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Geneva Finance Half year pretax results up 22%

29 November 2021

Commentary

Geneva Finance Limited reported a pre-tax profit of $4.0m for the six months to 30 Sep 2021, 22% up on the previous year. Profit after tax, attributable to the Geneva Group shareholders, totalled $3.0m, level with the previous year as that year's result did not incur a tax charge as a result of available tax losses.

Business Performance

New business originations in each of the trading entities showed good growth in the first four months without lockdown restrictions. However, the lockdown restriction from August onwards was a setback, and although trading could continue remotely, it was achieved at reduced levels.

The Geneva Financial Services (GFSL) pre-tax profit result of $2.7m was 28.6% up on last year. Lending grew strongly in the first four months (28% up on the prior year). However, by 30 September, the lockdown impact on GFSL's Auckland motor vehicle introducer network resulted in lending being reduced to 5% above last year. Despite the difficult times, it is pleasing to report that asset quality was maintained through this period, and ledger performance continues to improve. As a consequence, the level of provisioning for the period has been lower than forecast.

Quest Insurance Group Limited reported pre-tax profit of $2.4m, up 48.6% on the prior period. Despite the impact of lockdowns in August and September, premium sales of $14.6m were up 67.8% on the prior period, with the Quest direct channel having the largest increase, up 124%. The underwriting result of $3.0m was up 102.7%, partly assisted by lower claim volumes during lockdown. Quest maintained its positive solvency surpluses during the period.

Federal Pacific Tonga (60% owned by the group) reported a pre-tax profit of NZ$0.8m, up 5.9%. The Group's share amounted to $0.5m pre-tax profit ($0.3m after tax).

Stellar Collections (Stellar) consolidated profit of $151k, down $24k on the previous year; a very good effort by the team in difficult circumstances. In particular, the collection services provided by Stellar on the GFSL ledger has made a significant contribution to the performance of that operation. Unfortunately, the debt litigation operation felt the brunt of the lockdowns, with restrictions on document serving and court closures effectively cutting off the revenue for this business. The Group is confident that once these restrictions ease, this business will normalise and contribute to profit growth.

Geneva Capital (Invoice Factoring) reported a loss of $0.3m for the period compared to a $13k loss the prior period. This business recovered well in the first four months but an impairment provision ($0.3m) accrued for recovery of outstanding debt has been

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taken up. Recovery action is underway and while the provision is considered to be adequate, the outcome of this recovery is uncertain at the date of this report.

The Group after-tax unaudited financial result for the period was a profit of $3.2m, slightly down ($34k) on the prior year as that year had no tax charge. The after-tax profit of $3.0m attributable to the Group was equal to last year.

COVID-19 update

During the lockdown(s) the Geneva team reacted well and diligently worked remotely, mostly in less than ideal circumstances. The board is appreciative of these efforts. However, as noted above, all operating business were adversely impact by the lockdowns. The financial impact is to a degree reflected in the half-year result, and to a certain extent reflected in lower future profit growth as both the receivables ledger and the insurance book are lower than they would be otherwise, therefore giving lower future profit over the life of the loans and insurance policies.

Despite this, provided the business can resume normal operations over the coming months, the Group is expected to get back on the profit growth path it has achieved over the last 18 months.

Highlights / Key Events

- Lending volumes growth until August lockdown.
- Quest premium sales continued to grow and increased by 67.8% to $14.6m (up $5.9m).
- Group revenue grew by 24.3% to $20m.
- Total Group assets increased by 16% to $152m.

Dividend

The board resolved to declare an interim dividend of 1.25 cents per share on 8 November 2021. The ex-dividend date was 16 November 2021. The dividend will be paid to shareholders on 30 November 2021.

Revenues

Revenue of $20.5m increased by 24%, a $4.0m increase.

Operating Costs

Operating costs increased by 22% to $9.4m, largely due to an increase in direct expenses associated with the growth in the insurance business.

Balance Sheet

Total Group assets increased to $153m (16% increase). The company's equity to total assets ratio is 23.6% vs 24.4% prior year.

Funding

Group funding:

- The lending and invoice financing businesses are funded via a securitisation facility of $70m, currently drawn to $68.8m.
- Stellar's banking facility remained unchanged at $3.4m.
- Professional investor debt funding of $14.2m, including loans from directors.

Credit Rating

The credit rating of the Group's insurance company, Quest Insurance Group Limited, issued by AM Best, remained as Financial Strength Rating of B outlook stable and an issuer credit rating of bb+ outlook stable.

Events Subsequent to Balance Date

The securitised facility annual review was completed in November 2021. The facility has been extended and increased to $75m. The Kiwibank maturity date was extended to July 2025.

Summary and Outlook

The Group built on last year's success and continued its growth path in the first four months of the period, without COVID restrictions. The lockdown starting in August stalled this momentum and limited core operations to reduced levels of trading. Lockdown is a reality of life and Geneva has had to manage its way through these challenges as most other businesses have.

In terms of Geneva's strategic direction, the key focus for the Group remains on the core lending, insurance and debt collection functions. The commitment to enhance the IT systems continues and recent changes to the lending onboarding systems allowed the Group to trade through the lockdown period as new business originations were able to be completed electronically.

Following the growth in the insurance business over the last few years the board has decided to replace the existing insurance software with a purpose-built platform, and due diligence on a replacement system is underway.

The board remain confident in the business strategy and is fully committed to continue to deliver profit growth and increase shareholder value.

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For further information, please contact:

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