



**Transaction Capital Limited**  
(Incorporated in the Republic of South Africa)  
Registration number: 2002/031730/06  
JSE share code: TCP  
ISIN: ZAE000167391  
("Transaction Capital" or "the group")

## **PRE-CLOSE TRADING UPDATE**

On 23 and 24 March 2015, Transaction Capital will be holding meetings with analysts and investors ahead of its closed period for the half year ending 31 March 2015. This statement details the information that will be covered in those discussions.

No material changes have occurred subsequent to the SENS announcement released on 27 February 2015, entitled "Annual general meeting statement by the group chief executive officer."

## **OPERATING ENVIRONMENT**

South Africa's economic growth remains constrained, exacerbated further by the under-supply of electricity. There has been little or no improvement in employment levels and real wage growth. Interest rates have remained stable this year, but the reduced fuel price has however eased financial pressure on businesses, including those in the small-to-medium enterprise (SME) sectors. Expectations are that this benefit may be short-lived given the anticipated fuel price increases in the short term. The combined effect of these conditions results in pressure on the economy as a whole, with both the consumer and the SME sectors of our economy remaining at risk.

## **OPERATIONAL PERFORMANCE**

This statement addresses the group's performance for the five months ending 28 February 2015 in comparison to the same period in the prior financial year.

## **Introduction**

During the 2014 financial year, Transaction Capital initiated a group restructuring commencing with the disposal of Paycorp and Bayport. Thereafter the board of directors

and its sub-committees were reconstituted to accommodate the requirements of the newly established group. Concurrently the group executive office structure was simplified as most group office functions were decentralised, devolving responsibility and authority to the operating businesses.

During the first quarter of the 2015 financial year, Transaction Capital's remaining divisions were reconstituted to support the strategic objectives of the newly established group. Transaction Capital is comfortable with the current composition of its portfolio which is intentionally positioned to take advantage of South Africa's macro-and socio-economic context. The group's reconstituted portfolio consists of two divisions of scale, being asset-backed lending and risk services, both with strong market positions.

Notwithstanding the challenging economic and regulatory environment, it is gratifying that Transaction Capital has made pleasing progress towards its strategic, operational and financial objectives in the first five months of the 2015 financial year. The group is performing ahead of expectations regarding growth rates, with the following being the most notable developments.

### **Asset backed lending**

The asset-backed lending division (comprising SA Taxi) operates as an unconventional asset-backed lender, currently focusing predominantly on the financing of independent SMEs mainly in the minibus taxi industry, but with the intention to expand into other unconventional adjacent markets or asset classes.

The division continues to entrench its dominant market position encompassing the entire value chain within the minibus taxi industry. This is achieved by augmenting its distinctive competencies well beyond credit assessment, collections and capital mobilisation and management. Distinctive competencies now also include vehicle and spare part procurement, direct vehicle sales, vehicle refurbishment, short term comprehensive insurance and telematics. In addition, SA Taxi continues to leverage its distinctive competencies to create defensible positions within identified adjacent market segments, financing asset classes such as bakkies, with the pilot now extended to include bakkies utilised by consumers for utility purposes as well as by SMEs as income producing assets.

The estimated national fleet of 200 000 privately owned minibus taxis remains the primary means of transport for most South African commuters. The replacement of the aging national taxi fleet continues to create a robust demand for the finance provided by SA Taxi, whilst the reduced fuel price has benefited SA Taxi's customers by facilitating additional disposable income for their businesses.

Growth in gross loans and advances has contracted marginally to low-teens as at 28 February 2015 as credit granting criteria remain conservative. Credit performance continues to improve following high quality originations, strong collection trends and an improved quality of repossessed vehicles being produced by Taximart. The result is a continued reduction in the credit loss and non-performing loan ratios, while provision coverage is stable. Direct sales of new and refurbished vehicles continue to gain further traction thereby increasing margins and improving credit metrics.

SA Taxi's cost to income ratio has increased slightly, mainly due to the investment into SA Taxi's short-term insurance business, which continues to uplift and diversify SA Taxi's revenue base.

### **Risk services**

The newly established risk services division (comprising MBD CS, Principa Decisions and Rand Trust) is a provider of a comprehensive range of structured credit risk management, debtor management, data management, collection, customer engagement, call centre and capital solutions to South Africa's largest credit providers, focusing predominantly on the consumer credit life cycle as well as commercial solutions for SMEs.

The challenging consumer environment provides substantial opportunity for this division to take advantage of its strong market position and reputation. It does so by applying its credit and collections expertise, operational capacity, data base, experience and capital to its client base, being South Africa's largest credit providers. Many of these clients are displaying an increased demand for structured and complex credit risk management and capital solutions to better manage credit and operational risks, reduce costs, simplify processes, raise capital and improve working capital cash flow.

The risk services division will entrench its market position by augmenting and combining its distinctive competencies across the companies in the division. As with the asset-backed lending division, the intention is to enhance and broaden its value proposition thereby deepening its penetration into the client. In addition, the division will leverage its core skill set to access adjacent market segments, such as the public, insurance and commercial sectors.

The low-teen percentage increase in MBD CS' collection revenues during this period was encouraging, despite the challenging consumer environment. MBD CS continues to make pleasing progress within its existing and newly identified clients, with further benefits being realised from the lucrative historical and recent capital deployment. The cost-to-income ratio improved slightly as MBD CS continues to target cost control as part of its strategy.

Legislation around the changes in the application of the principle of prescription have now been enacted. All of MBD CS' business processes are aligned for the change and the pricing of new purchased book debts reflects its impact.

Rand Trust continues to experience strong levels of book growth with the growth trajectory being consistent with growth levels reported for the 2014 financial year. Credit risk and losses remain well managed, and collection metrics remain at robust levels.

The local environment for Principa remains challenging but the Qarar joint venture in the Middle East continues to provide diversified revenue streams.

## **FUNDING AND CAPITAL ADEQUACY**

The group remains adequately funded in terms of projected origination and cash requirement levels. Capital adequacy levels remain high at 47% and the group is well positioned to take advantage of and fund organic and acquisitive growth opportunities.

Transaction Capital continues to be proactive in its approach to debt funders to ensure that they remain comfortable with the businesses within the group. To date the group has been able to raise all funding required.

## **OUTLOOK**

Transaction Capital is well positioned to meet its organic and acquisitive growth targets and the organic growth trajectory is tracking ahead of previously communicated expectations. The group is well capitalised to fund organic growth and to effect significant acquisitive activity and has appropriate access to the debt capital markets.

## **2015 INTERIM FINANCIAL RESULTS**

Financial results for the six months ending 31 March 2015 will be released on SENS on Tuesday 5 May 2015.

The information contained in this announcement has not been reviewed by and reported on by Transaction Capital's external auditors.

Sandton  
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