



SBC Limited and Subsidiaries

Group Results

for the six months ended 30 June 2019

(Incorporated in the Kingdom of Eswatini
Reg. No. 473 of 2011)
ISIN Code: SZE000331031 Share Code: SBC
Listed on the Eswatini Stock Exchange

HIGHLIGHTS OVER THE PERIOD

Loan book growth of
12% ▲

Revenue growth of
12% ▲

Headline earnings increased
1% ▲

First rental units in Malkerns
complete

Figures in Emalangeni	6 months to 30 June 2019 Reviewed	12 months to 31 December 2018 Audited	6 months to 30 June 2018 Reviewed
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Revenue	141,561,631	260,957,458	126,880,208
Operating expenses	(60,596,402)	(117,314,160)	(56,486,819)
OPERATING PROFIT	80,965,229	143,643,298	70,393,389
Other income	23,182,447	54,152,367	24,778,556
Finance costs	(77,267,004)	(138,643,585)	(67,436,474)
PROFIT BEFORE TAXATION	26,880,672	59,152,080	27,735,471
Taxation	(7,801,378)	(17,254,702)	(8,851,831)
PROFIT FOR THE PERIOD	19,079,294	41,897,378	18,883,640
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME	19,079,294	41,897,378	18,883,640

Figures in Emalangeni	6 months to 30 June 2019 Reviewed	12 months to 31 December 2018 Audited	6 months to 30 June 2018 Reviewed
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
ASSETS			
NON-CURRENT ASSETS			
Investment property	155,523,949	130,365,735	96,812,714
Property, plant and equipment	6,197,918	6,028,187	1,836,199
Right of use asset	4,042,315	-	-
Goodwill	209,448,253	209,448,253	209,448,253
Amounts owing by related parties	-	20,000,000	20,000,000
Deferred tax asset	7,904,512	6,937,395	11,791,035
Loans and advances	739,110,571	665,209,109	618,828,712
	1,122,227,518	1,037,988,679	958,716,913
CURRENT ASSETS			
Amounts owing by related parties	354,086,631	297,860,104	281,140,436
Current tax receivable	199,069	4,963	236,352
Work in progress	18,535,293	7,000,000	-
Loans and advances	233,537,103	221,762,877	243,617,492
Trade and other receivables	20,467,013	16,015,705	13,650,089
Cash and cash equivalents	50,743,469	117,982,606	69,197,231
	677,568,578	660,626,255	607,841,600
TOTAL ASSETS	1,799,796,096	1,698,614,934	1,566,558,513
EQUITY AND LIABILITIES			
EQUITY			
Share capital	348,329,629	348,329,629	348,329,629
Retained earnings	87,376,960	68,507,417	75,858,337
	435,706,589	416,837,046	424,187,966
Non-controlling interest	26,241	23,518	393,336
	435,732,830	416,860,564	424,581,302
NON-CURRENT LIABILITIES			
Other financial liabilities	713,122,678	732,572,570	607,044,145
Lease liabilities	2,533,273	-	-
Deferred tax liability	9,746,804	11,700,061	12,164,784
	725,402,755	744,272,631	619,208,929
CURRENT LIABILITIES			
Amounts owing to related parties	1,583,336	1,376,967	4,708,675
Other financial liabilities	628,968,995	521,799,203	509,692,739
Lease liabilities	1,723,562	-	-
Current tax payable	465,137	1,186,118	3,097,851
Trade and other payables	5,919,481	13,119,451	5,269,017
	638,660,511	537,481,739	522,768,282
TOTAL LIABILITIES	1,364,063,266	1,281,754,370	1,141,977,211
TOTAL EQUITY AND LIABILITIES	1,799,796,096	1,698,614,934	1,566,558,513

Figures in Emalangeni	6 months to 30 June 2019 Reviewed	12 months to 31 December 2018 Audited	6 months to 30 June 2018 Reviewed
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY			
SHARE CAPITAL			
Balance at the beginning of the period	9,649	9,649	9,649
	9,649	9,649	9,649
SHARE PREMIUM			
Balance at the beginning of the period	348,319,980	348,319,980	348,319,980
	348,319,980	348,319,980	348,319,980
RETAINED EARNINGS			
Balance at the beginning of the period	87,376,960	68,507,417	75,858,337
Adjustment relating to the adoption of IFRS16	68,507,417	58,181,187	58,181,187
Dividends declared	(207,028)	-	-
Other comprehensive income for the period	(29,998,448)	-	-
Movement on acquisition of NCI	19,076,571	41,894,732	18,840,516
	19,076,571	41,894,732	18,840,516
NON-CONTROLLING INTEREST	26,241	23,518	393,336
Balance at the beginning of the period	23,518	1,656,150	1,656,150
Movement for the period	2,723	(1,632,632)	(1,262,814)
	26,241	23,518	393,336
TOTAL EQUITY	435,732,830	416,860,564	424,581,302

Figures in Emalangeni	6 months to 30 June 2019 Reviewed	12 months to 31 December 2018 Audited	6 months to 30 June 2018 Reviewed
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	(62,792,207)	(26,821,041)	(43,246,255)
Interest income	23,126,197	47,671,105	22,445,764
Finance costs	(77,267,004)	(138,643,585)	(67,436,474)
Tax paid	(11,636,839)	(12,111,603)	(6,417,307)
NET CASH USED IN OPERATING ACTIVITIES	(128,569,853)	(129,905,124)	(94,656,272)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(1,287,920)	(6,014,928)	(1,282,455)
Sale of property, plant and equipment	56,950	5,276	-
Expenditure incurred for investment property	(25,158,214)	(41,270,735)	(13,629,718)
NET CASH USED IN INVESTING ACTIVITIES	(26,389,184)	(47,280,387)	(14,912,173)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from other financial liabilities	210,703,985	365,686,253	46,412,229
Repayment of other financial liabilities	(122,984,085)	(203,410,400)	(21,771,265)
Acquisition of non-controlling interests	-	(3,203,780)	(2,469,304)
Dividends paid	-	(20,495,972)	-
NET CASH GENERATED BY FINANCING ACTIVITIES	87,719,900	138,576,101	22,171,660
TOTAL CASH MOVEMENT FOR THE PERIOD	(67,239,137)	(38,609,410)	(87,394,785)
Cash at the beginning of the period	117,982,606	156,592,016	156,592,016
TOTAL CASH AT END OF THE PERIOD	50,743,469	117,982,606	69,197,231

Segmental reporting	Segmental reporting by product group						Segments are derived by geographic region							
	Consumer Lending		Housing		Elimination		Eswatini		Lesotho		Elimination		Group	
	30 June 2019	31 Dec 2018	30 June 2019	31 Dec 2018	30 June 2018	30 June 2019	31 Dec 2018	30 June 2018	30 June 2019	31 Dec 2018	30 June 2018	30 June 2019	31 Dec 2018	30 June 2018
Operating profit	81,485,326	138,247,138	70,634,460	(520,097)	5,396,160	(241,071)	53,441,435	101,611,105	53,585,099	27,523,794	42,047,478	16,808,290	80,965,229	143,643,298
Profit before tax	33,983,427	60,692,020	30,654,873	(7,102,755)	(1,539,940)	(2,919,402)	11,208,932	33,300,322	17,685,216	15,671,740	25,451,758	10,050,555	26,880,672	59,152,080
Taxation consolidated	(9,754,635)	(18,525,006)	(9,657,142)	(1,953,257)	1,270,304	805,311	(3,871,734)	(10,873,501)	(6,339,266)	(3,929,644)	(6,381,201)	(2,512,565)	(7,801,378)	(17,254,702)
Profit for the period	24,228,792	42,167,014	20,997,731	(5,149,498)	(269,636)	(2,114,091)	7,337,198	22,826,821	11,345,950	11,742,096	19,070,577	7,537,990	19,079,294	41,897,378
Gross advances to customers	1,011,104,997	923,608,193	899,366,082	-	-	-	721,143,808	684,573,978	693,900,434	289,961,189	239,034,715	205,465,648	1,011,104,997	923,608,193
Impairment provisions	(38,457,323)	(36,636,207)	(36,919,878)	-	-	-	(29,207,141)	(28,792,497)	(28,391,606)	(9,250,182)	(7,843,710)	(8,528,272)	(38,457,323)	(36,636,207)
Net advances	972,647,674	886,971,986	862,446,204	-	-	-	691,936,667	655,781,481	665,508,828	280,711,007	231,190,505	196,937,376	972,647,674	886,971,986
Total segment assets	1,764,077,783	1,655,713,049	1,525,141,703	175,514,428	138,124,813	97,562,374	(139,796,115)	(95,222,927)	(56,145,564)	1,451,519,975	1,451,519,975	1,299,796,096	(98,676,020)	(96,290,573)
Borrowings	1,343,675,009	1,255,748,740	1,121,445,559	139,796,115	95,222,927	56,145,564	1,235,931,610	1,177,548,626	1,070,608,475	206,419,419	174,490,687	139,592,204	(98,676,020)	(96,290,573)
Total segment liabilities	1,354,190,039	1,269,847,069	1,129,701,531	149,669,341	107,130,228	68,421,244	(139,796,115)	(95,222,927)	(56,145,564)	1,254,695,002	1,201,313,339	1,086,717,576	(98,676,020)	(96,290,573)

* The segments are aligned with management's approach to business. As a result of the increased investment in housing it is now appropriate to identify housing as a distinct segment from the existing consumer lending business.

INTRODUCTION

The SBC Limited Financial services retail group ("the Group", "SBC") continues to deliver on its strategic intent by evolving its value proposition, products and financial solutions to suit stakeholder expectations. This value proposition targets the retail sector in both the Kingdoms of Eswatini and Lesotho where we trade under the "Select" and "Lesana" franchises respectively. These financial solutions are predominately incremental housing loans but the wider product suite incorporates education and consumer loans, all structured towards improving the livelihood of our clients, their families and the broader Eswatini and Lesotho communities.

The Malkerns Square project ("Malkerns") augments the business offerings by enabling ultimate ownership of affordable quality housing to a wider sector of the market. Malkerns represents the Group's initial step towards fulfilling this social need as a first world living standards development that meets the demands of the modern family and homeowner. The development will also incorporate a retail centre whose construction will commence shortly. The retail centre will incorporate a supermarket, a pharmacy, a notable brand fast food outlet, together with certain other supporting line shop offerings complimentary to the Malkerns residential offering.

FINANCIAL REVIEW

SBC increased its level of disbursements to E215m (2018: E158m) for the period due to disbursements in Lesotho which grew to M89m (2018: M62m) on the back of sales infrastructure expansion both through new offices and the benefits of the mobile loan acquisition system. Disbursements (net of rollovers) in Eswatini amounted to E127m (2018: E96m), a 32% increase over the equivalent prior period ("prior period") mainly due to the introduction of the high net worth individual product and the extension of the maximum loan term to 72 months. The result was that the average gross loan book grew by 12% over the average gross loan book in the equivalent period to 30 June 2018 in the prior year.

Revenue grew by 12% to E142m (2018: E127m) driven by the equivalent growth in the loan book but a 0.5% decline in yield in the Eswatini regions was offset by an increased contribution from the higher yielding Lesotho loan book which now comprises 29% of the overall loan book compared to 23% in the prior equivalent period.

Operating expenses increased by 7% to E61m mainly due to a 23% cost escalation in Lesotho to support a 46% escalation in revenue in that region. In Eswatini operating costs were up only 1%. This is in part due to a strong collections performance over the period which improved the book ageing and allowed provisioning levels to reduce. Other costs were contained within inflationary levels. Other income reduced by 6% to M23m as a result of the relative levels of cash and amounts due by related parties during the period.

Finance costs at E77m (2018: E67m) increased by 15% over the prior period and predominately arose from interest on notes issued under the listed medium term note program and other promissory notes issued by subsidiary, Select Limited. If one carves out the interest costs relating to the housing project, finance costs reduce to E71m, an increase of 9% over the prior year which can be attributed to the aggregated impact of the loan book growth, a decline in the average cash and related party balances and the interest rate environment which has been relatively steady.

Profit before tax declined by 3% over the prior period to E27m (2018: E28m). Excluding the housing segment where the valuation is an annual event, profit before tax increased 11% to E34m (2018: E31m) mainly as result of a 56% increase in profit before tax in Lesotho.

The overall result is that earning per share for the six months to June 2019 was unchanged from the prior year equivalent period at 20 cents. The statement of changes in equity included a E207k adjustment in the current year relating to the adoption of IFRS16: Leases.

OPERATIONAL REVIEW

The Group has continued its measured expansion drive towards capturing wider distribution channels to the identified client base. The loan management system (ILS) with its mobile capability and flexibility has enabled the delivery of product remotely to our clients, without having to capacitate through additional brick and mortar. The system's capabilities incorporate segmentation, product suiting and flexibility of products and solutions tailored to our client's needs. This has also brought with it improved management controls and collections capacitation, whilst maintaining compliance, market and regulatory expectations.

Economic environments have seen tightening, especially within the Eswatini jurisdiction, whilst in Lesotho, the improved infrastructure has seen improved sales performance and increased market penetration and visibility for the Lesana brand. Housing remains a key focus area for the Group with the first 54 residential units in the process of being rented. The sentiment from the market is very positive and the momentum of the uptake of these units is set to improve. The construction of the next 93 units is steadily progressing and the staggered completion of these units is expected to unfold from the end of 2019.

PROSPECTS

The Malkerns Square development is beginning to generate new and alternate revenue streams with the completion of the initial 54 units. Additionally, the soon to be completed 93 units will attract a new and diversified clientele. Furthermore, the commencement of the construction of the retail centre will bring demand and increased opportunity. Of the 93 units under construction, the Group is intent on offering some of these units to the market for sale under the recently launched Sectional Titles Act, thereby creating enabling financial solutions to qualifying clients through Select. The retail centre is also expected to be open for business by beginning of second quarter of 2020.

The Lesana business continues to improve its growth leveraging its infrastructure and the Group remains intent on capitalising on this opportunity to grow the loan book in that jurisdiction. This is complemented by a collaboration with Habitat for Humanity which provides added value services to our housing loan clients.

With the formal lender institutions, continually finding inroads into the wider retail loans market competition continues to increase. The need to evolve internally therefore, remains critical to the ongoing sustainability of this business, as supported through our mobile offering which offers an interim advantage. This coupled with periodic product reviews and a number of planned system enhancements are key components to addressing the ever-changing business environment.

FINANCIAL STATEMENTS

The white set of the condensed interim financial statements for the period ended 30 June 2019 have been reviewed by KPMG Chartered Accountants (Swaziland), who have expressed an unmodified review conclusion. A copy of the unreviewed auditor's review report is available for inspection at the company's registered office together with the condensed financial statements identified in the auditor's report.

The auditor's review report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from SBC's registered office.

CORPORATE GOVERNANCE

The directors and management of SBC Limited confirm their continued commitment to the principles of openness, integrity and accountability as advocated by sound principles of Corporate Governance contained in the King Reports.

By order of the Board

T Dladla, Chairperson