Geneva Finance half year Result

29 November 2022

COMMENTARY

Trading Performance

The Group unaudited pre-tax profit of $3.4m is down $0.6m (15%) on last year. The drop in in pre-tax profit was largely driven by Covid interruptions on lending volumes and higher costs of funds following the rising interest rates over the last twelve months.

Geneva Financial Services' (the lending business) pre-tax profit result of $1.9m was down $0.8m (30%) on last year. We are now seeing the impact on profitability of impact of the changes to the lending rules and Covid interruptions, both of which negatively impacted lending volumes last year and for the first six months of this year**.** Rising interest costs also reduced interest margins over the period. The current rising living costs is impacting lending approvals. Despite the challenges faced over the period asset quality was maintained and the receivables ledgers are appropriately provisioned. Provisioning levels will be reviewed at year end once the full impact of current rising costs can be measured. The net receivables ledger balance at period end was $80.6m.

Quest Insurance Group Limited (Quest) reported a pretax profit of $2.5m, up 4% on the prior period. Though Quest maintained strong premium growth over the period with gross premium of $19.1m, up 30%, higher claims cost, particularly in Comprehensive Motor Vehicle product mitigated much of this benefit. Operating costs were up $0.3m, +45% on last year, mainly due to increased costs associated with regulatory compliance. Cash on hand increased to $25.2m, up $4.7m..

Federal Pacific Tonga (60% owned by the Group) reported a pre-tax profit of NZD $0.6m (-26.6% down on last year). The Group's share amounted to $0.3m pre-tax profit ($0.2m after tax). The result was mainly due to Covid lockdowns combined with the natural disasters earlier in the year. Lending volumes has picked up as Tonga recovers and we expect lending to return to prior levels.

Stellar Collections (Stellar), including the debt litigation business, reported a breakeven result, down $0.2m. The debt collections and debt litigation business is taking longer than expected to recover from the interruptions caused by Covid.

It is expected that the current economic environment will create opportunities for this business in the coming months.

Geneva Capital (invoice factoring), reported a small profit for the period ($0.1m) but was $0.4m up on the $0.3m loss reported on the prior period. The business has been restructured during the current period, with poor performing segments being exited. We expect this business to move into sustainable profitable in the coming six months.

The after-tax unaudited financial result for the period was a profit of $2.6m, down $0.7m (21%). As reported in the full year result for March 2022, the prior year tax charge included an adjustment to account for unrecognized tax losses reducing the effective tax expense for the period.

Current economic environment

While the current economic environment is challenging, rising living costs putting pressure on customer's affordability and spending, it also offers opportunities in terms of increases in market share through investment in people and systems which Geneva is making.

In respect to the sales opportunity, we have increased our investment in the sales team with the creation of two new positions, a dedicated "Head on Sales and Lending" and a dedicated "Head of Insurance". Previously this function was combined. We also see this segregation of roles as providing benefits in terms of increasing our compliance capabilities for both the lending and insurance operations as the level and complexity of regulatory review and monitoring continues to increase.

In regarding to the security of our receivables assets, the business is well provisioned and we have confidence in the Stellar collections function to manage our assets through this period for the best outcome.

Balance Sheet Total Group assets increased to $160m (5% increase). The company's equity to total assets ratio is 24.8% vs 24.3% in the prior year.

Revenues Revenue totaled $23.8m, an increase of $3.3m (16%).

Operating Costs Operating costs increased by 11% to $10.7m. Increase largely driven by increases insurance direct costs associated to premium growth.

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Funding

Group funding:

a. The lending and invoice financing businesses' securitisation facility of $75m was drawn to $65.1m at balance date.
b. Stellar's banking facility remained unchanged at $3.4m. The facility will be repaid in equal repayments commencing 31 July 2023 to 31 July 2025.
c. Wholesale investor debt funding remained is unchanged at $14.2m and includes loans from directors.

Credit Rating

The Group's insurance company Quest Insurance Group Limited's below credit ratings issued by AM Best was reaffirmed on 17th August 2022.

- Financial Strength Rating of B outlook stable
- Issuer credit rating of bb+ outlook stable.

Highlights / Key Events

Quest premium sales increased by 30%.
Strong Cash on hand, increasing to $39.0m, up 11%
Total Group assets increased to $160m, up 5%.
Group equity increased to $39.7m, up 11%.
Janssens distribution agreement renewed for further 5 years

Events Subsequent to Balance Date

The group has created a new position, Head of Risk and Assurance, to strengthen the regulation and compliance. There were no other subsequent to balance sheet events.

Strategic Direction

The strategic direction is unchanged. Our core businesses of Motor Vehicle and personal loans together with Insurances related to these activities remain.

Summary and Outlook

While the profit result for the six months is disappointing, the factors driving this outcome are being addressed. In the coming period, we expect to see the benefits of the investments made in sales and our IT systems. Initially the benefits will be seen in lending volume growth, then as the receivables ledgers grow flow into group profitability. As noted above, the forecast economic downturn brings both challenges and opportunities. With our strong balance sheet, and solid earnings record over the last few years, the board are determined to deal with the former and take advantage of the opportunities as they arise.

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For further information, please contact:

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