PNGX Announcement/Media release

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New Strategic Direction provides focus for future growth: Credit Corporation delivers strong FY2019 result

Results highlights

- 34.8% increase in Net Profit After Tax to K132m (FY18: K98m)
- 21.7% increase in Group Core Operating profit to K105m (FY18: K86m)
- Net Interest Margin of 11.6% (FY18: 12.2%)
- 34.8% increase in earnings per share to 43 toea per share (FY18: 32 toea)
- 8% increase in net asset backing per share to K2.99 (FY18: K2.76)
- Group ROE 11.9% (FY18: 10.4%)
- Group ROA 6.8% (FY18: 6.0%)

Credit Corporation (PNG) Limited recorded a strong increase in Net Profit After Tax of K132m for the Full Year ending 31 December 2019, representing an increase of 34.8% on the prior comparable period. The Core Operating Profit of K105m also increased by 21.7% during the period.

The Total Capital and Tier 1 Capital ratios increased by 200bps to 30% and 22% respectively as a result of the improved profitability of the Group's finance business. The Group's capital adequacy ratios remain well above the minimum regulatory requirements of our various markets and Total Risk Weighted Capital was strong at K219.7m.

Group return on equity was also higher at 11.09%, representing a 150bps increase from FY18: 10.4%.

The Board declared a total dividend payment of 20 toea (FY18: 17 toea) per share to shareholders. This represents a dividend yield of 12.1%.

Credit Corporation Chairman Syd Yates said the Group had delivered an excellent result despite the economic challenges in key markets, increased competition, and international uncertainties over the period under review.

"This result also highlights our ongoing strategic focus on maximising shareholder value and creating a solid platform that supports our future growth ambitions

"Despite these challenges, we continued to focus on our key priorities of improving the customer experience, strengthening the Group's financial performance, and enhancing our technology and operational capabilities," Mr Yates said.

"We are also working hard to reduce the costs and risks to our business, and we made solid progress in the recovery of legacy loans during the year.

“A key focus for the Group has been strengthening our risk and compliance structures to meet the ongoing requirements of regulators and the ever-changing risk environment. This has been evidenced by the creation of a new role of Chief Risk Officer and the appointment of experienced executive Karen Mathers into that role.”

Credit Corporation Group Chief Executive Officer Peter Aitsi said despite more challenging economic conditions in 2H19, the loan book grew by 5.4% over the year as the Group adopted a renewed focus on sales across key markets. A key management focus continues to be the disciplined management of loan quality across all markets.

“Funding also increased by 10% over the full year as we raised more funds to grow the loan book and diversify our funding base, providing greater certainty to our funding profile and reducing our dependency on large institutional customers,” Mr Aitsi said.

Mr Aitsi said the transformation of the business under its new Strategic Direction was continuing to gather momentum.

“While macro conditions provided headwinds during the year, the prudent diversification of the Group has meant the broader business is delivering results in an environment where some of our markets are showing more subdued growth.

“The PNG finance business recorded a greatly improved result, with CC PNG recording NPAT of K14m, which represented a significant improvement from a loss of K1.2m realised in FY18.

“Both our property and investment divisions delivered strong increases in core underlying profit, while operating expenses reduced significantly due to lower loan impairment costs.”

Highlights

- Grew loan book in respective regions as follows: CC PNG (12%), CC Fiji (2%), while CC VL and CC SI decreased by 14% and 22% respectively. Growth in Solomon Islands was impacted by sluggish economic conditions whilst growth in Vanuatu was impacted by one-off impairment costs.
- Increased property occupancy rates by 6% overall to 82%, contributing to improved profitability despite downward pressure on rental rates.
- Significantly progressed recovery of a number of legacy loans.
- Respected IT firms Data#3 and Symantec Managed Security Services were engaged as lead service providers for IT-related services, including outsourcing of cybersecurity services.
- Increased dividend income stream from BSP has contributed to improved dividend income from the Group to shareholders.
- Implemented a funding strategy to diversify its funding base to achieve more certainty of funding, and better support a stable growth profile for the Group.
- Granted licence as a deposit-taking institution in Timor Leste, with first deposit customer onboarded in July 2019.
- Rolled out key strategic initiatives at the beginning of 1H19 to improve customer experience.
- Launched high-speed internet to tenants at Era Dorina estate. Service will soon be introduced to Era Matana Estate.

Credit Quality

Impairment costs reduced by 37.5% (K9.5m) compared to FY18 with significant progress also made during FY19 in relation to the recovery of legacy loans.

Loan provisions increased by 6.5% in FY19 with a total provision charge for the Group of K64.5m The increase was attributed to additional provisions due to impact from one-off credit quality issues for CC Vanuatu and impact of sluggish economic conditions in Solomon Islands. The Group continues to focus on managing loan book quality.

Property

The property segment recorded K17.5m core profit in FY19, which represented a 46.2% (K5.6m) increase on the previous year. The increase was attributed to improved occupancy rates coupled with tight cost control. Rental yields on properties improved over the past 12 months by 40bps. This was attributed to an increase in rental income, while fair value on properties experienced notable depreciation.

- Era Dorina – occupancy decreased to 61% (67% in FY18).
- Era Matana – occupancy increased to 94% (69% in FY18).
- Credit House – occupancy increased to 95% (92% in FY18).

Average occupancy levels for the property portfolio increased to 82% at the end of FY19 compared to 76% in FY18. Occupancy levels at Credit House have been stable, while more focus has been placed on ensuring stable occupancy levels at the residential properties.

Investment

The investment portfolio consists of listed equities, predominantly BSP shares. The valuation of shares in BSP increased by 14.8% in FY19. The dividends from BSP have contributed towards improved dividend yields for Credit Corp.

Outlook

While Papua New Guinea's economic growth rebounded in 2019, global and domestic economic uncertainties remain, which has potential to impact trading conditions during 2020.

However, the Group remains confident these macro factors can continue to be managed, given the diversification of the business.

Credit Corporation is confident the implementation of its new Strategic Direction will provide operational efficiencies and further build its capabilities to be well positioned to capitalise on future growth opportunities.

The Group will maintain its focus on disciplined, quality loan growth, while continuing to progress the recovery of legacy loans.

Credit Corporation is maintaining its strategic focus on maximising shareholder value and creating a platform that underpins future growth. The Group will continue to seek profitable growth opportunities via M&A, geographic expansion through its distribution networks and divestment of low yielding investments.

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For further information, interviews or images contact:

Peter Aitsi, Chief Executive Officer, (675) 7111 1429 or paitsi@creditcorporation.com.pg

Jeff Undah, Chief Financial Officer, (675) 70905216 or jundah@creditcorporation.com.pg

About Credit Corporation (PNG) Ltd:

Credit Corporation (PNG) Limited commenced business in 1978 as a general finance company. It has grown successfully to become recognised as one of Papua New Guinea's most progressive institutions. For more information about Credit Corporation PNG visit: www.creditcorporation.com.pg

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