



## **MEDIA RELEASE**

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### **TRANSACTION CAPITAL REPORTS SOLID INTERIM RESULTS, DE-RISKED BY UNSECURED LENDING EXIT**

***The group is well positioned for organic and acquisitive growth***

## **OVERVIEW**

Transaction Capital, the specialist financial services business operating in underserved or niched sectors of the financial services market, posted a 28% growth in continuing headline earnings to R148 million. The group is well capitalised and positioned to achieve its organic growth aspirations and make significant acquisitions.

### **Financial highlights**

- Continuing headline earnings up 28% to R 148 million
- Continuing headline earnings per share up 28% to 25.5 cents
- Continuing gross loans and advances up 14% to R 6 149 million
- Continuing return on average assets stable at 3.2%
- Continuing return on average equity down to 9.4% from 13.0%
- After the capital distribution of 210 cents per share, net asset value reduced by 14% to 499.7 cents per share
- Capital adequacy ratio up 46% to 53.2%
- Interim dividend of 6 cents per share was declared

Net interest income increased by 20% to R395 million, driven by a 14% growth in gross loans and advances to R6 149 million and an increased net interest margin of 13.1%, effected in part by a lower average cost of borrowings of 10.3%. Non-interest revenue increased by 11% to R523 million, whilst the cost-to-income ratio improved from 64.3% to 61.9% through the restructuring of the group executive office, cost containment and efficiencies in all divisions.

Credit performance was robust despite the difficult economic environment; with a credit loss ratio of 5.3%, well within the company's stated medium term upper tolerance level of 6%, and a stable non-performing loan ratio at about 28.6% since September 2013.

During the first half of 2014 Transaction Capital operated a portfolio of assets substantially different from those reported on at the end of the 2013 financial year. 2013 saw a material change in the portfolio through the sale of its unsecured lending business, Bayport, and payment services business, Paycorp. The sale of the two subsidiaries was a response to

emergent opportunities to realise value for shareholders while reducing the range and complexity of risks facing the group. Transaction Capital has shifted its lending operations away from financing the South African consumer, to be exclusively focused on financing income producing assets of SMEs.

The company noted that the South African consumer economy continued to soften during the first half of the 2014 financial year as employment and real wage growth slowed, fuel and electricity prices increased, exchange rate related inflation eroded disposable income and labour unrest escalated. The Monetary Policy Committee increased the repo interest rate by 50 basis points to 5.5% for the first time since 2008, placing added pressure on the South African consumer.

Commenting on the above, group CEO, David Hurwitz stresses that: *“Following the sale of Bayport, Transaction Capital is less exposed to the consumer credit environment and its regulations. The underserved and growing SME finance market however, continues to present Transaction Capital with significant opportunity for our asset-backed lending division. The softer consumer credit economy has also created an environment where credit providers continue to outsource services or sell their non-performing loan portfolios to our credit services division.”*

## **DIVISIONAL REVIEW**

**Asset Backed Lending – SA Taxi** (specialist financier of independent SMEs in the minibus taxi industry), and **Rand Trust** (provider of working capital to SMEs through invoice discounting and commercial debtors’ management)

- Dominated by SA Taxi, the division increased headline earnings by 15% to R78 million, driven by a 14% increase in gross loans and advances
- Growth in gross loans and advances continues in the mid-teens notwithstanding new vehicle origination entirely comprised of premium vehicles and a tightening of credit-lending criteria
- Credit loss ratio of 5.4% is well below the medium term upper tolerance level of 6%
- Non – performing loan ratio has remained stable since September 2013 at 28.8%
- SA Taxi continues to leverage its market position thereby enhancing its value proposition to clients through new product offerings such as SA Taxi media and a stand-alone insurance offering branded Khusela Taxi insurers. The business also started financing the newly introduced Nissan taxi in March 2014.
- In addition, SA Taxi continues to leverage its core skill set (being credit, collections and capital management) via its “bakkie” finance pilot which funds income producing vehicles for SMEs
- Rand Trust grew headline earnings by 33%

**Credit Services – MBD Credit Solutions** (collects distressed consumer and commercial debt as an agent for leading credit providers and as the principal on purchased book debts) and **Principa Decisions** (provides credit life cycle consulting services, predictive modelling and related software to credit providers)

- The division increased headline earnings by 9% to R47 million
- Revenues have been subdued in a difficult consumer environment. This was offset by cost containment
- MBD Credit Solutions continues to be an active bidder on most books that come to market, and purchased book debts to the value of R160 million were acquired during this period
- Principa Decisions' headline earnings remained flat for the period
- Principa Decisions' growth prospects for the second half of this year will be driven by continued revenue growth from its Middle East joint venture, the continued expansion of its proprietary *Smart* software product suite and the relationship with FICO, which has been re-affirmed with the recent signing of a new five year contract

## PROSPECTS

Commenting on the results, Hurwitz said: *"We are pleased with both the strategic positioning and financial performance of the group. Following the sales of Paycorp and Bayport, the reorganisation of the group executive office, the capital distribution and the sound performance of the last six months, Transaction Capital has significantly reduced the level of regulatory, consumer credit and capital risks it faces and has realigned its cost structures to be more favourable. We are very well capitalised and positioned to fund organic growth opportunities. With approximately R1 billion of cash and the right skills in our business, Transaction Capital will seek to make significant acquisitions which align with our core skills in credit, collections and capital management."*

## ENDS

For more information visit [www.transactioncapital.co.za](http://www.transactioncapital.co.za)

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