



SBC Limited and Subsidiaries

Group Results

for the six months period ended 30 June 2020

(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 8%

Revenue growth of 9%

Consumer lending earnings up 10%

Retail centre complete and now occupied, second tranche of residential units nearing completion.

Figures in Emalangeni

	6 months to 30 June 2020 Reviewed	12 months to 31 December 2019 Audited	6 months to 30 June 2019 Reviewed
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Revenue	152,520,306	287,268,120	140,267,359
Operating expenses	(58,031,892)	(116,438,266)	(54,187,957)
Impairment loss on loan and advances	(6,176,616)	(11,158,272)	(6,408,445)
OPERATING PROFIT	88,311,798	159,671,582	79,670,957
Other income	29,510,942	64,117,668	24,476,719
Finance costs	(96,680,469)	(163,789,826)	(77,267,004)
PROFIT BEFORE TAXATION	21,142,271	59,999,424	26,880,672
Taxation	(5,383,156)	(16,935,521)	(7,801,378)
PROFIT FOR THE PERIOD	15,759,115	43,063,903	19,079,294
Other comprehensive income	-	-	-
TOTAL COMPREHENSIVE INCOME	15,759,115	43,063,903	19,079,294

TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:

Owners of the parent	15,756,063	43,058,872	19,076,571
Non-controlling interest	3,052	5,031	2,723
	15,759,115	43,063,903	19,079,294
Earnings per share (cents)	16	45	20
Headline earnings per share (cents)	16	35	20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2020	31 December 2019	30 June 2019
ASSETS			
NON-CURRENT ASSETS			
Investment property	257,782,764	216,576,356	155,523,949
Property, plant and equipment	7,865,640	8,032,479	6,197,918
Goodwill	209,448,253	209,448,253	209,448,253
Amounts owing by related parties	-	50,000,000	-
Deferred tax asset	9,516,777	7,411,981	7,904,512
Loans and advances	803,178,386	774,890,449	739,110,571
Right of use assets	3,360,785	3,467,497	4,042,315
	1,291,152,605	1,269,827,015	1,122,227,518
CURRENT ASSETS			
Amounts owing by related parties	374,094,564	333,086,547	354,086,631
Current tax receivable	3,123	1,890,960	199,069
Work in progress	22,329,574	20,752,038	18,535,293
Loans and advances	242,556,498	241,475,622	233,537,103
Trade and other receivables	23,435,048	20,486,089	20,467,013
Cash and cash equivalents	139,385,442	145,655,339	50,743,469
	801,804,249	763,346,595	677,568,578
TOTAL ASSETS	2,092,956,854	2,033,173,610	1,799,796,096
EQUITY AND LIABILITIES			
EQUITY			
Share capital	348,329,629	348,329,629	348,329,629
Retained earnings	97,097,078	81,341,015	87,376,960
	445,426,707	429,670,644	435,706,589
Non-controlling interest	28,703	25,651	26,241
	445,455,410	429,696,295	435,732,830
NON-CURRENT LIABILITIES			
Amounts owing to related parties	43,949,756	18,807,028	-
Other financial liabilities	885,097,072	849,682,694	713,122,678
Deferred tax liability	6,160,175	10,293,775	9,746,804
Lease liabilities	1,830,459	2,107,627	2,533,273
	937,037,462	880,891,124	725,402,755
CURRENT LIABILITIES			
Amounts owing to related parties	17,233,248	13,391,453	1,583,336
Other financial liabilities	678,311,410	688,155,518	628,968,995
Current tax payable	7,544,631	2,486,748	465,137
Trade and other payables	5,519,247	16,930,573	5,919,481
Lease liabilities	1,855,446	1,621,899	1,723,562
	710,463,982	722,586,191	638,660,511
TOTAL LIABILITIES	1,647,501,444	1,603,477,315	1,364,063,266
TOTAL EQUITY AND LIABILITIES	2,092,956,854	2,033,173,610	1,799,796,096

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2020	2019	2019
SHARE CAPITAL			
Balance at the beginning of the year	9,649	9,649	9,649
	9,649	9,649	9,649
SHARE PREMIUM			
Balance at the beginning of the year	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 year	81,341,015	68,507,417	68,507,417
Transition adjustment on implementation of IFRS16	-	(225,274)	(207,028)
Adjusted balance at beginning of the year	81,341,015	68,282,143	68,300,389
Dividends declared	-	(30,000,000)	-
Profit for the period/year	15,756,063	43,058,872	19,076,571
	28,703	25,651	26,241
NON-CONTROLLING INTEREST			
Balance at the beginning of the year	25,651	23,518	23,518
Movement for the period/year	3,052	2,133	2,723
TOTAL EQUITY	445,455,410	429,696,295	435,732,830

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2020	2019	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	85,283,453	(20,794,582)	(62,239,548)
Interest income	27,955,797	48,808,077	23,126,197
Interest paid	(74,644,950)	(209,507,501)	(77,267,004)
Tax paid	(4,675,832)	(19,401,761)	(11,636,839)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	33,918,468	(200,895,767)	(128,017,194)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(1,714,875)	(4,810,796)	(1,287,920)
Proceeds on sale of property, plant and equipment	4,638	80,350	56,950
Expenditure incurred for investment property	(41,206,408)	(73,829,883)	(25,158,214)
NET CASH USED IN INVESTING ACTIVITIES	(42,916,645)	(78,560,329)	(26,389,184)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from other financial liabilities	299,684,180	479,629,091	210,703,985
Repayment of other financial liabilities	(296,149,429)	(150,444,978)	(122,984,085)
Repayment of lease liabilities	(806,471)	(1,502,387)	(552,659)
Dividends paid	-	(20,552,897)	-
NET CASH GENERATED BY FINANCING ACTIVITIES	2,728,280	307,128,829	87,167,241
TOTAL CASH MOVEMENT FOR THE PERIOD/YEAR	(6,269,897)	27,672,733	(67,239,137)
Cash at the beginning of the year	145,655,339	117,982,606	117,982,606
TOTAL CASH AT END OF THE PERIOD/YEAR	139,385,442	145,655,339	50,743,469

Figures in Emalangeni

	6 months to 30 June 2020 Reviewed	12 months to 31 December 2019 Audited	6 months to 30 June 2019 Reviewed
NOTES			
1. STATEMENT OF COMPLIANCE			
The interim financial results have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34, in the manner required by the Companies Act of Eswatini. The accounting policies and methods of compilation applied in these financial results are consistent with those applied in the preparation of the annual financial statements for the year ended 31 December 2019 other than in relation to the following accounting policy changes which became mandatory in the current period:			
<ul style="list-style-type: none"> Amendments to IFRS3 – Definition of a business Amendments to IAS1 and IAS 8 – Definition of material Amendments to References to Conceptual Framework in IFRS Standards Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Benchmark Reform. 			
The accounting policy changes did not have a significant impact on the Group Results.			
The financial results have been prepared under the supervision of the Group Chief Financial Officer, Mr R Zoio.			
2. HEADLINE EARNINGS			
2.1 EARNINGS PER SHARE (CENTS)			
Earnings per share (cents)	16	45	20
Headline earnings per share (cents)	16	35	20
2.2. RECONCILIATION BETWEEN BASIC AND HEADLINE EARNINGS			
Basic earnings	15,756,063	43,058,872	19,076,571
Fair value gain on investment property	-	(8,976,035)	-
Headline earnings	15,756,063	34,082,837	19,076,571
2.3. NUMBER OF ORDINARY SHARES OF E0.0001 EACH IN ISSUE			
Actual	96,490,000	96,490,000	96,490,000
Weighted average	96,490,000	96,490,000	96,490,000
Diluted	96,490,000	96,490,000	96,490,000
3. LOANS AND ADVANCES			
Advances	1,084,439,477	1,053,308,525	1,011,104,997
Impairment for credit losses of loans and advances	(38,704,593)	(36,942,454)	(38,457,323)
	1,045,734,884	1,016,366,071	972,647,674
4. CASH AND CASH EQUIVALENTS			
Select Limited, a subsidiary of SBC Limited, provided surety for an overdraft and short term loan facility from CFC Stanbic Bank Kenya to Select Management Services Limited (Kenya) ("SMSK") of KES190.0 million (2019: KES215.0 million) by placing E37.0 million (2019: E35.7 million) on call with Standard Bank South Africa. With effect from 1 January 2018 Select is recovering the net carrying cost from SMSK.			
A guarantee was issued by Select Africa Finance Limited, the holding company of SBC Limited, to Select Limited for R20.0 million.			
5. OTHER FINANCIAL LIABILITIES			
5.1 HELD AT AMORTISED COST			
Medium term notes	925,437,549	922,571,286	799,470,379
Term loan	381,290,065	312,992,330	135,332,887
Promissory notes	256,680,868	302,274,596	407,288,407
	1,563,408,482	1,537,838,212	1,342,091,673
5.2 MEDIUM TERM NOTE PROGRAMME			
The Group raises funds through Promissory Notes and Medium Term Note Programmes (MTNs). The MTNs are listed on the Eswatini Stock Exchange in the name of Select Limited, a subsidiary of SBC Limited, and had an available facility of E431,315,772 as at 30 June 2020 (2019: E11,004,999). On 9 March 2020 a new approval for E600,000,000 was received.			
6. RELATED PARTY TRANSACTIONS			
Transactions with holding company and fellow subsidiaries:			
Administration and advisory fees	(21,266,235)	(41,372,962)	(19,878,930)
Insurance premium paid	(5,535,373)	(12,255,992)	(6,122,123)
IT infrastructure	(1,173,044)	(1,913,286)	(960,333)
Net interest income	20,324,601	43,102,514	20,894,838
Commission paid	-	(5,000,000)	-
Cost of guarantee recovered	1,529,227	2,849,203	1,294,272
Insurance claims recovered	1,396,724	1,278,354	2,817,626

There have been no guarantees provided or received for any related party receivables or payables. The Group has not recorded any impairment of receivables relating to amounts owed by related parties during the period/year.

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7. CASH USED IN OPERATIONS

Profit before tax	21,142,271	59,999,424	26,880,672
Adjustments for:			
Depreciation	2,750,791	4,343,694	1,676,388
Write offs	4,414,477	11,158,272	4,587,329
Loss on exchange differences - unrealised	42,325	69,420	15,683
Fair value gain on investment property	-	(12,380,738)	-
Interest received	(27,955,797)	(48,808,077)	(23,126,197)
Finance costs	96,680,469	163,789,826	77,267,004
Gain on disposal of assets	(4,153)	(78,398)	(54,998)
Impairment for credit losses of loans and advances	1,762,139	306,246	1,821,116
Changes in working capital:			
Increase in trade and other receivables	(2,948,959)	(4,470,384)	(4,451,308)
(Decrease)/increase in trade and other payables	(11,411,326)	3,811,122	(7,199,970)
Increase in work in progress	(1,577,536)	(13,752,038)	(11,535,293)
Increase in loans and advances	(35,545,429)	(140,858,603)	(92,084,133)
Amount received from related parties	71,408,435	98,591,786	206,639
Amount paid to related parties	(33,474,254)	(142,516,134)	(36,242,480)
	85,283,453	(20,794,582)	(62,239,548)

COMMENTARY

INTRODUCTION

The SBC Limited Group ("SBC") continues to provide financial solutions to our customer base in both Lesotho, under the Lesana brand and Eswatini trading as Select. The value proposition targets potential customers, on a salary deduction basis that traditionally have not been supported by the local banking industry and are primarily employed by the state; typically this includes police, nurses and school teachers.

In Eswatini, the Malkerns Square project, a local housing and retail development, augments the business offering by providing residential rental and retail opportunities to prospective tenants. The second phase of the residential offering will be completed by end of September

COMMENTARY

2020, this incorporates an additional 93 apartments available for rental. The Retail centre, including a KFC fast food outlet opened in June 2020 with notable tenants that include a supermarket franchise (PnP), a liquor store and coffee shop which complement the residential offering.

OPERATIONAL REVIEW

SBC's results for the six month period ending 30 June 2020 reflect that of a resilient well diversified underlying franchise, negatively impacted by a very difficult environment in the jurisdictions we operate in, namely Lesotho and Eswatini. The first half of 2020 was dominated by the Covid-19 pandemic and the distressing human and economic cost thereof. During this time SBC has remained steadfast in support of all our clients, our employees and the communities in the countries in which we operate.

With the group's strong capital and liquidity positions going into this crisis we have ensured that we continue to maintain staff employment levels and in addition, continue to lend and provide loans to both existing and new clients. The consumer lending business, despite very challenging trading conditions posted a 10% increase in profits after tax, unfortunately with the increase in property costs and the challenge with new rental opportunities due to the Covid lockdown, profit after tax for the SBC Group declined to E15.8m.

Housing remains a key focus area for the Group and we expect to see an improvement in new rentals once Covid restrictions are lifted in the foreseeable future. The general sentiment from the market, prior to the lockdown was very positive and we expect the momentum of the uptake of these units to improve. The construction of the next 93 units will be completed by end September 2020 and the new retail offering opened in early June 2020.

FINANCIAL REVIEW

In a period significantly impacted by lock down restrictions necessitated by the Covid-19 pandemic, SBC's disbursements amount to E135m (2019: E215m) for the six month period. In Eswatini disbursements amounted to E76m (2019: E127m). In Lesotho disbursements declined to M59m (2019: M89m) for the six month period including only M8m in the second quarter. The result was that the gross loan book grew by 3% over the period and was on average 10% larger than the equivalent prior year period.

Consumer lending revenue grew by 7% to E152m (2019: E142m). The lag against loan book growth is attributed to an under performance of the short term loan book in Eswatini which caused the yield to reduce by 0.8% to 26.9% and more aggressive pricing in Lesotho which caused yield to reduce by 2.1% to 31.3%. Overall yield reduced by 0.9% to 28.4% (2019: 29.3%) over the equivalent prior period. Revenue also includes an initial rental revenue of E1m on the Malkerns property. This was somewhat short of expectations but the Covid environment prevented the intended level of activity in this area.

Operating expenses increased by 7% to E58m (2019: E54m) which was in line with the revenue growth and absorbed an E0.9m escalation in Property related operating expenses as this business area migrates into a rental model. Within the consumer lending business, the Eswatini cost escalation was limited to 1% while the Lesotho cost escalation at 20% was aligned with the 27% revenue growth in this business segment. An improved collection performance, particularly in managing the distressed loan portfolio enabled the impairment cost to decline by 4% to E6m.

Other income is mainly interest earned on loans to group companies and cash available during the period. Strong cash levels as a result of a significant funding transaction closed early in the period coupled with the Covid environment where the collection performance maintained but disbursements declined combined to result in other income of E30m, a 27% increase on the prior year. This also includes E1.5m being a recovery of the carrying cost of the guarantee provided to SMSK.

Finance costs at E97m (2