

Conference Call Transcript

22 September 2023

PRE-CLOSE UPDATE

Operator

Good day ladies and gentlemen and welcome to the Investec pre-close trading update. All attendees 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 event is being recorded. I would now like to hand the conference over to Mr Fani Titi. Please go ahead, sir.

Fani Titi

Thank you, Danae, and good morning all. Thank you for joining us at this pre-close trading update. I will ask our Group Finance Director, Nishlan Samujh, to lead the call this morning. Nish, over to you.

Nishlan Samujh

Thanks, Fani. And we're also joined this morning by Ruth Leas, our CEO of the Investec Bank Plc, and Richard Wainwright, CEO of Investec Bank. Today's update is based on the financial performance for the five months ended 31 August 2023. The earnings guidance for the six months ended 30 September 2023 is based on the year-to-date performance. I am pleased to report that the group has continued to deliver a solid performance, despite the difficult macroeconomic backdrop which was characterised by high inflation and rising global interest rates.

In the past 18 months, we executed several strategic actions in line with our objectives to simplify, focus, and grow our business. These include the combination of our UK wealth business with Rathbones, which was successfully completed yesterday, the share buyback programme, and the distribution of our 15% shareholding in Ninety One. Our orderly exit from the Bud Group Holdings, formerly known as Investec Equity Partners, and the disposal of the property management companies to Investec Property Fund.

Turning to the underlying performance, our diversified business model and strong balance sheet have enabled us to support clients through challenging market conditions. Revenue growth has been supported by continued success in our client acquisition strategies, a high interest rate environment and balance sheet growth. This was partially offset by the effects of some of the strategic actions described above. The cost-income ratio improved as revenue grew ahead of costs and is expected to be below 60%. Fixed operating expenditure growth was driven by continued investment in people and technology as well as inflationary pressures. Variable remuneration grew in line with profitability.

Looking at the fundamentals for our core franchises, within specialist banking, core loans grew by 8.3% annualized on a neutral currency basis, driven by corporate lending in both geographies. Customer deposits increased by 9.3% annualised in neutral currency. Within the wealth and investment business, funds under management increased by 1.3% to £61.3 billion, with positive net inflows of £325 million in market conditions that continued to be challenging. Our South African business reported strong inflows, approximately R7.5 billion of net inflows in discretionary firm was partially offset by approximately R1.9 billion net outflows in non-discretionary firm. We had muted net inflows in the UK wealth business given the persistent economic uncertainty.

For the six months ended 30th of September 2023, we expect group adjusted earnings per share to be between 35.5 and 37.5 pence, or 8% to 14% ahead of the prior period. Adjusted operating profit before tax of between £428.7 and £449.6 million compared to £405 million in the prior period. Adjusted operating profit for the UK business to be at least 25% higher than the prior period, which was £174.4 million. Our specialist bank is expected to be at least 40% higher than the prior period. Adjusted operating profit for the Southern African business to increase by at least 5% on the prior period figure of R4.6 billion. Our specialist bank is expected to be at least 12% higher than the prior period in Rand.

ROE to be around the midpoint of the group's targeted range of 12% to 16%. The group credit loss ratio close to the upper end of the through the cycle 25 to 35 basis points. The expected credit loss experience to date reflects a higher interest rate and inflationary environment. We have seen idiosyncratic client stresses with no evidence of trend deterioration in the overall credit quality of our books. The year-to-date average Rand Pound Sterling exchange rate depreciated by approximately 19%, reflected in the Sterling earnings guidance provided above. Obviously for a Rand shareholder, this will result in a significant increase in the period.

Investec made further progress on its capital optimisation strategy. Our announced share buyback programme is progressing well and is expected to be completed in the current financial year. We continue to make progress in the realization of the remaining assets to facilitate our orderly exit from the Bud Group Holdings. The group remains well capitalised with strong liquidity and well positioned to continue supporting its clients as they navigate the uncertain and complex operating environment. I will now turn the call over to questions. Please note that this is a trading update, so there is only a certain amount of detail we can provide at this stage. Our results for the six months ending 30 September 2023 will be published on Thursday 16 November 2023.

Operator

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * then 1 on your telephone keypad or the keypad on your screen. A confirmation tone will indicate that your line is in the question queue. You may press the * 2 to exit the question queue. Just a reminder if you would like to ask a question, you are welcome to press the * and then 1. The first question comes from Harry Botha of Anchor Stockbrokers. Please go ahead.

Harry Botha

Hi, good morning. Thanks very much for the opportunity and the trading update. I just would like to get a sense of the fee income growth trends in the specialist bank if you could possibly give us some guidance on that. And then just if you could update us on the interest rate sensitivity as well for the South African and UK banks.

Nishlan Samujh

Sure. I think obviously fees are dependent on a couple of factors. I think we've seen very good transactional activity on behalf of our clients in the private banking business in South Africa. Fees across the board remain challenged in terms of slower economic activity and overall advisory, albeit that we have seen pockets starting to come through. And from our wealth businesses, I would say that to the extent that we do have quite a significant portion of our wealth business in South Africa that has offshore funds under management, the weaker Rand has actually had a positive impact on fees overall. And then with regard to lending, from a private client extension perspective, there has been a slowdown activity, and that obviously has a bit of a negative impact in terms of fee generation. But we've also seen a degree of a pickup in corporate activity across both geographies.

In terms of interest rate sensitivity, I think interest rates have continued to be a net positive impact on earnings. I think we've seen some positive moves yesterday. I think it's still early to judge the overall trend as inflation still remains a

concern across the geographies in which we operate. But across the US, UK and South Africa, we saw a pause in the increase in interest rates. In terms of sensitivity, I would say our UK bank, it's around about £9 million to £10 million for every 25 basis points. And South Africa, between R60 million to R80 million for every 25 basis points. Thanks, Harry. Hopefully that answers your questions.

Harry Botha

Yes, thank you.

Operator

Thank you. The next question comes from Alexander Bowers of Berenberg. Please go ahead.

Alexander Bowers

Good morning. Just two questions for me. Just starting with loan growth, I think it was 3.5% on a neutral currency basis across the group in the period. Would you just be able to give us a view on your expectations for growth in H2? And then secondly on the credit loss ratio, you mentioned South Africa was at the lower end of guidance with the UK at the upper end of its range. Could you give us a bit of colour on what you are seeing in terms of credit quality in each region and how you expect this to evolve over the course of the year? Thanks.

Nishlan Samujh

Hi, Alex. Thanks for those questions. I think in terms of loan growth, we've definitely seen activity in terms of corporate but in a challenging environment. I think credit extension for private clients will continue to be under pressure as we move through this financial year. That being said, we do operate in the high net worth and high net income bracket of the market. So, to the extent that opportunities arise, we anticipate that our clients will remain active. I think the overall growth annualised at about just over 8.3%, probably in line with the expectation as we move forward in this year.

With regards to the credit loss ratio, I think in SA the ratio remains positively impacted by higher levels of recoveries. And in both South Africa and the UK we have seen some increases in defaults. That being said, again, no pointers to any deterioration signs in any particular sector or any particular area of the book. In the UK we have an asset finance book which operates with a higher credit loss ratio through the cycle, the mix in terms of and the higher end of the loss ratio, I don't think again points to anything specific but we tend to operate at a higher level in the UK market.

Alexander Bowers

Thank you.

Operator

Alex, does conclude your questions?

Alexander Bowers

Yes, that's all from me. Thank you very much.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you'd like to ask a question, you're welcome to press * then 1 to place yourself in the question queue. The next question comes from Stephan Potgieter of UBS. Please go ahead.

Stephan Potgieter

Good morning. Thanks for the call. Just a question on the effective tax rates. Obviously UK tax rates increasing quite a lot. Is that new higher tax rate in for the full period? Or could you provide some indication of the overall effective tax rate?

Nishlan Samujh

Yeah, I think we pointed to the fact that tax rates have increased from a market perspective in the UK. From a bank, I think there is a 3% surcharge on the 25% base rate for corporates in the UK, and we're pointing to an effective tax rate that is maybe a couple of points below that at around about 26%. But the blended tax rate for the overall group will pick up from the prior year primarily driven by higher rates in the UK.

Stephan Potgieter

Thank you very much. Just if I may, on the Investec Property Fund, so is that fully deconsolidated for this period? So, there's no minority interest coming through on that.

Nishlan Samujh

You will have a period because the deal was effective early July. So, we would have consolidated for a period and then deconsolidated from that point. What you will see in our off-year results in November is that we will split it out between continued and discontinued. So, there will be a clarity of disclosure for you to be able to track through the go forward picture.

Stephan Potgieter

Thank you very much. That's it from me. Thank you.

Operator

Thank you. Ladies and gentlemen, just a further reminder, if you'd like to ask a question, you are welcome to press * and then 1. The next question comes from Chris Stewart of Ninety One. Please go ahead.

Chris Stewart

Good morning gentlemen and thanks very much for the opportunity. I'll keep it a very simple question this morning. If you could just give some degree of indication given the extent and timing of share buybacks as to what you would expect your weighted average number of shares in issue for the period to be please?

Nishlan Samujh

Sure, Chris. I think last year we closed at a weighted average of around about 905 million. We've indicated that we've purchased circa 64 million shares, the majority of those acquired up to March 2023. So, a large portion of that will be reflected in the weighted average number of shares. We'll give you the absolute number in the November results.

Chris Stewart

Sure, okay. Right, so 64 million of buybacks, which as you indicated, I think R5.5 billion of that had been done by financial year-end if I remember correctly. R5.5 billion Rands worth of the buyback. So, the bulk of that was done and therefore would be excluded over this period and the balance would obviously be partially excluded over the period. Thank you. Got you.

Operator

It appears we have no further questions in the question queue. I will now hand back for closing remarks.

Nishlan Samujh

Well, thanks to all of you for your time this morning. If you have any further questions, please do not hesitate to contact and get in touch with our team. All the very best, and guys, enjoy the long weekend and the rugby.

Operator

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

END OF TRANSCRIPT