



## **MEDIA RELEASE**

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### **Transaction Capital generates 22% organic growth in HEPS**

#### ***Specialist skills continue to yield impressive credit performance.***

Commenting on the results, David Hurwitz, group chief executive, said: *“Against the backdrop of a low growth South African economy with many challenges, Transaction Capital has delivered a solid 22% organic growth in headline earnings per share, which I believe is sustainable over the medium term. While our asset-backed lending and risk services divisions perform better in a positive economic environment, they are also highly defensive businesses which are still able to thrive despite South Africa’s challenging macro- and socio-economic context, as is evidenced by the strong half year financial performance.*

*In addition to our strong growth in profit, it is also encouraging that the stricter credit-lending criteria and our specialist collection techniques continue to yield an improvement in all credit metrics. The non-performing loan ratio improved to 24.3%, with credit write-offs now below 5%.”*

Commenting on the group’s acquisitive growth strategy, Hurwitz said: *“While the group is well positioned and suitably capitalised to affect significant acquisitive activity, the use of our capital for acquisitions will only be considered for optimal transactions. The acquisition search continues in earnest, but due to asset values being at historically elevated levels and the attractive risk-adjusted returns being generated organically from our established businesses, management will be particularly circumspect in its acquisitive endeavours.*

*In the meantime Transaction Capital continues to reinvest significantly in organic capital deployment opportunities which should further enhance growth prospects.”*

## **OVERVIEW**

During the first half of the 2015 financial year, Transaction Capital reconstituted its portfolio to consist of two divisions of scale, being asset-backed lending and risk services, both with leading market positions and skilled management teams. As a result, these businesses have performed well, and provide Transaction Capital with efficient platforms to develop new products and expand into new markets.

Transaction Capital is pleased with the current composition of its portfolio. While both the asset-backed lending and risk services divisions perform better in a positive economic environment, they are also highly defensive businesses which are still able to thrive despite South Africa's challenging macro- and socio-economic context, as is evidenced by the improving half year financial performance.

The depressed local consumer economy does provide Transaction Capital's risk services division with substantial opportunity as the major South African banks and credit retailers display increased demand for Transaction Capital's services, products and capital to better manage consumer credit risk aggravated by the adverse environment.

Furthermore, the replacement of the aging national minibus taxi fleet continues to create a robust demand for the finance and vehicles provided by SA Taxi. Commuters' use of minibus taxis has remained consistent while the reduced fuel price benefit is captured within the minibus taxi industry itself, providing SA Taxi's customers with additional disposable income.

Transaction Capital thus remains committed to investing significantly in organic capital deployment opportunities and in bolt-on acquisitive growth opportunities within its asset-backed lending and risk services divisions, to further enhance their scale and entrench their leading market positions. These businesses operate in market segments of the financial services sector perceived to be of higher risk that require distinctive or specialised competencies, and have thus historically been under-served.

**ENDS**

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## **ADDITIONAL INFORMATION**

### **ABOUT THE COMPANY**

Transaction Capital is a non-deposit taking financial services group operating in the asset-backed lending and specialist risk services segments of the South African financial services sector.

Transaction Capital's businesses operate in market segments that are perceived to be of a higher risk and are therefore under-served. By applying its specialised credit, risk and capital management competencies, Transaction Capital develops its businesses to achieve scale and leading positions in these market segments. At a divisional level, the group focuses on augmenting and refining the distinctive competencies required to achieve deep vertical integration in its chosen market segments and to move into adjacent market segments. This progressively enhances the customer value propositions and sustainable competitive advantage of its divisions.

Transaction Capital intentionally positions its businesses to take advantage of opportunities arising from South Africa's macro- and socio-economic context.

### **FINANCIAL HIGHLIGHTS**

- Continuing headline earnings per share up 22% to 31.1 cents
- Continuing headline earnings up 20% to R177 million
- Continuing return on average equity up to 11.9% from 9.4%
- Continuing return on average assets up to 3.7% from 3.2%
- Continuing gross loans and advances up 15% to R7 056 million
- Non-performing loan ratio improved to 24.3% from 28.6%
- Credit loss ratio improved to 4.8% from 5.3%
- Non-interest revenue up 10% to R573 million
- Interim dividend up 67% to 10 cents per share

Transaction Capital's continuing operations delivered pleasing results ahead of expectations, despite challenging market conditions.

Headline earnings grew by 20% from R148 million to R177 million. Net interest income increased by 13% to R448 million, driven by a 15% growth in gross loans and advances to R7 056 million although offset in part by a higher average cost of borrowing of 10.8% from 10.3% at 31 March 2014. Non-interest revenue increased by 10% to R573 million, mostly driven by MBD's improved agency and principal book collections. The cost-to-income ratio has remained stable at 62.3% (61.9% for the comparative period).

In line with Transaction Capital's strategy to grow gross loans and advances in the mid-teens while focusing on credit quality, the group achieved gross loans and advances growth of 15%, while reducing the Rand value of non-performing loans (NPLs), thus improving the credit quality of loans and advances. Consequently, the group NPL ratio showed significant improvement reducing from 28.6% to 24.3% as a result of effective collection strategies, stricter credit origination criteria and a decrease in repossessed stock held via the accelerated write-off of entry level stock.

Return on average equity increased by 27% from 9.4% last year to 11.9% in the current period driven by the increase in earnings, efficient capital deployment, as well as the improved capital structure following the capital distribution of R1.2 billion in March 2014.

Transaction Capital's equity and debt capital position remains robust with a capital adequacy level of 45.4% and uninterrupted access to the debt capital markets.

The company noted that South Africa's economic growth remains constrained, exacerbated by factors such as the undersupply of electricity, increased electricity costs and little or no improvement in employment levels or real wage growth. Encouragingly, interest rates have remained stable and the reduced fuel price has eased financial pressure on businesses and consumers, including those in the small-to-medium enterprise (SME) sectors. The full effect of this benefit may be short-lived given the recent fuel price increases and inflationary currency weakness. The combined effect of these conditions results in pressure on the economy as a whole, with both the consumer and the SME sectors of the South African economy remaining vulnerable.

The regulatory environment has stabilised somewhat. Legislation containing amendments to the National Credit Act has now been enacted and all of the group's business processes are aligned for the changes.

## **DIVISIONAL REVIEW**

### **Asset-backed lending – SA Taxi**

The asset-backed lending division 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 increased headline earnings by 34% to R99 million from R74 million in the prior year, by way of a 14% increase in gross loans and advances, a 3% increase in the impairment

expense due to the improved credit quality of its loans and advances and a continuing diversification of its revenue streams.

SA Taxi's growth in gross loans and advances has stabilised at 14% as new vehicle origination is now entirely comprised of premium vehicles with credit-lending criteria remaining conservative. The exposure to entry-level vehicles continues to decrease resulting in improving credit quality for the remaining portfolio.

The credit loss ratio has improved by 9% from 5.6% to 5.1%, again well within SA Taxi's 6% upper tolerance level. Recovery rates remain stable at approximately 70%, owing to the nature of the loan which is secured by an asset of value which is enhanced through the Taximart refurbishment operation, further differentiating SA Taxi from its competitors. The efficiency of the procurement, repair and resale operations of Taximart (now one of the largest Toyota repair centres in southern Africa) assists in maintaining these low levels of ultimate credit loss.

Continued strong collection trends, together with the accelerated write-off of entry-level repossessed stock and the improved quality of repossessed vehicles produced by Taximart, resulted in an improved NPL ratio of 26.0% from 30.4% at 31 March 2014.

The net interest margin has remained stable at a healthy level of 11.5%, while the cost of borrowing increased slightly from 9.7% to 10.3% due to the recent focus on raising offshore funding which is priced more expensively.

Although not in the period under review, SA Taxi returned to the local debt capital markets during April 2015 via a second issuance of credit rated debt instruments by the asset-backed note programme of Transsec (RF) Limited. The targeted R528 million of capital was successfully placed on a private basis at a weighted average cost of funding of 285 basis points above 3 month JIBAR. While being moderately more expensive than the June 2014 Transsec (RF) Limited issuance, the rate is still approximately 150 basis points lower than SA Taxi's average cost of funding. Despite the challenging local debt capital market environment, the favourable terms of this transaction constitutes, in part, an acknowledgement by our local institutional debt investors of the significant strides made by SA Taxi in enhancing its unique business model.

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. SA Taxi continues to uplift, diversify and enhance its revenue via the procurement and direct sales of new vehicles, the re-sale of refurbished vehicles and vehicle tracking services. Another key component of the value chain from which SA Taxi benefits is

its short-term insurance business which continues to grow both its financed and non-financed policy portfolios.

SA Taxi is also using its expertise to create defensible positions within identified adjacent market segments, financing asset classes such as bakkies utilised by SMEs as income producing assets. Loans and advances in this regard have grown to R81.2 million, with debt capital as well as equity now financing this portfolio. In addition to this product line, Transaction Capital has allocated R50 million towards SA Taxi's introduction of a pilot project to fund bakkies utilised by consumers for utility purposes.

SA Taxi's cost-to-income ratio has increased slightly from 41.8% for the comparative period, but remains lean at 43.2%, mainly due to the investment into SA Taxi's short-term insurance business.

The lower effective tax rate is sustainable in the long term due to the receipt of post-tax dividend income from the insurance cell captive.

#### **RISK SERVICES – RAND TRUST, MBD AND PRINCIPA**

The newly established risk services division 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 lifecycle as well as commercial solutions for SMEs.

The risk services division will entrench its market position by augmenting and combining its distinctive competencies across the businesses 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 market. In addition, the division will leverage its core skillset to access adjacent market segments, such as the public, insurance and commercial sectors.

The reconstitution of this division has yielded the desired results, with headline earnings increasing by 20% to R61 million. Non-interest revenue increased by 14% from R401 million to R457 million as the risk services division continues to make good progress with its existing and new agency clients, with further benefits being realised from historical and recent investments including traditional principal books as well as structured capital transactions, funded with Transaction Capital equity. A continued focus on effective cost management has resulted in an improved cost-to-income ratio of 82.4%.

Despite the challenging consumer environment, MBD achieved strong results in the first half of the current year, following on from the improved earnings growth achieved in the second half of the previous financial year.

The business continues to make progress within the municipal sector, gaining further traction within existing and new municipal clients. Many of these municipal clients display an increased demand for credit risk management and capital solutions to better manage credit and operational risks, reduce costs, simplify processes, improve operational infrastructure, facilitate skills transfer, raise capital and improve working capital cash flow.

Rand Trust participates in the depressed and hence challenging SME sector of the South African economy. Rand Trust applies its credit and collections expertise, operational capacity, experience and capital to the SME market, which is displaying an increased demand for working capital finance and commercial debtor management solutions.

Rand Trust experienced growth of 37% in gross loans and advances, yielding improved earnings and allowing the business to achieve greater economies of scale. As the business targets larger clients in an expanded geographic region with new tailor-made product offerings aimed at improving the value proposition to clients and extending the client's lifecycle with Rand Trust, management is applying the necessary caution to mitigate any resultant credit and operational risk.