COMPANY COMMENT

Capitec surprises market watchers

CAPITEC'S half-year results, released on Monday, revealed a better quality loan book than market watchers were expecting. The unsecured lender has been under the spotlight since its chief competitor, African Bank, failed under the weight of its bad debt and had to be placed under curatorship.

Although African Bank, under curator Tom Winterboer, is still a going concern offering unsecured lending, Capitec said it had picked up customers from the fallout and expected to further gain market share as a result.

Brad Preston, portfolio manager at Mergence, said Capitec's net impairment expense rose by only 2% on the corresponding period the year before as bad debt write-offs rose 28% to R2.1bn. This was offset by a much reduced increase in impairments, which were 72% lower.

Capitec improved recoveries on bad debt 58% and its loan book is well provisioned, with provisions to gross loans and advances at 10.7% and the arrears coverage ratio at 194%.

"This result seems to suggest that management believes the worst is behind them in their lending book, given that they have grown provisions much slower than they did in the past, while bad debts increased," Mr Preston said.

Of the total loan book, Capitec has provided for about 11% of loans to go bad. "Given that of the current book only about 5.5% of the loans are currently in arrears, the provisions are about double the value of the loans that are in arrears," Mr Preston said.

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CONSOLIDATION in the listed property sector may come back into vogue after having slowed down in May.

Earlier this week Redefine Properties acquired 11% of Emira Property Fund, a mid-cap stock, in a deal worth about R880m.

Redefine chairman Marc Wainer said he was impressed by Emira's turnaround over the past few years. "It could become a takeover target in the future, so what we have here is a strategic stake.

"We would have liked more than 11% but it's a start."

Analysts say that apart from a few more funds taking up stakes in others before the new year, we may soon see a surprise takeover bid. There is still time for one of the big funds to buy out a smaller one.

Redefine and Growthpoint are so much bigger than the other listed property players, together making up more than half of the sector, that it is decidedly lopsided.

Growthpoint, the biggest locally based JSE-listed fund, is already looking to buy out Acucap Properties and Sycom Property Fund, two funds that share the same management company and are soon to merge.

By the middle of 2015 SA's property sector may have fewer counters, but it will have greater liquidity and should therefore be able to attract more institutional investors.

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