Presentation Transcript

20 September 2019

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 star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Fani Titi. Please go ahead, sir.

Fani Titi
Hi. Good morning. This is Fani Titi and I'm joined on this call by Hendrik du Toit and Nishlan Samujh. We would like to thank you for joining this conference call to discuss the pre-close statement that was released earlier this morning. I will give you a brief overview of our announcement this morning before opening up for questions. The group remains committed to its objective of simplifying and focusing the business in pursuit of disciplined growth over the long term. The proposed de-merger and separate listing of Investec Asset Management is on track with regulatory approval obtained in August as we had announced. The bank and wealth business is focussed on its strategic priorities. To this end the following actions have been taken. We have closed Click & Invest as we announced in May. We sold the Irish wealth & investment business. We have restructured the Irish branch as a consequence of Brexit. And we are running down the private equity direct investments business in Hong Kong.

The above actions as well as the proposed de-merger costs are anticipated to negatively impact pre-tax earnings for the six months to September by approximately £42 million. This compares to a pre-tax earnings drag of £22 million in the prior period on a like for like basis. You would have seen the breakdown in the announcement. After adjusting operating profit in both the current and prior periods for these items, underlying performance for the group is expected to be slightly behind the prior period, although in line on a currency neutral basis. Adjusted EPS is expected to be approximately 4% to 7% lower. As you know we've always managed the group on the basis of adjusted EPS, stripping out the effects of activities or events that are not of a long-term nature or that could distort performance. As a consequence of the management actions taken basic EPS is expected to be approximately 10% to 13% behind the prior period.

Turning to the divisional overview, starting off with Asset Management. The Asset Management business is expected to report adjusted operating profit ahead of the prior period. Earnings have been supported by market levels, currency movements and net inflows of £3.3 billion to the end of August. The bank and wealth business is expected to report adjusted operating profit behind the prior period. The UK specialist banking business is expected to report adjusted operating profit significantly behind. Market variability and persistent uncertainty relating to Brexit and global trade wars have negatively impacted investment banking fees and trading income. However, our lending franchises have continued to perform as expected. The corporate lending and private banking businesses have shown traction in both target client acquisition and loan book growth.

The South African specialist banking business is expected to report adjusted operating profit ahead of the prior period. The private banking business continued to see growth in its client base and a reasonable level of activity. Corporate activity levels have been subdued affected by weak growth and low business confidence. The wealth & investment business is expected to report adjusted operating profit behind the prior year. While we've seen reasonable net inflows and growth in AUM results were impacted by higher costs in the UK to support technology investment and business growth. In closing, despite challenging trading conditions we remain well positioned for the long term and continue to concentrate on the execution of our strategy of simplification, focus and disciplined growth. We will now hand back to the moderator to take any questions you might have.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you care to ask a question you're welcome to press star and then one 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 has been addressed and you wish to withdraw your question you're welcome to press star then two 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 star and then one. The first question comes from Harry Botha of Avior Capital Markets.

Harry Botha
Hi. Good morning. Thanks very much for the call. Two questions please. The first is just a basic one to confirm your adjusted EPS guidance. Does it exclude the restructuring and once-off costs that you referred to, or is that only excluded from adjusted operating profit? And then just a question around the asset growth that we're seeing in South Africa. You referred to reasonable activity levels, but obviously asset growth is slower and we are seeing some reasonable asset growth coming out of your peers. Is this a reflection of protecting margins, the growth that we're seeing coming through at Investec, or do you think it is more a reflection of the client activity? Thanks.

Nishlan Samujh
Hi, it's Nishlan. I'll take the first bit of the question. I think as we have highlighted there were five items that we've treated as non-operational items that could be seen as discontinued for the period. We've stuck to reflecting it in adjusted earnings per share. To ensure that we are comparing like with like we have restated the comparative to remove the £22 million loss that would have been embedded in those numbers. So in other words we have picked up the comparative basic earnings per share in the determination of the negative 4% to 7% on adjusted earnings per share basis.

Fani Titi
Thank you. On the second question…

Nishlan Samujh

Is Harry clear on that answer?

Fani Titi
Harry, are you clear on the answer?

Harry Botha
Yes. So you're saying you have adjusted the base.

Nishlan Samujh
That's correct.

Fani Titi
So the competitive base number has gone up. If you look at adjusted earnings it is now £22 million more in the comparative period.

Nishlan Samujh
So the 4% to 7% is off that number.

Harry Botha
Okay. Thank you.

Fani Titi
On the second question, as indicated in the statement we have had good client activity and support in the private banking business in South Africa. The corporate bank however has seen lower client activity given the level of confidence in that market. So overall we've seen a growth in the loan book more in the private banking business, lower activity given issues around economic growth of under 1% in the country and generally a lack of investor confidence in the country. So really a tale of two cities, better support from private clients, more caution from corporate clients.

Harry Botha
And I guess from your own perspective the appetite in these conditions, would you say you're more keen to protect margin or is it still ultimately client-led?

Fani Titi
Look, we try to support our clients as we move forward. We have never as Investec tried to compete purely on price. We try to look for bespoke solutions for our clients and offer those to them. So we will always try to do what is best for our clients and obviously protect the business as far as is possible. But the environment where revenues are much tougher to come by is much more competitive, no doubt about it.

Harry Botha
Thank you.

Operator

Ladies and gentlemen, just a reminder, if you care to ask a question you're welcome to press star and then one. Ladies and gentlemen, just one final reminder, if you would like to ask a question you're welcome to press star and then one to place yourself in the question queue. We have a question from Edward West of Business Report.

Edward West

Good morning. I just wanted a little bit of insight in why the changes in the Irish business.

Fani Titi

The Irish business? Okay. We did announce previously that we wanted to simplify the business and we want to run businesses of scale. And thirdly, with respect to the Irish business there is Brexit coming so we decided that that business would not have the right scale for us going forward. So we decided to exit firstly the wealth & investment business, which if you look at the numbers that we have shown we are expecting a gain out of the sale of that business. But we didn't think we would get to scale. And the banking business specifically would be affected by Brexit, so we have decided to equally wind that down. As we go forward we will be in jurisdictions and businesses where we can have scale, and we can be relevant to our clients, and we can compete effectively. So that would be the logic behind the restructure of the Irish business. Hendrik?

Hendrik du Toit

I think, Edward, I fully agree with Fani. But everything we are doing is in line with the three words we've given you. Simplify, focus and grow for the long term. So we're trying to by the time we de-merge the Asset Management business, which will hopefully be completed before the end of the financial year, by that time we would present two very clearly focussed, simplified businesses which can scale in their areas they decide to compete in. And that's really been the transition of the last year or so.

Operator

Edward, does that answer your question?

Edward West

Thank you very much.

Operator

Thank you. Ladies and gentlemen, one final reminder, if you care to ask a question you're welcome to press star and then one on your touchtone phone to place yourself in the question queue. Gentlemen, we seem to have no further questions in the queue. Do you have any closing comments?

Fani Titi

What I would like just to reiterate again is we are on a journey as Hendrik indicated to continue to simplify the businesses, to focus on our core competitive strengths where we have built client franchises and we have support of our clients. And when we do de-merge the two businesses by the end of the first quarter we do believe that these businesses will have strong trajectories for growth in the long term. As we say we manage for the long term. In this particular period, as clearly seen in these results, we've had very good growth from Asset Management. We've had a good performance from our South African business, both the bank and the wealth business. We have had headwinds in the market-facing part of the bank in the UK specifically. Investment banking fees and trading income have been affected. But this is the season we are in and our peers have been affected similarly. But we've seen in the UK banking environment growth in the private bank and growth in the corporate lending book. So all in all a tough season, a tough trading environment, but we are on track in terms of our overall strategic thrust and execution.

Hendrik du Toit
100%, Fani. I just want to emphasise the two points that in assets under management across both the Asset Management and Wealth platforms we've grown solidly. And in asset creation i.e. client acquisition or client retention on the banking side there is a decent story. And hopefully the season will improve and one can then put the scores on the board in the more volatile parts of the business.

Fani Titi
Thank you very much.

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

END OF TRANSCRIPT