



CCP- 2019 Half Year Results -PNGX

10/09/ 2019

Credit Corporation delivers strong first half 2019 performance as new strategic direction gathers pace

Results highlights

- 31.5% increase in Group Core Operating profit to K70.7m
- Net Interest Margin of 12%
- 5.3% increase in property occupancy rates to 79%
- 12.6% increase in earnings per share to 25 toea per share
- 5.9% increase in net asset backing per share to K2.90
- Group ROE 16.2%
- Group ROA 4.6%

Credit Corporation Group delivered an excellent first half to 30 June 2019 (1H19) with a 31.5% increase in Core Operating Profit to K70.7m and a 12.6% increase in Net Profit After Tax (NPAT) to K78.4m, compared to the 30 June 2018 (1H18) half year result.

1H19 NPAT and Core Operating Profit were also significantly above the budget forecast for the half.

Credit Corporation Chief Executive Officer, Peter Aitsi said it was pleasing these excellent results were achieved despite a backdrop of macro-economic challenges in respective countries in 1H19.

“Despite some headwinds early in the year, the Group experienced growth in all facets of its business,” Mr Aitsi said.

“The finance business experienced double-digit lending growth, while funding levels also grew in step with this,” he said

“Improved customer partnerships and a continued focus on delivering for our lending customers has improved the profile of the finance business in key markets. These initiatives, coupled with attractive market rates, have further strengthened the Group’s balance sheet and overall funding capacity.”

Mr Aitsi said the property division had also experienced improved occupancy rates.

“A continued focus on property upkeep and maintenance and improved services were the hallmarks of success for the property portfolio,” he said.

“At the same time, we are delivering a new strategic direction which focuses on enhancing customer experience and driving efficiency gains in all facets of the Group’s business. In 1H19 the Group made significant investments in technology, services, and products ensuring these investments deliver for customers as well as the Group.”

Key highlights of HY19 included:

- Grew loan book in CC Papua New Guinea (8%), CC Fiji (7.7%) and CC Vanuatu (13.7%).
- Increased occupancy rates by 5.3% overall, contributing to improved profitability despite downward pressure on rental rates.
- Progressed recovery of a number of legacy loans. The Group is continuing to focus on the recovery of remaining legacy loans.
- Engaged respected IT firms Data#3 and Symantec Managed Security Services as lead service providers for IT related services.

- Increased dividend income stream from BSP has contributed to improved dividend income from the Group to shareholders.
- Initiated a more diversified funding strategy which brings more certainty around the Group's funding base to support the growth outlook.
- Granted approval as a deposit taking institution in Timor-Leste. This is a positive step for CC Timor as it will enable self-funding of its operations and growth of its loan portfolio.
- Rolled out key strategic initiatives at the beginning of 1H19 to improve customer experience, including enhancing customer experience via digital platforms.
- Launched high speed internet at 20mbs to tenants at Era Dorina Estate. Service will soon be introduced to Era Matana Estate.

Credit Corporation Chairman Syd Yates said the new Board and management team had worked hard to stabilise Credit Corporation, and now need to fully focus their attention on driving further improvements in the business. The PNG economy has improved with important infrastructure projects underway and the Papua LNG agreement signed, which is expected to build momentum through the remainder of 2019 and into next year.

“Credit Corporation is being positioned for success over the next few years and beyond.

“The Board and management team are committed to ensuring we maintain a strong balance sheet, providing funding capacity to support our strategic and operational objectives and grow dividends and liquidity for our shareholders.

“I am confident we have an experienced Board and management team in place to drive our continued success in the dynamic and competitive financial services environment,” he said.

“We have focused on ensuring the alignment of staffing within our PNG companies to better service our customers. This has been combined with the changes to our Board committees to better reflect our commitment to strategy, disclosure and risk management.”

Finance division – Regional segment performance

Net interest grew by 18% or K5.9m compared to 1H18. This result was mainly driven by loan growth in the core PNG, Fiji and Vanuatu markets. Solomon Islands continued to face economic headwinds. Consistent with lending growth, the Group also focused on ensuring it maintained steady funding growth.

CC Finance PNG

More subdued domestic business conditions prevailed in the first half of the year, impacted by the continuing foreign exchange imbalance and tighter government spending levels.

CC PNG recorded a NPAT of K5.3m which was 6.5 times higher than 1H18. The loan book grew by 8.1% or K23m compared with the previous corresponding period. Solid progress was made on recovery of legacy loans during 1H19. The deposit book also grew by K6m or 2.6%. Net interest income grew by 18.4% or K2.4m. With tight liquidity conditions, interest rates will continue to rise and 2H19 will see margin compression for CC PNG.

CC Finance Fiji

The growth of the Fiji economy slowed in 1H19. System liquidity has begun to tighten due to high levels of lending and lower savings levels. The impact of this has pushed interest rates higher and weakened lending activities.

Despite these macro challenges, CC Fiji recorded NPAT of FJD\$4.8m in 1H19 which is a 6% increase from 1H18. CC Fiji's loan book grew by 7.7% or FJD\$10.9m and the deposit book grew by 6.3% or FJD\$8.3m. Due to tight macro conditions, it is anticipated that growth will taper off in 2H19.

CC Vanuatu

Vanuatu's GDP is expected to grow by 3% in 2019 despite challenges from natural disasters and weaker prices for agriculture exports. Construction remains a main driver, sustained by development partner-funded projects. Stronger earnings from tourism-related activities continue to be a key economic driver.

CC Vanuatu recorded a NPAT of VuV160m in 1H19, representing a 7.3% increase from 1H18. The CC Vanuatu loan book grew by 13% or VuV213m while funding also grew by 45% or VuV452 million. CC Vanuatu remains a stable growth business for the Group.

CC Finance Solomon Islands

Economic activity in the Solomons has been flat in light of weaker commodity prices and a lack of inflows from aid and donor agencies.

CC Solomons recorded NPAT of SBD\$2.7m, representing an increase of 2.9 times the 1H18 result. This result was achieved on the back of large recoveries on legacy loans. The loan book reduced by 26.8% or SBD\$29m. The Group has now placed more emphasis on managing this situation. Key initiatives are being implemented to achieve a turnaround in the performance of CC Solomons in 2H19.

CC Timor-Leste

The Timor economy is expected to take steps towards a recovery following political and economic uncertainty, and following the approval of 2019 budget in February 2019. In June, the Central Bank in Timor-Leste granted CC Timor a approval to take deposits from customers, enabling CC Timor to self-fund its operations and grow its loan portfolio.

Property division

The property segment recorded a 57% or K3.4m increase in core profits in 1H19 compared to 1H18. The increase was attributed to improved occupancy rates coupled with tight cost control. Improved rental yields was the result of an increase in rental income over the last 12 months, while fair value on properties experienced notable depreciation.

- Era Dorina – occupancy increased to 65% (58% in 1H18)
- Era Matana – occupancy increased to 77% (71% in 1H18)
- Credit House – occupancy increased to 95% (92% in 1H18).

The oversupply of properties in the Port Moresby market continued to put downward pressure on rental rates. Lease tenure for residential properties has averaged 24 months. The Group has continued to maintain its status as the preferred property company in the market despite the macro challenges. Credit Corp PNG will continue to invest in the upkeep of its property portfolio in order to maintain its position as a premium brand in the market.

The Group has appointed Savills from Singapore to perform a valuation on all of the Group's properties. The valuation results were available in time to be taken up in the 30 June 2019 accounts. The valuation outcome saw a fair value reduction of K21m taken up in 1H19.

Credit Corp PNG expects occupancy to settle at 80% to 85% by the end of FY19.

The Group also recently announced the appointment of Brent St. Hill as its General Manager Property.

Mr St. Hill has more than 15 years' experience in the property and leisure industries with extensive knowledge in all facets of property asset and hotel management, gained working both nationally and internationally.

Mr St. Hill joined Credit Corp Ltd from his role as General Manager with the Crown Hotel Port Moresby, and was previously the Group Operations Manager and Regional Manager with Steamships Trading Company for their Coral Sea Hotels subsidiary.

Outlook

The outlook for South Pacific Island countries remains optimistic with ongoing reforms to strengthen the monetary and exchange rate policy framework expected to improve business confidence and increase private investment and growth in the non-resource economy.

PNG's growth is likely to be underpinned by large-scale resource projects, with real GDP growth forecast to rebound to about 5% in 2019, primarily driven by a return to full annual production in the extractives sector.

Slower economic growth is expected in Fiji; however, the economy continues to show strength and resilience with the retail trade sector expected to contribute positively to domestic economic growth.

Vanuatu has experienced a recovery in tourism and agriculture combined with further increase in infrastructure projects which have sustained real GDP in recent years.

Credit Corp continues to see significant opportunities in key markets and will continue to invest in expanding the Group's infrastructure and capability to capitalise on the region's potential.

Strategically, the Group remains focused on growing new areas that are aligned with customers' needs as well as Credit Corp's existing strength across financial services, property and investment.

See PNGX 4B for further details.

A handwritten signature in black ink, appearing to read 'SYD YATES', with a stylized flourish extending from the end.

SYD YATES, OBE
Chairman

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) 7090 5216 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