Credit Ratings & Research

General Finance Limited

NZBN: 9429038072994

Credit Rating Synopsis

Date: 10 December 2024

Prepared for: General Finance Limited

Report prepared by: Equifax Australasia Credit Ratings Pty Ltd ("Equifax")

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Currency used in this report: This report is presented in New Zealand Dollars unless otherwise noted.

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1. Executive Summary

General Finance Limited ("GF", "the Company")

GF is a Non-Bank Deposit Taking (NBDT) organisation that is licenced by the Reserve Bank of New Zealand (the RBNZ) and domiciled in New Zealand. The Company offers loans and accepts customer deposits.

Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has affirmed GF's credit rating of 'BB' at Sep24, which is a near-prime classification with a low to moderate level of risk. The outlook for the rating is 'Stable'. Overall, GF's credit rating benefits from its market position as a specialised bridging loans provider, its scale and healthy earnings, sound capital and funding profile, acquisition of insurance premium lending business and the expected benefits from the proposed regulatory reforms. The risks to GF's credit rating arise from the challenging macroeconomic environment and GF's broader business model risks (which include market risk factors and a moderate degree of concentration risks), underlining some asset quality pressure as well as a high reliance on key executives' expertise, thereby exposing it to key-person and business continuity risks.

Strengths

- GF's healthy competitive position is supported by its 25+ year operating history as a specialist bridging loans provider catering to a market underserved by many industry competitors. It is further evidenced by a rapid growth, experienced by the Company's loan book between Mar19 ($17.3m) and Mar24 ($132.7m) with a five-year compound annual growth rate (CAGR) of 50.4%.

- Despite its rapid growth, GF has maintained a consistent level of operating flexibility over the period under review, having reported a relatively stable rate of return on assets (1HFY25: 2.0%; FY24: 2.0%; FY23: 2.8%; FY22: 1.9%).

- A sound capital ratio of 21.7% at Sep24 (Mar24: 22.3%) enables GF to maintain adequate headroom above the regulatory minimum capital ratio threshold (8.0%). The Company's capitalisation has been supported by strong earnings retention along with incremental capital injection. This holds GF in good stead to support future loan book growth and/or withstand some moderate shocks. While the Company's capital ratio is likely to reduce with the recent addition of unsecured loans in GF's portfolio, it is expected to remain at a satisfactory level.

- GF's demonstrated capacity to attract deposits supports its healthy funding and liquidity profile. We note that over the period under review the Company's deposit base generally grew faster than its loan book, which underpinned a steady increase in GF's cash reserves (including bank deposits). At Sep24, the Company reported cash reserves of $38.1m (Mar24: $22.6m; Mar23: $18.4m), which were equivalent to 24.1% of its deposit base (Mar24: 16.7%; Mar23: 16.7%), thus supporting the Company's capacity to meet obligations, and fund future organic/inorganic growth objectives.

- The Company has recently completed acquisition of an insurance premium lending business, which is expected to enhance its profitability, improve diversification and support the liquidity profile of GF. At the same time, we note that the acquisition was relatively small scale (acquired loan portfolio of <$9.0m), while the associated risks and benefits from this acquisition are yet to be tested.

- Deposit Takers Act ('DTA'), which received Royal Assent on 6 July 2023, aims to place all deposit takers under one framework and introduce a depositor compensation scheme, ultimately promoting public confidence in the sector and improving attractiveness of NBDTs deposits, in our view.

Constraints

- Together with the wider economy, the NBDT sector, including GF, continues to face significant macroeconomic headwinds due to a slowing economy and housing market. As a result, GF's asset quality remains under pressure, evidenced by an elevated amount of loans in arrears compared to historical levels (Sep24: 10.1%; Mar24: 7.8%; Mar23: 13.3%; Mar22: 3.3%; Mar21: 3.7%). The challenging market environment and potential shrinking of existing and/or future collateral cover due to weakening of the property market, also puts pressure on LVR of existing loans and constrains the Company's ability to grow in accordance with the management's conservative lending approach that focuses on lower LVR loans.

- The Company's operations are exposed to a moderate level of client concentration risks, as its 10 largest loans at Sep24 represented 24.7% of the entire portfolio, thus making the Company's financial performance materially dependent on credit risks of a handful of borrowers.

- GF has a significant dependence on Managing Director, Mr. Brent King, which exposes business operations to keyperson risks. As the public face of the Company, Mr. King has an active involvement in regulatory developments, liaises with key stakeholders and lends his commercial expertise and business acumen as the final sign-off authority for all loans. In Equifax's view, GF's ability to execute its future growth strategy and successfully navigate through a challenging macroeconomic environment has a high reliance on Mr. King's expertise and may benefit from addition of appropriately qualified and experienced professionals to handle some of these specialist responsibilities.

The outlook for the rating is currently 'Stable' and a rating upgrade is unlikely in the near term. An upgrade would require a demonstrated sustained improvement in scale and market position, combined with a sustained reduction in asset quality risks, and material reduction in keyperson and business continuity risks through an increase in the pool of key executives. The rating may be revised downward if there is material deterioration in either GF's earnings, scale or asset quality.

Risk Rating

BB

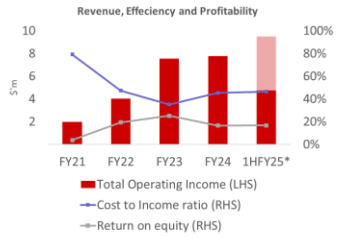
Outlook: Stable

Type: Public, Monitored

Industry Percentiles

Scale:	Percentile
Total Assets	75%
Gross Loans	67%
Profitability:	
NIM	42%
ROE	92%
ROA	75%
Efficiency Ratio	75%
Capitalisation:	
Leverage (Gross loans to Equity)	33%
Capital Ratio	75%
Capital to Total Assets	33%
Funding and liquidity:	
Deposits to Loan Ratio	75%
Liquid Assets to Total Assets	33%
Asset Quality:	
Net Charge-offs	100%
Impaired Loans	100%
Provision for Loan Losses	58%

Key Trends



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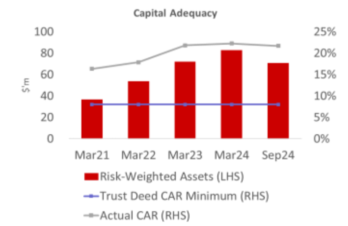

2. Scope of Report

The purpose of this report is to provide a Credit Rating Synopsis on General Finance Limited ("GF", "the Company").

We have complied with our rating services guidelines in order to derive the credit rating on General Finance Limited. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**10th December 2024**
Request Type	**Issuer**
Assessment Type	**Under Ongoing Monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**General Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**General Finance Limited**
Issue Name	**Not Applicable**
Issuer First Time Rated	**No**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**Financial Services**
Sector	**Non-Bank Deposit Takers**

This report should be read within the context of Corporate Scorecard's Rating Services Guide. This Report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by General Finance Limited, publicly available information and from our own enquiries. We have derived a credit rating on the Company based on the understanding that General Finance Limited has no contingent liabilities, cross guarantees or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources	
Financial statements	**Audited Interim Financial Statements for the 6-month period ended 30 September 2024.** **Audited Financial Statements for the years ended 31 March 2024, 2023 and 2022.**
Name of auditor	**Grant Thornton New Zealand Audit Limited**
Other Information Sources	**The Company's response to our Request for Information, the Company's website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**GF is also a user of other Equifax products which are procured on commercial terms.**
Rating methodology	**Financial Institution Rating Criteria**

This report should be read within the context of Equifax's Ratings Services Guide.

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment, or product, and provides probabilistic assessments of default over the short, medium, and long-term.

Credit ratings are a critical measure used extensively in commercial, financial, and capital markets to support key business decisions. Equifax's credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations, and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports and analysis across a wide range of sectors.

1.2 Equifax's credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity's securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax's database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy, and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position, and profile of an entity in the context of its industry, size, and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation, or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts, and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability, and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment, or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium, and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)
A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)
A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)
An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

http://www.corporatescorecard.co.nz/services_credit_ratings.php
https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

2. Regulatory Disclosures and Disclaimer

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a credit rating agency regulated by the Reserve Bank of New Zealand. The licensing regime addresses a range of matters including the quality and integrity of the ratings process, independence and avoidance of conflict of interest, and responsibilities to the public, clients and assessed entities. The regime also covers confidentiality, communication and disclosure, professional development, document management, and a range of governance related matters. Financial, operational and compliance audits are conducted by external, independent auditors each year.

Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (version 7, 2020).
https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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