



DSR STOCK CARD

11/18/2019

ECN CAPITAL CORP (ECN.TO)

Business Model

ECN Capital Corp is a North American financial business service provider. It originates, structures and manages financial products and provides advisory services for financial institutions. The business activities are categorized into three core and two legacy operating segments and a Corporate segment. The company's core operating segments consist of Service Finance - Unsecured Consumer Loans; Triad - Secured Consumer Loans and Kessler - Consumer Credit Cards; and the company's two Legacy Businesses consist of Rail Finance and Aviation Finance.

The Company in a Nutshell

- ECN has over 90 partners among banks and credit unions and shows \$32B in managed assets.
- ECN offers value to shareholders through a continuous share buyback program.
- The company's IPO was in 2016, it's a new dividend payer in the market.

Investment Thesis

ECN has built its business model around "light credit". We are talking about relatively small loan sizes (average 11K for unsecured and \$70K for secured loans) over a short period of time (from 29 months to 96 months on average). ECN made sure its credit underwriting process selects stellar consumers as its portfolio shows an avg FICO score of 765 for unsecured and 750 for secured loans. Overall, this tells you ECN minimize its risk in a "risky business". We like the profile, but we are unsure about the timing. We would like to see how ECN fares with a challenging environment. I guess this will happen soon enough, right?

VALUATION

Dividend Growth Rate Years 1-10: 3.00%

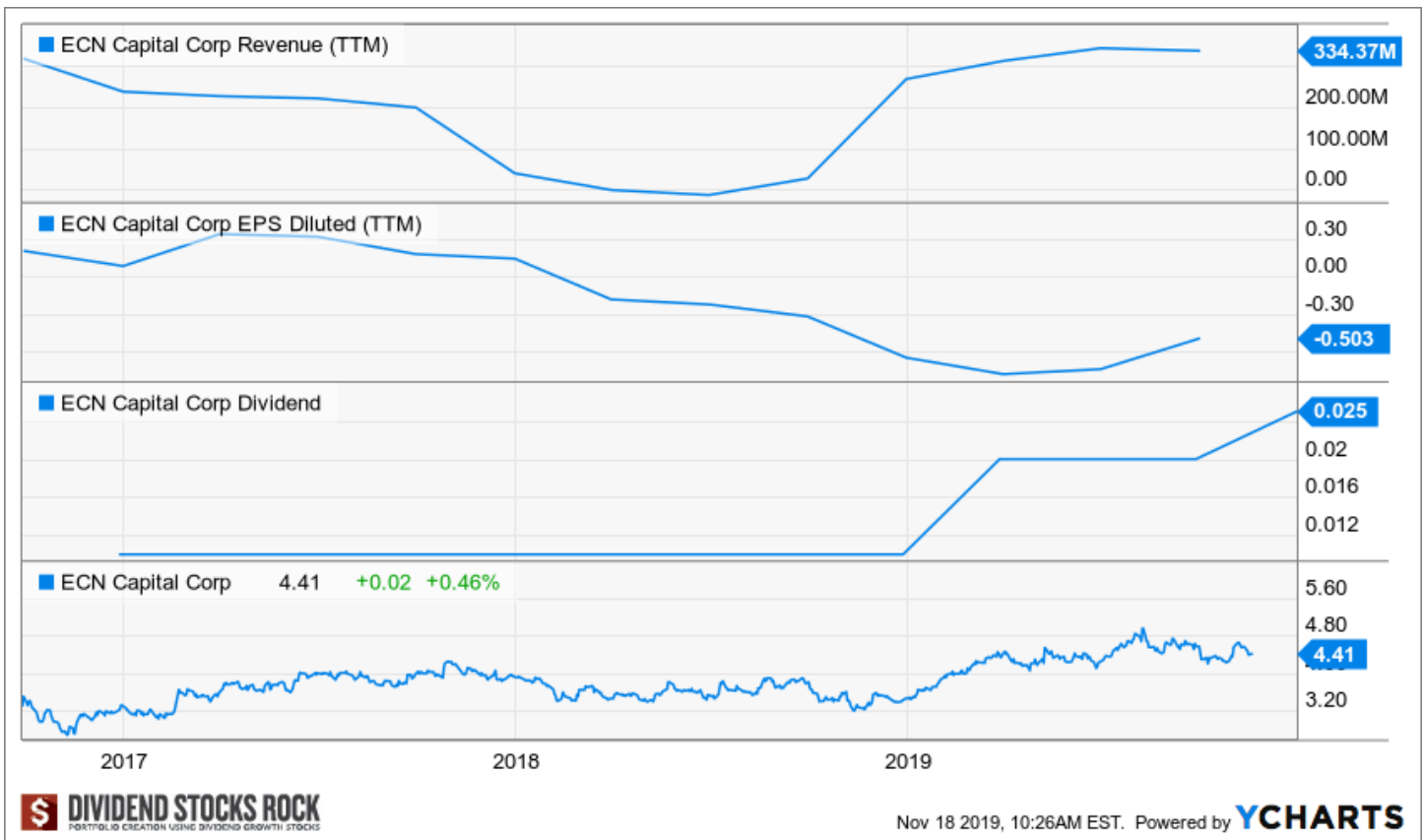
Terminal Dividend Growth Rate: 3.00%

	Discount Rate (Horizontal)		
Margin of Safety	10.00%	11.00%	12.00%
20% Premium	\$1.77	\$1.55	\$1.37
10% Premium	\$1.62	\$1.42	\$1.26
Intrinsic Value	\$1.47	\$1.29	\$1.14
10% Discount	\$1.32	\$1.16	\$1.03
20% Discount	\$1.18	\$1.03	\$0.92



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Potential Risks

While ECN seems well diversified across 3 different segments, its bread and butter comes from its consumer credit card service (\$25B in assets, 81%). In other words, you look at ECN today on its Prom night. We have not seen what ECN will look like the day after the recession hit. ECN business has been around for a while (Kessler shows 40 years of activity), but we don't know how the market will react with this borderline small cap when things go sour. When it comes down to financial services, we prefer banks... Canadian banks.

Dividend Growth Perspective

ECN only posted 2 dividend increases since its IPO in 2016. The company more than "doubled" its payment (from \$0.01 to \$0.02 and then \$0.025) in 2019. We can't tell by how much management intends to grow its dividend at this point and this is why we used conservative numbers for the DDM. The low dividend yield combined with a relative high level of risk makes it unattractive for DSR. This looks like a high risk, high reward play. Proceed with caution.