



**Transaction Capital Limited**

(Incorporated in the Republic of South Africa)

Registration number: 2002/031730/06

JSE share code: TCP

ISIN: ZAE000167391

("Transaction Capital" or "the Group")

## **PRE-CLOSE TRADING UPDATE**

On the 12<sup>th</sup> and 16<sup>th</sup> September 2013, Transaction Capital will be holding two meetings with analysts and investors ahead of its closed period for the year ending 30 September 2013. This statement details the information that will be covered in those meetings.

*"With two weeks to its conclusion, Transaction Capital's first full year as a public company is early evidence of all that was intended and represented at the time of listing.*

*The strategic positioning, capital structure and organisation architecture has resulted both in operational and financial performance in line with expectations, and a material corporate transaction that demonstrates the group's ability to identify, develop and when appropriate, dispose of entities in the interests of shareholders."*

Mark J. Lamberti

Chief Executive Officer

## **OPERATING ENVIRONMENT**

Despite historically low interest rates, the slow growth of the South African economy is expected to endure through 2014. There is unanimity that the causal factors are structural unemployment, over indebtedness, tightening credit extension by lenders, and sharply rising costs of energy and services, with labour unrest being an exacerbating factor.

Extensive empirical and anecdotal evidence indicates a stressed consumer credit environment. The high percentage of debtors in default, the rising number of loans to individual debtors, regulatory uncertainty, and generally deteriorating credit metrics, have caused banks and lenders to tighten credit standards, increase rejection rates and reduce levels of origination.

Credit related regulatory uncertainty is abating slightly as certain policies are announced and the authorities' moderate initially aggressive positions in response to lender's lobbying and self-regulation. However, clarity is yet to emerge on credit life insurance pricing, emolument attachment orders, in duplum and affordability calculations, the value under which Naedo debit orders operate, and the credit information amnesty. The lack of enforcement of existing law and regulation constitutes a significant threat to unsophisticated consumers and compliant lenders.

## **OPERATIONAL PERFORMANCE**

### **Corporate Activity**

On 6 August 2013, Transaction Capital entered into an agreement to dispose of 100% of Paycorp for a consideration of R937 million, subject to the fulfilment of certain conditions precedent.

The effective date of the transaction will be the last business day of the month in which the conditions precedent are fulfilled or waived, expected to be before November 2013. On 30 August 2013 Transaction Capital announced that the Competition Commission had granted unconditional approval for the transaction. The fulfilment of the remaining conditions precedent will be announced in due course. The proceeds will be deployed to deliver shareholder value through strategic acquisitions and/or capital management initiatives.

### **Asset backed lending**

#### **SA Taxi – minibus taxi finance**

The estimated national fleet of 200 000 privately owned minibus taxis remains the primary means of transport for most South African commuters. The replacement of aging vehicles continues to create a robust demand for the mini bus taxi finance provided by SA Taxi.

Growth in gross loans and advances continues in the low-teens, with new vehicle origination almost entirely comprised of *Premium* vehicles.

Recent strong collection trends have been encouraging, resulting in a stable credit loss ratio of approximately 6%, while provision coverage has increased moderately.

Rather than refurbish or refinance repossessed *Entry Level* vehicles, SA Taxi has decided to accelerate write-off and related insurance claims against these vehicles. This change has allowed for greater efficiencies in the repair and resale operations of Taximart, which now focuses exclusively on *Premium* vehicles.

## **Rand Trust – invoice discounting and commercial receivables management to SME’s**

The demand for working capital by small and medium enterprises continues to provide a compelling and growing opportunity for Rand Trust.

Although a small part of Transaction Capital’s earnings and assets, Rand Trust has experienced strong levels of book growth and improved earnings potential as added product offerings, new clients and higher utilisation levels from existing clients have allowed the business to achieve greater economies of scale and improved profitability.

## **Unsecured lending**

### **Bayport – unsecured credit and related products**

Reports by the National Credit Regulator and major credit providers indicate a continual slowing in the high rate of unsecured lending growth experienced in 2011 and 2012.

As a listed entity, Bayport Securitisation (RF) Ltd publishes extensive monthly information on Transaction Capital’s website, some of which follows.

As a provider of low value (average R13 766) medium term (average 35.5 months) unsecured loans to middle and lower income consumers, Bayport continues to experience a high demand for its products.

Although gross loans and advances grew 31% to R5.7 billion in the 12 months to 31 July 2013, the current state of consumer credit health demands the utmost caution and risk aversion, with the pursuit of credit quality reflected in a sharp decline of monthly origination from R287 million in October 2012 to the lower base of R146 million in July 2013. Bayport’s level of disbursements continues to be determined by the Group’s risk appetite rather than through aggressive products and marketing. New origination channels are being explored including outbound call centre sales targeting higher credit quality clients.

Provision coverage has increased to 19% with a non-performing loan coverage of 57% at 31 July 2013, in line with the increased non-performing loans (“NPL”) ratio of 34% at 31 July 2013. This increase is in line with: the guidance provided at the half year; the current challenging credit environment; a rapidly seasoning portfolio arising from relatively lower origination levels; and a slowdown in late stage collections as a result of operational changes. Under these circumstances credit losses are elevated with vintage curves tracking above historical trends.

As part of Bayport’s strategy to differentiate itself from other unsecured lenders, a credit health program is in development, a component of which includes the sale of additional insurance offerings to its client base.

## **Credit services**

### **MBD Credit Services – debt collection as agent and principal**

As a market leader, the company remains a major beneficiary of the demand for high quality outsourced collections services, and credit provider's elevated propensity to realise value through the sale of late stage debtor's books. Despite the high volume of work available, collections are subdued in the current credit consumer environment.

Higher than expected levels of book purchases late in the prior financial year and during the first half of this year necessitated an increase in MBD Credit Solutions' collection capacity. This disruption, together with a weakening credit consumer environment, has negatively affected revenue generation, offset partially by historically low cost to income ratios. Growth as well as the composition of revenue remains in line with the trends experienced during the six months to 31 March 2013.

### **Principa – credit risk management consulting**

While the demand for credit consulting services in South Africa has declined in line with corporate caution, Principa's joint venture in the Middle East, Qatar, is now fully operational and is generating revenues and profit.

## **Payment services**

### **Paycorp – deployer and operator of off bank premise ATMs**

The vibrancy of the South African cash economy is reflected in continued growth of values and volumes through the 4 500 ATM's that comprise Paycorp's core business ATM Solutions. Exceptional operational efficiency remains a focus as does the growth of early stage payments businesses Draw card and EFTPOS.

## **FUNDING**

Debt capital markets remain supportive of Transaction Capital's asset classes despite recent debt capital markets failures and the Group remains adequately funded for projected origination and cash requirement levels.

Since March 2013:

- Bayport Securitisation (RF) Ltd has issued debt of R525 million with the last public issue being a 1-year bullet senior Class A note priced at a credit margin of 165 bps above 3 month Jibar.
- One new debt investor to the group has invested in Bayport Securitisation (RF).

- The group balance sheet remains strong with a capital adequacy of 38% at 31 July 2013.

The following rating actions occurred during the last quarter:

- Standard & Poor's Ratings Services awarded a long term national scale rating of zaA (sf) and a short term national scale rating of zaA-1(sf) to the Class A notes issued under the Bayport Securitisation Programme.
- Global Credit Rating Co. (Pty) Ltd affirmed Bayport Securitisation local national scale Class A note ratings of A(za)(sf)/A1(za)(sf). The outlook for the long term rating was changed to negative from stable.
- Moody's confirmed the rating for senior notes issued by the SA Taxi Securitisation at Aa2.za (sf) and upgraded the mezzanine notes by three notches to A3.za (sf).

## **2013 FINANCIAL RESULTS**

Financial results for the full year to 30 September 2013 will be released on 26 November 2013.

The information contained in this announcement has not been reviewed by or reported on by Transaction Capital's external auditors.

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12 September 2013

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