TRANSACTION CAPITAL LIMITED
Registration number: 2002/031730/06
(Incorporated in the Republic of South Africa)
("Transaction Capital" or "the company" or "the group")
JSE share code: TCP
ISIN code: ZAE000167391
Tax reference number: 9466/298/15/6

TRANSCAPITAL INVESTMENTS LIMITED
Registration number: 2016/130129/06
(Incorporated in the Republic of South Africa)
Bond Company code: TCII
Tax reference number: 9748/456/16/8

INTERIM RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2020

HIGHLIGHTS

Results pre COVID-19 adjustments(1)

Core headline earnings from continuing operations attributable to the group:
- Transaction Capital Group up 19% to R402 million(3)
- SA Taxi up 20%(4) to R230 million
- Transaction Capital Risk Services (TCRS) up 23% to R158 million

Core headline earnings per share from continuing operations attributable to the group up 18% to 65.4 cents

Results post COVID-19 adjustments(2)

Non-cash adjustments relating to anticipated COVID-19 effects on assets held at 31 March 2020:
- SA Taxi increase in provisions (before tax) R126 million
- TCRS decrease in carrying value of purchased book debts (before tax) R65 million

Core headline earnings from continuing operations attributable to the group:
- Transaction Capital Group down 17% to R281 million(2)
- SA Taxi down 19% to R156 million
- TCRS down 13% to R111 million

Core headline earnings per share from continuing operations down 17% to 45.8 cents

Net asset value per share up 9% to 809.1 cents

Group liquidity position remains robust, underpinned by a conservative approach to structuring debt

No interim dividend declared to preserve financial flexibility and liquidity

1. Transaction Capital's core financial ratios pre COVID-19 adjustments exclude:
   - Discontinued operations: Transaction Capital Business Solutions, Principa Decisions and Company Unique Finance, which collectively made a loss of R16 million for the period (March 2019: R6 million profit).
   - Once-off acquisition costs of R4 million incurred in the first half of the 2020 financial year, relating to the acquisition of Net1 Fihrst Holdings (Fihrst) on 1 December 2019.
   - Once-off costs of R84 million, which arose in the first half of the 2019 financial year relating to SA Taxi's ownership transaction with the South African National Taxi Council (SANTACO), of which R81 million was non-cash and in accordance with IFRS 2 and a further R3 million related to early debt settlement costs.
   - Non-cash adjustments to SA Taxi's credit provisioning model of R126 million and TCRS's carrying value of purchased book debts of R65 million relating to the anticipated COVID-19 effects on cash flow from assets held at 31 March 2020, given information available at present.
2. Transaction Capital's core financial ratios post COVID-19 adjustments exclude discontinued operations and once-off costs, but include the adjustments to SA Taxi's credit provisioning model and TCRS's carrying value of purchased book debts relating to COVID-19 per note 1 above.
3. Transaction Capital Group core headline earnings pre COVID-19 adjustments of R402 million, includes R14 million from the group executive office, R158 million from TCRS and R230 million from SA Taxi.
4. SA Taxi's total headline earnings pre COVID-19 adjustment rose by 36%, with the portion attributable to the group up 20% in the first half of 2020. For the period 1 October 2018 to 6 February 2019 (the effective date of the ownership transaction with SANTACO), Transaction Capital consolidated 98.5% of SA Taxi's total headline earnings. For the period 6 February 2019 to 31 March 2019, Transaction Capital consolidated 81.4% of SA Taxi's total headline earnings.
5. The group adopted IFRS 16 - Leases based on the modified retrospective approach from 1 October 2019, with no restatement of comparative information, which is permitted under the specific transitional provisions in the standard. The cumulative effect arising from the initial adoption of IFRS 16 - Leases is presented as an adjustment to the opening balance of retained earnings at 1 October 2019.

RESULTS OVERVIEW

Transaction Capital has achieved compound annual growth in core headline earnings per share of 20% over the past five years.

Prior to the effects of COVID-19, the group was on track to deliver earnings growth in line with past performance and guidance given at the time of our annual general meeting (AGM). The group's core headline earnings from continuing operations grew by 19% to R402 million (2019: R338 million), with core headline earnings per share up 18% to 65.4 cents (2019: 55.3 cents). This was before the adjustments made to SA Taxi's credit provisioning model and the valuation model for non-performing consumer loan portfolios (NPL Portfolios) owned by TCRS, in anticipation of the future impact of COVID-19.

The COVID-19 adjustments saw financial performance deviate from our historical earnings growth trend, with the group's core headline earnings and core headline earnings per share from continuing operations post COVID-19 adjustments down 17% to R281 million (2019: R338 million) and 45.8 cents (2019: 55.3 cents) respectively.

The group has adopted a conservative approach regarding the anticipated impact of COVID-19 on future cash flows. The adjustments to assets held at 31 March 2020 are non-cash and do not relate to the origination of future assets. The adjustment at SA Taxi resulted in a R126 million increase in impairment provisions, and the re-evaluation of TCRS's purchased NPL Portfolios resulted in a R65 million reduction in their carrying value (both before tax).

Basic earnings per share decreased 4% to 42.2 cents (2019: 43.8 cents) and headline earnings per share remained in line with prior year at 42.6 cents (2019: 42.5 cents). Net asset value per share increased 9% to 809.1 cents (2019: 745.3 cents) and total income increased 16% to R2 076 million (2019: R1 786 million).

BALANCE SHEET AND LIQUIDITY

The balance sheet is well capitalised and liquid at a holding company level, underpinned by our conservative capital strategy. Along with the additional measures implemented to preserve liquidity in response to COVID-19, we have ample liquidity and financial flexibility to support the divisions as the pandemic runs its course and recessionary conditions intensify.

Our capital strategy remains conservative in the current conditions, with undeployed capital of approximately R800 million (2019: R1 billion). Of this, R500 million remains invested in TCRS. The remaining R300 million, previously allocated to the accelerated acquisition of NPL Portfolios in South Africa, Australia and Europe, is immediately available to support both divisions.

At 31 March 2020, our balance sheet at holding company level was ungeared. We have an approved, undrawn R400 million facility available to alleviate any short-term cash flow pressures across the group.

Our longstanding and cautious debt funding philosophy is designed to protect the group against liquidity and refinancing risk. Most of our debt is structured on an amortising basis and incorporates few bullet repayments. We maintain a positive asset-liability gap, with the duration of liabilities exceeding that of our assets. Wherever possible, our debt arrangements avoid hard coded covenants which could trigger an accelerated repayment of debt.

SA Taxi is well capitalised, with a Tier I capital adequacy ratio of 16.5% and R2.7 billion of equity, bolstered by SANTACO's acquisition of a 25% equity stake in SA Taxi for R1.7 billion in February 2019. The division's access to liquidity remains unfettered, with its funding requirements for loan origination already secured for the next year.

A meaningful component of SA Taxi's debt is from international developmental finance institutions, who generally support socially relevant entities, such as SA Taxi, particularly in times of financial market dislocation and other extraordinary circumstances.

With R5.5 billion of assets and R2.1 billion of senior debt underpinned by R1.8 billion of equity at 31 March 2020, TCRS's funding position remains robust.

PROSPECTS AND STRATEGY

SA Taxi and TCRS have demonstrated resilience in variable conditions over many years. Transaction Capital's core headline earnings growth (prior to the COVID-19 adjustments) was in line with past performance and market expectations. Despite our businesses' flexible and agile response to this ever-changing environment, it is difficult to assess the full impact of COVID-19 on the group. It is not possible at this time to project full year headline earnings, as COVID-19 continues to impact our divisions' level of activities, and it is likely that COVID-19 adjustments to SA Taxi's credit provisioning model and the carrying value of TCRS's NPL Portfolios will be needed at year end at levels to be determined at that time.

Although we continue to align SA Taxi's and TCRS's operational structures to the prevailing economic realities, their business models have become even more relevant in a post COVID-19 context. Both will remain focused on executing their stated medium-term growth strategies (set out in our announcement at the time of our AGM), in tandem with the responses required to mitigate and manage the impact of COVID-19.

Our strongly positioned divisions within resilient market sectors, the measures taken to strengthen our capital structure and ensure adequate liquidity, the long-term nature of our assets and the defensive character of our divisions will support the group's resilience and growth in the period ahead. Our divisional management's unrelenting focus on managing the risks of COVID-19, in the context of their medium-term growth strategies, should see the group return to its long-term trend of strong organic earnings and dividend growth despite the initial impact of COVID-19 and the associated longer-term economic headwinds.

Any forecast financial information has not been reviewed or reported on by the company's auditors.

DIVIDEND DECLARATION

Transaction Capital's ordinary dividend policy is 2 to 2.5 times cover. After extensive deliberation and in view of the uncertainty around the full impact of COVID-19, the board has opted to retain capital and not to pay a dividend for the half year (2019: 27 cents per share). The board will consider a dividend at year end should it have greater certainty on the impact of COVID-19 and a more informed view of the recovery of our sectors and return to normal operations.

SA TAXI

		For the half year ended 31 March		
		2020	2019	Movement
FINANCIAL PERFORMANCE				
Core headline earnings pre COVID-19 adjustment	Rm	282	208	36%
Core headline earnings attributable to the group pre COVID-19 adjustment	Rm	230	192	20%
Core headline earnings post COVID-19 adjustment	Rm	191	208	(8%)
Core headline earnings attributable to the group post COVID-19 adjustment	Rm	156	192	(19%)
Non-interest revenue	Rm	321	309	4%
Net interest income	Rm	677	553	22%
Net interest margin	%	12.2	11.5	
Core cost-to-income ratio	%	41.3	44.5	
CREDIT PERFORMANCE				
Gross loans and advances	Rm	11 304	9 947	14%
Non-performing loan (NPL) ratio	%	19.1	18.2	
Credit loss ratio pre COVID-19 adjustment	%	3.8	4.3	
Credit loss ratio post COVID-19 adjustment	%	6.1	4.3	
Provision coverage pre COVID-19 adjustment	%	4.3	4.7	
Provision coverage post COVID-19 adjustment	%	5.4	4.7	

Comparative information has been restated for the adoption of IFRS 17 - Insurance Contracts.

RESULTS OVERVIEW AND COVID-19 IMPACT

Prior to the COVID-19 adjustment, SA Taxi's headline earnings grew 36% to R282 million, with the group's attributable portion up 20% to R230 million. Due to the restrictions on clients' ability to operate and afford loan instalments in the short term, as well as the impact of the loan and insurance relief offered to clients in April 2020, provision coverage was increased from 4.3% to 5.4%. After the adjustment, headline earnings were down 8% to R191 million, with the group's attributable portion 19% lower at R156 million.

SA TAXI FINANCE AND SA TAXI AUTO REPAIRS

- Loans and advances, comprising 33 079 loans, grew 14% to R11.3 billion, despite the origination of new loans reducing by 9%. Lower vehicle supply from Toyota constrained loan origination, which was then further affected by the nationwide lockdown.
- Strong momentum in the sale and finance of SA Taxi's fully refurbished pre-owned minibus taxis continued, as operators opt for this more affordable yet reliable alternative to buying a new taxi vehicle in the challenging environment.
- Net interest income grew 22% to R677 million, with the net interest margin improving to 12.2% mainly as a result of the settlement of interest-bearing debt of R1.0 billion in February 2019.
- A risk-adjusted net interest margin of 8.4% was achieved, supported by a lower credit loss ratio of 3.8% (pre COVID-19 adjustment).

SA TAXI DIRECT

- SA Taxi's retail dealerships generated revenue of about R320 million, marginally below expectation due to vehicle supply constraints, partially offset by higher sales of pre-owned minibus taxis.

SA TAXI PROTECT

- Gross written premiums grew 16% to R462 million, driven by new customer acquisition.
- The strategy to broaden its client base via its broker network is yielding positive results.
- The majority of SA Taxi Finance's clients choose to be insured through SA Taxi Protect.
- SA Taxi Protect's competitive advantage is its ability to reduce its cost of claim through efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts, supporting a competitively priced insurance premium.

TRANSACTION CAPITAL RISK SERVICES

		For the half year ended 31 March		
		2020	2019	Movement
FINANCIAL PERFORMANCE				
Core headline earnings from continuing operations attributable to the group pre COVID-19 adjustment	Rm	158	128	23%
Core headline earnings from continuing operations attributable to the group post COVID-19 adjustment	Rm	111	128	(13%)
Non-interest revenue	Rm	1 108	933	19%
PURCHASED BOOK DEBTS				
Cost price of purchased book debts acquired	Rm	556	437	27%
Carrying value of purchased book debts pre COVID-19 adjustment	Rm	2 840	1 727	64%
Carrying value of purchased book debts post COVID-19 adjustment	Rm	2 775	1 727	61%
Estimated remaining collections	Rm	5 321	3 597	48%

RESULTS OVERVIEW AND COVID-19 IMPACT

TCRS performed well for the period, with collection services in South Africa and Australia proving resilient to the negative early stage impacts of COVID-19. TCRS's headline earnings pre COVID-19 adjustment grew by 23% to R158 million.

With collections projected to be lower in the short term, and the consequent adjustment of R65 million in the carrying value of the division's purchased NPL Portfolios, TCRS's headline earnings reduced 13% to R111 million.

COLLECTION SERVICES - ACQUISITION OF NPL PORTFOLIOS AS PRINCIPAL

- Excellent revenue growth in South Africa from the collection of NPL Portfolios acquired as principal positively offset the impact of the slowdown in contingency and fee-for-service (FFS) collections revenue.
- TCRS invested R483 million in South Africa and R73 million in Australia in acquiring NPL Portfolios.
- TCRS owns 284 NPL Portfolios valued at R2.8 billion.
- The appetite of Australian banks to sell NPL Portfolios has declined in recent months, as they implement recommendations of the Royal Commission into Misconduct in the Banking industry and now exacerbated by the effects of COVID-19. Instead, clients are moving to FFS collection mandates. TCRS's diversified business model enables it to respond effectively to this shift.

COLLECTION SERVICES - CONTINGENCY AND FFS REVENUE

- Recoveries Corporation in Australia grew organic revenue by double-digit percentages. Operating costs were well managed considering the changing revenue mix to FFS mandates. Greater management depth, investment in data and analytics and the deployment of technologies proven in South Africa supported this pleasing result.
- The South African division performed in line with expectations in the difficult consumer environment.

TRANSACTIONAL SERVICES

As part of a deliberate strategy to establish a diversified and substantial payment services business, the group acquired Accsys in December 2017 and Fihrst in December 2019. TCRS began integrating Transaction Capital Payment Solutions, Accsys and Fihrst during the period, applying best-in-class technology from each of the businesses to create an integrated and efficient payment services platform.

TC GLOBAL FINANCE

In terms of its TC Global Finance strategy, the group has to date invested €8.7 million in the European specialised credit market. Initial returns are in line with expectations and our growth strategy in this market remains valid. Given the global uncertainty surrounding COVID-19, we believe it is prudent to retain liquidity, and to follow a conservative approach over the short term until the European specialised credit market settles.

FOR FURTHER INFORMATION:

This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decisions by investors and/ or shareholders should be based on consideration of the full announcement published on SENS and available for viewing at https://senspdf.jse.co.za/documents/2020/JSE/ISSE/TCP/1H20_SENS.pdf and our website http://www.transactioncapital.co.za/SENS.php. Copies of the full announcement may be requested by contacting Theresa Palos on telephone +27 (0) 11 049 6700 or email: TheresaP@transactioncapital.co.za.

13 May 2020

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