



Firstfolio joins the perennial brokers

Firstfolio (FFF) 7.8c

THE recent history of the mortgage sector suggests that as soon as the big banks grab an indecent portion of market share, new players emerge to nibble away at the spoils.

In the early 1990s, new rivals such as Aussie Home Loans, Wizard and RAMS sprung from the scorched landscape, before themselves being subsumed.

Firstfolio — a mix of mortgage broker, wholesaler, originator, processor and manager — continues the perennial cycle.

Southern Cross Equities describes Firstfolio as a “bank in everything but name”, a vital distinction being that it has no need for capital to support loans.

In crude terms, Firstfolio takes funding from the likes of ING and Adelaide Bank, slices and dices it and then sells the rejigged product through various other channels, including 400 mortgage brokers and other intermediaries such as AMP financial planners.

Rather than accruing interest income, Firstfolio earns its bacon through commissions, settlement fees and upfront and trail entitlements.

Loans under management stand at \$18 billion to 60,000, but much of Firstfolio’s work is back-office processing.

Given this, the name hardly has the same retail resonance as, say, Aussie John Symond.

But Firstfolio does have a direct presence, having acquired the mortgage broker e-Choice in 2008.

According to Firstfolio chief Mark Forsyth, e-Choice taps customers’ increasing confidence in undertaking entire transactions, such as buying air tickets, online. “Virtual volumes have increased dramatically faster than expected,” he says.

The acquisitive Firstfolio this week expanded its online repertoire by buying business equipment financier LeaseChoice, for \$2.4m. Forsyth has other acquisitions in mind, including brokers in Perth where the group is under-represented. Southern Cross Equities says there will be plenty to buy: “Firstfolio is well positioned to capitalise on the inevitable consolidation within the mortgage broker market as a result of lower commissions and higher regulatory costs.”

Firstfolio may be in minnow

territory with a sub-\$60m market cap, but it’s solidly profitable. The company reported a net \$3.3m (earnings per share of 0.8c) in 2008-09. Southern Cross forecasts current-year earnings of \$5.3m (0.9c), rising to \$7.2m (1.2c) in 2010-11.

Firstfolio is a **buy**.

The stock looks cheaper than listed quasi equivalents such as Homeloans and Mortgage Choice.

For those who aren’t mortgage groupies, Firstfolio’s business mix is a tad hard to decipher.

But the key point is it makes bank-like margins by using someone else’s money.

