GCR RATINGS

CREDIT RATING ANNOUNCEMENT

GCR affirms the national scale issuer credit ratings of $A_{(ZA)}$/ $A1_{(ZA)}$ on Transaction Capital Limited and places the outlook on negative upon large SA Taxi credit losses.

Rating Action

Johannesburg, 31st March 2023 – GCR Ratings ("GCR") has affirmed the long and short-term South African national scale issuer credit ratings on Transaction Capital Limited of $A_{(ZA)}$/ $A1_{(ZA)}$. The outlook is negative. At the same time, the long-term international scale ratings of B+ has been affirmed, with a stable outlook.

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Transaction Capital Limited	Issuer Long Term	National	$A_{(ZA)}$	Negative
	Issuer Short Term	National	$A1_{(ZA)}$	
	Issuer Long Term	International	B+	Stable

Rating Rationale

On March 13th, 2023, Transaction Capital Limited ('Transaction Capital') released a SENS announcement detailing a profit warning for the wider group due to significant credit loss provision and organisational restructuring at SA Taxi Holdings Limited ('SA Taxi'). The pressure on the group credit profile has led to a negative outlook.

GCR views Transactional Capital as a diversified conglomerate, because the company takes controlling stakes in a diverse range on operating entities, which function across industries. As a result, the analytical approach blends the credit strengths and weaknesses of the three major subsidiaries, SA Taxi Holdings ('SA Taxi', 74.5% ownership), Nutun Holdings ('Nutun', 100% ownership) and We Buy Cars ('WBC', 74.2% ownership). As of September 30th, 2022, the contribution to continuing earnings to Transaction Capital was zar304mln or 24.4% of group revenues by SA Taxi, zar409mln or 32.8% for Nutun and zar540mln or 43.4% for WBC. Additional considerations include 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.

SA Taxi Holdings Limited

As of March 31st, 2023 (HY 2023), SA Taxi is expected to record a basic earnings loss of the approximate summation of 4-years cumulative pre-tax profit for the subgroup. The significant loss is primarily due to a provision of zar2bln, which can be broken into zar700mln for the loan book over 90days past due, zar1.15bln for forward looking provisioning (including IFRS9/17 assumptions) and the decision to change the operating model / lower refurbishment, plus a zar150mln on suppressed valuations of repossessed stock. This provision has increased the long-term GCR derived average cost of risk range to above 7% over a five and a half year period (from September 30th, 2017 to March 31st, 2023), up from 4.5% from September 30th, 2017 to September 2022.

The main reason for the income statement shock has been reported as a "structural shift in the minibus taxi operating environment," attributed to lower economic activity, inflationary pressures, load shedding, and civil unrest. As a result, SA Taxi are making efforts to 'restructure and rebase' SA Taxi. Specifically, management has been augmented, the business model simplified, costs are being reduced and credit origination will be focused on the higher quality routes and obligors.

The assessment on SA taxi continues to reflect its well-controlled niche as the predominant financier of minibus taxis in South Africa, which entails a broad positive social impact. Conversely, the business model is relatively small and concentrated against large financial sector peers. We believe the financial profile has weakened because of the increased earnings volatility and credit loss provisions. Going forward, GCR believe that the long-term cost of risk can still improve from the current range, especially given the refocusing of the loan book and less focus on the refurbishment book. Furthermore, loan loss reserves are expected to cover around 15% of the loan book, up from 4.2% as of September 30th, 2022, which gives some additional comfort that an additional credit loss derived shock is unlikely.

GCR believe that SA Taxi is unlikely to improve towards the 15% GCR leverage ratio (defined as GCR Capital to On and Off balance sheet assets, excluding cash) range on internal capital generation alone in the medium term. Positively, the shareholder will convert zar2bln of group loans into equity, which means rough equilibrium for SA Taxi's capital ratios within the 12% to 12.5% range. Funding and liquidity is broadly neutral to the assessment, despite a lowering of the uses versus sources to 1.17x at the time of publication from just over 1x at FY21.

We Buy Cars Proprietary Limited

WBC's has developed an increasingly strong and trusted brand in the South African pre-owned car market. This has resulted in significant growth in vehicle trading volumes month to month basis over the past 18 months, with the company growing monthly sales to over 12,000 vehicles. Nevertheless, WBC operates in a highly competitive and fragmented pre-owned car industry, and has no exposure to other automotive retail segments such as new car sales or aftermarket services.

WBC's robust positive earnings trajectory contributes positively to the rating, although some margin pressure has been evidenced, with the EBITDA margin narrowing to around 6.1%. Gearing and cash flow are positive to the rating as debt has remained low over the review period. Debt comprises R1.2bn in available working capital facilities, of which c. R800m had been drawn to support the build-up of inventory. There is also around R575m in mortgage debt. Liquidity is a positive factor. This is on the basis of robust operating cash flow expectations, as well as its large inventory of vehicles for sale. Vehicle inventories have been included in the liquidity due to the rapid turnover cycle of 4 to 5 weeks for most vehicles sold. Against this there are short term obligations and moderate capex commitments. Accordingly, GCR calculates liquidity coverage of 1.4x for 12 months and a strong 1.6x over 18 months as cash flows improve.

Nutun Holdings Proprietary Limited

Nutun is the leading acquirer of South African non-performing loan/obligation and agency collections which is mainly attributed to their competitive advantage in Information and Communications Technology and the strength of their collections' infrastructure. Geographic diversification is also a benefit to the assessment, with revenues split between South Africa (61%), Australia (19%) and United Kingdom (20%). The competitive position of entities are more modest for entities focused outside South Africa.

Earnings improved significantly at FY 22, with reported return on assets increasing to 6.7% at September 30th, 2022 from 6.4% at to September 30th, 2021. Earnings are derived from collection of principal / NPL books acquired, agency collections, right-to-collect (RTC) and other miscellaneous services. Principal collection makes up c.53% of income, followed by agency and RTC. Principal collections have an expected collection rate of c.2.5 times (measured in terms of purchase price vs receipts) which is very strong. These ERC rates are projected for 120 months and revalued each month based on receipts made, market and economic condition.

Cash flow and leverage is a relative weakness to the assessment. Despite intermediate levels of debt, with a net debt to EBITDA of around 3x, Nutun has only modest interest coverage of 4.5x and funds from operations to net debt of 25%. Positively, the maturity profile is well spread out and there is no foreign currency risk. Liquidity is supported by receipting (Principal, Agency and Right to Collect) and the Customer Experience Management business, facilities from banks (only committed), Unlisted Domestic Note Programme and holding company (Transaction Capital) if required. Management targets a six month funding runway to allow for NPL purchases, interest and principal repayments and related expenses where required. At September 30th, 2022, the uses versus sources was around 0.6x.

Transaction Capital Limited

At September 30th, 2022, the ultimate holding company recorded double leverage of only around 105%, which means that the subsidiaries are being overly supported by external debt financing. Furthermore, liquid assets cover over 100% of total debt and there is no short-term debt on the books of the holding company. We have also added a notch for peer comparison as we believe there is value in the sum of the parts, in terms of diversification for the wider group.

Outlook Statement

The outlook is negative, to reflect the earnings volatility and pressures predominantly at SA Taxi. If the creditworthiness of the taxi sub-group fails to stabilise, the ratings on the group are very likely to be lowered. Concurrent with this, we expect the GCR leverage ratio to be in the 12% to 12.5% range, cost of risk (excluding the once offs) to be around 4%, earnings to be zar -1,5bln to zar -1,75bln and uses versus sources to be over 1.2x at September 30th, 2023. Over the longer-term, cost of risk should reduce to less than 4% of average customer loans.

In regard to Nutun, a deterioration of the financial profiles due to weaker earnings and higher amortisation, and poor execution of their expanding customer experience management unit will be seen as negative.

WBC's competitive position will strengthen over the medium term, with a rapid expansion in earnings, which will support continued good gearing metrics, even if working capital requirements remain high.

Rating Triggers

The ratings on Transaction Capital will change due to corresponding changes from the underlying subsidiaries.

We could lower the assessment on SA Taxi if the year-end 2023 numbers are weaker than expected. To maintain its creditworthiness, we expect the loss to moderate to around zar1.75bln but capital to be broadly stable at around the 12% to 12.5% range. In the short-term, we also believe uses v sources should be maintained about 1.2x, including haircuts for receivables and only using committed unutilised lines. Long-term cost of risk also must reduce to below the current 5year range, over the medium term, otherwise the ratings will likely be lowered.

For the assessment to improve, there needs to be significant capital injection that will bring the GCR leverage ratio above 15% and profitability improve to a point where internal capital generation can support that ratio over the long-term. A cost of risk for around 2%-3% would also support some improvement, but only if reserving against the loan book remains at the currently strong levels.

Positive movement on the WBC credit profile could derive from 1) continued gains in market share and further brand entrenchment; 2) stronger cashflow from operations as working capital requirements ease; 3) larger internal liquidity sources. Conversely, downward pressure could arise from greater than expected debt utilisation, or if there are shifts in the automotive market that result in sales falling below expectations.

A negative movement from Nutun's financial profile will be from a deterioration of earnings and higher amortisation. In addition, poor execution of their expanding customer experience management unit will be seen as negative. A positive movement on account of sustained reduction in credit losses and amortisations, increased revenue generation in low-risk markets would be seen favourably.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Rating Financial Institutions, May 2019
Criteria for Rating Financial Services Companies, January 2022
Criteria for Rating Corporate Entities, January 2022
GCR Rating Scale, Symbols & Definitions, May 2022
GCR Country Risk Scores, March 2023
GCR Financial Institutions Sector Risk Score, March 2023

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)	Stable	February 2022
Issuer Short Term	Initial	National	A1-(ZA)	--	November 2016
	Last	National	A1(ZA)	--	February 2022
Issuer Long Term	Initial	International	BB-	Stable	November 2016
	Last	International	B+	Stable	February 2022

Risk Score Summary

Rating Components & Factors	Score
Operating environment	**12.25**
Country risk score	7.75
Sector risk score	4.50
Business profile	**(1.25)**
Financial profile	**0.75**
Comparative profile	**1.00**
Group support	0.00
Peer comparison	1.00
Total Risk Score	**12.75**

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/s	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.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.

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.
Conglomerate	A company made up of subsidiaries that operate in several business sectors that are unrelated to each other.
Coverage	The scope of the protection provided under a contract of insurance.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Currency Risk	The potential for losses arising from adverse movements in exchange rates.
Debt Financing	Raising capital by selling debt instruments such as bonds, bills or notes.
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.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Experience	A term used to describe the relationship, usually expressed as a percent or ratio, of premiums to claims for a plan, coverage, or benefits for a stated time period.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
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.
Haircut	The percentage by which the market value of an asset is reduced. The size of the haircut reflects the expected ease of selling the asset and the likely reduction necessary to realised value relative to the fair value.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Income	Money received, especially on a regular basis, for work or through investments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
International Scale Rating	An opinion of creditworthiness relative to a global pool of issuers and issues.
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.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Obligor	The party indebted or the person making repayments for its borrowings.
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.

Origination	A process of creating assets.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Principal Repayments	Scheduled payments and prepayments.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Subordination	The prioritising of the payment of interest and principal payments to tranches (senior, junior etc. Senior tranches are paid before junior tranches.
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.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

For a detailed glossary of terms utilized in this announcement please click here

SALIENT POINTS OF ACCORDED RATING

GCR affirms that a.) no part of the rating process was 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entities.

The ratings above were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

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

- Interim financial results of Transaction Capital Limited as at 30 September 2022;
- Audited financial results of SA Taxi, Nutun, Nutun Holdings as at 30 September 2022, and We Buys Cars as at 31 March 2022;
- Interim financial results of We Buy Cars as at 30 September 2022 and management accounts for the 9 Months to December 2022;
- Latest internal and/or external audit report to management;
- Industry comparative data.