

Blue's strategies to get back into Black

Pan-African micro-financier, Blue Financial Services Ltd (Blue or the Group) reported significant losses for the six months ended 31 August 2009. The Group attributed this loss to primarily funding constraints, increased costs as a result of the Credit U acquisition last year and a large increase in provisioning levels. However, Blue has managed to maintain a strong position in the micro-finance industry across Africa and is confident that key strategies implemented will return the Group to profitability in the medium term.

Blue generated a loss of R162.3 million for the six months ended 31 August 2009, compared to a profit of R51.5 million in the 2008 interim period. This translates into a decline in earnings per share from 11.03 cents in August 2008 to a loss per share of 27.07 cents for the 2009 interim period. Headline earnings per share were similarly affected, declining from 10.96 cents per share to a headline loss of 27.11 cents per share.

South African operations were hardest hit, incurring a loss of R178.8 million.

“In hindsight, the Credit U acquisition in December 2008 could not have come at a worse time. A decrease in available funding, as well as repayment to funders amounting to R356 million – mainly to Credit U's funders – prohibited the Group from extracting the envisaged synergies” commented Blue CEO, Dave van Niekerk.

The Group reported an increase in expenses of 119% from the comparative period. This was primarily fuelled by the increase in number of branches from 192 to 260 for the period under review. The infrastructure was appropriate to sustain the level of growth that had been experienced in the year to February 2009, but became excessive following the decline in activity which was caused by the reduction in available funding. The most notable increase was attributed to the South African operations, where the Credit U acquisition increased the branch network by an additional 90 branches.

During the reporting period, the Group refined its credit impairment methodologies based on improved availability of historic data and trends in collections. This benchmarks the Group's current methodologies against industry peers and takes contractual patterns as opposed to behavioural patterns. In order to arrive at the above provision, the Group used the past 6 to 12 months' statistics, which represented the worst of the past 17 years in South Africa. Credit impairments as a percentage of gross loans and advances to customers for the entire Group is now at 23% compared to 10% as at 28 February 2009.

“It is in fact riskier to do business in South Africa than in the rest of Africa” explained Van Niekerk. “Because of a better repayment culture and less competition, the impairments as a percentage of gross loans and advances to customers is currently 6% in the rest of Africa, compared to 44% in South Africa.” the Group does not foresee providing similar large amounts again in future. “This is really a tough time to be providing based on market trends : industry trends and the National Credit Act implications show that customers do pay. The hurdle is the time delay in receiving some of these payments which affects the provisioning dramatically” van Niekerk said.

Van Niekerk was confident that the remedial actions implemented would bring about the required turnaround. “Blue has been placed under severe pressure by the lagging effects of the international credit crisis, which was exacerbated by the subsequent global recession. The Board has however implemented some decisive steps to initiate a turnaround to profitability in the medium term.”

The steps include plans to focus on more organic growth and - when looking at new territories - to find local partners and funders who would partner with Blue to utilise its IT platform and IP in these operating territories. Under-performing business segments and product lines are also being restructured, rationalised or disposed of. The Group is also driving down overheads, and is confident that this will save R100 million per annum on a sustainable basis by 2011.

In order to increase Group liquidity in the short-term, the Board is considering amongst others a potential rights issue to existing shareholders and/or a fresh issue to new shareholders. The Group is in ongoing discussions with funders to secure new and/or restructure existing funding lines. International Investment Bank Rothschild has been engaged to advise the Group on these and other initiatives.

Blue also appointed Wip Treasury as an outsourced service provider to support the appointment of an in-house treasury manager. This will further improve business optimisation.

In addition, Blue has embarked on further improvements to its corporate governance. The Board is in negotiations with short-listed candidates for the position of independent non-executive chairperson. An announcement in this regard will be made as soon as negotiations have successfully been completed.

The status and responsibility of the risk committee has been elevated to a committee of the board with a more formal charter and an independent non-executive director has been appointed to the committee.

Following the appointment of James French as independent non-executive director, the number of independent non-executive directors has been increased to three, equal to the number of non-executive directors. French was nominated by the International Finance Corporation and brings a wealth of international banking and treasury experience to the Group.

Van Niekerk indicated that in order to further diversify its funding base the Group has applied for deposit taking licenses in a number of its operations. “We are actively negotiating funding from several new and existing sources, including developmental funding institutions and capital markets. Funding from a retail deposit base in our operations outside of South Africa is one other way to access untapped funding whilst addressing exposure to exchange rate fluctuations simultaneously.”

Van Niekerk concludes, “I believe that Blue is well prepared to achieve long-term success. As a significant shareholder I can assure stakeholders that the Board and management is working tirelessly to ensure the sustainability and success of the business.”

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