevant persons"). This report must not be acted on or relied upon by persons in the UK who are not relevant persons.

Panmure Gordon is not a US registered broker-dealer. Transactions undertaken in the US in any security mentioned herein must be effected through a US-registered broker-dealer, in conformity with SEC Rule 15a-6.

Neither this report nor any copy or part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities laws, or the law of any such other jurisdictions.

This report does not constitute an offer or solicitation to buy or sell any securities referred to herein. It should not be so construed, nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. The information in this report, or on which this report is based, has been obtained from sources that the Panmure Group believes to be reliable and accurate. However, it has not been independently verified and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information or opinions are provided as at the date of this report and are subject to change without notice. The information and opinions provided in this report take no account of the investors' individual circumstances and should not be taken as specific advice on the merits of any investment decision. Investors should consider this report as only a single factor in making any investment decisions. Further information is available upon request. No member of the Panmure Group accepts any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this report or its contents.

By accepting this report you agree to be bound by the foregoing limitations.

5 May 2005

Equity Research

COMPANY PROFILE

Business Profile

Cattles is a non-conforming consumer credit business with additional corporate credit activities. The core Consumer Division serves more than 700,000 customers with products that include unsecured and secured personal loans, hire purchase credit facilities, and merchandise related products sold to consumer credit customers.

Overall, the company advanced over £1bn of new loans during 2004 and at end-2004 its customer accounts receivable totalled almost £2.0bn.

Recent News

On 17 March, Cattles announced UK GAAP 2004 profits and earnings up 15% and the full year dividend up 16%. Accompanying these results was a provisional restatement of 2004 profits and net assets under IFRS. The effect is to reduce 2004 PBT from £141m to around £101m, and end-2004 shareholders' funds from £437m to around £320m. A full restatement of the group's 2004 results under IFRS is planned for June.

Director dealings

Director	Dealing Date	Value (£)	No of shares	Price (p)	Change* (%)
Sean Mahon	6 April 2005	311,616	95,383	326.7	-42
James Corr	6 April 2005	139,850	42,807	326.7	-50
Ian Cummine	6 April 2005	220,575	67,516	326.7	-43
Mark Collins	6 April 2005	157,296	48,147	326.7	-43

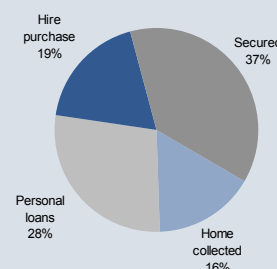
*in holding

Source Reuters

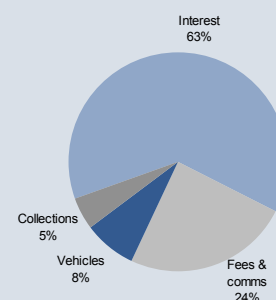
Company Information

Company	Cattles
Address	Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley WF17 9TD
Tel no	+44 (0) 1924 44446
Website	www.cattles.co.uk
Chairman	Barrie Cottingham
Chief Executive	Sean Mahon
Finance Director	James Corr
IR Officer	Emma Buchanan, Financial Dynamics

2004 advances by segment (%)



2004 income by type (%)



Source Company

Major Shareholders (%)

Barclays	15.01
FMR/Fidelity International	6.97
SWIP	4.88
Legal and General Group	3.91
Morley Fund Management	3.00

Financial Diary

Next Statement	AGM 5 May
Next Results	Interims August 2005
Next ex dividend	August 2005

Panmure Gordon & Co., Limited

50 Stratton Street, London W1J 8LL UK
+44 (0)20 7187 2000

Copyright 2005 The Panmure Group: All rights reserved.