

Transaction Capital is in good shape on all fronts



Amelia Morgenrood

IN AN ENVIRONMENT of South African companies reporting dismal results, it was refreshing to browse through the recent interim results of Transaction Capital.

Transaction Capital operates in the asset-backed lending and specialist risk services.

The company comprises two divisions: SA Taxi and Transaction Capital Risk Services (TCRS). SA Taxi includes SA Bakkie, Direct, Taximart, Zebra cabs and SA Taxi Protect.

This division provides finance, insurance and related products, vehicle and spare parts procurement, vehicle refurbishment, direct vehicle sales and insurance.

SA Taxi finances fixed-route minibus taxis, bakkies and point-to-point metered taxis. It finances small and medium enterprises (SMEs) that may not otherwise have access to credit from traditional banks.

SA Taxi is also an enabler of affordable and safe transport, which encompasses more than 15 million commuter trips daily (compared to 9 million commuter bus trips and 2 million commuter rail trips per day) and accounts for 67 percent of South Africa's public transport.

TCRS comprises MBD, BDB, Principa and Rand Trust. This division is technology-led and data analytics-driven.

MBD, the most significant subsidiary, provides a comprehensive range of structured credit risk management, collection and capital solutions to credit providers. It specialises in the collection and often acquisition of distressed consumer debts.

MBD allows credit providers to realise value from their non-performing loans. This enables credit providers (such as banks and credit retailers) to keep their balance sheets "clean", and hence improves their liquidity and capacity to originate new loans, all of which contributes to ensuring the healthy and responsible supply of debt finance into the consumer markets.

BDB provides payment processing services. Rand Trust focuses on providing working capital, commercial debtor management solutions and business support to SMEs that may not otherwise have access to such assistance from traditional banks, thereby facilitating SME growth.

Interim results

Headline earnings per share were up 22 percent, and both divisions did very well in a tough business environment.

The last two to three years were especially difficult, but Transaction Capital managed to steer its way through the sorry state of the consumers and increasing bad debt. The interim dividend jumped a massive 40 percent.

Its most significant growth area is the buying of debtors books from credit providers. These providers don't want to keep them on their balance sheet and will instead sell at a discount and get guaranteed recovery and effective collection.

They used to collect debt only on behalf of banks and credit retailers, but a new avenue is the collection of debt on behalf of the non-traditional collection market such as insurers, state-owned enterprises and municipalities. They finance 12 percent of South Africa's minibus taxi fleet, and this provides an opportunity for their growing insurance business as they have 30 000 vehicles in their portfolio.

They made a small investment in Australia, and chief executive David Hurwitz feels it might be meaningful.

Prospects and risks

Transaction Capital's businesses operate in market segments that are perceived to be of higher risk, and these market segments are often unserved, or at best under-served.

They fulfil the specific financial needs of SMEs and other entities that are unable to access conventional credit. The taxi industry is under pressure – the cost of a taxi increased 7 percent annually over the last three years, and fuel prices are up.

The asset-backed lending and risk services divisions are defensive and are thus able to thrive despite low growth and a challenging South African economy.

Any improvement in the South African economy will be positive for the consumer, and there are signs of improvement providing further upside potential for Transactional Capital. The forward price/earnings ratio is 14 times, which seems to be attractively priced.