Deutsche Bank
Markets Research

Rating
Buy

Sub-Saharan Africa
South Africa

General Financial

Company
Transaction Capital Alert

Reuters	Bloomberg	Exchange	Ticker
TCPJ.J	TCP SJ	JNB	TCPJ

Date
8 May 2014

Company Update

Price at 6 May 2014 (ZAR)	5.60
Price Target (ZAR)	9.30
52-week range (ZAR)	5.60 - 4.34

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Results are good, but environment is tough

Transaction Capital's 1H14 ongoing HEPS up c.28% yoy

Transaction Capital reported strong growth in core earnings for 1H14 with HEPS up c.28% yoy to c.25.5cps (1H13: c.19.9cps) slightly ahead of our expectations of up c.25% yoy. The growth from the operational divisions was slightly weaker than expected as asset backed lending's headline earnings was up c.15% yoy and Credit Services' headline earnings was only up c.9% yoy, with the remainder of the outperformance coming from the accumulation of interest on the c.R 1bn held in cash at the centre post the sale of the Bayport and Paycorp business units. We maintain our Buy recommendation.

The underlying operations are experiencing tougher trading conditions

Although the growth rate of SA Taxi is still reasonably robust with asset growth of c.15% yoy similar to its headline earning growth over the period, it is slightly lower than our expected growth rate of up c.17% yoy. Credit Service's core revenue growth remains muted, up c.3% yoy, with most of the headline earnings growth of c.9% yoy coming from cost containment and the growth in its credit consulting business in the Middle East, below our expectations for Credit Services of up c.11% yoy.

Management are focusing on mitigating actions

In the core operational units; management are introducing new products to mitigate some of the slowdown in the core operations. Albeit in startup phases mostly; these will become incrementally more relevant in due course. In SA Taxi, management is looking at introducing a new securitization structure that is expected to positively impact on its cost of funding as well as a focus on standalone insurance products. In Credit Services management has continued to participate in book buying, purchasing c.R 160m in 1H14 (FY13 c.R 120m). As the activation on the new books commences it is expected to provide a marginal offset to the incrementally tougher collections environment.

Key question is still what management intends on doing with the capital

An estimated c.R 1bn in capital is available for acquisitions, which may be levered up if necessary to a total war chest of c.R 2bn. Management guided that it would try to find suitable acquisitions over the next 18-24 month before considering any return of capital to shareholders. Management continues to guide to bolt on acquisitions in key areas such as insurance or payment services focusing on SMEs as being the most likely. It does not anticipate spending the money on a single transaction but rather in a series of smaller acquisitions.