Presentation Transcript

15 March 2019

PRE-CLOSE BRIEFING

Hendrik du Toit

Thank you very much ladies and gentlemen for coming to our financial 2019 pre-results update. This will be brief, but just important to get you in the right mind-frame shortly before year-end. Before I start I have two things. Firstly, I think it's appropriate on a morning like this just to pay our respects to people who were very unnecessarily brutally murdered in New Zealand overnight. I think that's the kind of thing that makes you understand that we all should work for a better community, a better life where people understand one another. And in this world every day things like these happen, but when these headlines hit us we ought to pause and think. So from Investec's side I just want to say we think of the victims' families and of that community that has been so hard hit.

Secondly, I don't see him on the screen but it is important today to thank one special person. Glynn Burger, currently our Executive Director for Finance and Risk is retiring in 16 days' time. Glynn has been with this group, as Stephen always reminds us, since the 17th December 1980. You can calculate that is a lifetime of work. And Glynn has always been the man somewhere just around Stephen and Bernard, but doing a lot of the work that is not seen in public but really matters in tough times. We all as current management, from Fani, myself and the board would like to thank Glynn for his contribution and what he has done to build this group. Thank you. Let's give him a hand.

Now, you would remember that approximately six months ago we announced the strategic direction of the group simultaneous to a leadership change. And that was all about simplifying the group, focussing it and growing the discipline. And subsequently we've had two capital markets days, one for the Asset Management business in November and then more recently for the Bank & Wealth business where Fani and the team presented that. And we just want to reiterate that we are on a strategic path. We are not deviating from that. Subject to regulatory and shareholder approval we will be de-merging the Asset Management business and we will be pursuing this path of greater focus and disciplined growth in the long term.

And as far as the Bank & Wealth business is concerned Fani communicated some important strategic priorities at the recent capital markets day. It is all around increased discipline in capital allocation, management of the cost base for greater efficiency, accelerating revenue growth where possible, expanding connectivity across the organisation i.e. harmonising what we're doing for greater effect for clients, and ultimately bolstering our digital capabilities at a time when that is not an option any more. That is a necessity.

On the Asset Management side the focus is very much on the existing business and offering, but leveraging the unique global distribution reach that has been built and investing, deepening and strengthening the investment in client offerings so that continued growth can be assured. I will talk more about that. There will be a capital markets day for the Asset Management business shortly after the results in mid-May, and Fani and the Bank & Wealth time will engage again with shareholders to reiterate their strategy during the shareholder communication post results. There will also be a circular released between now and results with additional detail particularly around the capital effect of our plans and certain of the numbers that I know the analysts would like to see. So you will be well prepared for our May results presentation and the subsequent engagement with us after that.

I think important to just remind you of the operating environment we've been in. It is pretty tough. The fourth quarter of calendar year 2018 was a pretty volatile one in terms of equity and currency movements, and also of course growth in our two core geographies for the Bank & Wealth business has been rather weak. And I think that does have an effect on the business and one cannot ignore that. Overall good performance for the year to 31 March, or as it was at 28 February should give you a clue for where we are. Revenue is expected for the full year to be in line with the prior year. We have experienced substantial net inflows in the Asset & Wealth Management business. The loan books have grown in local currency. Our annuity income is at the same traditional high level that we are used to. Our expected credit loss charge is anticipated to be significantly less than the prior year and the ratios are expected to be between 0.3 and 0.35. I think that is well expected and signalled.

Modest cost growth in the business. We have had some one-offs to contend with. We will explain them in the divisional review and we will see them in the results, but we are focussing on cost and we will see increasing focus as we go into the new year. Taken together adjusted operating profit is expected to be ahead of the prior year and overall the group results have been impacted by the currency movements up to the end of February. In terms of the average Rand rate against the Pound Sterling there has been on the average a depreciation of around 4%. And then of course as I said the proposed de-merger and separate listing of Investec Asset Management is on track subject to final regulatory and shareholder approvals.

Then if I go to the divisional results, we will report in the same format as in the past, but we see the group as two units now, Bank & Wealth and Asset Management. The Bank & Wealth business is expected to report results ahead of the prior year and the Asset Management is expected to report results marginally behind the prior year. Our earnings drivers for the year were the increased assets under management. The number at the end of February was just under £164 billion under management for the whole group. Our core loans and advances, although they have decreased in Sterling, have grown in neutral currency and in local currencies where we've lent. And our customer deposits have increased by 1.1% to £31.3 billion, and much more on a currency neutral basis.

Balance sheet and liquidity, we are comfortable with where the balance sheet is both from a liquidity point of view – which I think in this kind of environment is pretty important particularly if you think about Brexit and the uncertainties around that – and our capital ratios are within our targets. The Investec Ltd and Investec Plc CET1 ratios are expected to remain in line with the target of 10%. We expect to implement FIRB in South Africa in the first quarter subject to final regulatory approval, and our leverage ratios are robust and comfortably ahead of the targeted 6%.

I think if we go to the divisional review Specialist Banking is where the momentum was over the last reporting period with a rise in net interest income on the back of a very strong performance from the UK Specialist Bank. The South African Specialist Bank is expected to report results behind the prior period, but on the whole it will be ahead. The net fee income will be flat. Strong advisory and structure fees in the UK banking business offset by lower investment banking and corporate client activity in South Africa which is consistent with the environment. And then other income is down largely because of realisations not taking place and weaker performance across the investment portfolio, both listed and unlisted.

Impairments have decreased significantly as we discussed earlier due to no further apparent substantial losses on the legacy portfolio. So we are moving on from that concept of legacy. Costs are up, in the UK expected to be roughly in line with revenue, and in South Africa it is growing ahead of revenue but there is a rental provision in the lease which makes the costs look higher than the underlying cost growth.

If I go to the Wealth & Investment business, that is expected to be below the prior year. Net inflows are still very good, £5 billion in this market, and it is mostly in the discretionary end which is where the value is. But we have some assets in discontinued non-core UK services and also as a consequence lower transaction-based commissions and of course the non-recurrence of an investment gain which is in the numbers last year. So a solid business, but with lower numbers for this year.

On the Asset Management side we have experienced substantial net inflows of £6.4 billion to the end of February which is really a highlight of the Asset Management's results. Revenue growth was dampened by the considerable volatility in the final quarter of 2018. You will remember how the average assets dropped over that quarter and recovered in the new year, but not as at the final quarter of 2018. And earnings have also been impacted by lower performance fee sin South Africa, higher costs in the UK which include MiFID and new premises. So that's the picture for the Asset Management business, £109 billion under management as at the end of February.

I think it's important to note that Nishlan warned last time about the tax rate. The tax is slowly increasing. When you come from a financial crisis your tax rate stays low for a while. And that is what is busy happening. Our tax rate at group level is normalising. It is expected to be approximately 13% compared to the 9.6% of the prior year. Net non-controlling interest of approximately £91 million related to the Asset Management business and the consolidation of the property fund. And the weighted number of shares, you know capital discipline is a big and important point for Fani and I, but there are still some options and other things maturing so the number of shares has increased to 942 million. That is an area of focus for us and we will talk more about that at results time.

So in conclusion, ladies and gentlemen, the group's performance has been supported by growth in assets under management, substantial net inflows, and a substantial improvement in the UK Specialist Banking business. The group is committed to our strategy of simplification, focus and growth with discipline. And the Bank & Wealth business and the Asset Management businesses are dedicated to pursuing this objective as outlined in the capital markets day and making sure we deliver on not only those targets but to pursue those objectives as doggedly. And we will talk more about that at both the capital markets day of the Asset Management business and the results presentation, and you will hopefully be well prepared when reading the circular about the balance sheet strength of the group going forward. Thank you very much. Are there any questions? Fani, would you like to add anything? Nishlan? You can get the difficult questions. Any questions from Johannesburg?

Ruby Rosenberg

Thank you. Good morning to you. Hendrik, I'm referring to the information provided on pages 24 and 25, Wealth & Investment assets, and Asset Management assets. It is very pleasing to see the increase in South African mutual funds over the year of 26.1%, and to note further that most of the growth came in the second half. Why then is there a substantial reduction of nearly 18% in the segregated mandates? And this position is very much mirrored if you refer to the Wealth & Investment assets for southern Africa as well.

Hendrik du Toit

Number one there is a significant flow between. There are significant market movements. If I look at the South African segregated assets in February 2019 you have a 16 billion. In September 2018 you had 18.5 billion. And you had significant market movement against you in that final quarter. So I would ascribe it largely to market movement. This is not a flow picture.

Ruby Rosenberg

Then what explains the increase in percentages for mutual funds, i.e. the non-segregated section?

Nishlan Samujh

There is a typo on page 25. To correct it, the mutual funds have increased by 5.1% and 1.5% down on segregated.

Hendrik du Toit

But there is still a down on segregated, so the question was correct on segregated. And really that is about the asset mix that you have. The asset mix inside and the flow mix. But the flow picture in South Africa has been pretty solid as you know if you look at the market. Again in South Africa your book is driven by the movement of very few stocks. So a 1% or a 2% movement either way is not that significant. I think that percentage number must have confused you and attracted attention, so apologies for that. There is also a percentage number mistake if you look at the lower part, that 41.3% and the 8% is also wrong. It should be 17.8% and 10.4% at the bottom end of that page. We will re-issue that table so that it doesn't generate confusion.

Ruby Rosenberg

Okay, thank you.

Richard

Are there any more questions in Johannesburg? We have one more question, Hendrik. Hold on.

Ian Cruickshanks

Ian Cruickshanks, Institute of Race Relations. There has been a surge in South Africa of new digital banks either starting or about to start in the banking business arena. Do you see this as making any significant difference to your model? You have always been really strong on personal attention to your clients. Do you think the fact that clients no longer have to come to you – you have to go to them – to a greater extent is going to make a difference to your operating model?

Hendrik du Toit

I will take the question and I will ask Fani to add if he thinks I haven't answered it properly, because that's his domain. But we have always been a business where clients didn't actually have to come to us. We've never been a branch operation historically. We have communicated with our clients via the telephone. We have gone to them. And now we have added very substantial digital investment to communicate. If you look at the advertising campaign that we launched this quarter at the beginning of the year in South Africa it was all about combining personal experience with digital efficiency. And we operate at the upper end of the market where people demand more than just the click. They want a click but they want a person as well.

So we feel the Investec model is extremely robust and well-suited. If you have big branch structures it is about cost savings. For us it is about serving clients. Therefore if you look at our costs when we report for the full year you will see the digital investment is substantial in this group. In fact we don't feel there is anything we would change. In fact, the market is probably coming towards Investec. And we have the clients. Many people want the clients. But we think we have more than a digital interface with them. And I think on the capital markets day Ciaran Whelan explained it really well. If you want to get a longer answer go to the capital markets day presentation. Maybe you can answer as well, Ciaran. At capital markets day you did it really well on how we compete with digital competitors.

Ciaran Whelan

Thanks, Hendrik. I will just add to what you said. We do get this question a lot in South Africa both from new entrants that are coming both at the lower end and people like the life insurance companies. One of the key differentiators that we have is that we offer both local and international offerings to our South African clients. So no other institution in South Africa can do that as seamlessly as we do it. So local banking, local investing, offshore banking and offshore investing. For any of you as a South African who have tried to get a banking facility overseas, particularly in the UK, it is exceptionally difficult. It is long-winded and you have to fill in a lot of forms which you don't like doing and which annoy you.

And we can provide those facilities easily because overseas if you're a South Africa you're deemed to be high risk, because South Africa is seen as a high risk country from the money laundering requirements. Therefore the amount of form filling is intense. So we provide all of those while complying with the laws very well, because you are clients of our South African operations and we are leveraged up with all the information and history you have, and we know that you are generally not high risk. We can help in those. That is one of our key differentiators as a South African institution.

Hendrik du Toit

Thank you Ciaran. I think that answers. We know it is going to be a very competitive game. You can talk to Ciaran, Richard and others over tea afterwards about what they're doing. Their minds are fully occupied with an ever-increasing competitive landscape. And that is the case for all our businesses. Any other questions?

Richard
There are no more in South Africa, Hendrik.

Hendrik du Toit
Thank you Richard. Thank you very much. Any questions in London? I think the questions are going to come at capital markets day and results presentation time, or after the circular has been sent around. And we will obviously be available to communicate and respond to any queries and questions once you've had time to digest the circular. Thank you very much. Thank you for attending and we will see you later in the year.

END OF TRANSCRIPT