



Credit Rating Announcement

GCR places Transaction Capital Limited's national and international scale issuer ratings on Ratings Watch Positive following the acquisition and consolidation of We Buy Cars.

Rating Action

Johannesburg, 30 September 2021 - GCR Ratings ('GCR') has placed the 'B' long term International and 'A_(ZA)' long term National scale ratings on Ratings Watch Positive, pending the consolidation of We Buy Cars.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Transaction Capital Limited	Issuer Long Term	National	A _(ZA)	Ratings Watch Positive
	Issuer Short Term	National	A2 _(ZA)	Ratings Watch Positive
	Issuer Long Term	International	B	Ratings Watch Positive

Rating Rationale

The positive ratings watch reflects the potential improvement in the group credit profile from the acquisition and consolidation of We Buy Cars ('WBC'), alongside the gradually improving operating environment. The group's shareholding in WBC through Transaction Capital Motor Holdco will be increasing from 49.9% in timed tranches up to 74.9%. We believe the increased diversification, potential longer-term synergies and low gearing levels of WBC could be credit positive for the group. We expect to resolve the outlook within a 6-month period, when the consolidation and integration begins.

The ratings on the group primarily reflect the strengths and weakness of its three major subsidiaries, SA Taxi Holdings ('SA Taxi'), Transaction Capital Risk Services ('TCRS') and We Buy Cars ('WBC'). Further rating support is derived from the NOHC's (non-operating holding company) net ungeared and highly liquid balance sheet, the absence of regulatory structural subordination, and the diversification benefits from different business lines of subsidiaries.

The competitive position of SA Taxi, TCRS and WBC balances their small but defensible niche positions, and strong track record of revenue stability.

SA Taxi, with 100% of its operations in SA, is a strong niche with a growing developmental focus on the country's taxi industry. We consider its market position to be defensible, and revenues are stable and modestly diversified. TCRS, a buyer of NPL books and agency collector, has a leading domestic market position, although its operations in Australia are relatively small but growing. TCRS' pricing advantages and strong collections infrastructure supports revenue stability. WBC is considered to have a relatively low company profile, compared to peers, albeit a defensive market position.

SA Taxi's financial profile is moderately strong, balancing strong capitalisation, high cost of risk, and moderate funding and liquidity risks. Capitalisation is strong, measured by the GCR total capital ratio of 21% as of 31 March 2021. SA Taxi's revenue and credit metrics have weakened under the various lockdown restrictions resulting in the cost of risk at a peak of 7.7% that improved to 4.9% at 1H FY21. Expectations are for it to remain between 4-5% over the next 12-18 months however, should the cost of risk revert to pre-pandemic range of 3-4% it will be viewed as credit positive.

Funding is broadly diversified for a non-bank financial institution, consisting of international and local DFIs, on-balance sheet structures, warehousing facilities, as well as structured finance and securitisation vehicles. Additional liquidity support is derived from excess capital from the NOHC.

TCRS' financial profile balances the modest levels of leverage at FY20, with net debt to EBITDA in excess of 3x albeit the forward looking expectation is that it will reduce to c.2.2x. Principal collections have shown the normal collections seasonality which was lowered by the initial lockdown measures to which TCRS has quickly adapted, agency collections however remained stable up to March 2021. Free operating cash flows (i.e. cash flow post acquisitions/investments) are expected to weaken as NPL book purchases are expected to increase over the remainder of 2021 and 2022, signalling lower liquidity metrics whilst considering a COVID-19 discount in pricing books. Earnings took a dip in FY20 from the impact of credit loss changes associated with the pandemic straining collections that resulted in significant write down of the carrying values of purchased books. This is reflected by an EBIT margin of 10% at FY20 which has recovered to pre-pandemic levels at 1H FY21 in excess of 30%. Consistent with our view on earnings, the risk position moderately weakened with the increase of amortisations. Fortunately, the average collection multiple (since 2006) reduced slightly to 2.8x of its purchase price. We also factor in adequate levels of liquidity, with further support derived from the NOHC.

Outlook Statement

The national scale rating outlook is Ratings Watch Positive, reflecting the pending consolidation and integration of We Buy Cars into the Transaction Capital group and to a lesser extent the sustained improvement in the operating environment. A return of near normal economic activity should see SA Taxi revenue return to normality, coupled with increased collection activities from TCRS. WBC is intrinsically defensive which should see further revenues from current and expanding operations. GCR would however be assessing WBC, SA Taxi and TCRS impact on Transaction Capital for the next review in light of the latest audited financial results. Concurrently, a deterioration in asset quality or capital could lower the ratings on the parent. For TCRS, lower than anticipated receipting on acquired books, pressurising cash flows, whilst a material increase of competition or a reduction of revenues from WBC could also lower the parent's ratings.

Rating Triggers

We expect to resolve the Ratings Watch Positive in the next 6months, once consolidation of WBC has occurred and the integration starts to take place. Should the three entities retain or improve their current financial profiles, an upgrade is likely. Post this credit event, a downgrade in the group credit profile could stem from weakening SA operating environment, and reduction in the financial profiles for the sister subsidiaries. The upside to the ratings is limited to the execution of expanding operations, however sustained reduction in credit losses, increased revenue generation by WBC and TCRS in low risk markets, improved business line diversification, and stronger internal capital generation could result in a ratings improvement.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
Criteria for Rating Financial Services Companies, May 2019
Criteria for Rating Corporate Entities, May 2019
GCR Rating Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, August 2021
GCR Financial Institutions Sector Risk Score, September 2021

Ratings History

Transaction Capital Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	A-(ZA)	Stable	November 2016
	Last	National	A-(ZA)	Negative	July 2020
Issuer Short Term	Initial	National	A1-(ZA)	--	November 2016
	Last	National	A2(ZA)	--	July 2020
Issuer Long Term	Initial	International	BB-	Stable	November 2016
	Last	International	B	Stable	July 2020

Glossary

Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.

Pricing	A process of determining the price of a debt security.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securitisation Vehicle	An entity that is created to fulfil specific objectives. Normally insolvency remote and created to isolate financial risk.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whilst reducing risk.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Tranche	A portion of an obligation, each of which has different terms.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Upgrade	The rating has been raised on its specific scale.

For a detailed glossary of terms utilized in this announcement please click [here](#)

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to Transaction Capital Limited. The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

Transaction Capital Limited participated in the rating process via face-to-face management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from Transaction Capital Limited and other reliable third parties to accord the credit rating included:

- Interim financial results of Transaction Capital Limited as at 31 March 2021;
- Audited financial results of SA Taxi and TCRS as at 30 September 2020, and We Buy Cars as at 31 March 2020;
- Latest internal and/or external audit report to management;
- Industry comparative data.

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