

SUMMARY

VALUE RANGE

N/A – N/A



Friday, 09 January 2015

Share Price	€0.39
Value Range Low	N/A
Value Range High	N/A
GXG Ticker	LATS GX
Financial YE	31-Dec
Currency	EUR

Business Activity

Retail Financial Services

Key Metrics

MCAP (m)	€19.695
Net Debt (Cash) (m)	€12.269
Implied EV (m)	€31.964
52 Wk Hi	€0.390
52 Wk Lo	€0.390
Free Float	17.80%

Key Ratios

Net Debt (Cash) / Equity %	62.30%
FX Rate GBP/EUR	1.2778

Financials Sector Research

GXG Main Quote Index

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Latin South Holdings Plc

A secure lending model

Latin South Holdings Plc (LATS GX), listed on London-facing junior market GXG, owns a 76% stake in Paraguay's Electrofacil, a high growth micro-lending (to the unbanked) and retail business. Electrofacil's lending products enable its customers to purchase white goods, furniture, motor parts and tech. Electrofacil is a top 3 micro-lending business in the Paraguay market. LATS's 5-year accelerated growth plan for Electrofacil is underpinned by acquisitions and the expansion of the loan book. Historically the loan book has been funded via local bank financing and 3-year bonds. According to management margins would expand aggressively with European funding.

- LATS to deliver revenues and EBITDA 14E as per guidance;
- Electrofacil market share grew to 15% in 2012 up from 1% in 2009;
- Current loan portfolio USD 11m;
- 80% of Paraguay's workforce has no access to retail bank loans;
- Acquisition target identified requiring USD 15m funding.

By reducing Electrofacil's cost of debt and raising fresh capital LATS would be able to accelerate the development of shareholder value. Electrofacil's positioning and commercial strategy can be described as – a **Portfolio** of home appliance brands in one place; a **Value** offer that delivers a best-in-store experience with affordable repayment instalments; **Trust** – created by bringing technology benefits to aspirational families, improving their quality of life.



Investment Case

Leading player in the Paraguayan micro lending market. Retail sales and micro-lending model.

Exceptional market share development. Significant market opportunity remains.

Proven management performance. Long-run organic growth available. Reliable loan book and strong margins with further margin enhancement possible.

Opportunity for investors to partake in upside via debt and equity funding rounds as part of 5-year growth strategy. Acquisition identified.

Competitive background - Paraguay has a population of 7m, of which 4m are working within the informal economy and are often self-employed. The country's micro-lending market is worth an estimated USD 2.1bn. In 2009 before LATS acquired Electrofacil it was the 8th largest micro-lender in Paraguay with 1% market share. By 2012 LATS had developed Electrofacil and won market share of 15%, making it the 3rd largest micro-lender in Paraguay behind Gonzalez Gimenez with a 29% share, down from 44% O9A and Tupi, with 28% market share, up from 18% O9A.

The interest rate charged by Electrofacil is 80% p.a. compared with a retail banking credit card rate of 55-60% p.a., however only 800-900k of the population have access to products such as credit cards (i.e. are in the formal banking market). 80% of Paraguay's population remains unbanked, a significant opportunity for LATS. Progress to "banked" from "unbanked" is likely to be slow, according to management.

- **Proven performance** - Electrofacil's growth to 15% up from 1% of market share in the four years since it was acquired by LATS is evidence of strong operational and brand performance driven by LATS management.

- **Aspirational market** – Electrofacil's customers, the emerging middle class, are using its micro-lending products for income smoothing. Electrofacil's customers prefer to purchase high quality brands in the white goods, furniture, motor supplies and tech markets. Younger customers are using the loan products to buy consumer retail technologies such as mobile phones.

- **Attractive financials** – 40,000 customers; Customer loyalty appears high. In the first year a customer typically takes one loan per annum but in the second year customers tend to take two loans per annum, thereby doubling individual customer revenues in year two. Electrofacil revenue growth 15-20% p.a.; Gross profit margin 60%; underlying EBITDA margin 22-25%; FCF conversion close to 95%, according to management. Electrofacil's loan write-off is around 3% of its USD 11m loan book. Repayments 60 days late or more make up 8-10% per month of outstanding loans. Monthly cash balance USD 500-700k (note company attempts to re-lend cash as soon as possible).

- **Acquisition opportunity** - LATS's management team has identified a USD 15m local M&A opportunity.

Catalysts

LATS's FY14E financials are in line with guidance. Accelerated growth can be achieved through execution of the 5-year growth plan by expanding the loan book and through identified acquisitions. Closing a European funding round should accelerate shareholder value creation.

Operational Strategy

Proven strategy addresses USD 2.1bn market.

LATS’s proven lending strategy addresses the borrowing needs of a USD 2.1bn market in Paraguay. LATS’s active entity Electrofacil, of which LATS owns 76%, has a proven track record of growth. Management intends to continue with its current successful operational strategy whilst pursuing its 5-year growth and acquisition plan.

Aspirant middle class with significant loyalty to Electrofacil.

Electrofacil is lending to the C1 to D3 socio-economic groupings (Paraguay’s emerging middle class), which in turn means the company is addressing 65% of the economically active Paraguayan population.

We take the view that the Paraguay lending market is a growing market as the socio-economic groups D1, D2 and D3 migrate upwards economically to join the C3-C1 groupings.

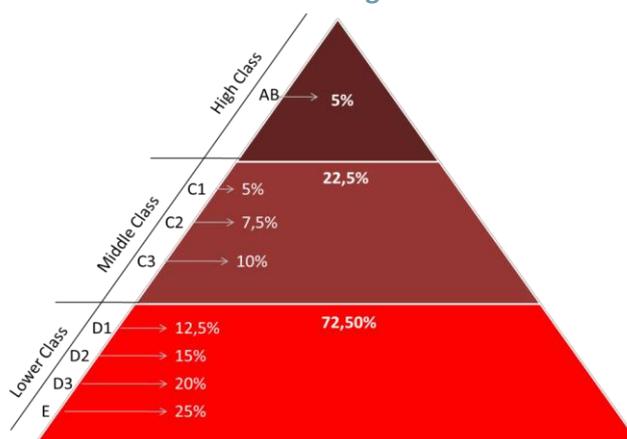
Electrofacil is lending to enable the unbanked emerging middle classes to raise capital to buy aspirant capital goods and in this way permits this emerging middle class to smooth income through the use of loan products, an accepted and efficient aspect of economic behaviour for individuals over their working lifetimes. Electrofacil provides affordable risk adjusted annual micro-loans thereby providing essential access to capital to a broad swath of economically active participants in a developing economy. The company garners notable customer loyalty as a result.

The loan book appears well managed with a relatively low default rate. Margins are attractive and could be expanded through European debt financing, lowering LATS’s cost-to-lend in comparison to local instruments currently used to fund the loan book, and possible equity financing for acquisitions. Competition from local banks, if it comes, will force down interest rates chargeable to the customer and this factor is recognised by management. However management also takes the view that competition from the banking sector is a decade away.

Local banking competition questionable but at least 10 years away, according to management.

Management believes there is further market share that can be acquired and we infer that the opportunity for organic growth is not inconsiderable over a 10-year horizon.

Exhibit 1: LATS’s Electrofacil market segmentation



Source: Company Reports;

Notes [Intentionally Blank]

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