



SELECT AFRICA | GROUP OVERVIEW | JUNE 2019



# Select at a glance

## SELECT'S FOOTPRINT

loan book operations in

**4** countries

**17** branches

**51** interim satellite offices & c. **209** mobile sales agents

c. **116** full time employees

c. **62k** active loans

Focus on **housing & incremental housing** loans

**Broad** loan product mix tailored per region

Variable cost base driving **scalability**

**Highly** cash generative

## FINANCIAL HIGHLIGHTS in 2018

c. **USD 78.4m** gross loan book at 31 December 2018

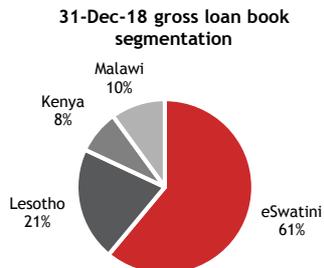
Gross loan and advances **growth** of c. **116.5%** over 7 years

First strike collection rate in excess of **95%**

Loan book provisions of c. **4.5%** at 31 December 2018

Cost to income of c. **51.1%**

Return on equity of c. **25.1%**



## PROVEN TRACK RECORD

Driven by an **experienced & committed management team** with over **20** years of **experience**

**Expert technological platform** for loan book origination & administration

**3<sup>rd</sup> party loan administration**, finance & operations reporting

**New digital, paperless loan management system** that has significantly improved Select's **operational efficiency** and an **enhanced control environment**

**Government licenses & payroll deduction codes**

**Highest standards of corporate governance** and reporting

## A RESPONSIBLE LENDER

**Financial inclusion** to under-banked market

Built-in lending mechanisms to ensure **customer affordability**

**Credit life and funeral insurance** embedded in loan product to customers

Project plan to adhere to **Client Protection Principles** by December 2019

Long term affiliations with **leading DFI's** and **technical partners**

Significant contribution to **African capital market development**, with inaugural debt placements, providing local institutions and individuals with a compelling investment product opportunity.



# Introduction

Select Africa Finance Limited (“Select”, “SEFL” or “the Group”) is a retail financial services group focusing primarily on the extension of **retail unsecured, incremental housing microfinance, education and consumer finance loans**, ranging from three to seventy two months. The Group commenced operations in August 1999, with the opening of its first branch in Mbabane, eSwatini, followed by the establishment of subsequent operations. Today, the Group has operations in **eSwatini, Lesotho, Kenya and Malawi**. The Group consolidation is at SEFL, incorporated in Mauritius, and the ultimate holding company is Select Africa Limited (“SELA”), incorporated in the Isle of Man.

**Microfinance** is broadly the provision of small-scale financial loan products to lower-income individuals. **Select’s typical customer** is employed, yet unable to access personal or housing finance through traditional banking channels due to the banks’ aversion to perceived higher risk customers, and the inability to mortgage or attach properties as security across many countries in Africa. The Group’s primary customer base tends strongly towards **public sector employees**, typically being the largest and most stable formally employed base in markets across Africa, and resilient to economic cycles.

The majority of **loan repayments** are made via payroll **deductions at source**, with payroll deduction agreements with government institutions in place, allowing for consistently strong collection rates.

With **over 20 years of experience in general and housing microfinance in Africa**, the Group understands that customers in each market have very different needs and preferences in their borrowings. As a result, the Group **has customised a broad product offering** that is designed specifically to meet customer preferences and offer new product innovation.

Regional management are supported by **Select Advisors (Pty) Ltd**, a senior Group operations and advisory team based in Johannesburg. Whilst Select operates as an independent business silo, it benefits from the infrastructure of its major shareholder, **African Alliance (“AA”)**, including a well-defined and robust corporate governance framework, centralised IT, statutory, regulatory, legal and HR functions. AA is a premier investment banking and investment holding group operating in 16 countries across Africa.

Select’s operations are supported by a **world class 3<sup>rd</sup> party administration hub**, Pivot Limited (“Pivot”), located in Mauritius. Established in 2008, Pivot is responsible for loan book management, workflow administration, document management and accounting, providing an enhanced control environment through segregation of duties.

Furthermore, Select has built long-term affiliations with **leading DFI’s and technical partners** in the incremental housing and microfinance arena.

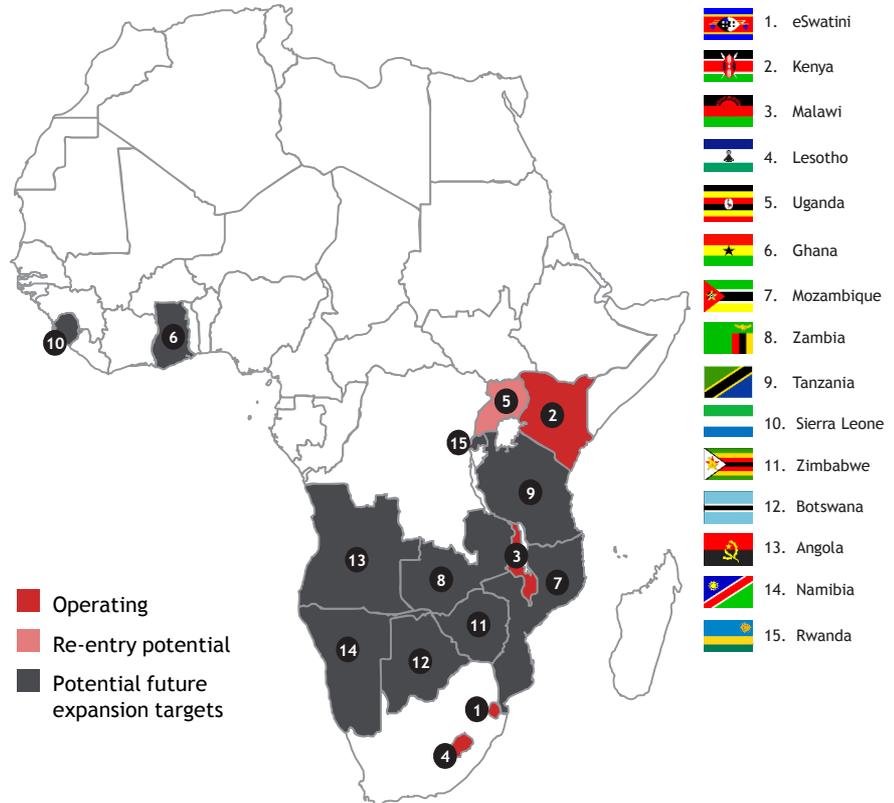
# Select's African footprint

Select's current operations are in four countries across the African continent, and include **eSwatini, Lesotho, Kenya, and Malawi**. Select is continuously assessing the viability of other jurisdictions in Sub-Saharan Africa, as illustrated.

The African continent provides a **compelling investment case** for Select. Compared to other world regions, Africa:

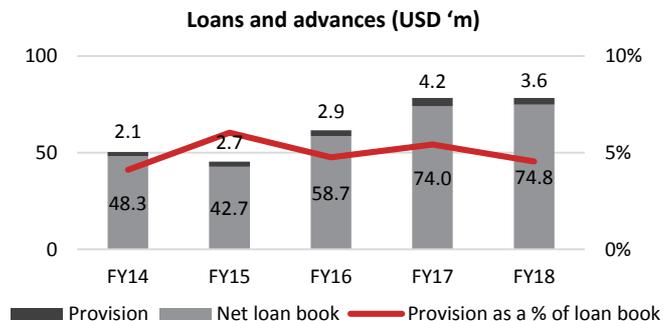
- has some of the high population growth rates (notwithstanding current economic pressures\*);
- is experiencing rapid urbanisation;
- has one of the largest housing deficits;
- has a rapidly rising labour force;
- has a large civil servant population; and
- has rising GDP per capita.

Consequently, at Select we constantly monitor the relevant economic and political indicators in our target geographies to ensure that we are well-placed to **provide the right products, at the right time, for our target market**.

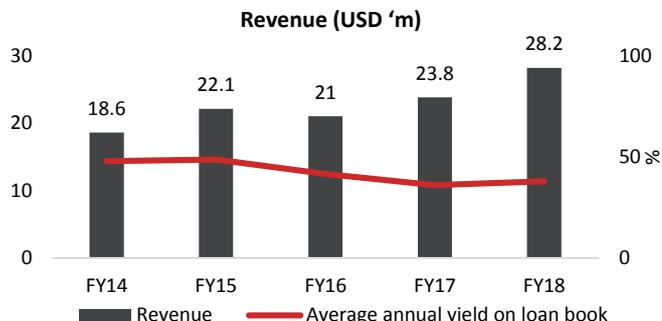


\* Including global economic pressure, political uncertainty, the commodities downturn and the slowdown in the Chinese economy.

# Group financial review



- Dip in FY15 predominately due to the negative impact on USD conversion of local currency loans, difficult trading conditions due to the global economic downturn, with collection challenges in Kenya and Malawi.
- Uptick in FY16 and FY17 due to increased disbursements across all jurisdictions, and Select's innovative new loan origination and management system resulting in quicker deal turnaround with an enhanced control environment.
- Despite increased disbursements and a lower impairment provision due to a better collections environment across all jurisdictions, FY18 loan book remained fairly flat as a result of the negative year end USD spot rate of SZL14.39 (FY17: 12.38).



- Uptick in FY15 due to higher loan book interest income and fair value revaluation on Malkern's Square investment property in eSwatini.
- Slight decline in FY16 primarily due to the effect of a weaker average USD exchange rate in FY16 (SZL14.70) compared to FY15 (SZL12.77), despite overall growth in local currency revenue across all operating jurisdictions.
- Uptick in FY17 and FY18 due to higher revenue from larger loan book and increased disbursements across all jurisdictions, fair value revaluation on the Malkern's Square investment property as development construction progresses, and a stronger average USD exchange rate in FY17 and FY18 (SZL:13.30).

# Incremental housing finance

Historically, the **penetration rate of financial services** in particular housing finance in African markets, is hampered by restrictive credit policies from retail banks and financial institutions, which has inhibited the economic development of lower income individuals. **Housing affordability** is a function of **household income, house prices and financing terms**.

Select's **incremental housing finance** and **self-build solutions**, coupled with the right technical assistance, present a viable alternative to conventional mortgages. This model entails the extension of **multiple, successive microloans** to customers who intend on building or renovating their homes, with each loan granted on the basis of the **customer's affordability**. A further loan is granted when the preceding loan is repaid, or as the customer's loan affordability improves, thus allowing more people access to housing finance. The incremental home loan's staggered design reduces the monthly instalments and in turn the total interest paid.

Select is fundamentally committed to responsible lending practices where customers borrow on terms which they can afford.

The table below summarises and compares the two financing structures. Even with an all-in interest rate two times greater than the conventional mortgage rate, the incremental home loan is still more affordable.

Illustrative example	Conventional mortgage	Incremental housing
Total capital borrowed	USD 10,000	USD 10,000
Annual interest rate	25%	50%
Loan structure	Single 10-year loan of USD 10,000	Five back-to-back two year loans totalling USD 10,000
Monthly instalment	USD 228	USD 133
Total interest charge	USD 17,299	USD 6,011



# Funding

As a non-deposit-taking institution, **Select raises wholesale funding** that it on-lends to customers.

Our **current funding structure is diverse**, and includes:

- Shareholders' equity;
- Six listed Medium Term Note (“MTN”) Programmes on the eSwatini Stock Exchange (“SSX”);
- An unlisted MTN Programme in Malawi and in Lesotho;
- Funding from Soros Economic Development Fund (“SEDF”);
- Funding from the African Local Currency Bond (“ALCB”) Fund;
- Funding from Mergence Investment Managers (“MIM”)
- Other debt instruments including Promissory Notes;
- Debt arrangements with 3rd party corporates, institutional investors, and sovereign wealth funds;
- Intercompany funding arrangements; and
- Various overdraft facilities from local banks.

Our **future funding initiatives** include:

- Listing a MTN Programme in Lesotho on the Maseru Securities Market (one of first issuers on the exchange);
- Listing an asset-backed MTN in eSwatini for the Malkerns Square development;
- Structuring a private placement unlisted asset-backed debt instrument in Kenya; and
- Securing investment from other leading impact investors and DFI's.



We seek to raise capital at both a Group and country level. Seed capital is raised at a Group level for expansion into new geographies and to grow new operations. Once the new business has gained sufficient scale, having grown the loan book asset, and built a track record of profitability, we seek to raise local funding in local capital markets of established jurisdictions. This has the advantage of:

- providing funding in local currency (cheaper cost of funding);
- Avoiding foreign exchange currency risks associated with borrowing and lending in different currencies; and
- building a stand-alone business.

Select has successfully implemented this funding model in eSwatini, Malawi, and Lesotho.

# Our current partners

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Established in 1997, Soros Economic Development Fund (“SEDF”) is a non-profit private foundation, founded by investor and philanthropist George Soros. SEDF promotes economic opportunities and access to affordable and essential goods and services for under-served populations in less developed countries, with a focus on financial inclusion. In January 2011 Select Malawi entered into a funding agreement with SEDF. Subsequently, SEDF extended further funding at a Group level for deployment into housing finance in other jurisdictions across the Group in September 2016.



The African Local Currency Bond (“ALCB”) Fund was initiated by KfW Development Bank and the German Federal Ministry for Economic Cooperation and Development (“BMZ”) in 2012, with additional investment from the International Finance Corporation (“IFC”), FSD Africa, and BMZ. In 2017, Select concluded investment from the ALCB Fund in our Malawi and Lesotho businesses, with plans for further investment in other geographies over time.



Habitat for Humanity International (“HfH”) is a non-profit, non-governmental organization, with a focus on improving housing conditions for the poor. Select is in partnership with HfH, where Select provides housing finance, whilst HfH provides technical construction advice to borrowers, ensuring that the funds borrowed are used to build or improve houses in a technically sound manner. Following the success of the initial partnership in Malawi, Select and HfH have also partnered in Lesotho and Kenya.



Select recently implemented a new loan management system that was developed by MIP. The system is fully functional now and has substantially improved operational efficiency with quicker loan disbursement turn-around, improved customer experience, enhanced internal controls, and reduced operational costs.



Lafarge is a leading supplier of quality cement products, with a focus on providing solutions for the sustainable development of better cities that benefit the country's people. Select Kenya has partnered with Lafarge on their affordable housing initiative, where Lafarge provides technical assistance to Select's customers.



In addition to the African Alliance in-house company secretarial and legal services, Select utilises the company secretarial services of Maitland at a Group level.



Established in 1997, Paragon Architects is an internationally active African design business based in Johannesburg. Paragon will deliver commercial architecture, master-planning, interior design and space planning on the Malkerns Development in eSwatini.



Select is a member of the African Union of Housing Finance (“AUHF”), which currently has 56 members from 16 countries. AUHF is a member-based association of mortgage banks, building societies, housing corporations and other organisations involved in the mobilisation of funds for shelter and housing on the African continent.



KPMG are our external auditors

# Corporate governance

Select is committed to the principles of sound corporate governance to safeguard the interests of the Group, its shareholders, and its investors. Management and the board believe that sound corporate governance principles and processes are fundamental to delivering sustainable growth.

The Group complies, in all material respects, with best practice corporate governance principles set out in King III. SBC Limited is also listed on the eSwatini Stock Exchange, and therefore complies with the listing requirements. Several committees have been established to assist the board of directors in overseeing various areas of governance.

This includes the following monthly committee meetings:

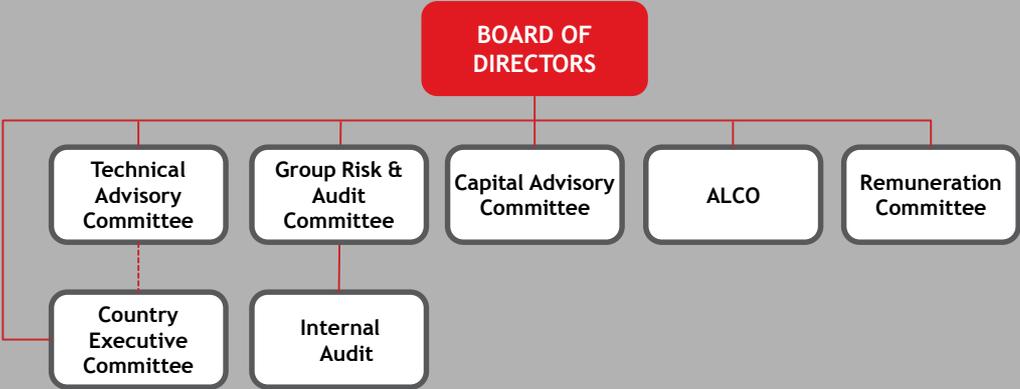
**Country Executive Committee:** day-to-day business operations are discussed at an individual country level;

**Technical Advisory Committee:** strategic, technical, advisory and operational matters discussed at a Group level; and

**ALCO:** Asset and Liability management for each operation and on a Group level to determine future funding needs.

Ad-hoc meetings are also held, and include:

**Capital Advisory Committee:** is constituted to approve material investments and new products in advance.



# Group prospects

## Organic growth

- Growth in Select's loan book through innovative and competitive products, and world class service;
- Malkerns Square - an iconic, environmentally responsible, and resource-efficient lifestyle property development in eSwatini, which will provide c. 1,200 residential housing units and a retail shopping centre of 6,000 - 8,000 sqm. Select will develop the precinct and provide end-user finance;
- Expansion of Select's country presence throughout the rest of the African continent, including current expansion targets in Botswana and Uganda.

## Acquisitions

- Identify and take up investment opportunities in the retail financial services sector across the African continent, with the aim to grow these investments into sustainable businesses.

## Brand identity

- Respected and renowned thought leaders in housing finance;
- Strong brand identity as Africa's premier housing micro-financier;
- Expansion of funding base through MTN programmes and relationships with DFI's and impact investors;
- Establish and maintain technical partner relationships.



Select has a world class infrastructure platform, a proven track record coupled with experienced management, and a robust corporate governance structure. Select has a defined plan to apply this expertise to establish businesses in other sub-Saharan African countries, and to establish new product offerings. This expertise, coupled with the potential of the African continent, provide the impetus for Select to accomplish its growth objectives.

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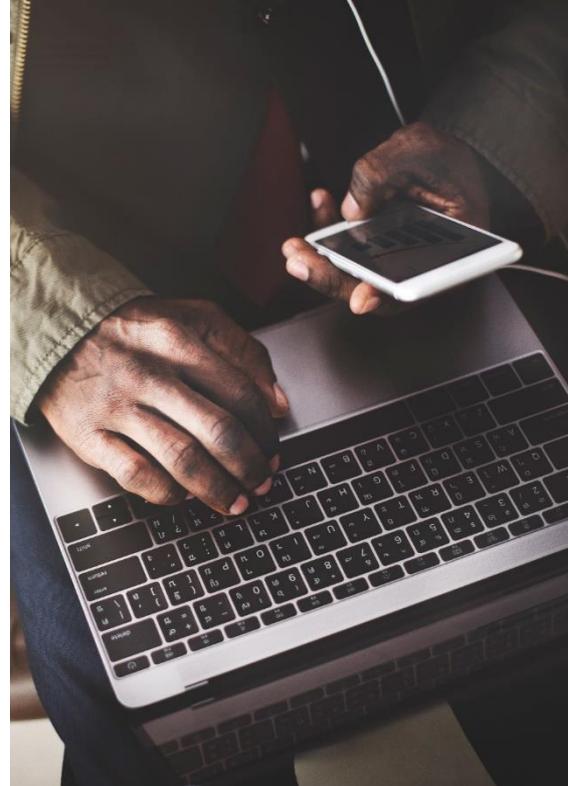


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