



SBC Limited and Subsidiaries

Group Results

for the year ended 31 December 2023

(Incorporated in the Kingdom of Eswatini
Reg. No. 473 of 2011)
ISIN Code: SZE000331031 Share Code: SBC
Listed on the Eswatini Stock Exchange

HIGHLIGHTS OVER THE YEAR

Gross loan book growth of
8.9% ▲

Group revenue growth of
13.9% ▲

Earnings per share decrease of
42.3% ▼

Residential occupancy
19.7% ▲

Figures in Emalangeni

	12 months to 31 December 2023 Audited	12 months to 31 December 2022 Audited
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Income	433 954 911	383 722 901
Operating expenses	(182 118 653)	(157 593 114)
Impairment loss on loan and advances	(17 086 272)	(20 968 220)
OPERATING PROFIT	234 749 986	205 161 567
Other income	88 611 308	78 697 674
Finance costs	(273 339 037)	(226 207 673)
PROFIT BEFORE TAXATION	50 022 257	57 651 568
Taxation	(21 078 199)	(7 045 886)
PROFIT FOR THE YEAR	28 944 058	50 605 682
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	28 944 058	50 605 682

TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:

Owners of the parent	28 944 058	50 597 568
Non-controlling interest	-	8 114
	28 944 058	50 605 682

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2023	31 December 2022
ASSETS		
NON-CURRENT ASSETS		
Investment property	347 085 871	344 961 861
Property, plant and equipment	3 971 469	3 738 376
Goodwill	209 448 253	209 448 253
Intangible assets	4 796 778	4 519 043
Amounts owing by related parties	63 000 000	231 366 492
Other financial assets	261 351 404	1
Deferred tax asset	40 596 748	32 273 638
Loans and advances	1 045 091 545	958 232 848
Cash and cash equivalents	3 757 455	4 988 047
Right of use assets	1 979 099 523	1 789 528 559
CURRENT ASSETS		
Amounts owing by related parties	473 986 227	421 771 770
Current tax receivable	6 182 708	1 795 114
Work in progress	1 952 388	169 203
Loans and advances	319 527 682	296 244 847
Trade and other receivables	60 265 254	25 958 598
Cash and cash equivalents	91 275 966	159 080 937
Loan to contractor	11 430 648	10 644 889
	964 620 873	915 665 359
TOTAL ASSETS	2 943 720 396	2 705 193 917
EQUITY AND LIABILITIES		
EQUITY		
Share capital	348 329 629	348 329 629
Retained earnings	122 531 071	143 587 013
	470 860 700	491 916 642
Non-controlling interest	-	40 485
	470 860 700	491 957 127
NON-CURRENT LIABILITIES		
Amount owing to related parties	288 296 093	155 574 339
Other financial liabilities	1 048 979 006	973 385 324
Trade and other payables	-	11 423 735
Lease liabilities	2 323 026	3 584 976
	1 339 598 125	1 143 968 373
CURRENT LIABILITIES		
Amounts owing to related parties	412 636 973	31 990 255
Other financial liabilities	690 716 716	1 023 370 685
Current tax payable	-	3 548 196
Trade and other payables	28 129 649	8 644 475
Lease liabilities	1 778 413	1 714 806
	1 133 261 571	1 069 268 417
	2 472 859 696	2 213 236 790
TOTAL LIABILITIES	2 472 859 696	2 213 236 790
TOTAL EQUITY AND LIABILITIES	2 943 720 396	2 705 193 917

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2023	2022
SHARE CAPITAL		
Balance at the beginning of the year	9 649	9 649
SHARE PREMIUM	348 319 980	348 319 980
Balance at the beginning of the year	348 319 980	348 319 980
RETAINED EARNINGS	122 531 071	143 587 013
Balance at the beginning of the year	143 587 013	123 007 916
Dividends declared	(50 000 000)	(30 000 000)
Profit for the year	28 944 058	50 597 568
Other movement	-	(18 471)
NON-CONTROLLING INTEREST	-	40,485
Balance at the beginning of the year	40 485	35 476
Movement for the year	(40 485)	5 009
TOTAL EQUITY	470 860 700	491 957 127

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	45 062 067	126 069 985
Interest income	88 501 813	76 007 752
Interest paid	(180 436 655)	(213 292 335)
Tax paid	(37 337 098)	(20 604 944)
NET CASH GENERATED FROM OPERATING ACTIVITIES	(84 209 873)	(31 819 542)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1 796 749)	(2 259 793)
Proceeds on sale of property, plant and equipment	68 983	58 810
Expenditure incurred on investment property	(2 124 010)	(13 370 367)
Purchase of other intangible assets	(2 876 191)	(2 648 594)
NET CASH USED IN INVESTING ACTIVITIES	(6 727 967)	(18 219 944)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans from group and related parties	(97 669 509)	(190 842 994)
Proceeds of loans from group and related parties	135 200 000	181 500 000
Proceeds from other financial liabilities	280 103 109	185 186 582
Repayment of other financial liabilities	(242 574 610)	(116 232 558)
Repayment of lease liabilities	(1 926 121)	(2 242 976)
Dividends paid	(50 000 000)	(19 505 580)

8. SEGMENTAL ANALYSIS

	Consumer lending split by geographic region						Segmental reporting by product group					
	Eswatini Consumer Lending		Lesotho Consumer Lending		Total Consumer Lending		Eswatini Property		Group			
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Segmental reporting	229 103 270	214 419 587	188 632 820	151 919 260	417 736 090	366 356 347	16 218 821	14 735 177	433 954 911	381 091 524	-	-
Income	37 324 572	55 094 459	58 091 016	45 311 753	95 412 588	100 406 212	(45 393 331)	(42 754 644)	50 022 257	57 651 568	-	-
Profit/(loss) before taxation	(17 594 444)	(15 447 693)	(15 509 688)	(4 667 714)	(33 104 132)	(20 115 407)	12 025 933	13 069 521	(21 078 199)	(7 045 886)	-	-
Taxation	19 730 128	39 646 766	42 581 328	40 644 039	62 311 456	80 290 805	(33 367 938)	(29 685 123)	28 944 058	50 605 682	-	-
Profit/(loss) for the period	778 023 405	729 046 200	624 837 119	563 944 028	1 402 860 524	1 292 990 228	-	-	1 402 860 524	1 292 990 228	-	-
Gross loans	(24 857 371)	(25 030 279)	(13 383 927)	(13 482 254)	(38 241 297)	(38 512 533)	-	-	(38 241 298)	(38 512 533)	-	-
Impairment provisions	753 166 034	704 015 921	611 453 193	550 461 774	1 364 619 227	1 254 477 695	-	-	1 364 619 226	1 254 477 695	-	-
Net advances	2 304 165 202	2 163 365 927	640 734 807	567 169 109	2 944 900 009	2 730 535 036	402 592 366	382 372 355	2 943 720 396	2 705 193 917	-	-
Borrowings	1 979 725 200	1 795 742 545	390 233 980	367 921 231	2 369 959 178	2 163 663 776	474 441 579	421 590 189	2 440 628 788	2 184 320 603	-	-
Total segment liabilities	1 970 656 727	1 820 701 234	429 092 373	376 953 864	2 399 749 100	2 197 655 098	476 882 575	423 295 166	2 472 859 696	2 213 236 790	-	-
Equity	333 508 475	342 664 693	211 642 434	190 215 245	545 150 909	532 879 938	(74 290 209)	(40 922 811)	470 860 700	491 957 127	-	-

Total segment assets, borrowings and Total segment liabilities are after the elimination of cross holdings between the segments.

The segments are aligned with management's approach to the business. As a result in the increased investment in housing, it is now appropriate to identify Property as a distinct segment from the existing consumer lending business.

COMMENTARY

CORPORATE TRANSACTIONS DURING THE YEAR

SBC Limited's acquisition of the 100% share capital of Lesana Lesotho Limited from Select Limited:

SBC Limited owns 99.99% of Select Ltd, which historically wholly owned Lesana Lesotho. The value of Select Ltd's investment in Lesana was held at cost of E25 million. During the period under review management has identified an opportunity to realize the underlying fair value of Lesana on the SBC Statement of Financial Position, and therefore presented a proposal whereby SBC Ltd acquires Lesana Ltd from Select Ltd at fair value.

As part of the due diligence on the transaction, Management engaged BDO SA to do an expert independent valuation. Based on the valuation report, the median value of the Company was deemed at E436 million, including a shareholder inter-company loan of E150 million. As the proposed transaction excludes the shareholder loan receivable from Lesana to Select Ltd, the proposed selling price of Lesana was set at E286 million. This commercial transaction was approved by the various Boards of SBC Ltd, Select Ltd and Lesotho Ltd, effective 30 June 2023.

Select Ltd realized a profit of E261 million. Select Ltd, in turn, utilized the profit realized to declare a dividend of E261 million to its shareholder, SBC Ltd. The dividend receivable was utilized to partially offset (91%) against the purchase price of E286 million, leaving a small balance of E25 million of the purchase consideration owed to Select Ltd by SBC Ltd. The net financial position of Select Ltd remained unchanged as the full profit generated from the sale of its investment in Lesana, was declared as a dividend to SBC Ltd. SBC's net financial position in turn increased by E261 million post-transaction, as a result of the dividend received from Select Ltd.

Select Limited's acquisition of a 10.51% minority stake in Ezabeni Property Holdings (Pty) Limited (Previously named, Cultural City Developments):

In line of the strategic intent of the African Alliance Group to diversify from finance activities to retail and property, African Alliance Limited ("AAL") and its subsidiaries entered into a number of large property transactions in 2020 to effect the strategic intent. The Select Group has developed a large number of rental properties in the last few years.

AAL entered into a contractual arrangement in 2020 with a third-party local developer, Ezabeni Property Holdings (Pty) Limited (Previously named, Cultural City Developments), which owns 200 hectares of prime land in Ezulwini, Eswatini, suitable for very high-grade development, where it was agreed by both parties to combine their property assets with the intent to build a combined strong balance sheet to facilitate debt and equity raising.

During 2023, a conservative valuation of the total value of Ezabeni Property Holdings amounted to E1.9 billion. Select Ltd executed an investment of E243mml equating to a 10.51% shareholding in Ezabeni Property Holdings. Select management was comfortable with the conservative initial investment and is confident that substantial future growth will be extracted from this investment which is further aligned to the Select Group's long term property strategy.

OPERATIONAL REVIEW

The SBC's results for the year ending on 31 December 2023 indicate that our strategy to gain market share in all the trading environments we operate in has been successful. Our people have shown great resilience, hard work, and dedication in executing this strategy, which has led to strong revenue growth of 14%, totalling E 417.7m (December 2022: E 366.4m) from our consumer lending side. However, the higher interest cost cycle of the market impacted the profit after tax performance by E62.3m (December 2022: E80.3m), which is still a credible result. With the high interest rate cycle anticipated to start reducing during 2024, management is confident that this positive impact will be noted in the future profitability position of the Group. The growth in revenue was mainly driven by our Lesotho business, achieving revenue growth of 24.2%, while our Eswatini business, trading in a more mature market, experienced inflationary growth.

In Eswatini the lack of market-related increases in civil service pay continues to impact this market segment. The Gross Domestic Product was expected to grow by approximately 3.5% during 2023, with the actual growth experienced of 4.8%, further emphasizing the credible result in Select Ltd of 6.7% of gross loan book growth.

In Lesotho, Lesana has grown by 4.8% on a profit after-tax line compared to December 2022, while the IMF projected the economy to have only grown by 2.1% in 2023. The comparison in Lesana is to rather use the profit before tax as an indicator due to substantial tax credits accounted for during the 2022 financial year. The profit before tax position has increased by 28.2% to E58m (2022: E45m). Lesana continued to deliver substantial growth to the SBC Group and expects this trend to continue in the foreseeable future. We have seen a continuous improvement in the Group's residential rental offering, consisting of 147 units, with occupancy growth of 20% since December 2022, ending on 91% occupancy as at 31 December 2023 (2022: 76%), indicative of the success of our residential offering in Eswatini. Management are delighted to note that the occupancy percentage since March 2024 reached the 95% occupancy levels, which is expected to be maintained. The retail centre remains fully occupied through long term leases in place with Pick n Pay, KFC, and West Pack.

FINANCIAL REVIEW

During the review period, the socio-economic environment remained stable in both Eswatini and Lesotho. However, we observed an overall compression in the local Eswatini market across both our market segments and some of the wider African Alliance Group's retail operations.

Despite these challenges, SBC showed resilience and delivered a credible result for the year ending 31 December 2023. Management focused on maintaining a strong liquidity position to support the growth of the loan book driven by disbursements which amounted to E474m (December 2022: E428m) for the year under review. Disbursements in Eswatini increased by 21% to E240m (December 2022: E198m), while disbursements in Lesotho were maintained at the 2022 levels although impacted by a slight liquidity constraint during quarter 4 which impacted the total disbursements for the year. As a result, the SBC aggregated gross loan book increased by approximately 8.5% (E1.40b) compared to December 2022 (E1.29b).

The SBC Group's consumer lending revenue grew by 14% to E417.7m (December 2022: E366.4m), mainly as a result of the substantial loan book growth in Lesotho while maintaining a stable yield in both Select Ltd and Lesana Ltd. The overall Eswatini yield ended consistently at 30.1%, while the Lesotho yield also ended favourably at above the 30% margin showing growth to prior comparable periods ending slightly below 30%.

The SBC Group's revenues increased by 13.9% to E434.0m (December 2022: E381.1m), inclusive of revenue of E16.2m (2022: E14.7m) generated from the retail and residential rentals of our Malkerns Square property development.

The SBC Group's total operating expenses increased by 13.5% to E182.2m (December 2022: E157.6m), mainly as a result of investing in resources in Lesana to support the substantial growth. It is the Group's opinion and strategy to continuously empower and grow all stakeholders, including our staffing complement.

The book profit margin in both Eswatini and Lesotho was diluted compared to the prior comparable period due to the higher cost of debt, including both interest and debt-raising costs. However, the pressure on our book margin was partially offset by lower provisioning for bad debts resulting from improved collections and arrear account management. A stable collection performance, particularly in managing the distressed loan portfolio, enabled the total SBC Group's impairment provision cost to end at 2.73% of the gross loan book (December 2022: 2.98%).

Due to the current high cost of debt interest cycle and the investment made in Ezabeni Property Holdings, finance costs (excluding interest income) of E184.8m (December 2022: E147.6m) increased by 25.3%, which was higher than the loan book growth. Our debt is mainly funded through notes issued under the MTN programs and other promissory notes. E50.4m (December 2022: E44.6m) of the total interest expense is attributed to the funding cost of the Malkerns Square project. The balance of this increase is attributed to growth in the consumer lending business coupled with the cost of carrying excess funding. As a percentage of revenue, consumer lending (excluding the impact of the investment made in Ezabeni Property Holdings) net interest paid amounts to 30.82% (December 2022: 28.42%).

Although the profit after tax is indicative of a decline when compared to the prior comparable period at E28.9m (December 2022: E50.6m), this was due to the following four factors:

- The prior year tax expense was unusually low, due to E6.8m of tax credits we received in our Lesana business for an overcharge of previous years withholding taxes, hence the prior year is not comparable to the current period under review.
- The high interest rate cycle resulting in higher interest cost of approximately E11m, which is not a permanent occurrence and should start to move back to normalised rates in the next 12 to 24 months.
- Additional E3.8m cost incurred to protect our loan book from external settlements by competitors.
- Additional investment made in Ezabeni Property Holdings, resulting in a higher net interest expense of approximately E6m, although substantial future, fair value gains through capital appreciation are expected.

OUTLOOK

Property Outlook:

As previously communicated, Select Group's long-term strategy, specifically in Eswatini, aims to diversify its loan-book by providing "mortgage-type" financing to customers who are not currently being serviced by traditional banks. This will result in Select building a loan book backed by an actual asset in the form of property.

The company is currently exploring the feasibility of offering a "Rent to Own" housing product, whereby the customer would enter a long-term rental contract for a housing unit, with ultimate ownership transferring to the client upon the last rental instalment being paid. This new loan offering carries a materially different lending risk from our current loan book offerings, with a substantial advantage being that each loan is secured by an asset in the form of a Pine Acres developed property, which remains under the ownership of the Group up to the point that the last "Rent to Own" loan instalment is settled by the client.

Within the broader SBC group, Pine Acres has successfully developed a residential property development known as "Malkerns Square". The first two phases of this development were completed between 2021 and 2022, and the project has achieved excellent occupancy rates. The total occupancy rate ended on 91% in December 2023 and reached the 95% levels during quarter 1 of 2024. This strengthens the potential for further development of 400 to 600 residential units on the Malkerns Square property in the future. Management is prepared to execute on the 2023 planning and development of an additional 50 to 100 residential units in 2024. We are also planning to improve the already exceptional amenities by adding "Padel Courts" to the Malkerns Square public offering, which will be Eswatini's first professionally constructed Padel Courts in the Kingdom of Eswatini. Additionally, the company plans to commence the development of the second phase of its retail expansion, which is expected to be nearly three times more profitable than the current retail development.

As the current and future property developments will be completed under the Pine Acres stable, it is appropriate to consider restructuring the current Loan Book Company ("Select Ltd") and the Property Development Company ("Pine Acres") to achieve efficiencies and synergies in line with the longer-term strategy.

General Outlook:

Although the Eswatini payroll market has become saturated in recent years whilst still expecting inflationary growth, management is anticipating significant growth in the Lesotho payroll market to continue. Lesana aims to achieve a market share of 20% or more in the payroll segment in 2024. As part of the 2024 strategy, the company plans to aggressively expand various higher yielding short term products across Eswatini and Lesotho, in addition to its current product offerings.

Management retains an optimistic outlook for the SBC Group, owing to the various investments made in resources and the dedicated focus on liquidity management. As a result, SBC is in an excellent position to navigate the ever challenging business environment and take advantage of new opportunities as they arise. The management expresses confidence that SBC will continue to provide favourable, above inflationary returns to its shareholders for the foreseeable future.

FINANCIAL STATEMENTS

The annual financial statements for the year ended