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Invest with the times

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Newsletter | April **2017**

Strong growth results

Ecsponent Limited has built on its track record of exponential growth by delivering excellent second interim financial results for the twelve months ending 31 December 2016.

81.5%	198.3%	128.1%	70%
Revenue	Operating profit	Total assets	Gross profit

These results are attributable to the successful implementation of the company's growth strategy, which has focused on providing secured business credit and ongoing growth of its African business that leverages the expertise of local business.

Total revenue increased by almost 82% to R245 million and operating profits were up 198% to R129 million, compared to the same period the previous year.

The group has also exceeded its target to increase its total assets to over a billion rand at the end of the period as this was increased by 128% to R1 063 million compared to the previous R466 million.

Ecsponent Limited is listed on the JSE's main board under the Financial Services - Speciality Finance Sector - and creates wealth by investing in companies which offer a range of niche financial services in South Africa and other African countries.

These services vary according to the different jurisdictions but generally include:

- capital raising from retail and institutional investors,
- providing business credit
- investing in private equity. In this area, the group's investments are well diversified and include investments in industries like biotechnology, media intelligence and specialised procurement and supply chain services.

"The group has refined its focus and streamlined its operations. This has increased growth in strategic target markets," says Terence Gregory, CEO of the Ecsponent Group.

He explains that the group's core business areas are once again refined to be on capital raising, funding for small and medium enterprises (SME's), enterprise development and private equity investment where the group had performed well before.

The group has been very successful in providing secured business credit which is set to make inroads in the enterprises and supplier development sectors.

"The demand for credit remains buoyant in these sectors, as most emerging businesses struggle to get funding. In addition to credit our models provide skills transfer and upliftment of vendors. This support allows corporate businesses to channel their preferred procurement spending to areas where growth and development are most needed," adds Gregory.

Certain disposals of financial assets were included in the calculation of the headline earnings per share (HEPS) for the comparative period in 2015 because of the change in the South African Institute of Chartered Accounts' categorisation requirements.

The disposal of the Swaziland retail credit business during 2016 was categorised under IFRS 10 and therefore this benefit was excluded from the HEPS calculation. The result was that the growth in earnings per share (EPS) did not flow through to the HEPS.

Continued growth in the HEPS will remain important for the group and looking at the bigger picture there is certainty that the growth course will continue.

"These are exciting times for the group, as Ecsponent is committed to grow its underlying assets and expand into Africa, focussing on growth, cost efficiencies, complementary mergers and acquisitions," concludes Gregory.

I have lost capital! What now?

One of the most difficult decisions an investor will face is to admit a poorly performing investment will not recover and to then sell and invest elsewhere.

What should you do if you are losing capital due to your investment's poor performance year after year? For how long should you take the pain? When is it time to sell?

A successful investor knows when to buy, but even more important, knows when it is time to sell.

When is enough just enough?

Liquidating an investment is often difficult because you have to make a call about its future value and performance. Will it recover from the decline or is it a bubble that may burst?

You do not want to sell unduly, but you should when common sense dictates! Ask yourself the following questions if you're unsure about what to do::

- Have your original reasons for investing changed?
- Have the investment's underlying fundamentals changed?
- Are there better opportunities available?

Asset managers are keen to tell investors that patience and time in the market are crucial. But is this advice always in your interest when you are consistently losing money?

The answer is not straightforward. There are times when it makes sense to accept short term losses until there is a correction in the market.

Of course, one would prefer to believe that all previous investments were made in good companies that will create wealth over time. Unfortunately, this may not be true. An investment that once appeared to be a shining star, may now be a ticking time bomb.

Trust your own judgment and beware of advisers who put their interests above yours.

Sell if the following applies to your situation:

- the reason why you invested no longer exists;
- you have reached a point of "maximum pain".

The death blow for any investment is a "catastrophic loss". If a portfolio lost 50% of its value, it would have to grow again by 100%, just to break even. This will not happen easily. Do not allow your investment to sink with that ship.

The only way to prevent a catastrophic loss, is to establish a point of no return of say 20%. If your investment value reduces by that percentage, then you should set emotion aside and sell.

One can accept and tolerate a year's under performance, but a portfolio that performs poorly year after year, requires drastic action. Continuous poor performance can reduce your retirement nest egg and your retirement plans.

Beware of the pitfalls before you leap

Once you've decided that you have had enough, it is important to act decisively, yet carefully.

Nobody enjoys losing money. In fact, psychologists believe the pain of losing is a stronger emotion than the joy of winning. This explains why people grab their profits without a second thought, yet struggle to deal with the pain of falling share prices - clinging to their investments in the hope of recovery. Then, when they finally let go of the poor performer, fear motivates them to choose a super-conservative investment, where sadly they will never recover their losses.

Equally dangerous is not selling at all, while looking on passively and taking no action. Losses can upset investors so much that they end up in a state of shock where they deny the losses, blame the advisers or markets, freeze or just ignore the investment.

In desperation others invest in risky schemes, or adopting a new investment style and strategy that are not reason driven. A decision made in a state of panic is bound for disaster and loss.

Last but not least beware of sentiment that leads you to attach more value to your portfolio than the market value justifies. Is it the market that is wrong, or does the problem lie with you not wanting to face reality?

Set the wolves free!

Once you sell, you are no longer exposed to further losses from the same source.

If you find yourself thinking about the potential returns should your investment recovers, also consider how much money you will lose and the cost of lost opportunity by not investing in something better. You may feel unhappy about your loss at the time, but it is better than waiting for a catastrophic loss in the long run.

It's time to sell when better opportunities arise and your investment no longer meets its long term criteria. Investors are looking for peace of mind in an uncertain investment world and Ecsponent's fixed dividend yields can help you recover and turn a negative experience into a positive one.

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