Investec

Conference Call Transcript

20 March 2020

TRADING UPDATE

Operator
Good day ladies and gentlemen and welcome to Investec's trading update. All participants will be in listen only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call please signal an operator by pressing * and then 0. Please note that this conference is being recorded. I would like to hand the conference over to Mr Fani Titi. Please go ahead, sir.

Fani Titi
Good morning. I am joined on this call by Nishlan Samujh, and David van der Walt, our Executive Director. We would like to thank you for taking the time to join this conference call during this extraordinary period to discuss our pre-close statement which relates to the 11 months ended 29 February 2020. At the outset, however, I would like to emphasise that the well-being of our clients and colleagues is uppermost in our minds. Importantly, we appreciate the unique challenges faced by our clients in this environment, both physically and financially. These are unprecedented times. Our foundations are strong. We have the agility to respond. As Investec we have always believed in living in society and not of it. To that end we will do everything that we can to support our clients and colleagues during these trying times. I will now give you a brief overview of our announcement before opening the call for questions.

Over the 11 months Investec has delivered a resilient performance under demanding operating and trading conditions in both South Africa and the UK. As you would expect, trading conditions in the last few weeks have worsened considerably and will negative impact the full year performance. We will be able to report more fully on this period at our full year results in May, but it is clear we have already felt the impact in line with the market. Primarily as a result of these tough conditions over the period, group adjusted operating profit is expected to be 7% to 14% behind FY2019 and adjusted earnings per share is expected to be 16% to 23% behind FY2019. Other key numbers we are reporting today are as follows.

Operating income is expected to be behind the prior year number of £2.527 billion. Both net interest income and net fee and commission income are expected to be ahead or broadly in line with the prior year, while other income is expected to be behind the prior year. Operating costs are expected to reduce from the prior year figure of £1.668 billion. While impairments are expected to increase in this environment the credit loss ratio is expected to remain similar to the prior year between 31 basis points and 37 basis points. The effective tax rate is expected to be higher at approximately 16% compared to the 12% of FY2019.

Now we move to the balance sheet. As I said at the beginning of these introductory remarks, we have strong foundations. We are well capitalised with strong liquidity. Capital and leverage ratios remain sound and comfortably ahead of regulatory requirements. The group's cash and near cash position as at 18 March 2020 was £12.4 billion, representing 40% of customer deposits. We also have strong Dollar liquidity. Net asset value and tangible net asset value is expected to be between 435p and 450p per share compared to the FY2019 figure of 434.1p. That is a net asset value, and tangible net asset value is expected to come in between 385p and 405p compared to the prior year number of 386p.

Moving on to our strategic actions, we have continued to make some progress. Most notably in this regard was the completion of the demerger and listing of the Asset Management business, now called Ninety One, earlier this week. This demerger has added to our capital strength. We have retained a 25% stake in this business as you know. Furthermore, we have continued our programme of restructuring, closing and selling of non-core and subscale businesses and consequently we have reduced risk. I would also like to reiterate that we have continued to invest in our platforms to achieve sustainable growth for the long term. We are on track with our UK private bank investment with both client acquisition numbers and the loan book meeting our expectations. We have made good progress on cost containment and efficiencies as reported in this announcement.

I would like to finish by saying that despite these unprecedented times we remain optimistic. We are focused on the safety and well-being of our colleagues, the integrity and our balance sheet and also focussed on supporting our clients. I will now hand the call back to the moderate and we will take any questions that you may have.

Operator
Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question you're welcome to press * then 1 on your touchtone phone or the keypad on your screen, at which time you will hear a confirmation tone. Following this process will place you in the question queue. If you decide a question had been addressed and you wish to withdraw your question you're welcome to press * then 2 on your touchtone phone to remove yourself from the question queue. Just a reminder, if you would like to ask a question you're welcome to press * then 1. The first question comes from Harry Botha of Avior Capital Markets.

Harry Botha
Good morning, Fani and team. Thanks for the pre-close update. I've got a few questions please. Just on the Hong Kong losses that you still expected to come through in H2, can you guidance on the figure, if it is still the same as your previous guidance? You chose not to sell the additional 10% of Ninety One, but considering where Ninety One is trading relative to the Investec shares could there be a transaction to sell Ninety One and buy back Investec shares? And finally, could you give us a sense of your ability to grow, and do you see conditions to grow obviously with challenges in global markets because of COVID-19 disruption in the UK? And do you see the ability to continue growing in terms of private client acquisitions because of that? Thanks.

Fani Titi
Thanks Harry. On Hong Kong at the interim results stage we did indicate that we had a position that we were reviewing. In these results one of the management actions that we have taken would be to review that position, and we will be writing that off. That is part of the effect that you see in the numbers. As I said, the management

actions are meant to simplify the business but also to reduce risk. This is the one element that we would see as part of risk reduction. On the 10% of Ninety One, we tried to place the 10% in very difficult conditions. And given the volatility we really couldn't put a price on the 10%. Remember that the objective for us behind the selling of the 10% was to obviously get that cash in to continue to bolster our capital in the UK as we have said. But the demerger itself gives us a capital benefit, so we did not believe that we needed to sell at any price whatsoever. So we thought we would wait and see if there is a level of stability in the market. And we don't have any pressure on capital, so we voluntary locked ourselves up for the next six months or so, so that we don't cause market uncertainty about our intentions relating to the 10%. So we are well capitalised.

We believe Ninety One is a very good asset. We would like to see a level of stability return to markets. Hopefully with the strong reaction of governments around the world, the US Government, the UK government, the European governments, even the Japanese have taken significant actions. We know what the Chinese have been doing because they have been affected by the virus earlier on. And also the impact of the significant actions of the central banks right across the world. At some point as the healthcare part of the crisis peaks, or if there is a way to contain it, then there will be a level of stability and we will re-look at what markets do at the time. So we are under no pressure really to dispose of that 10%.

On COVID-19 and growth in the UK, our strategy is obviously not based on revenue growth. I spoke to the growth in the private bank because that is an initiative that we launched and we would like to continue to update the market on what we're doing there. Our strategy in the private bank in the UK is a very niche strategy where we provide services to the entrepreneurial class. Our clients are generally active and they look for opportunities, but we wouldn't be looking for unusual growth other than just serving the needs of our clients in that market. As I said, in this environment we have a level of control on our costs and we will continue to focus on that as an important lever of our strategic delivery.

Operator
Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press * then 1 on your touchtone phone to place yourself in the question queue. The next question comes [unclear] of Bank of America Securities.

Bank of America Securities
Thank you very much for the time. Two quick questions from my side. The first is given listing Ninety One at quite a bit below your expectations can you give a guide as to where your capital levels currently are for the bank and just in the next six months whether or not you have enough capital to support your growth plans? The second question is I know you are still focussed on the 2020 results. I think you are probably starting with markets being really difficult, but it is carrying on into April and May. Can you give a sense of how Investec's non-interest revenue line performed in an environment like this? Is there a risk that you could have another difficult environment for that revenue generation, or do you think that Investec can actually grow relatively well on non-interest revenue in an environment like this? Thank you.

Fani Titi

I will take the second question and ask Nishlan to deal with the question of capital. Needless to say, on capital I did say that even though we did not place the 10% we still were able to get a significant benefit on capital. You will also know in the UK that we have certain changes that have occurred in that market. As an example, the Bank of England has scrapped the counter cyclical buffer of 1% going forward until a period of 2024. But Nishlan will address the impact of Ninety One on capital. We are comfortable that we have sufficient capital for us to support our business as we go forward. This is a trading statement for the year up to March covering the 11 months that we have traded.

There is a level of volatility now that is unprecedented. We think the impact on the virus on public health, on the economies and on the markets is such that it would be too early for us to make any forward looking statements. I think we would like to see where things settle. We have a strong client franchise. Even in these results we indicated that we saw some book growth particularly on the private client side. We know that corporates are under pressure and that will come through over time. Our expectations in terms of impairments have been given in this current period at 31 basis points to 37 basis points. When we announce our results in May we would have traded for two months. We would be in a better space to talk about this. It is too early to make any predictions about trading conditions going forward. I think that will be the response you will get from every business leader around the world, including the other banks.

Nishlan Samujh
The circular we had indicated that there would be around about a 130 basis point uplift for the Plc following the demerger. We currently expect that to be around 50 basis points, and from a South African perspective around a 40 basis point uplift to the underlying capital position I think if you do follow on the capital disclosures at the end of September where we disclosed the CET1 ratio for Investec Ltd at 11.6% and for Investec Plc at 10.8%. So just note those particular disclosures. And also note that the Plc continues to report under standardised. So when we did adopt FIRB in South Africa there was just over a 1.5% improvement in the overall capital ratio. So from our perspective we are quite comfortable. Obviously there would have been a further benefit had we placed the 10%, but that is well managed within our capital ratios. We continue to maintain a very conservative leverage position. I think if you look at our loans to equity that is at about 5.5x. And overall the balance sheet remains conservative both from a capital perspective and a liquidity perspective.

Fani Titi
Thanks Nish.

Operator
The next question comes from Christopher Stewart of Investec.

Chris Stewart
Hi guys. Can you hear me?

Fani Titi
Hi Chris. Chris is actually from Ninety One. [Overtalking].

Chris Stewart
Just a quick question. You provided guidance as to net asset value and tangible net asset value. I presume it is as expected as at 31 March. Can you clarify how the residual 25% holding in Ninety One features in your net asset value calculation please?

Nishlan Samujh
Sure. So effectively you are correct. That is a forecast to 31 March 2020. The 25% is held as an associate on our underlying group accounts. So on demerger obviously you would have switched from carrying it at book value to fair value. And it represents the initial fair value. Thereafter it is equity accounted.

Chris Stewart
It is effectively a fair value number as at 31 March estimated?

Nishlan Samujh
Correct.

Chris Stewart
Thank you.

Operator
Christopher, does that conclude your questions?

Chris Stewart
Indeed it does. Thank you very much.

Operator
Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press * then 1 on your touchtone phone to place yourself in the question queue. Sir, we don't have any further questions on the lines. Do you have any closing comments?

Fani Titi
Thank you very much for calling in to this pre-close briefing. As you know we are in difficult market environments. We have made sure that we can continue to operate in this environment. Primary to us is the safety of our people, the safety of our clients, and over the coming months we will work hard to remain close to our clients and to support them. We hope that the measures that have been taken by the different countries and governments will contribute significantly to reducing the level of transmission and infection of the coronavirus and that in time economies and markets can return to a level of stability. Thank you again for calling in.

Operator
Thank you, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT