ecsponews

Newsletter | November **2016**

Highlights from Ecsponent's Interim Results for the 6 months ended 30th June 2016:

- Total revenue **increased by 74.7%** to R116.7 million (2015: R66.8 million)
- Gross profits **increased by 97.8%** to R95.8 million (2015: R48.4 million)
- Operating profit **increased by 166.7%** to R58.4 million (2015: R21.9 million)
- Profits before tax **increased by 61.5%** to R28.5 million (2015: R17.7 million)
- Resultant earnings per share **increased by 26.3%** to 2.23 cents per share

Ecsponent shows exponential growth

Ecsponent Limited, holding company of the Ecsponent Group, recently announced exceptional interim results for the six months ended 30th June 2016. There is a strong focus on growth providing niche financial services in South Africa, Botswana, Swaziland and Zambia.

Outlook for the Ecsponent Group

Following the results announcement, the Group announced a rights issue to ordinary shareholders on 10 October, with the aim to raise funds for new investment opportunities. The company's main shareholder, Mason Alexander will underwrite 40%, or R20 million of the rights offer — a credit to the Ecsponent management team who has produced triple digit growth for the past six consecutive years.

This exponential growth can be attributed to Ecsponent's focus on three core business areas:

1. Financial Services in South Africa
2. Financial Services in the rest of Africa
3. Private equity investments and transactions

To maintain its undivided focus on its core business, Ecsponent's management regularly reviews its underlying investments in each area and when necessary will make adjustments to the composition to continue producing the stellar returns it has achieved in recent years.

Financial Services South Africa

Terence Gregory, CEO of Ecsponent Limited, says: "The first half of 2016 reflected exponential growth, particularly in the Financial Services division which provides secured credit to small and medium enterprises (SME). The strategic decision in early 2015 to exit the retail credit market in South Africa in favour of SME credit and enterprise finance, has realised immediate benefits. Revenue increased by 378% to R142.6 million, resulting in an operating profit increase of 296.2% to R92.7 million."

The focus on SME credit has not only improved the margins of the South African business, but realised additional benefits such as the reduction of infrastructure costs. Additionally, this type of funding is assisting previously disadvantaged individuals who would often be disqualified from credit, based on their limited credit record and the risk scoring models used by traditional institutions.

Funding for the Group's expansion strategy in South Africa continues to be facilitated through its JSE listed Preference Share Programme. Since its implementation in 2014 the company has raised approximately R441 million in preference shares.

Financial Services Africa

Ecsponent has replicated the South African model at its operations in the rest of the continent.

"There are ongoing opportunities for growth in the Financial Services sector in the rest of Africa. The Group's South African backbone provides central governance and control, while each country of operation leverages the local infrastructure, systems, products, and management expertise to create compelling offerings unique to each market's needs," adds Gregory.

In Botswana, the Group's performance reflected a steady improvement, compared to the half year ended June 2015 with revenue growth of 51% to R23.2 million.

In Swaziland, the capital raising opportunities are built on the successes of the South African operations and provide ongoing liquidity to its credit operations. Swaziland grew revenue by 209.2% to R16.4 million, while operating profits increased by 1 401.8% to R7.4 million.

In Zambia, Ecsponent has a Tier 2 Deposit Taking Licence regulated by the Bank of Zambia and the directors are confident that the Zambian operations will provide significant returns.

Private Equity expands

Commenting on the Group's private equity activities, Gregory added: "Our biotechnology operations have invested in the development of a new and extensive range of products to complement the existing cord blood and tissue stem cell products."

"Looking ahead to the following six months, we are excited by the opportunities created by a renewed focus on our core business activities which will provide further impetus for continued success."

South Africa: info@ecsponent.com • 087 8080 100 • Acacia House, Green Hill Village Office Park, Cnr Botterklapper and Nentabos Street (off Lynnwood Road), Pretoria
Swaziland: swaziland@ecsponent.com • +268 2417 1616 • 7 The Gables, Ezulwini, Swaziland
Botswana: botswana@ecsponent.com • + 267 391 8756 • 6th Floor, Exponential Building, Plot 54351, New CBD, Gaborone, Botswana

More income, less effort

Earning passive income is an investment strategy that creates wealth gradually, without you having to spend your whole life working for it. It is a strategy that could allow you to earn money whilst sipping a pink Margarita under a palm tree in the Bahamas.

Although it's not quite as simple, it is nevertheless an important source of income, especially for anyone who is worried about not earning enough from their salaries to retire independently in future.

It is income in addition to your salary, regardless of what you earn as an employee or contractor. This income can be from rent, royalties or shares that pay monthly dividends. This is where your money generates more money without much effort from your side.

Do you work for your money, or does money work for you?

You may work sixteen hours per day and so exchange your time for money, but there are limits. There are only 24 hours in a day and if you work non-stop, you might just burn yourself out without a guarantee of achieving financial freedom.

Do not work harder... work smarter!

Passive income is a smart and relatively effortless way to generate income and improve the quality of your life. It makes you less dependent on your salary and allows you to spend more time with your family, play, sport, travel or whatever hobbies you may want to pursue.

If you do not work smarter, there will always be a limit to your wealth. Similarly, you can only become financially free if you create a source of income that does not consume all your time.

Patience creates wealth

Passive income can come in the form of a buy-to-keep investment. Active investments pursue short term gains, which requires you to keep a constant eye on markets and try to predict what is going to happen next. It costs you time and money. In contrast, passive investment rewards you over the long term with wealth gradually building up. It takes time and patience, and the earlier you start the greater the reward.

No such thing as a free lunch

People are often surprised by the initial amount of time, work and money that is required to earn a significant source of passive income.

However, nothing in life is free and earning a passive income requires you to earn money before it can work for you. The risk is that you may harm your monthly source of income if you spend too much time or money building passive sources of income outside of your 9-5 job.

Rental property versus dividends

Investment in rental property is often believed to be the ideal way to earn passive income. But it is important to consider what return you can expect in relation to costs, expenses, and the financial risks of owning the property.

The risk involves key questions: Is there a market for that property? Will your tenant pay promptly? If not, can you throw the person out? Will the tenant respect your property or damage it? Can you sell the property quickly? Will the rental income cover the bond repayments, maintenance and other costs?

An engineer from Somerset West bought ten apartments in the university town of Stellenbosch over a period of twenty years. He obviously believed property was a better investment than an investment in equity. This year, he had a wakeup call when, for the first time, he could not increase the rental income by his usual ten percent. That was because new student residences and private blocks of flats arose and some of his flats ended up being vacant. Many students who rented from him just dropped out and disappeared, while others were in arrears with their rent. Some of his apartments were vandalised and he now spends so much time taking care of his properties that his engineering practice is suffering. Meanwhile he is being taxed on his rental income, and is liable for transfer duties and capital gains tax upon the purchase or sale of each property. Add to that numerous other costs such as levies, municipal service fees, commission for estate agents etc. and suddenly the reward is not worth the effort.

Unlike rental property, shareholders of dividend portfolios enjoy a monthly income based purely on the growth of the companies in which they hold equity. The risky part is choosing the right shares that do not put your capital at risk, whilst ensuring a reliable monthly income.

A good choice for someone wanting a passive income would be something like Ecsponent's Class C preference shares that pay a fixed monthly dividend of 12.32% per annum. There is no initial or annual charge and you do not have to spend time constantly making changes to the portfolio. You have peace of mind knowing exactly how much and when your dividend will be paid, based on a JSE-issued dividend calendar. In addition, the dividend tax is already deducted, which is considerably less than the income tax payable on rental property for most people. Clearly you earn more with Ecsponent and without all the effort and stress of managing rental properties!

Decide when you want to retire

Passive income sources with a specific income amount afford you the control to decide whether you want to retire sooner or later. With passive income you earn more than you put in, and your time is not proportional to your income. All it requires is prudent planning well in advance and eventually you can sit back and reap the rewards.

Time gives you freedom

Passive income gives you the freedom to decide how you wish to spend your time, whether it be work because you enjoy it, or more time with family or pursuing interests, learning new things, celebrating life and achieving your dreams. In this way, you do not only work smart with your time but also your money!