



SBC Limited and Subsidiaries

Group Results

for the year ended 31 December 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 YEAR

Loan book growth of 15% **Revenue growth of 11%** **Earnings increased 5%** **First units in Malkerns rented** **Retail centre, embassy and rental units construction in progress**

	12 months to 31 December 2019 Audited	12 months to 31 December 2018 Audited
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Revenue	287,268,120	260,957,458
Operating expenses	(116,438,266)	(104,183,113)
Impairment loss on loan and advances	(11,158,272)	(13,131,047)
OPERATING PROFIT	159,671,582	143,643,298
Other income	64,117,668	54,152,367
Finance costs	(163,789,826)	(138,643,585)
PROFIT BEFORE TAXATION	59,999,424	59,152,080
Taxation	(16,935,521)	(17,254,702)
PROFIT FOR THE YEAR	43,063,903	41,897,378
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	43,063,903	41,897,378

	12 months to 31 December 2019 Audited	12 months to 31 December 2018 Audited
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the parent	43,058,872	41,894,732
Non-controlling interest	5,031	2,646
	43,063,903	41,897,378
Earnings per share (cents)	45	43
Headline earnings per share (cents)	35	39

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
ASSETS		
NON-CURRENT ASSETS		
Investment property	216,576,356	130,365,735
Property, plant and equipment	8,032,479	6,028,187
Goodwill	209,448,253	209,448,253
Amounts owing by related parties	50,000,000	20,000,000
Deferred tax asset	7,411,981	6,937,395
Loans and advances	774,890,449	665,209,109
Right of use assets	3,467,497	-
	1,269,827,015	1,037,988,679
CURRENT ASSETS		
Amounts owing by related parties	333,086,547	297,860,104
Current tax receivable	1,890,960	4,963
Work in progress	20,752,038	7,000,000
Loans and advances	241,475,622	221,762,877
Trade and other receivables	20,486,089	16,015,705
Cash and cash equivalents	145,655,339	117,982,604
	763,346,595	660,626,255
TOTAL ASSETS	2,033,173,610	1,698,614,934
EQUITY AND LIABILITIES		
EQUITY		
Share capital	348,329,629	348,329,629
Retained earnings	81,341,015	68,507,417
	429,670,644	416,837,046
Non-controlling interest	25,651	23,518
	429,696,295	416,860,564
NON-CURRENT LIABILITIES		
Amounts owing to related parties	18,807,208	-
Other financial liabilities	849,682,694	732,572,570
Deferred tax liability	10,293,775	11,700,061
Lease liabilities	2,107,627	-
	880,891,124	744,272,631
CURRENT LIABILITIES		
Amounts owing to related parties	13,391,453	1,376,967
Other financial liabilities	688,155,518	521,799,203
Current tax payable	2,486,748	1,186,118
Trade and other payables	16,930,573	13,119,451
Lease liabilities	1,621,899	-
	722,586,191	537,481,739
TOTAL LIABILITIES	1,603,477,315	1,281,754,370
TOTAL EQUITY AND LIABILITIES	2,033,173,610	1,698,614,934

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY		
SHARE CAPITAL		
	9,649	9,649
Balance at the beginning of the year	9,649	9,649
SHARE PREMIUM		
	348,319,980	348,319,980
Balance at the beginning of the year	348,319,980	348,319,980
RETAINED EARNINGS		
	81,341,015	68,507,417
Balance at the beginning of the year	68,507,417	58,181,187
Transition adjustment on implementation of IFRS16	(225,274)	-
Adjusted balance at beginning of the year	68,282,143	-
Dividends declared	(30,000,000)	(29,998,448)
Profit for the year	43,058,872	41,894,732
Movement on acquisition of NCI	-	(1,570,054)
	25,651	23,518
NON-CONTROLLING INTEREST	25,651	23,518
Balance at the beginning of the year	23,518	1,656,150
Movement for the year	2,133	(1,632,632)
	429,696,295	416,860,564

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(20,794,582)	(26,821,041)
Interest income	48,808,077	47,671,105
Interest paid	(209,507,501)	(138,643,585)
Tax paid	(19,401,761)	(12,111,603)
NET CASH USED IN OPERATING ACTIVITIES	(200,895,767)	(129,905,124)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,810,796)	(6,014,928)
Proceeds on sale of property, plant and equipment	80,350	5,276
Expenditure incurred for investment property	(73,829,883)	(41,270,735)
NET CASH USED IN INVESTING ACTIVITIES	(78,560,329)	(47,280,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from other financial liabilities	479,629,091	365,686,253
Repayment of other financial liabilities	(150,444,978)	(203,410,400)
Repayment of lease liabilities	(1,502,387)	-
Acquisition of non-controlling interests	-	(3,203,780)
Dividends paid	(20,552,897)	(20,495,972)
NET CASH GENERATED BY FINANCING ACTIVITIES	307,128,829	138,576,101
TOTAL CASH MOVEMENT FOR THE YEAR	27,672,733	(38,609,410)
Cash at the beginning of the year	117,982,606	156,592,016
TOTAL CASH AT END OF THE YEAR	145,655,339	117,982,606

Segmental reporting	Segmental reporting by product group						Segments are derived by geographic region							
	Consumer Lending		Housing		Elimination		Eswatini		Lesotho		Elimination		Group	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Operating profit	151,217,260	138,247,138	11,303,525	5,396,160	-	-	103,865,471	101,611,105	58,655,314	42,047,478	-	-	162,520,785	143,643,298
Profit before tax	65,113,193	60,692,020	(5,113,769)	(1,539,940)	-	-	28,021,646	33,700,322	31,977,778	25,451,758	-	-	59,999,424	59,152,080
Taxation consolidated	(18,341,807)	(18,525,004)	1,406,286	1,270,304	-	-	(8,916,727)	(10,873,501)	(8,018,794)	(6,381,201)	-	-	(16,935,521)	(17,254,702)
Profit for the year/period	46,771,386	42,167,016	(3,707,483)	(269,636)	-	-	19,104,919	22,826,821	23,958,984	19,070,577	-	-	43,063,903	41,897,378
Gross advances to customers	1,053,308,525	923,608,193	-	-	-	-	707,303,100	684,573,978	346,005,425	239,034,215	-	-	1,053,308,525	923,608,193
Impairment provisions	(36,942,454)	(36,636,207)	-	-	-	-	(27,942,383)	(28,792,497)	(9,000,071)	(7,843,710)	-	-	(36,942,454)	(36,636,207)
Net advances	1,016,366,071	886,971,986	-	-	-	-	679,360,717	655,781,481	337,005,354	231,190,505	-	-	1,016,366,071	886,971,986
Total segment assets	1,991,740,823	1,546,862,133	239,399,954	248,043,374	(197,967,167)	(96,290,573)	1,788,361,594	1,546,862,133	358,072,672	248,043,374	(113,260,656)	(96,290,573)	2,033,173,610	1,698,614,934
Borrowings	1,569,981,096	1,177,548,626	198,022,764	174,490,687	(197,967,167)	(96,290,573)	1,425,222,261	1,177,548,626	258,075,088	174,490,687	(113,260,656)	(96,290,573)	1,570,036,693	1,255,748,740
Total segment liabilities	1,589,331,630	1,201,313,339	212,112,852	176,731,604	(197,967,167)	(96,290,573)	1,453,765,089	1,201,313,339	262,972,882	176,731,604	(113,260,656)	(96,290,573)	1,603,477,315	1,281,754,370

Segments are derived by geographic region. This is aligned with management's approach to the business. There is no segmental reporting available on the basis of product groups. As the Group provides retail and housing micro-finance products there are no major customers or customer groups.

COMMENTARY

INTRODUCTION

The SBC Limited Financial services retail group ("the Group", "SBC") continues to deliver simple, appropriate and accessible solutions to those customers who are typically excluded from financial services, in addition, SBC's strategic goal is to not only improve the lives of our customers but also promote sustainable growth and diversity. 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 predominantly 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 be completed 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 E376m (2018: E331m) for the year due to disbursements in Lesotho which grew to M179m (2018: M127m) 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 declined slightly to E196m (2018: E201m). The result was that the average gross loan book grew by 14% over the prior year.

Revenue grew by 10% to E287m (2018: E261m) 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 30% of the overall loan book compared to 23% in the prior year. Lesana also saw some yield decline to 32.6% (2018) as a result of having to introduce a high end lower yield product to match a competitor offering which was eroding the Lesana loan book in January 2019, prior to the introduction of this product.

Operating expenses increased by 10% to E116m mainly due to a 43% cost escalation in Lesotho to support a 41% escalation in revenue in that region. In Eswatini operating costs were up only 1% as a result of cost containment exercises. Other income includes interest received which increased by 2% to M49m as a result of the relative levels of cash and amounts due by related parties during the period. Other income also includes the fair value gain on the Malkerns property which arose from an independent valuation and increased to E12m (2018: E6m) reflecting the building progress made and the viability of the project and the recovery of the carrying cost of the guarantee provided to SMSK.

Finance costs at E164m (2018: E139m) increased by 18% compared to the prior period and predominantly 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 E147m (2018: E132m), an increase of 12% which is in line with the loan book and revenue growth.

Profit before tax improved by 1% to E60m (2018: E59m) and with the effective tax rate reducing to 28.2% (2018: 29.2%) on the back of less adjustments to prior year tax amounts and permanent differences, the profit after tax increased by 3% to E43.1m (2018: E41.9m).

OPERATIONAL REVIEW

The Group faced the twin challenge of difficult macro-economic conditions, mainly in Eswatini where our customer base has not received annual salary adjustments since 2018 and a robust competitive environment. The competitive landscape has seen an increase in the number of firms operating in our traditional markets, the impact, while recognised by the Group as beneficial for our customers demands the need to be present, adaptive and flexible to grow and improve our offering. As part of our Group strategy, we strive to use electronic and digital platforms. The loan management system (ILS) with its mobile capability and flexibility has enabled the delivery of product remotely to our clients, without the need for additional brick and mortar, thus minimising our carbon footprint through limiting the use of paper. The system's capabilities incorporate segmentation, product suiting and flexibility of products and solutions tailored to our clients' needs. This has also brought with it improved management controls and collections capitation, whilst ensuring compliance and meeting market and regulatory expectations. At SBC, our staff are well informed about our environmental and governmental policies, corporate ethics and risk management policies. These standards govern the way we conduct our business on a day-to-day basis.

Housing remains a key focus area for the Group with the first 54 residential units at Malkerns 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 mid-2020. The development is beginning to generate new and alternate revenue streams; furthermore, the commencement of the construction of the retail centre and embassy units will bring demand and increased opportunity.

PROSPECTS

As at December 31, 2019, a limited number of cases of an unknown virus had been reported to the World Health Organisation. Following the subsequent spread of the virus, on March 11, 2020, the World Health Organisation declared the COVID-19 outbreak to be a pandemic. The identification of the virus post December 31, 2019 as a new coronavirus, and its subsequent spread, is considered as a non-adjusting subsequent event. No economy will be immune and the impact will be heavily felt worldwide. The global economy was expected to grow by 3.3% in 2020, after having experienced a 2.9% growth in 2019; experts are now predicting a negative forecast for the remainder of the year. The advance of COVID-19 within the global economy has prompted a corresponding spread of actions aimed at slowing the pandemic. This includes the cancellation of many public activities, including sporting events, the closing of schools and universities and the total shutdown of non-essential retail facilities. The shock to the global economy has been both faster and more severe than the 2008 global financial crisis.

As a Group, we are concerned that the pandemic will spread across our markets in Africa; it is a time of great stress and uncertainty. Governments, including those of Lesotho and Eswatini are forced to make tough decisions to contain and reduce the spread of the disease. More and more countries are implementing lock downs (at the time of writing the report, Lesotho has implemented a total shutdown while Eswatini was on a partial shutdown). In response to this the Group has implemented a "work from home" policy together with other social distancing arrangements where employees are unable to work from home. Despite these challenges, we will continue to provide our customers with the same service and value they have come to depend on. Management maintains a cash flow analysis factoring delayed cash collections and has concluded that there will sufficient resources to meet the Group's liquidity requirements for the next months. Management continues to closely monitor the liquidity risk for the Group.

FINANCIAL STATEMENTS

The annual financial statements for the year ended 31 December 2019 have been audited by KPMG Chartered Accountants (Eswatini). A copy of the auditor's report is available for inspection at the company's registered office together with the annual 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 the company'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

Plot No. 74 & 80, 6th Floor, Parkade Building (SNPF), Nkoseluhaza Street, Manzini, Office No. 603.
P.O. Box 2687 Manzini Telephone: (+268) 2404-8394 Facsimile: (+268) 2404-8391
Directors: Hon. T Dladla (Chairperson), AMB de Castro, MM Dlamini, SM Ginindza, SK O'Sullivan*
(*South African)



AUDITORS
KPMG Chartered Accountants
P.O. Box 331, Mbabane, H100



AFRICAN ALLIANCE
CAPITAL MARKETS

SPONSORING BROKER
African Alliance Eswatini Securities Limited
P.O. Box 5727, Mbabane, H100