

## **Transaction Capital won't rush acquisitions**

'Significantly derisked group.'

JOHANNESBURG – Asset-backed lender and credit services provider Transaction Capital (JSE: TCP) has R1 billion to spend on acquisitions over the next 18 to 24 months in its specialist areas.

Chief executive David Hurwitz said it would consider opportunities in the asset-backed lending and small-to medium-enterprise (SME) market.

"On the credit services side, our core skills lie around data management, call-centres and payment services, so we would look in that space as well," Hurwitz said Tuesday at the group's financial results for the half year ended March 31 2014.

"We are looking at businesses but not speaking about it now. The market is eager to see us do something but we don't want to rush out and spend our money quickly."

Hurwitz told Moneyweb earlier this year that the company would prefer not to spend the full amount on one deal, but rather split it into smaller deals. "By implication we would buy something that's fairly niche," he said at the time.

Transaction Capital's business looks very different to the way it did this time last year, after it sold its unsecured lending business Bayport Financial Services, as well as its payment services business Paycorp.

It sold Bayport for R1.6 billion and Paycorp for R937 million, earning a 33% return and 18% return on the respective investments. About R500 million was returned to shareholders in the form of a capital distribution of R2.10 a share.

"The sale of Bayport and Paycorp significantly derisked the group from a consumer credit, regulatory and capital risk perspective," Hurwitz said.

## **Financing small businesses**

Transaction Capital has since shifted its lending operations to financing income-producing assets, such as taxis (through SA Taxi) and small businesses (through the Rand Trust).

According to Hurwitz, eight out of every ten new businesses in South Africa fail, but the reverse is true of the number of taxi businesses that succeed.

Transaction Capital finances around 24 000 of the 70 000 minibus taxis that are financed in South Africa. The country has a 200 000-strong minibus taxi population. "There is an opportunity to grow the financed proportion of the taxi fleet and we feel that taxis are unthreatened by other public transport initiatives," Hurwitz said.

On the credit services side of Transaction Capital's business, MBD Credit Solutions collects distressed consumer and commercial debt, while Principa provides consulting services and software to credit providers.

The current consumer credit environment made collections difficult for MBD, which saw modest revenue growth of 2% and grew headline earnings 9% to R47 million for the half year.

MBD invested R160 million into buying books of non-performing loans (NPL) for the half year, which was more than it had invested in any other half. Its purchased book debts grew 34% to R561 million in the period under review. It now owns more than 140 individual books of NPLs.

As part of its collections business, MBD operates ten call-centres with more than 2 500 collection agents. It services more than 60 credit collection clients, from large retailers and banks to cellphone companies.

### **Future growth opportunity**

Hurwitz said there would be no change to Transaction Capital's strategy, which had built significant barriers to entry in the asset-backed lending and credit services sectors. "[Transaction Capital] goes into niche spaces that are high risk and then manages that risk down and becomes dominant in that space," he told Moneyweb earlier in the year.

Gross loans and advances for SA Taxi were up 13% to R5.8 billion and Hurwitz expects to keep this number below 15%, focusing instead on growing non-interest revenue through new product offerings. These include SA Taxi Media, where product providers can advertise on the inside of taxis, as well as providing taxi insurance.

SA Taxi will this month offer a JSE-listed securitisation called Transsec, which is a R4 billion programme co-arranged with Standard Bank.

The business's NPL ratio has remained stable since September 2013 at 30.4%, increasing year-on-year from 28.6% following the decisions to discontinue the refurbishment and finance of entry-level vehicles. The NPL ratio is not expected to increase.

Transaction Capital grew headline earnings from continuing operations 28% to R148 million. Continuing gross loans and advances were up 14% to R6.1 billion and Hurwitz said it was targeting improved credit quality rather than book growth as an end in itself.

For example, its bakkie finance pilot had financed 175 new bakkies, spending R45 million of the R60 million set aside for this initiative. "There's a big market out there for people using vehicles to produce income, whether it's a gardening service, a plumber or people moving someone else's employees around for them," Hurwitz said.

In response to a question, he noted that Transaction Capital would remain out of the unsecured lending market for at least the next two years, but wouldn't write off the possibility of entering it again in future if the market turned.

"If we saw an acquisitive opportunity to buy something in the consumer space that was truly unique we would consider that," Hurwitz said.

### **Moneyweb**

Hanna Barry 6t h May 2014