

marketplace share view

By Samuel Feinstein

TECHNICAL ANALYSIS

Transaction Capital in 5-year long price uptrend

One of SA's leading financiers of the taxi industry has seen a strong uptrend in recent years. Is it time to get in or out?

Transaction Capital's share price has rallied 353% since its initial public offering in 2012 relative to the FTSE/JSE All Share Index, which is up 114%. This has pushed the company's market capitalisation to over R15bn. The stock is up 19.74% since the beginning of the year, significantly outperforming all local equity benchmarks, at the time of writing. The stock is not as widely covered by analysts as the large-cap companies, but it has a 12-month target price of R24.22, according to Bloomberg. I argue for continued upside as the stock breaks out to new all-time highs in 2020, supported by strong fundamentals and technicals.

► **Fundamental context**

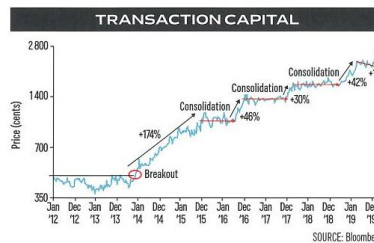
Transaction is a non-deposit-taking financial services group active in specialised lending, credit and payment services. The company has 4 662 employees and operates through two divisions – SA Taxi, which provides developmental finance, insurance and other services to the minibus taxi industry; and Transaction Capital Risk Services, which applies a technology and data-driven methodology to the credit acquisition and management sector.

The business model is highly defensive and able to withstand difficult economic conditions. This is evident in the company's R787m profit and R538m cash stash for the year ended September 2019. Headline earnings per share (HEPS) were up 18% for the year, the dividend per share 22% higher, and it boasted a compounded annual growth rate of 20% in HEPS over the last five years and has about R950m in undeployed capital available. These results are impressive considering the domestic operating environment of low economic growth, low business and consumer confidence, high unemployment and elevated household debt levels. Currently there is an 18.4% foreign investor base in the company and the stock trades on a price-to-earnings ratio of 21.86 times, with a dividend yield of 2.37%, at the time of writing.

► **Technical outlook**

Since listing at around R5 in 2012, prices were relatively flat until 2014, when prices began the uptrend that continues moving into 2020. The uptrend has been categorised by brief periods of consolidation followed by thrusts of price discovery as shown in the chart.

Since the 2014 breakout, the stock price has exhibited strong momentum and relative strength during these thrusts with the price achieving higher highs and higher lows above an upward-sloping 200-day moving average.



52-week range:	R16.11 - R25.99
Price/earnings ratio:	21.86
1-year total return:	53.18%
Market capitalisation:	R15.79bn
Earnings per share:	R1.18
Dividend yield:	2.37%
Average volume over 30 days:	739 439
SOURCE: IRESS	



Furthermore, the relative strength index (RSI) on a weekly and daily timeframe continues to get overbought (at the 70 level) on rallies and remains above oversold (at the 30 level) on drawdowns.

Let's break down what this means and why it is important.

Firstly, as technical analysts our job is simply to identify the direction of the primary trend. The definition of an uptrend is a series of higher highs and higher lows, implying demand from buyers for the company's stock in the market exceeds the supply provided by sellers. We add smoothing mechanisms like the 200-day moving average to get a clearer trend signal and improve our potential return – there is extensive empirical work on using moving averages to increase returns.

In addition, we use the RSI, which is a ratio ranging from 0 to 100, developed by J. Welles Wilder Jr, to measure the strength or weakness of an asset's price moves. In brief, when there is strong momentum in a stock price, the RSI will get overbought on rallies (>70) and remain above the oversold level on pullbacks (>30). In this case the price action, primary trend and momentum are all in favour of a long position.

Since July 2019 prices have been forming a bull flag continuation pattern dropping 10% or R2.30 from August 2019 to January 2020. This formation is characterised by a period of strong upward price action, which is followed by a shallow pullback from the high before continuing in the direction of the trend.

This provides us with clear risk parameters to enter a trade, for example remain long Transaction Capital if you are above R21. If prices continue to move higher as the technical backdrop suggests, trail the stop-loss up with a volatility stop to protect gains and let profits run. ■ editorial@finweek.co.za

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